

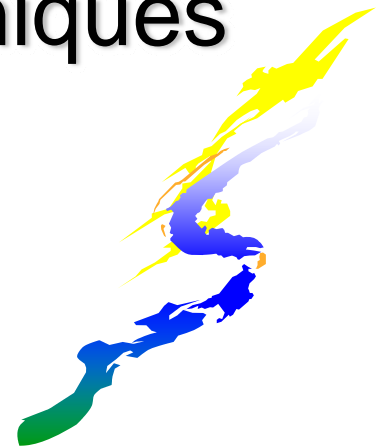


Extending SS coverage to informal economies

...through contribution
prepayment techniques



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Outline of the presentation

- I. Introduction : Two case studies on extension
- II. Competiveness through mobile work
- III. Contribution prepayment techniques
- IV. Implementation issues
- V. Conclusion : Time to experiment

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Outline I : Two case studies on extension

- This presentation builds upon two missions performed by SERVAC:
 - Tunisia (2002-2003): Extension of social security to three types of "precarious" workers (fishermen, small agricultural laborers, domestic labor);
 - Cape Verde (2005-2006): Strategy to expand the coverage of social security.

Classical extension strategies had been taken to their limits

- Tunisia tried to induce precarious workers to register in customized "low cost" pension schemes,
 - Having minimum and flexible contribution requirements,
 - But keeping the standard design for employers' role and obligation.
- Cape Verde relied on the "enforcing compliance" strategy backed by improved IT and data collection processing .
 - Contribution data is hard to get, process and check when neither employers nor employees have incentive to turn these in.
 - High turnover challenges the timely record of contribution periods and its possible use as a condition to the access to health benefits.
 - Control of employers have decreasing returns in terms of population coverage.
 - Large part of insured population are bad risks with the classical contribution mechanism (in % of wage). Should a minimal contribution, or minimal wage be introduced ?

“Mobile work” , a new type of labor relation with no long term commitment

- These shortcomings, which are repeatedly encountered, stem from a gap between:
 - The administrative requirement of the canonical approach for SS scheme,
 - Heavily relying on the employers 'goodwill
 - And the flexible labor relation through which informal economies face up systemic risks,
 - Where mobile workers only engage in short term clusters with evenly fragile equipment providers.

Outline II:

- I. Introduction : Two case studies on extension
- **II. Competiveness through mobile work**
 - A key operational issue for SS schemes:
 - how turn in due contributions and the corresponding data flows needed to compute individual rights...
 - ... At an acceptable administrative cost ?
 - The canonical answer is to rely on the employers' cooperation:
 - to register insured workers, assess and collect their contributions, and consolidate them into regular payments.
 - This works well in the modern sector of stable enterprises...
 - ... but is inefficient in sectors where high economic uncertainty exclude long term labor relations. Risk sharing in mobile productive units is a successful collective response.

Meeting the organizational constraints of large scale old age insurance....

- A large scale old age insurance scheme entails:
 - Regular and stable contributions on one hand
 - Regular declarations of insured members, so that their individual pension rights may be properly computed and recorded.
- These data flows need to be processed together, for the least possible cost, which is a considerable organizational challenge :
 - collecting and checking (for accuracy and compliance) contributions,
 - recording and checking data pertaining to rights and making the appropriate computations.
- Such mass treatment is possible only if the data is aggregated and homogeneous. This is usually performed by employers,
 - in exchange for tax credit on their paid contributions.

... heavily rely on the employers' administrative goodwill.

- **Usual social security schemes rely on the employer to perform aggregation :**
 - He is responsible for collecting and paying contributions (employer's and employee's)
 - He is responsible for the declarations of insured members, recording rights.
- **This is particularly effective in the modern sector :**
 - the number of employees per company is high
 - and so is their stability within the company (low turnover)
- **But ineffective for other sectors :**
 - self-employed workers (one employee per company, though at least he can handle the declaration process)
 - informal workers (very high turnover of workers, far less able to individually cope with the declaration process) with no user willing to play employer.
- **Another form of organization is needed:**
 - flexible enough to fit with informal activities,
 - standardized enough to minimize operating cost.

But all workers are not wages earners

- **Precarious workers or "mobile workers" ?**
 - Fishermen, small farmers and farm laborers, domestic workers etc... :
 - individually, they may have precarious income, ...
 - and so do the firms which employ them ...
 - ... but collectively the demand for their services is strong : whole branches of the economy rely on them (and those branches are growing).
 - They are highly mobile, and often hold several jobs simultaneously, which helps to cushion them from the precarity of their jobs.
- **They exemplify a new type of labor relation.**

Availability of “mobile work” is key to informal economies' performance...

- These populations share specific labor relations...
 - Specialized but segmented work effort, located by the user
 - coping with an uncertain demand (weather dependent)
 - risk sharing with the employer/user (ex: payment in % of the catch)
 - multiples employers/users without any durable ties with any one;
 - fluctuating incomes, but often globally significant
 - due to the overall economic competitiveness of the sector,
 - and their willingness to change employers and even activities.
- ... that makes them neither true employees nor self-employed
 - the multiplicity of missions and employers is similar to self-employment,
 - but unlike artisans or shop-owners, they often work as part of a team, and their place of work is decided by an employer.

... but no one is willing to "play employer"!

- Mobile workers are a special case :
 - their work relations are short and change often, they have no fixed or even primary employer.
 - But they do not view themselves as self-employed, able to take up the burden of their social contributions.
- The people who hire them do not view themselves as employers,
 - due to the transience of the link between them.
 - They refuse any individual responsibility toward them,
 - ... but are aware that the availability of mobile workers is key to the economic survival of their activity.
- A double challenge for old age insurance :
 - the mobile worker's work environment means a multiplicity of declarations and overly fragmented contributions,
 - for which nobody, worker or employer, is willing to assume responsibility.

Outline III

- I. Introduction : Two design issues
- II. The canonical approach to Social Security
- **III. Contribution prepayment techniques**
 - The mobile phone paradigm.
 - Substituting earmarked branch taxes to employers' contribution.
 - Using "tripartite contribution vouchers" for employee' contribution.
 - The points mechanism makes prepayment acceptable.

The mobile phone paradigm

- When cell phones were introduced, companies required subscriber to have a bank account, and marketed them to people with a fixed income.
- But the invention of prepaid cards changed that paradigm:
 - it eliminated any solvency concern on the part of the cell phone company,
 - and thus allowed them to be marketed to people with no bank account and no fixed income;
 - mobile phones have been spectacularly successful in the informal economy.
- In the same way, prepaid contribution could make a big difference in the social coverage of the informal economy.

Contributions from three different sources :

in DT	Employer	Employee	total
old age	0,30 / day	0,12 / day	0,42 / day
health	0,12 / day	10 / quarter	0,24 / day
total	0,42 / day	0,24 / day	0,66 / day

prepaid through tripartite voucher

through the branch tax

paid by the employee if not otherwise covered

The scheme is financed through three separate sources which echo the familiar distinction between activity branches and employer/employee contributions

Earmarked branch taxes as employer' contribution

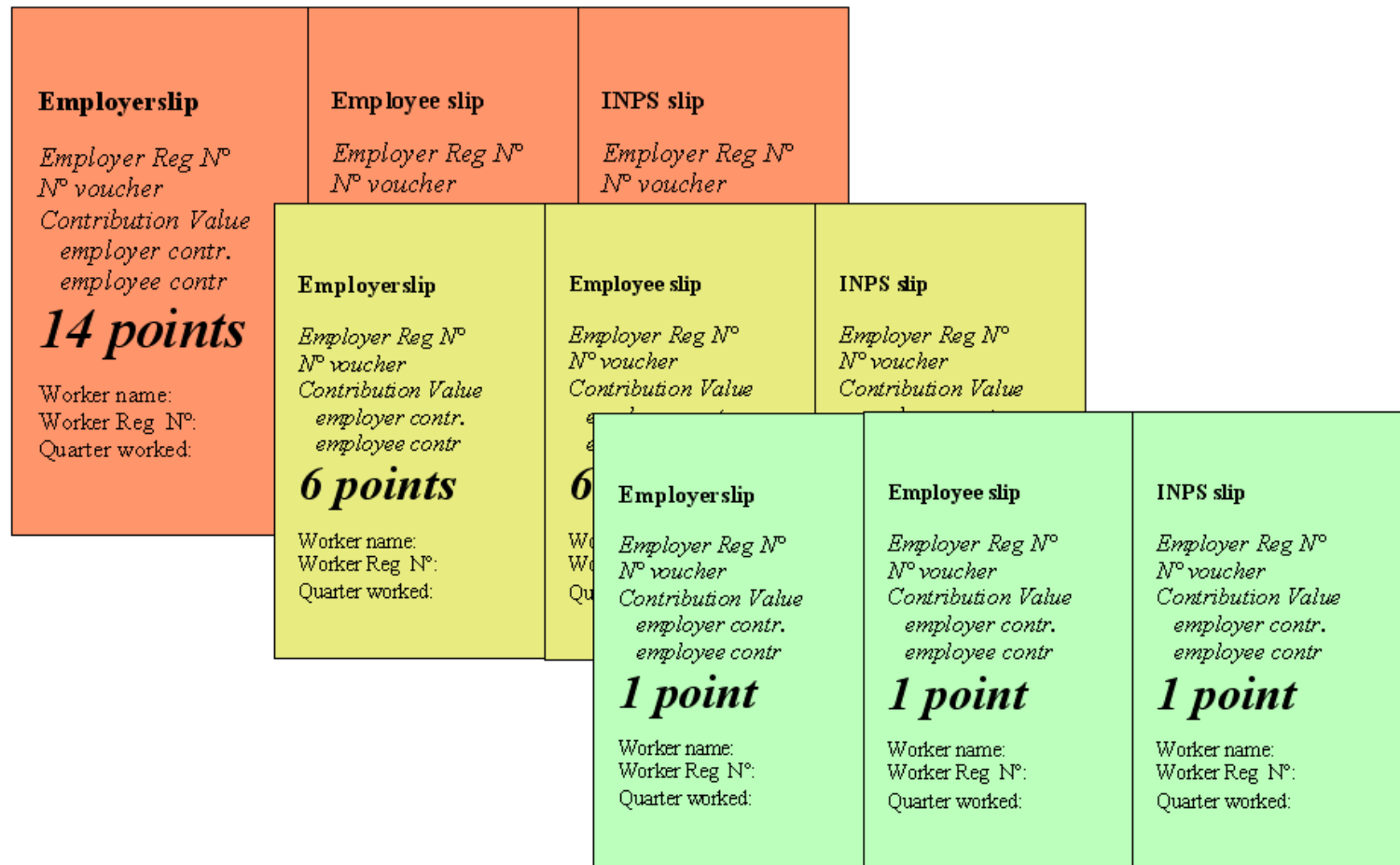
- Employer centered contribution collection does not work.
- Employer contribution can be replaced by a collective contribution,
 - taking the form of a branch tax,
 - and freeing the employers from having to declare employees and collect employee contributions.
- Thus creating a new mobile worker scheme (MWS),
 - cumulative with existing schemes,
 - strictly contributive,
 - with pensions rights accrued as points,
 - and a simplified recording through the use of tripartite contribution vouchers.

Tripartite contribution vouchers as employee' contribution

Employer slip	Employee slip	SS Institution slip	
<i>Employer Reg N°</i> <i>N° voucher</i> <i>Contribution Value</i> <i>employer contr.</i> <i>employee contr</i> <i>Number of points</i>	<i>Employer Reg N°</i> <i>N° voucher</i> <i>Contribution Value</i> <i>employer contr.</i> <i>employee contr</i> <i>Number of points</i>	<i>Employer Reg N°</i> <i>N° voucher</i> <i>Contribution Value</i> <i>employer contr.</i> <i>employee contr</i> <i>Number of points</i>	} Prefilled part
Worker name: Worker Reg N°: Quarter worked:	Worker name: Worker Reg N°: Quarter worked:	Worker name: Worker Reg N°: Quarter worked:	

The vouchers are intended to be read by optical readers.

Three kinds of vouchers with different colors and values; 1 point per day of work



The tripartite voucher makes prepayment administratively feasible

- The tripartite voucher takes care of most of the paperwork :
 - a voucher has legal status as a short time work contract.
 - it is bought (in advance) by the employers and given to the employee with his wages.
 - the employee brings his vouchers to MWS when convenient and the equivalent rights are awarded, for a minimal operating cost.
- It also takes care of the need to control employee registration and employers' payment of employee's contributions
 - being prepaid and of fixed value, it makes certain the correct contributions are paid.
 - the employee are registered once, without need to monitor their current employer.

The point mechanism makes the prepayment of vouchers acceptable

- The points system is ideal to record small and potentially irregular contributions.
 - The link between contributions and rights is transparent;
 - There is no threshold; even a small contribution means an increase in pension.
- Awarded points accrue on an individual account at MWS.
- When the pension is liquidated, the annual pension is equal to the number of accrued points multiplied by the service value of the point.
- The service value of the point is based on what regular employee with similar contribution would receive.

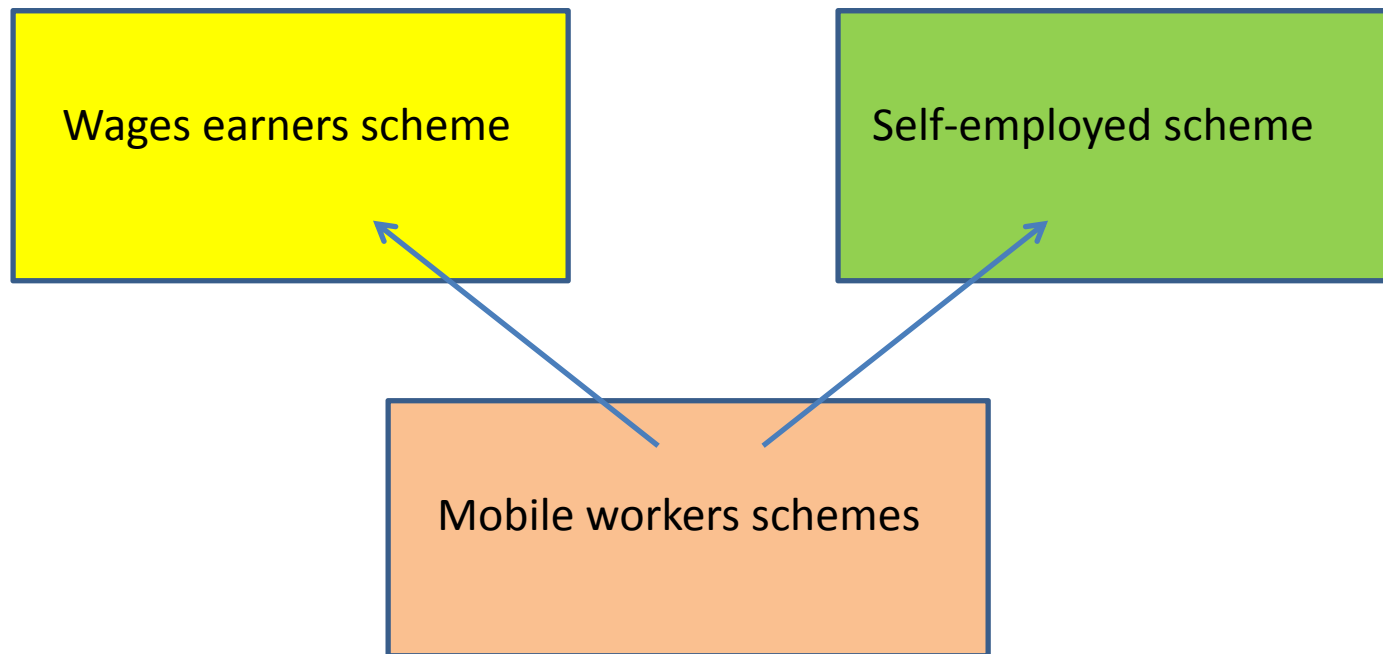
Conclusion : *A new form of organization around prepayment of contributions*

- The goal of MWS is to extend coverage to "mobile workers", building on their new type of labor relation.
- MWS introduces collective financing (through a branch tax) in exchange for releasing the "employers-users" with any obligation of employees' declarations.
 - The use of tripartite contribution vouchers introduces standard contributions and rights; this allow for prepaid contributions, and their efficient mass treatment.
 - The points mechanism insures that every contribution will yield similar pension rights; It makes prepayment acceptable.
- MWS's new organization is well adapted to the labor relation and social needs of the informal sector.

Outline IV: Implementation Issues

- I. Introduction : Two case studies on extension
- II. Competiveness through mobile work
- III. Contribution prepayment techniques
- **IV. Implementation issues**
 - Despite intellectual recognition by the national social security authorities,
 - for the relevance of the diagnose
 - and the feasibility of proposed solution...
 - Mobile work scheme failed so far to materialize !

Schemes matching various labor relations, can be unified by the same point

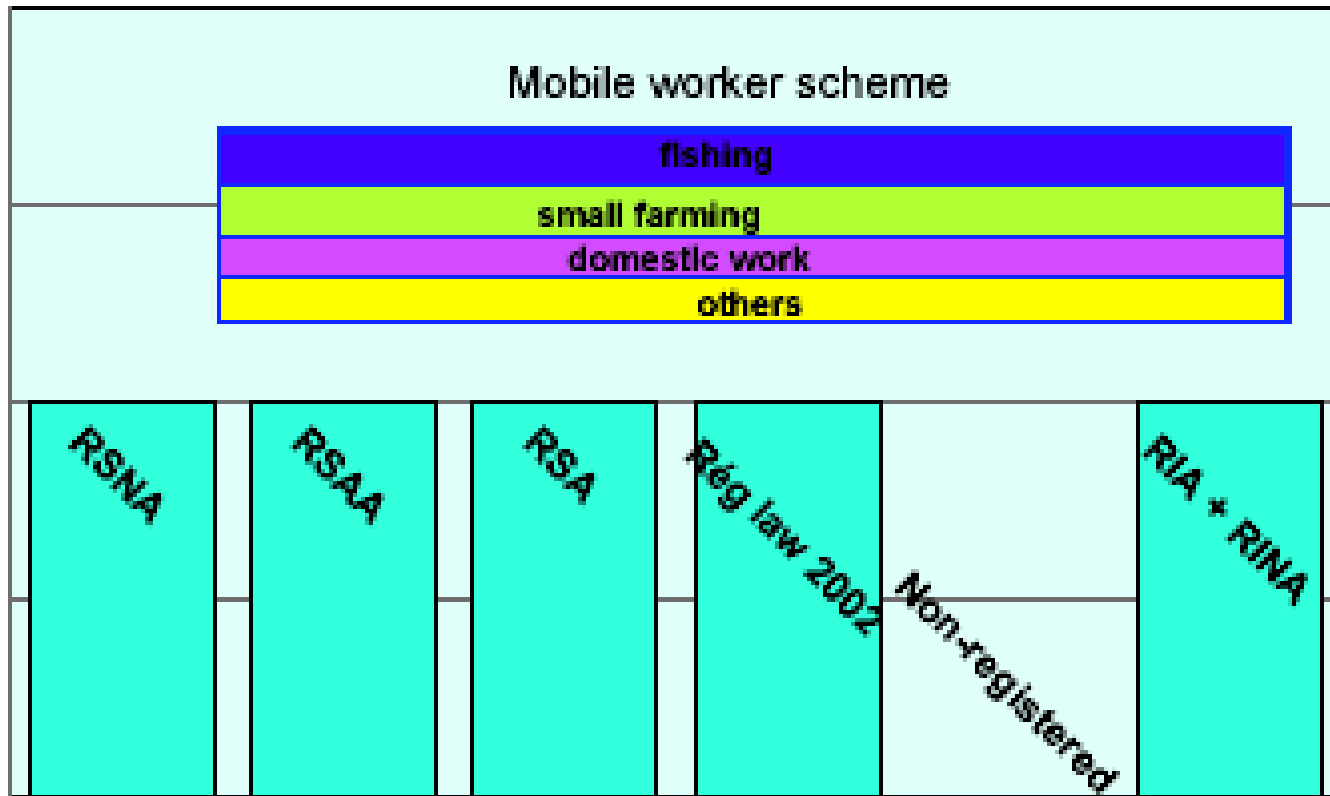


The mobile workers schemes could be introduced as first step towards more traditional (wage earners or independent workers) schemes. They would operate in “points” and use the same unit to measure pension rights.

Managing a Paradigm shift :(I) *Losing control over employers ?*

- Reluctance to implement stem from SS staff;
 - ... This may indicate a paradigm shift issue
- Two approaches for contribution collection:
 - The "employer centered" canonical approach well suited for formal (modern?) sectors
 - Prepayment techniques addressing mobile work areas
- How to combine these options in a single national social security institution ?
 - Controlling employers and have them turn in contributions and registration is part of SS culture.
 - Mobile work scheme operation setting requires a more client oriented approach

Managing a Paradigm shift :(II) *losing track of insurees ?*



Looking beyond national social security institutions ?

- Prepayment technique appears feasible but still requires full scale experimentation.
- Developing countries with extensive informal sectors of mobile workers provide large natural opportunities.
- However, reluctance of their national social security institutions with the implied paradigm shift exist and may not disappear overnight.
- Alternate playground may also be looked at:
 - In developed economies, where mobile work do also exist and thrive and could be directly addressed;
 - In transnational settings, where international firms or insurers could derive competitive advantage of enter new market.

Outline V

- I. Introduction : Two case studies on extension
- II. Competiveness through mobile work
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- IV. Implementation Issues
- **V. Conclusion : time to experiment**

Conclusion : *Time to experiment*

- Recognition of mobile work as a new type of labor relation
 - avoiding any long term commitments and genuine “employers”,
 - which hence cannot accommodate traditional SS requirement.
- ... leads to an understanding of decades of extension shortcomings and SS stagnation in developing countries with informal sectors.
- Prepayment techniques do overcome the contribution collection challenge. It could organize sustainable SS schemes in their various informal yet competitive sectors.
- Despite intellectual recognition, implementation by National SS institutions ran so far into paradigm change resistance.
- Alternate play grounds may be looked at for experimentation,
 - either in developed economies where mobile work also exist and often strive,
 - or in transnational settings, which international firms could organize.

