



HANDBOOK

on the extension of social security
coverage to the self-employed



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All handbooks of the ISSA series on the extension of social security are available for download on: www-issanet.issa.int

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ISBN: 978-92-843-0186-7

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Preface

The ISSA strategy on the extension of social security coverage, adopted in 2010, defines the specific contribution that social security organizations can make towards the objective to ensure that a greater part of the population has social security coverage. In addition, it determines the support that the ISSA as an association of social security organizations should provide to its members to facilitate their efforts to work towards the extension of coverage.

In the implementation of social security programmes and initiatives with the intended objective to extend social security coverage, administrative challenges in covering certain population groups can constitute serious hurdles for social security organizations. Difficult-to-cover population groups typically include the non-agricultural self-employed, migrants, domestic workers and workers and employees in agriculture and fishing. Extending social security coverage also has a gender dimension, with women being less likely to have adequate access.

As part of a major project to promote the extension of social security coverage in line with the ISSA strategy, the ISSA is preparing a series of handbooks on strategies and administrative solutions to extend coverage to targeted groups.

This first handbook of the ISSA series on the extension of social security identifies key barriers to extending and improving coverage for the self-employed, and measures to address them. It focuses mainly on the provision of benefits through contributory social insurance schemes. The handbook constitutes an evolving tool to be expanded, updated and improved as experiences of ISSA members are incorporated.

Hans-Horst Konkolewsky
ISSA Secretary General

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Executive summary

The key findings of this handbook on the self-employed are as follows:

- The inclusion of self-employed workers in social security programmes has often posed a challenge to social security administrations. Traditionally, social security in many countries was focused on providing coverage for salaried employees with an employer relationship. Coverage for the self-employed was often not an aim or pursued on a voluntary basis only, and thus plagued with low takeup rates. The evolution of society and, in particular, labour markets – with a relative decline in the importance of organized labour – coupled with an increasing awareness and policy emphasis on human rights, poverty alleviation and social protection, means social security administrations are operating in a significantly different environment. An earlier expectation that labour markets in developing economies would “formalize” as economic development continued has in general not been borne out in practice.
- In many countries, a large proportion of the working-age population can be considered as self-employed – in both the formal and informal sectors. Given the challenges in covering the self-employed, this development means that a relatively small proportion of the total population may be covered for social security benefits. Extending coverage requires adapting the design, administration and operation of social security programmes to better include the self-employed and their dependants.
- The term “self-employed” can apply to a range of different workers including own-account workers, those in the informal sector working for one or more employers, business owners and those in the liberal professions. This handbook covers self-employed workers in both the formal and informal sectors. The common characteristics of self-employed workers include variability of income, the responsibility to source and generate income and, to a very large extent, the lack of an employer. The latter point typically means that such workers and their dependants are, at best, only partially covered by social security laws or, at worst, not covered at all.
- The extension of social security coverage to the self-employed brings a number of advantages to both the individual and society. Social security provides essential benefits and services to help mitigate the risks faced by what are often vulnerable sections of the working population. It enhances equity and social cohesion, facilitates economic growth and transition, and strengthens public support for social security schemes.
- Political will and financial commitment are crucial for extending social security coverage to the self-employed. Despite the challenges, policy and administrative measures that take into account the particularities and characteristics of the self-employed have been particularly effective in increasing coverage. Some of these measures include:

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- Putting in place eligibility conditions for access to benefits that reflect the realities of working and income patterns of the self-employed. These can include reducing the minimum income threshold for contribution purposes and/or relaxing the minimum number of years of service required to be eligible for minimum benefits.
 - Targeted government subsidies. These have been a key factor in the extension of pensions and health-care coverage in a number of countries. They may be targeted at the adhesion stage to encourage sign-up or support ongoing contribution payments or partially or fully fill the gap left by the absence of employer contributions. Although such subsidies are often part of a voluntary system to encourage affiliation, they may also exist where membership is compulsory to reflect the lack of employer contributions for the self-employed.
 - Tailored benefits. To attract the self-employed, benefits are increasingly being tailored to their specific perceived risks and needs – for example, benefits that reflect the income pattern of the self-employed and an increased focus on sickness and disability benefits.
 - Flexible financing regimes, such as allowing quarterly or variable one-off contributions. These facilitate contribution payment for the self-employed and better reflect the income pattern of these workers.
 - Accompanying administrative and operational measures. These are critical in ensuring extension objectives are met. There are a number of different tools that can be used to support the extension of coverage, including facilitating access and simplifying sign-up procedures (including decentralization of offices, extensive use of ICT and exploiting information already held by other government departments), simplifying information requests (for example, membership based on family or household units) and tailoring contribution payment and claims procedures.
 - Improving communication and interaction with the self-employed population. This has also helped greatly in the extension of coverage. Various approaches, such as working with groups representing the self-employed, extending the use of e-services and improved financial education at an early age have all strengthened awareness among the population of the positive societal role of social security.
 - Mandatory enrolment. This is more efficient than voluntary enrolment in order to avoid problems of adverse selection. Where mandatory enrolment is not possible, auto-enrolment has often been attempted as a compromise approach and has proved effective in increasing coverage.
- Targeted measures have been particularly effective in increasing coverage. In spite of a range of challenges highlighted in this handbook, many countries have, through effective system design and innovative administrative practices, achieved great success in extending social security coverage to the self-employed. This handbook features national good practices and case studies.

1. The self-employed

Extending social security coverage to the self-employed is one of the biggest challenges facing social security administrations and policy-makers. Although the nature of self-employment and characteristics of the self-employed will be different from country to country, there are a number of common features applying to such workers that make the issues covered in this handbook relevant for most social security administrations. The self-employed represent a large sector of the working-age population and ensuring their coverage under social security has a number of benefits. These are set out in this section. However, the nature of self-employment and characteristics of the self-employed mean that it has always been challenging to get appropriate coverage for them; we investigate why in [section 2](#) of this handbook and suggest administrative and policy solutions to address these challenges and overcome these barriers. [Section 3](#) looks at branch-specific issues while [section 4](#) identifies specific issues related to certain groups of self-employed people. Conclusions are presented in [section 5](#).

1.1. Definition and description

There are different types of self-employed people with different profiles and different needs ([box 1.1](#)). The self-employed are not a homogeneous group and their numbers and characteristics vary country by country. However, there are a number of similar characteristics that apply across all groups of self-employed.

In reality, each country will define the self-employed in a different way, taking into account the national cultural, labour market and economic environment.

Box 1.1. Who are the self-employed?

The self-employed are people who work for themselves. They have no contract of employment with an employer and receive income directly from the person or company for whom they provide a service. A self-employed person may provide services for one or several clients. One usual characteristic of the self-employed is the variability of their income and the non-guaranteed nature of much of their work. In addition, the self-employed are not subject to the same labour market laws as salaried employees and may have different tax treatment.

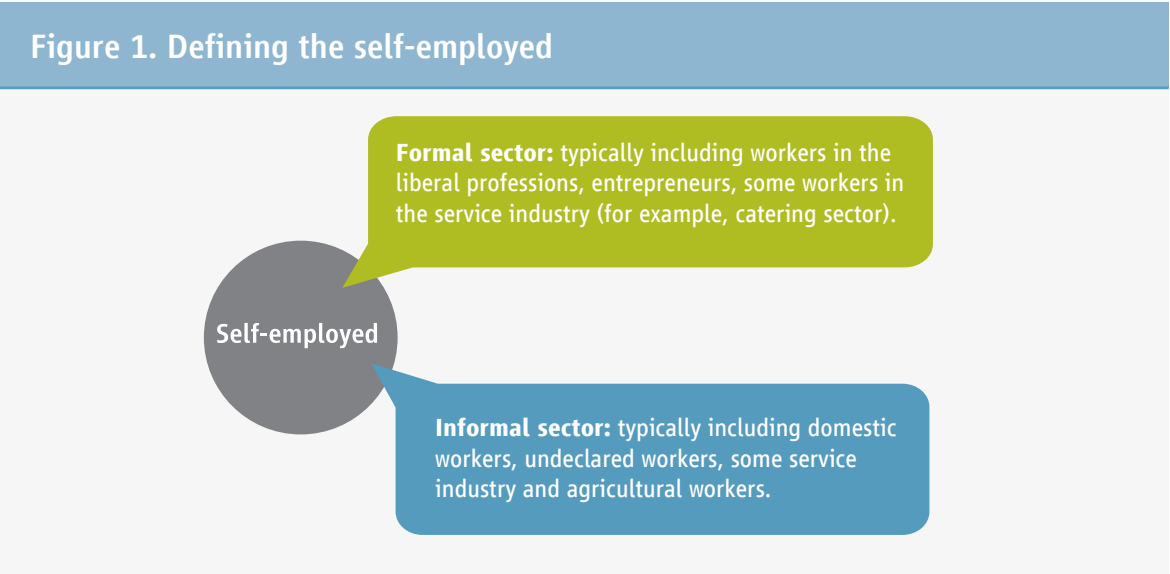
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1.1.1. The self-employed and the informal sector

It is important to distinguish between the self-employed in the formal economy, who generally declare income and are covered under employment and social security laws, and the self-employed in the informal sector who, by working outside the regulated economy, are without any social security or health coverage and cannot or do not record or declare income. In the latter case, self-employment is often synonymous with low-paid and precarious work; in the former case, self-employment may mean earning more than the average wage. Although there are similarities in the nature of the two types of self-employment, the challenges faced are very different.

In general, the self-employed in the formal economy broadly comply with legal regulations concerning the work they do; for example, they keep and file records, pay taxes and, where appropriate, pay social security contributions. Some of the key issues relating to this type of self-employment are under-declaration of income and the so-called “double contribution” issue – that is, the self-employed do not benefit from an employer contribution to social security which means that there are challenges relating to the financing of benefits. For the self-employed in the informal sector, the difficulties are related more to the challenges of bringing them into the social security system and the degree to which their income tends to be low – membership thus becomes an accessibility and affordability issue.

The extent of self-employment in the informal sector varies widely by country. In Asia and Africa, this type of self-employed worker represents not only the overwhelming majority of the self-employed but often the overwhelming majority of the total workforce. In Europe (box 1.2) and North America, there are both types of self-employed worker but there is a sizeable formal self-employment economy. It may be usual for the same type of worker – for example, agricultural workers – to work in the informal sector in one country or region and the formal economy in others (figure 1).



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One of the difficulties of putting in place appropriate policy and administrative measures for the self-employed is, therefore, that there is a wide variation of situations that fall under the category of “self-employed”. A domestic worker may be self-employed and have low but generally regular income. At the other end of the spectrum, those in the so-called “liberal professions”, such as lawyers, may also be technically self-employed and have high but irregular income.

Box 1.2. Definitions of “self-employed” in Europe

Not only the definition itself but the body that defines a self-employed worker varies considerably in Europe. In Spain, it is the social security administration which defines a self-employed worker; in Sweden, it is the tax law, while in Belgium, social and fiscal criteria are used to define such a worker.

In Germany, to avoid the “disguising” of self-employed workers, a person is deemed to be an employee if he or she meets three of five criteria (which include working for a single employer, not employing workers and whether the same job is carried out by regular employees). In order to be considered as self-employed in the United Kingdom, a person must fulfil the following criteria:

- They must run their own business and take responsibility for it.
- They must have several customers or clients.
- They can decide on how, when and where to work.
- They provide the main equipment for their work.
- They are free to hire others to assist them.

In the United Kingdom, there are a number of different legal structures that a self-employed person can use and the option chosen helps determine taxation and social security contribution payment.

In a number of other countries, including Finland, Italy and the Netherlands, self-employed status is determined by the number of employees in an organization.

According to the International Labour Organization (ILO), self-employed workers include “employers, own-account workers and members of producers’ cooperatives”. Unpaid family workers are also included in the definition, but the ILO note that country definitions vary and often depend on the number of hours worked.¹

Although this handbook makes a distinction between self-employed workers in the formal and informal sector, whose needs are quite different, in many countries there is overlap between the two. For example, Canagarajah and Sethuraman include in their definition of the informal sector many workers who could be considered as self-employed, namely those “operating a business either on [their] own account, with or without family labour, or as a micro-enterprise, with few hired workers and apprentices; homeworkers; wage workers and apprentices in micro-enterprises and independent service workers, who neither have a fixed business activity nor a fixed employer” (2001, p. 23).

1. See <<http://laborsta.ilo.org/applv8/data/c2e.html#n1>> (accessed on 21.08.2012).

The self-employed can therefore include workers with very diverse circumstances including domestic workers, those operating small enterprises and own-account businesses, labourers and those in the so-called liberal professions (for example, lawyers). The fact that the self-employed can encompass a wide range of different occupations is normally reflected in different policy and administrative measures depending on the category of self-employment. Many countries have gone down the route of different social security schemes for different categories of self-employed workers.

Both the number and characteristics of the self-employed vary by country and are influenced by local factors which include:

- the country’s stage of economic development and the key industries represented;
- policies and regulations regarding self-employed and salaried workers and the difference between the two;
- the compliance environment;
- the economic culture of the country;
- microeconomic factors such as tax and social security contributions;
- the labour market;
- other cultural issues (for example, level of discrimination, opportunities for certain groups of the population, etc.);
- migration levels.

1.1.2. Employee, employer or self-employed?

In some regions, there is often a potential overlap between what is considered self-employment and the status of an employee or employer. We discuss above some attempts by administrations and governments to put in place measures to distinguish between employee and self-employed status. The distinction between the self-employed and employer status is often less clear and may be defined in relation to the perceived ability of workers to carry out their activities without organizational resources. In practice, in many countries, it is often possible for self-employed workers to register their activity as an employer even if they do not necessarily employ other workers.

Furthermore, the status of the self-employed may not be static. Some workers may move from being self-employed to becoming salaried and vice versa. Others may have a part-time salaried position but also supplement income through working on a self-employed basis. As employment becomes increasingly flexible and fragmented, such patterns of working are likely to become increasingly common. The policy and administrative responses to the self-employed must therefore take into account these working behaviours and, in particular, ensure that moving from social security coverage under a self-employed regime to what is often a different regime or system for salaried employees is possible.

Being self-employed may be a choice for some, while others are forced to accept the status – for example, workers made redundant may only have the self-employed option despite wishing to return to salaried status.

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1.1.3. What is the size and importance of the self-employed sector?

The exact number of self-employed workers is not always easy to calculate or determine, particularly when a large number of these workers are in the informal sector.

It is therefore difficult to assess the actual numbers of self-employed in both the formal and informal sector as, by definition, many of these workers are not registered or have irregular activities. However, there have been a number of estimates of the size of the self-employed group and the informal sector:

- The European Employment Observatory (2010) estimated 32.5 million self-employed persons in the 27 countries making up the European Union in 2009, accounting for nearly 15 per cent of total employment (more than one job in seven).
- In Asia, the number of self-employed people varies by region. According to UNESCAP (2011), in 2010 only 21 per cent of workers in South Asia were employed formally by an employer; in East Asia the figure was 43 per cent.
- In Africa, the informal sector is significant in both rural and urban areas. The ILO (2010a) report that for over 20 countries in mainly sub-Saharan Africa it accounts for over 80 per cent of employment.
- In Latin America the informal economy constituted 64.1 per cent of non-agricultural employment in 2005 but the rate varies widely by country. In Argentina, Chile and Uruguay, approximately a quarter of the employed labour force can be classified as independent workers, most of whom work in the informal economy

In Europe, statistics regarding the number of self-employed are often part of a wider classification of workers who are “not employees”, which includes the self-employed along with employers and family workers. The proportion varies considerably within Europe (table 1.1).

Table 1.1. Workers who are “not employees” as percentage of employment in selected member States of the European Union (EU), 2007

Country	Self-employed	Employers	Family workers	Total
France	5.8	4.4	0.6	10.8
Italy	17.3	7.0	1.8	26.1
Netherlands	8.7	3.9	0.5	13.1
Poland	15.2	4.0	4.2	23.5
United Kingdom	10.2	2.9	0.3	13.6
EU-27 average	10.5	4.5	1.8	16.9

Source: Eurofound (2010).

The ILO’s World Social Security Report 2010/11 collates estimates of the number of self-employed by country; information for selected countries is set out in [table 1.2](#). We have separated contributing family workers from the total self-employed figure as there is debate about whether such workers are self-employed.

Table 1.2. Estimates of self-employed as percentage of working population, 2007 or 2008

Country	Total self-employed	Contributing family workers
Egypt	29.9	8.7
Morocco	37.4	15.0
South Africa	15.0	0.4
Indonesia	50.4	16.9
Republic of Korea	30.6	1.2
Pakistan	35.3	27.2
Brazil	29.5	4.5
Canada	19.0	0.1
Mexico	28.8	4.8

Note: Self-employed includes own-account workers and employers.
Source: ILO (2010a).

The weight of the self-employed – and, in broader terms, the informal sector – in economic growth and development is difficult to assess. A number of studies have set out figures for the size of the informal sector as a percentage of gross domestic product (GDP). [Table 1.3](#) highlights these for a number of selected countries. This does not directly provide information on the number of workers in the informal sector in general and self-employment in particular, as the proportion of GDP represented by the informal sector cannot simply be used as a proxy for the percentage of the total workforce in the informal sector. This is because productivity and economic output of workers in the informal sector is particularly low; in India, for example, over 90 per cent of workers are in the informal sector but estimates of the GDP represented by this group range from just 20 per cent to 40 per cent depending on the source ([box 1.3](#)).

Box 1.3. Priority of covering the self-employed in India

It is estimated that 94 per cent of all workers in India belong to what is described as the unorganized sector. This includes many self-employed workers without social security coverage. In July 2011, the Government announced an initial allocation of some IRN 10 billion (approx. USD 190 million) to extend social security to this sector of the population.

Source: <<http://www.thehindu.com/news/national/article2302042.ece>> (accessed on 21.08.2012).

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Table 1.3. Estimated size of informal sector, selected countries, 2007

Country	Estimated percentage of GDP represented by informal sector
United States	8.4
Japan	10.3
China	11.9
Indonesia	17.9
India	20.7
Argentina	23.0
South Africa	25.2
Greece	26.5
Turkey	29.1
Egypt	33.1
Brazil	36.6
Mali	39.9
Russian Federation	40.6
Peru	53.7
Zimbabwe	62.7

Source: Schneider, Buehn and Montenegro (2010).

Thus, although the number of self-employed is difficult to assess with accuracy, it does appear from studies undertaken that between 10 per cent and 80 per cent of the working-age population can be considered as self-employed, depending on the country.

1.1.4. Impact of changes in the economy on the self-employed

For political and practical reasons, many social security programmes were designed initially to cover the risks faced by those in salaried employment only. Where appropriate, coverage for certain risk contingencies was to be extended to self-employed persons incrementally, but often on a voluntary basis. For developing economies in particular, a general view was that, as the economy developed, the number of workers who were either self-employed or otherwise part of the informal sector would decrease.

Over the last 30 years, the number of self-employed has tended to vary according to the economic situation of a country but also to other cultural, demographic and societal changes. From 1980 to 2000, for example, the number of self-employed fell in much of Western Europe (including Austria, France and the Netherlands) and Australia, Japan and the Republic of Korea. Numbers were stable in the United States and most of Latin America but actually increased in Canada,

Mexico, Sri Lanka and the United Kingdom. Indeed, neighbouring countries often saw opposing trends: the number of self-employed increased in Sweden but fell in Norway, and increased in New Zealand but fell in Australia. The ILO noted in its World Labour Report 2000 that decreases in the number of self-employed were often linked to the number working in the agriculture sector while increases were often explained by a number of factors including reduced opportunities for salaried employment and greater demand from organizations wishing to purchase services rather than employ labour.

The economic turmoil in many parts of the world since 2008 has had a significant impact on the number and characteristics of the self-employed. Economic recessions tend to lead to an increase in informal labour market activity in general and studies seem to suggest that, in most countries, the number of self-employed has increased during this time. Compliance – for all workers but particularly for the self-employed – is also likely to be more challenging given the squeeze on incomes and the increasing difficulty of paying contributions. However, the economic environment is only one of many factors influencing the size and nature of the self-employed sector (box 1.4).

Box 1.4. Development of self-employed activity in Trinidad and Tobago

In Trinidad and Tobago, trends in self-employment have broadly followed economic changes over the last 40 years. From 1970 to 1980, the islands enjoyed an oil boom and a significant increase in GDP. During this period the number of self-employed dropped from 18.5 per cent of the working population to 14.4 per cent. Between 1980 and 1990, a period marked by a fall in oil prices which significantly reduced GDP, the self-employed as a proportion of the employed population increased to 21 per cent. Since then, an economic boom has led to an increase in GDP and self-employment has stayed reasonably stable, dipping slightly to 19.8 per cent in 2007. One reason given for the smaller fall in the number of self-employed than expected has been the more fragmented labour market.

Source: <[http://www.issa.int/Resources/Conference-Reports/Social-security-for-self-employed-persons2/\(language\)/eng-GB](http://www.issa.int/Resources/Conference-Reports/Social-security-for-self-employed-persons2/(language)/eng-GB)> (accessed on 21.08.2012).

1.2. What do we mean by extension of coverage?

There are not only different definitions of, but also different aspects to, the extension of coverage of social security, including:

- **an increase in the number of people covered** by existing social security benefits (for example, an increase from 2 million to 3 million self-employed effectively covered would be considered an extension of coverage)
- **an increase in the range of benefits provided** (for example, the provision of unemployment insurance coverage to self-employed persons already covered for old-age benefits could also be considered an extension of coverage)
- **an increase in the level of benefits** (for example, an increase in the level of old-age benefits provided).

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This handbook focuses on the first two aspects. Most of [section 2](#) focuses on the barriers to coverage raised by the self-employed. Issues relating to increasing the range of benefits provided are also covered in [section 2](#), and also in [section 3](#) where factors related to the provision of specific benefit provision (for example, health-care and old-age benefits) are considered. The third aspect is generally concerned with the adequacy of benefits and is, in the main, outside the scope of this handbook. However, issues relating to barriers to financing social security benefits (the double-contribution issue and variable-income constraints) also touch on the adequacy of benefits. Some countries provide social security for the self-employed on a different basis with often lower benefits provided to these workers. Therefore, some of the suggested solutions to this issue set out in [section 2.3](#) also relate to the adequacy of benefits.

1.3. The importance of extending coverage to the self-employed

There are a number of reasons why it is important that the self-employed are covered under social security:

- **Protection of the individual and family.** Social security provides coverage against labour market and life-cycle risks that a person would otherwise not be insured against, either because they decide not to insure themselves or because such coverage is either not affordable or available. As regards the latter, a lack of insurance coverage for the self-employed may stem from the market not being able or willing to offer such products to these workers.
- **Social cohesion** is enhanced through a social security system which effectively covers the greatest number of people against risks, including the self-employed. An inclusive system of social security is likely to help reduce the risk of social conflict.
- **Facilitation of economic development** through the provision of income security for individuals. By covering the risk of short-term illness, for example, the social security system protects the business development of the self-employed from shocks. With access to sickness benefits, the self-employed person who falls ill does not need to liquidate their business; access to temporary unemployment benefits protects the business against economic shocks.
- **Equity.** It is seen as fair that everyone who has certain means should participate in social security. Given that some of the self-employed may be well off, the system risks losing credibility and public support if efforts are not made to include the self-employed in the system.
- **Economies of scale.** The wider the coverage pool, the more cost efficient social security administration can become and the more robust to shocks can be the financing of benefits.
- **Public support** for social security is increased if all workers, including the self-employed, are covered.
- **Employee mobility.** The inclusion of the self-employed facilitates the mobility of employees; mobility may be from self-employed to salaried status but also includes geographical

- mobility and the increased possibilities to change professions which may be facilitated through training opportunities.
- **Reduction in exploitation of workers.** Being in the informal sector means that work is undeclared and this often results in the mistreatment of certain employees such as domestic workers. Social security can work as an effective tool to move such workers into the formal sector, thereby reducing exploitation and ensuring that a person is more likely to become aware of their rights and labour market regulation of working hours and conditions.
 - **Formalization of the labour market.** Other advantages linked to bringing informal-sector workers into the formal economy include increased tax take and a reduction in the number of workers not covered by occupational safety and health regulations. In principle, work in the formal economy should contribute to poverty reduction and make work less precarious, although there are limits to the extent that all work can be “formalized”.
 - **Access to insurance and savings vehicles.** The self-employed often do not have the same access to complementary financial market products such as life insurance or pension funds as do salaried employees. This may be due to the fact that the terms and conditions are unattractive – they do not benefit from “group rates” that employers can negotiate, for example – but may also be because private-sector insurers do not wish to offer products to a category of worker they believe is high risk. In large part, it is to address such market failure that social security systems exist, and the self-employed – like all others who are excluded from affordable private insurance provision – therefore have a need for comprehensive and adequate social security protection.

1.4. Constraints on extending coverage to the self-employed

As referred to above, there are a series of advantages to society of having the self-employed included in social security. However, there are often significant challenges and administrative requirements associated with the extension of coverage to the self-employed, highlighted by the barriers to be overcome in improving coverage levels set out in this handbook (box 1.5).

The financial implications often result from measures to address the double-contribution challenge – typically, contribution rates for the self-employed are lower than rates for corresponding salaried employees. Administration costs often result directly from the more complicated situations of the self-employed, which may demand adaptation in the process of declaration, record-keeping, collecting contributions and paying benefits.

Due to the widely differing circumstances of those who consider themselves self-employed – for example, level and variability of income, type of activity – it is generally challenging to set up coverage of the self-employed on a unique basis appropriate to all falling into this category. Therefore, different schemes or different bases for benefit and contribution determination may be required.

The measures put in place to extend coverage to the self-employed therefore need to accommodate or at least take into account these differing circumstances and, at the same time, remain as flexible as possible. This can lead to a more complex system, reflected in more complicated administrative procedures for social security administrations and their members.

Clearly, innovative measures which can help reduce the administrative cost of providing social security to the overall population should be sought. Efficiency improvements in contribution collection and record-keeping are essential in this regard. For some countries, unified contribution collection agencies or combined tax and social security contribution collection may be effective ways to attain this.

Box. 1.5. The informal sector seen as better than the formal economy by some workers in Viet Nam

Nearly 10.9 million people currently work in the informal sector in Viet Nam, accounting for 23.5 per cent of the working-age population. However, only 0.19 per cent of workers in the informal sector participated in social and health insurance in 2010. Many workers have passed from the formal to the informal sector through necessity. However, according to a Ministry of Labour official, wages in the informal sector were sometimes higher than the corresponding salary in the formal economy and many decided to stay in the informal sector because of excessive workload and insecurity of income in the formal economy. In such a situation, policies and measures aimed at improving conditions in the formal labour market can have a knock-on effect in reducing numbers in the informal sector.

Source: <<http://vietnamnews.vnagency.com.vn/social-issues/217321/informal-labourers-need-more-social-insurance-protection.html>> (accessed on 21.08.2012).

1.5. The “disguised” self-employed

One issue to consider when putting in place measures to increase coverage for the self-employed is that the measures should not create incentives for salaried employees to falsely declare themselves as self-employed. This can occur if the conditions for participation in social security by the self-employed are better than for corresponding employees – for example, if contribution rates for the same benefits are lower. In response to this, administrations must put in place appropriate measures to monitor that those who declare themselves as self-employed are not in fact employees. This is often done by applying labour law or tax law; for example, the requirement to work for more than one employer can be one of the conditions that determine a person’s status as self-employed (box 1.6).

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Box 1.6. The “disguised” self-employed

In a number of countries, the self-employed have favourable treatment for taxation and social security. Lower tax rates, reduced social security contributions (we will discuss this further in [section 2](#)) and the possibility of offsetting a range of expenses from revenue often reflect the policy objectives of governments to support what is often seen as a dynamic part of the economy. However, in a normal salaried relationship, these advantages provide an incentive for both employees and employers to disguise what would be a standard employment relationship as self-employment. A number of governments have reacted to this by more carefully defining what a self-employed person is and have often tailored entitlement and obligations in respect of social security around this definition. For example, in Spain, a self-employed person who works more than 75 per cent of their time for the same employer or client is de facto considered as a salaried employee and must adhere to the unemployment insurance system in place.

Other examples include the Czech Republic, where self-employment has been used as a flexible alternative to regular salaried employment. Under such arrangements, a regular employment relationship is replaced with an arrangement where the original employer buys services from a trade-licensed self-employed person, thus benefiting from a lower tax and contribution burden.

Source: European Employment Observatory (2010).

1.6. Coverage under general schemes or dedicated plans for the self-employed?

Approaches to extending coverage to the self-employed vary considerably by country. Not only do the risks covered and benefits provided differ but there may be different approaches to the organization and administration of social security for the self-employed worker. There are four main approaches:

- **Inclusion of the self-employed in the main social security scheme.** Terms and conditions – such as contribution and benefit rules – are, however, typically different from those applying to salaried employees. This is the situation in Brazil, Ghana, Jordan, Kenya, Mexico and the United Kingdom.
- **A separate scheme for all self-employed workers.** In such an arrangement, terms and conditions tend to be common to all categories of self-employed workers. Examples of countries following such an approach include Algeria and Belgium.
- **A number of separate schemes for different types and categories of self-employed workers** (for example, farmers, those in the liberal professions, and so on). In Italy, for example, there are different social security arrangements for accountants, doctors, nurses, architects and engineers who are self-employed; the bodies responsible can define their own regulations as long as they meet certain requirements. This is also the approach in France, Germany and Spain but it is rare outside Europe. This approach is discussed in more detail in [section 4](#).
- **Exclusion of the self-employed.** No social security provision is made for the self-employed. In such situations, there may be a system of social assistance to ensure some coverage but not within a social security arrangement. Exclusion of the self-employed from social security occurs in Benin, Nigeria and Senegal, for example.

Variants on the above approaches also include:

- The plan may or may not be voluntary for the self-employed. For example, in Colombia, old-age benefits are compulsory for the self-employed while work injury coverage is voluntary; in Mexico, old-age coverage is voluntary.
- Some categories of self-employed workers may be covered in the main scheme while other categories are not (for example, in Morocco).
- The self-employed may be covered for only some benefits even if they are included in the main scheme (for example, the self-employed are often covered for the provision of medical services but not covered for income replacement under sickness and maternity).

In countries with separate social security schemes for public-sector workers, private-sector employees and the self-employed, this fragmentation tends to result in higher administration cost, social stratification and problems of portability. Portability problems include barriers in moving from one scheme to another and whether rights accrued in one system are recognized in another. Some countries have moved to a single social security fund or scheme with universal coverage. However, policy and administrative responses need to take into account the fact that self-employed workers encompass a wide range of workers with different characteristics – a situation which may benefit from a differentiated approach (box 1.7).

Box 1.7. Different approaches to administration

The Mutual Information System on Social Protection/Social Security (MISSOC) provides information on social security coverage for the self-employed in 31 countries in Europe. In a 2011 study of 29 countries, it noted that 23 countries provided social protection through the general social security arrangements and six had dedicated arrangements for the self-employed. Of the former group, coverage tended to vary but generally the self-employed were only eligible for certain types of benefits. For the six countries with dedicated plans identified, there were typically different arrangements for different types of workers but in general more complete coverage with many offering attractive voluntary coverage on top (for example, supplementary pension coverage in France).

Source: <<http://www.missoc.org/MISSOC/INFORMATIONBASE/COUNTRYSPECIFICDESCS/SELFEMPLOYED/socialProtectionSelfEmployed2011.jsp>> (accessed on 21.08.2012).

2. Barriers to extending coverage and suggested responses

This section covers the different barriers or constraints which need to be overcome in order to extend coverage for the self-employed, and possible measures and solutions to overcome them.

2.1. Access and administrative issues

2.1.1. Barriers

A number of self-employed people are excluded from coverage through legal measures or rules preventing adhesion and through certain administrative barriers which make it difficult to join. These barriers include:

- **Legal exclusion.** It may not be legally possible for someone with self-employed status to join social security. This may be because the law excludes membership or it may be de facto exclusion, if, for example, the minimum income level required for joining is too high for the majority of self-employed workers.
- **Geographical, timing and ICT barriers.** Offices may not be located in areas close to the working location or home of the self-employed, making it difficult for them to access information. This can be a particular problem as the time taken to get to the social security office or agency often requires the self-employed person to shut down or suspend their business activities. For seasonal or agricultural workers, the place of work may change regularly and this may present an additional barrier to signing up.

Offices may be open only when the self-employed person is working and therefore he or she will not have the opportunity to visit the office.

Although access may be available online, the self-employed person may not have access to the Internet or may not feel comfortable using this channel.

- **Complexity of procedures** required in order to become a member or to access benefits. This complexity may result from the benefit structure (for example if a benefit is means tested, this may mean that the claimant may be required to provide information on savings) or simply the way the benefit is administered, for example, if a number of documents are requested which are not readily available or easy to obtain for the self-employed.
- **Administrative procedures** may be tailored towards and designed for formally-employed workers. Although there may be political will to include the self-employed, the procedures to become a member may require responses to the same questions or information that are asked

of salaried members and that are not appropriate for the self-employed. For example, the self-employed worker may only be able to estimate their likely income, which may turn out to be significantly different from their actual income or be based on assumptions about the timing of payment of invoices and that invoices will be honoured in full. If payment or declaration is required on a monthly basis, this can create significant time and resource burdens on the self-employed worker.

- **Record-keeping barriers.** This constraint may apply equally to the social security administration and the self-employed. For the social security administration, the issues may relate to the system's ability to record variable income, different and numerous contribution periods and changing personal situations. For example, can the system record 12 different monthly wages? Although many administrations now allow and encourage online filing of records, these systems need to be set up to accommodate the different contribution and entitlement records of self-employed workers. Another issue is dealing with billing against receipt of payment. There are also record-keeping constraints on the self-employed person themselves. Typically, they will not have the record-keeping facilities, IT skills or knowledge and time to be able to complete the documents required, calculate contributions to be paid and file returns, whether online or in person.
- **Administrative capacity and personnel capabilities.** A self-employed worker is likely to have a history of irregular and variable income. In order to properly document their entitlement to benefits, skilled assessment of a variety of complex situations may be required. Social security administrations will need appropriate staff with knowledge, expertise and training in the relevant areas so that they can analyse submissions from self-employed workers.

Furthermore, the self-employed may not only be unable to provide the documentation or information requested but may not have the administrative capabilities to prepare, process and send this information. Social security systems often rely on the employer to carry out record-keeping and processing requirements; without this assistance, the self-employed may struggle if the adhesion and contribution payment process is complex. Such problems may be exacerbated if the social security administration requires the monthly declaration and payment of contributions.

- **Calculation and entitlement issues.** When the contribution history of a self-employed member is complicated, it is important that administrative tools are adequate to be able to properly assess their entitlements. Equally important is that this information is made available to the member so that they can verify the information held about them and be informed of likely future benefit entitlement.

2.1.2. Responses to these barriers

- **Legal exclusion.** Measures to reduce exclusion generally depend on appropriate policy measures and include:
 - **Universal access.** This would allow all types of workers (including the self-employed) to join social security schemes, through either compulsory or voluntary arrangements (box 2.1).

Box 2.1. Legal provision for social security coverage for the self-employed and domestic workers in Latin America

Although the approach to coverage of self-employed workers varies widely in Latin America, a majority of countries require or facilitate social security coverage. For example, in 14 countries, pension coverage of the self-employed is voluntary, while in Argentina, Brazil, Costa Rica and Uruguay it is compulsory.

Unsurprisingly, coverage of the self-employed is higher (but still far from universal) in countries with compulsory affiliation (30 per cent, 29 per cent and 23 per cent in Argentina, Uruguay and Brazil, respectively) and lower in those with voluntary affiliation (typically less than 5 per cent).

The self-employed have mandatory coverage in the social insurance health programme in Colombia and Costa Rica and in the public health system in Brazil and Cuba.

Experience with domestic workers is similar to that of the self-employed. Where coverage is compulsory, schemes typically achieve coverage of 20 to 30 per cent of the target population while voluntary schemes achieve less than 5 per cent coverage.

Source: Mesa-Lago (2008).

- **Easing conditions.** This might include reducing the minimum income required in order to join or removing conditions that require income to come from a single employer (box 2.2).

Box 2.2. Minimum income threshold requirement in the United States

In the United States in 2012, domestic workers had to earn USD 1,800 per month to receive social security credits and therefore be covered by the social insurance system. For those classed as self-employed, coverage starts after the first USD 400 of earnings with the possibility of optional coverage under this amount. Although the system for the self-employed covers most workers, for domestic workers the situation is more complex. The minimum income must be provided through one employer's contribution and the domestic worker is not permitted to combine contributions from a number of different employers to reach the income threshold of USD 1,800. This condition functions as a major impediment to domestic workers as they often have multiple employers. For example, it creates problems for the archetypal domestic worker – the household cleaner – as they work in a number of households and therefore have multiple employers. These strict eligibility requirements effectively discourage and block domestic workers from accessing the social insurance system.

Sources: <<http://www.socialsecurity.gov/pubs/10022.html#a0=3> (accessed on 21.08.2012); <http://www.ssa.gov/oact/cola/CovThresh.html>> (accessed on 21.08.2012).

Another way of easing conditions would be to reduce the minimum service period required to join a scheme and the vesting periods for eligibility for benefits. A scheme that requires 10 years of uninterrupted contributory service in order to be eligible for benefits is likely to disadvantage the self-employed who have regular periods where they are not in employment. Changing such a requirement to reflect the work patterns of these workers (for example, 10 years of contributions within any 15 year period) is likely to encourage the self-employed to join a scheme.

- **Geographical, timing and ICT barriers.** Clearly, there is a balance to be struck between the number of locations where a social security administration is present and the financial constraints on an administration. The measures below consider this trade-off and suggest how to reduce these barriers.
 - ***Reallocation of resources to support a more decentralized approach.*** Although increasing the number of local offices is likely to facilitate access, there may be differing views on the importance of centralizing or decentralizing activities, depending on the country. An administration with many local offices and less centralization of services in a large head office will require ICT and management structures which ensure that this can be done effectively. These include proper peer-review processes, remote access database facilities and appropriate training for non-head-office staff. However, such decentralization has often worked effectively in increasing coverage of the self-employed by placing offices close to potential members. In addition, there may be proportionately more self-employed workers further away from the head office location (for example, rural workers) and therefore decentralization makes greater sense in such a situation (box 2.3).

Box 2.3. Rwanda's successful decentralization strategy

Before 2007, most social security services were only provided at the administration head office in Kigali. Although local offices existed, they acted as "post offices"; local decision-making was not possible and the branches typically had unqualified staff and poor record-keeping. The result was low coverage, problems with compliance and poor customer service. The Social Security Fund of Rwanda (SSFR) embarked on a significant decentralization process in 2006–2007. Offices were opened in all 30 districts of the country, which were staffed by highly qualified personnel, and ICT systems were introduced. The impact was immediate. Contributions collected increased by over 50 per cent from 2006 to 2007 and coverage of those in the informal sector increased dramatically. Claims processing was also cut from an average of two months to just two weeks.

Source: <<http://www.issa.int/Observatory/Good-Practices/Decentralization>> (accessed on 21.08.2012).

- ***Agreements with other organizations and private-sector enterprises.*** Such agreements facilitate the provision of a range of social security services through an organization's existing office or commercial enterprise. These arrangements can be with large organizations such as the postal service or commercial banks, or with community organizations and cooperatives. Agreements with local shops or kiosks to take on some roles of social security have also worked well in a number of countries. These arrangements work particularly well for simple processes such as contribution payment and the provision of information. Such arrangements also allow longer opening hours as a commercial enterprise typically has longer opening hours than traditional social security administrations. When the administrative capacity of the social security organization is limited, this form of arrangement may afford piggybacking on existing

large-scale public-entity or corporate administrative structures, permitting reduced unit costs due to the economies of scale involved in the processing of large groups. In India, for example, post offices, banks and other agencies are authorized to carry out operations on behalf of the National Pension Scheme (NPS). In the Philippines, the social security system works with cooperatives to enrol members and collect contributions, thereby reducing costs and improving coverage levels.

- **Telephone helplines.** Often, information services can simply be provided over the telephone. A computerized system allows such a service to be provided at low cost or free, and can provide valuable information and advice to potential members.
- **Internet access.** This is an important element of the service offering of most social security administrations. It not only allows access to information and services 24 hours a day but can also be an effective way to provide more tailored information than is possible in offices or via a telephone helpline. These services can include:
 - calculation of contribution requirements;
 - projection of benefit receivable on death, disability or retirement;
 - case studies or examples to highlight the key elements of coverage.
- **E-services.** This term describes the interactive approach, by means of a technology-based interface, to providing services such as contribution payments and benefit statements. It aims to ensure that all functions can be carried out without the need for a person to physically visit the office. This can be particularly important and attractive for the self-employed who otherwise would need to close their business while making the journey to an office or agency (box 2.4).

Box 2.4. Electronic statements cut waiting times in Uganda

In the past, the National Social Security Fund (NSSF) of Uganda only provided services to its members when they visited its offices. Member statements were only issued in hard copy and follow-up on claims necessitated visiting the NSSF offices, which was costly and inconvenient to both the members and NSSF. To make it more convenient for members to access the NSSF's services and to reduce the costs of its operations, it introduced electronic service delivery channels to enable members to view their contribution balances and follow up their claim processing on mobile phones, through the Internet and via the toll-free line managed through the call centre.

Since the introduction of these electronic channels, 46 per cent of statements are now issued electronically. Feedback from members indicates that services through the electronic channels are quicker, cheaper, customer friendly, convenient and have improved service delivery, positioning the NSSF as a customer-focused organization.

Source: <<http://www.issa.int/Observatory/Good-Practices/Electronic-service-delivery-channels>> (accessed on 21.08.2012).

- **Targeted visits.** Having mobile social security officers who make visits throughout a region can be an effective way to increase coverage. Although resource demanding in time and personnel, targeted visits can increase sign-up rates by targeting self-employed businesses in a region or town. Social security officers visit businesses to explain social security and how it operates, highlighting the benefits of signing up. The visits can be timed to coincide with typical payment dates for workers or other meetings to facilitate sign up.
- **Mobile offices.** Placing temporary offices in areas where social security normally does not have a presence can be an effective way to bring information to the population. Such offices may be set up for one or two weeks, for example. Although it is then up to the self-employed to visit these offices, this is more likely if the office is located closer to their business. This may also be a solution to the challenge raised by workers who regularly change their place of work (for example, agricultural workers).
- **One-stop shops.** Having one point of call for all issues related to social security provision can be an effective way of encouraging increased membership. This avoids multiple visits and responds more closely to the needs of potential and current members (box 2.5).

Box 2.5. Delivery channels reflect service standards and diversity of population in Singapore

Singapore's Central Provident Fund launched its Service Standards for Members and Beneficiaries by reflecting its wide profile of members and multiplying the points of access to members. These range from smartphone applications allowing calculation of contributions and online inboxes to the use of private-sector news kiosks in the street for those who prefer this approach to paying contributions. The result was a 99 per cent overall satisfaction rate from members and beneficiaries.

Source: <<http://www.issa.int/Observatory/Good-Practices/ISSA-Good-Governance-Guidelines-in-Practice-Service-Standards-for-Members-and-Beneficiaries-The-Singapore-Experience>> (accessed on 21.08.2012).

- **Complexity of procedures.** Most social security administrations aim to have simple procedures for affiliation, whether for self-employed or employed workers. In practice, however, this may prove difficult to achieve, particularly if the benefit structure itself is complex (for example, means testing or complex benefit calculations). Solutions to this barrier may come from simplifying the benefit structure or calculation of contributions required. Some possible approaches include the following measures:
 - **Changing the benefit structure for the self-employed.** Simplifying the way benefits are calculated not only makes the process easier to administer but is likely to increase the understanding of the member regarding the benefit that they will receive (section 3.6). For example, a fixed (flat-rate) benefit payment not related to the income of the self-employed member means that the calculation of the benefit payment is easier. The

benefit amount can be determined as a percentage of the average or minimum wage or related to a minimum subsistence level of income.

- ***Changing the basis on which contributions are assessed and paid.*** Often, a key administrative challenge is the recording of 12 different monthly contribution amounts. Basing contribution payments on an annual amount (for example, the previous year's declared income) or setting a fixed amount, facilitates the administration process as well as simplifying the calculation of benefit. At a later date adjustments can be made to reflect any differences between expected and actual income. Another approach is to fix the contribution amount payable according to different bands of income. For example, a flat contribution for those earning between USD 10,000 and USD 15,000 per year, another for those earning between USD 15,000 and USD 20,000 per year, and so on. This would reduce the number of adjustments required and makes it simpler for the self-employed. The main disadvantage is the required step-up of contribution (in the example above, someone earning USD 14,800 and who increases their income to USD 15,200 may actually be worse off) which may lead to a disincentive to earn more or encourage under declaration of income. Other approaches include using an average notional income (for example, in the People's Republic of China, this is fixed region by region) or a proxy measure which reflects the income and/or wealth of a self-employed person but is easier to measure and check than their income. For example, in the Republic of Korea, a number of proxies, such as the car used, rental paid or value of a person's house, can be used to determine their income class. This measure is also an approach to addressing the issue of under-declaration of income.
- ***Moving away from means-tested benefits.*** Benefits provided on this basis are not only more complex to administer but require proof of earnings and wealth, thereby discouraging new self-employed members to sign up. In India, the non-contributory and means tested National Old Age Pension Scheme provides benefits to those earning less than the equivalent of USD 7.00 a month. This scheme reaches 17 million poor people; however, the administration challenges (including proof of income and age) mean the scheme does not reach as many as it should. In addition, means-tested benefits may result in large disincentive effects ([section 2.4](#)).
- ***Using other sources for obtaining information on self-employed adherents.*** If another government department already has records of the individual's date of birth and family status, for example, this may be sufficient to allow membership. Such an approach requires coordination between social security and other government departments as well as possibly changing the benefit structure (for example, the move to a fixed-rate benefit rather than an income-related benefit means that income records would not be required). In Argentina and Uruguay, a noteworthy development has been the introduction of the so-called "monotributo" approach (that is, a unified monthly payment for tax and social security contributions). Self-employed workers in small-scale activities can affiliate in all local offices of the Social Insurance Bank (Banco de Previsión Social) and the Internal Revenue Service, using a single and unique form.

Having registered, they then pay a single amount on the income generated from their activities which counts as their contribution to both social security and taxes.

- ***Simplifying the documentation required to access coverage.*** For example, simply asking for an identity card may encourage more self-employed workers to join. An individual could still be covered for dependant benefits but information on family members would be requested only when a claim is made and not when the affiliation process is undertaken. Such an approach may require a change in benefit structure as many schemes calculate contribution rates on the basis of the number of dependants covered. As with many of these barriers, there is a trade-off between simplicity and a link between contributions paid and benefits received (box 2.6).

Box 2.6. “Chèque service” – facilitating adhesion to social security

A number of countries have simplified sign-up procedures for domestic workers to ensure they are declared and covered for social security. These procedures not only make it simpler for the self-employed working for various clients to be covered but also assist in the paperwork and disclosure elements. From a financing point of view, these systems require an employer contribution, thereby addressing the issue of financing contributions. These systems set down minimum wage requirements plus coverage for medical care, sickness and, sometimes, holidays. Examples include *Chèque Emploi Service Universel* (CESU) in France and *Chèque Service* in Geneva Canton, Switzerland.

Sources: <<http://www.cesu.urssaf.fr>> (accessed on 21.08.2012); <<http://www.chèqueservice.ch>> (accessed on 21.08.2012).

- ***Facilitate communication and document submission by the Internet.*** Where possible, affiliation should be made available through electronic reporting and communication. This not only resolves a number of access issues for the self-employed worker but reduces error and is normally a more cost-effective way of managing affiliation. Where the ICT infrastructure is linked with other government agencies, this may also mean that the individual does not have to supply hard copy documentation (for example, birth certificate) as the government agency responsible for their emission can provide confirmation directly to the social security administration. Where the self-employed typically do not have access to the Internet, the social security administration may work with a body representing the self-employed to facilitate this approach.
- ***Allow transfer between social security schemes for the self-employed and main schemes.*** In countries where there is a pattern of changing employment status from self-employed to salaried employee and vice versa, the social security administration should ensure that if a worker has been in the main scheme and provided documents on joining, then signing up for a different self-employed arrangement should be facilitated and previous applications and documents should be used. This is also important for workers who work part-time as a salaried employee and part-time as self-employed worker.

- *Encourage group affiliation through trade unions, professional associations or other bodies representing the self-employed.* This can assist in simplifying procedures for the self-employed, allowing them to use a specialist to assist with affiliation and at the same time lead to a reduction in costs for the social security administration. The administration can work together with these organizations to streamline procedures.
- **Administrative procedures.** It is important to simplify administrative procedures for self-employed members once in the system, to avoid their leaving the formal economy. Measures that can be taken include:
 - *Simplified processes for contribution payment.* This is not only related to how contribution amounts are calculated but also to how the payments are physically made. Allowing payment to be made by mobile phone or the Internet, or at a mobile office, are innovative ways to make this easier for the self-employed worker. Allowing contributions to be made on a less regular basis (for example, quarterly) or as a series of irregular payments may also simplify the procedure for the self-employed worker (box 2.7). Combining income tax and social security contributions into one payment may also facilitate contribution payments.

Box 2.7. Mobile phone contribution payments into the Mbao Pension Plan in Kenya

The Mbao Pension Plan is specifically aimed at those in the informal sector and the self-employed in Kenya and contributions can be made via mobile phone money transfer. This makes paying contributions particularly easy for the self-employed. At the same time, the transaction costs are relatively low – which is particularly important for a scheme in which there is a relatively low level of contribution made by members – and therefore lead to lower charges for members.

Source: <<http://www.issa.int/Observatory/Good-Practices/Mbao-Pension-Plan>> (accessed on 21.08.2012).

- *Simplified processes for claiming benefits.* Barriers may not only exist to joining social security but also to claiming benefits due. Geographical and timing barriers, for example, impact equally on the self-employed when they need to make a claim and this may act as a disincentive to join social security. The Canada Revenue Agency (CRA), which manages family benefits, created an Automated Benefits Application for beneficiaries. There is a direct and secure link between the province registering a beneficiary's birth and CRA, which then determines whether the applicant is eligible for benefits, thereby bypassing the need for the individual to provide hard-copy evidence.
- *Simplified processes for benefit payment.* Analogous to the contribution payment process, ensuring that benefits are paid effectively and efficiently is an important means to attract and retain the self-employed within the system. The social security administration may need to work closely with other organizations – for example, other government departments, banks and the postal system – to ensure that benefits are

- received on time and in the form desired by the member. An important challenge may be that many of the self-employed do not have bank accounts.
- ***Simplified procedures for obtaining information on benefits, contributions and administration requirements.*** The choice of communication channel(s) is very important to ensure as large a proportion of the target population as possible is reached. More information on approaches and media that can be used is set out in [section 2.5](#).
 - **Record-keeping barriers.** The main responses to this challenge are:
 - ***Ensuring effective and efficient systems are designed, put in place and monitored.*** Appropriate use of ICT is a key element of this as the contribution record and personal information of self-employed workers can be complex. However, tools should be easy for administration staff to use, and training should be put in place (see “Administrative capacity and personnel capabilities” below).
 - ***Collaboration with other government departments.*** If this is required (for example, for cross-checking entitlements) it should be formally set up with detailed information on how it will actually work in practice. The use of ICT can be very effective in ensuring coordination works efficiently – for example, a direct link between the tax collection agency and social security contribution agencies can not only improve record-keeping but also identify fraud or under-declaration issues.
 - ***A multi-functional national social security identity card system.*** This, backed by a network connecting different parts of administrations (and different schemes), has proved to be an effective tool in enhancing record-keeping, improving the quality of service delivery and extending coverage to different social groups, including the self-employed ([box 2.8](#)).

Box 2.8. Smartcards help facilitate coverage of India’s domestic workers

The extension of India’s medical insurance scheme, approved in June 2011, envisages smartcard-based, cashless health insurance cover of up to INR 30,000 (approx. USD 570). This concerns some 4.8 million domestic workers , many of whom are illiterate. Potential beneficiaries require a certificate from any two of the following four institutions:

- their employer;
- the police;
- a resident welfare association;
- a registered trade union.

By the end of September 2011, some 20 million smartcards had been issued. The cost of benefit provision is financed by central (75 per cent of cost) and local (25 per cent of cost) government.

Sources: <<http://www.thehindu.com/news/national/article2129083.ece>> (accessed on 21.08.2012); <http://articles.economictimes.indiatimes.com/2011-09-29/news/30218148_1_smart-card-ghost-cards-pds> (accessed on 21.08.2012).

- **Administrative capacity and personnel capabilities.** The main responses to this challenge are built around procedures and processes to improve the functioning of the social security administration. They include:
 - ***Enhancing the knowledge and expertise of social security staff.*** Staff involved in issues relating to the self-employed may require a specific level of knowledge and expertise. A significant expansion of coverage to the self-employed – whose personal situations are normally more complex than those of salaried workers – is likely to require an increase in social security staff who must be well trained and supported in their work.
 - ***Appropriate organization of work.*** This is required to ensure that resources are directed towards the areas where need is the greatest. For example, are employees working in areas where their skills are utilized? This requires management techniques that anticipate the requirements of the self-employed and plan workloads and responsibilities effectively. Given the nature of the work, demands from the self-employed may be seasonal and result in a wide variation of workload for social security staff. Management processes should therefore be appropriate and a system of peer review should be put in place and respected.
 - ***Dedicated training for social security staff.*** An appropriate training programme and continuing professional development is required to ensure employees are able to carry out the job assigned to them and that they can use tools (for example, ICT) in the most efficient way. Dedicated training for social security staff is increasing in importance, as witnessed by social security schools in China and the efforts of the Employees Provident Fund (EPF) in Malaysia.
- **Calculation and entitlement issues.** Reducing the barriers relating to the complex calculation of benefit entitlement and amounts requires not only appropriate ICT systems but also training of staff responsible in this area. The design of benefits and contribution calculations should be as simple as possible, and communication clear and unambiguous. There should be automatic checking procedures. Where approximations are used (for example, for estimated income), it should be clear how these are determined and checked against the actual situation at a later date. Calculation of benefits should take into account the particular characteristics of self-employment – for example, it should be able to properly assess benefit entitlements based on an irregular contribution history.

2.2. Under-declaration and compliance issues

2.2.1. Barriers

- **Under-declaration.** it refers to a situation in which a person may be covered but he or she declares a lower than actual income in order to reduce their contribution payments. This is a common problem in all countries and may result from a benefit structure which encourages members to behave in this way (box 2.9). People tend to act to maximize their net benefit and are therefore likely to pay the minimum contribution required to secure a certain level of benefit. The result of such behaviour is that contributions are reduced while payouts may not be.

The impact of such behaviour can be detrimental to the working of social security because:

- *The individual may in effect be under-insuring.* They may not understand the full implications of contributing a lower amount, thus leaving them and their family exposed to certain risks.
- *It is inequitable.* The principle by which individuals should contribute according to their means is threatened by such behaviour. It will result in two individuals with the same income paying different contribution amounts. If this is observed or perceived as happening by the public there is a risk it will lead to a reduction in credibility and support for the system and a corresponding reduction in contribution compliance.
- *It creates unfair competition.* Such behaviour lowers the social costs of hiring staff and increases profits for employers, including those who are self-employed, and may be prejudicial for the competitiveness of enterprises that fully-declare and comply. This can have knock-on effects, for example, on formal employment levels.
- *It reduces financial resources for social security.* Under-declaration will result in lower contributions and an imbalance between benefits and contributions as the self-employed will act to maximize benefit entitlement and minimize contribution payment.
- *It reduces economies of scale for the social security system.* With fewer resources, the exploitation of economies of scale will become less effective.

- **General compliance issues.** Compliance refers to the process of conforming to regulations regarding benefit and contribution payments. The ability of a social security administration to verify and identify the payment of contributions by employers and employees will depend on the process of contribution collection, the use of ICT and other external factors such as economic environment, labour market structure and culture. Compliance can be a considerable challenge for social security administrations.²

2. See Enoff (2010) for detailed information on this subject.

2.2.2. Responses to these barriers

- **Under-declaration.** Possible solutions to the barrier of under-declaration include:
 - *The use of a notional wage.* This can be used as a basis for contribution for all self-employed members, the wage being determined in reference to average salary or minimum salary in a sector, region or industry.

Box 2.9. China's approach to determining contribution amounts for the self-employed

In 2005, the State Council of the People's Republic of China confirmed that the future focus of the extension of coverage of social security benefits would be on urban non-public enterprises, the self-employed and people engaged in flexible types of employment.

To address the challenge of needing to assess the incomes of the self-employed, a flat pension contribution rate of 20 per cent of the previous year's local average wage was set for the self-employed. Of this amount, 8 per cent is transferred into an individual account and 12 per cent is paid into a pooled, so-called, solidarity fund. The total contribution rate of 20 per cent is lower than the rate of 28 per cent for corresponding salaried employees.

The system allows the self-employed to pay a voluntary contribution which varies by province. In Hebei, for example, the self-employed have been allowed to choose a contribution base ranging from 40 to 300 per cent of the previous year's provincial average employee wage income, and they can choose to contribute every month, quarterly, half-yearly or annually.

- *A flat-rate contribution for the self-employed.* This would be unrelated to income. Although a less complicated approach, this moves away from a contribution-related payment and creates a threshold-level of payment that is likely to prove difficult to achieve for those on the lowest incomes. Therefore a series of flat-rate contributions may need to be developed depending on another criteria or a decision made to simply set a nominal contribution to ensure the largest number of self-employed join.
- *Contribution assessed on another basis.* For example, the contribution might be based on the number of hours worked, assets held or another easy-to-measure and verifiable variable. In the Republic of Korea, proxies for the resources of a self-employed worker (such as rental paid, or the value of their house or car) can be used to determine the person's level of contribution.
- *Incentivizing full declaration of income.* Such an approach typically requires demonstration of the value of benefits that an individual would be entitled to.
- *Tougher penalties.* These may be put in place to discourage under-declaration. Their effectiveness will depend greatly on the number and effectiveness of controls and the level of fines.
- *Increased compliance measures* (see below).

- **General compliance issues.** These are often related to a lack of personnel or efficient checking processes. Possible measures to overcome barriers to compliance include:
 - *Increasing the number of employees* dedicated to compliance tasks.
 - *Training of employees* involved in compliance.
 - *Targeted controls*, triggered as defined by the social security administration (for example, when the income declared has increased or decreased significantly since the last declaration).
 - *Collaboration with other government departments* (for example, liaison with tax collection bodies) to detect fraud, non-declaration or under-declaration. The effective use of ICT is of key importance in this area. Many countries have put in place effective systems which facilitate coordination between different bodies.

These compliance measures generally require appropriate administration and record-keeping systems and effective use of ICT.

2.3. Low and variable income constraints and the double-contribution issue

2.3.1. Barriers

The key barriers in this area are those related to the limited resources and income of the self-employed and those related to the variability of their income:

- **Financial constraints leading to inability to pay the contributions required.** This can result from the relatively low income of the self-employed worker but is typically also related to the fact that, in the majority of social security schemes, benefit entitlement depends on the contributions paid by both employee and employer. Given that the self-employed do not have an employer and therefore do not receive an employer contribution, the so-called double contribution issue arises: in short, who pays the employer contribution?
- **Variable-income issues.** Issues relating to variable income lead to difficulty in planning payments or making payment in a certain month when income is low. This is normally closely related to the type of work being undertaken by the self-employed worker, which can be seasonal (for example, in the agricultural sector), or simply due to the fact that the demand for their services may be erratic. Variable income may also be caused by a time difference between the work being done and payment being received. This may simply be a time lag but may also be a difference between the amount of money charged and received. Finally, frequent changes of employment status between employment and self-employment may also be a factor in the variability of income.

2.3.2. Responses to these barriers

- **Financial constraints.** There is a policy choice to be made regarding the financial support that governments will offer to subsidize the cost of benefits for the self-employed ([box 2.10](#)).

As discussed in [section 1.3](#), there are a number of advantages of extending coverage to the self-employed – some of these externalities justify government contributions on behalf of self-employed workers. However, a balance needs to be found between this objective and the need to maintain equitable treatment with salaried employees. Society’s view on the approach taken will vary by country and reflect attitudes on solidarity as well as the nature of the self-employed – it is more likely to be considered acceptable to subsidize benefits for low-paid and vulnerable self-employed people than for those in the liberal professions. For example, in Colombia, the employees’ scheme partially finances the scheme for workers in the informal sector.

Practice regarding the payment of contributions by the self-employed varies considerably by country. In most countries, the self-employed pay lower contributions for the same benefits as salaried employees. In others, they are often given the opportunity to receive the same benefits as employees through the payment of additional contributions. In some countries, the self-employed who earn lower than a certain level of income are exempt from contributions.

Box 2.10. Thai Government matches self-employed contributions in voluntary schemes

The informal sector comprises some 70 per cent of the working-age population in Thailand. In order to encourage coverage for self-employed workers, in May 2011, the Government launched a voluntary scheme. The self-employed worker can choose to subscribe to one of two schemes:

- The “100 Baht (approx. USD 3.24) scheme” where the Government pays 30 Baht and the worker 70 Baht per month. This covers the worker for short-term sickness income replacement, invalidity and death benefits.
- The “150 Baht (approx. USD 4.86) scheme” where the Government pays 50 Baht and the worker 100 Baht. This covers the worker for income replacement during short-term sickness and disability, and provides a lump sum payable on old age as well as death benefits.

The Government hopes to attract 2.4 million informal-sector employees to the scheme.

Source: ESCAP (2011).

Government subsidies may range from paying the employer contribution rate to providing a flat-rate contribution subsidy or matching the self-employed contribution up to a certain limit (for example, the government pays the same contribution rate as the self-employed worker on a 1:1 basis up to a limit of 4 per cent). This latter approach has the merit of encouraging additional contributions by self-employed workers themselves.

Providing tax incentives to encourage the self-employed to participate in a voluntary scheme may be relatively effective for the high-earning self-employed such as lawyers and accountants. However, it has limited effect on the self-employed working in the informal sector. This therefore raises a question of the distributive impacts of such policy measures.

One of the biggest barriers to extend social security coverage for the self-employed is their lack of financial resources. In the first instance, it makes a lot of sense to target subsidies at

the point of adhesion (Box 2.11). Financial incentives to join or one-off “starter payments” can be an effective approach; for example, in the Republic of Korea, temporary subsidies aim to get the self-employed to join social security.

Box 2.11. KiwiSaver – upfront incentive and matching tax credits in New Zealand

Given that a key challenge is attracting the self-employed into social security in the first place, the New Zealand Government, through its KiwiSaver defined contribution national pension savings plan, has focused its financial incentives on this “sign-up” phase. It offers a subsidy of NZD 1,000 (approx. USD 816) – the so-called “kick-start” payment – on joining a scheme. In addition, a tax credit of half the member contribution up to a maximum of NZD 542 (approx. USD 442) per annum is paid to encourage contributions. The self-employed can choose their contribution level and the scheme allows lump-sum as well as regular contribution payments. Another attractive element of the scheme is the possibility of using savings towards the purchase of property.

Source: <<http://www.kiwisaver.govt.nz/new/situation/self-emp/>> (accessed on 21.08.2012).

On a wider issue, the importance and role of other social support and protection has to be taken into account when analysing the barriers to the self-employed joining a system. For example, the existence of free and compulsory education for all children, a means-tested minimum income guarantee system and regulations on labour contracts and minimum wages provide an enabling environment for the extension of contributory social security coverage to the self-employed.

- **Variable income.** A common response to the challenge posed by variable income is to ensure that contribution payment terms are as flexible as possible for the self-employed (box 2.12). A number of approaches are possible:
 - *Allowing flexible contributions related to the income received by the self-employed.* In practice, this can mean allowing occasional lump-sum contribution payments, quarterly payments or seasonal payments. It can also allow an immediate downward revision of contributions if evidence of a fall in income can be shown.
 - *Allowing contributions to be delayed when there is force majeure* (for example, for agricultural workers after a natural disaster).
 - *Allowing temporary suspension of membership.* This could be for a short period with facilitated rejoining procedures when the economic situation of the self-employed worker improves. In such situations, vesting and eligibility rules may need to be amended to ensure that benefit entitlements do not depend on a minimum length of uninterrupted service.

The issue of variable income may also impact on the benefit side. For example, sickness benefit amounts may be based on the average salary earned over a year. If the sickness occurs in a month in which the self-employed worker is expected to earn 20 per cent of his or her annual income, this will have a much greater impact on their financial situation than if they fall ill in a quieter period.

Box 2.12. Flexibility in the Hong Kong (China) compulsory social security scheme

All workers – full-time and part-time – with a contract of 60 days or more are required to join Hong Kong’s provident fund system. The self-employed are required to join within 60 days of becoming self-employed. Those working in the catering and construction sectors with contracts of less than 60 days or on a casual basis are also required to participate. In order to reflect the challenges represented by these categories of workers, the system requires a 5 per cent contribution in total (rather than the 5 per cent employer and 5 per cent employee contribution applying to salaried employees). In addition, for daily-paid workers the contribution rules are more flexible and there are two industry schemes for the catering and construction industries to assist workers with contributions.

Source: SSA and ISSA (2011).

An issue related to variability of income is, of course, variability of cashflow (box 2.13). The need for flexibility in dealing with this issue is evidenced in a survey of the self-employed in Trinidad and Tobago. Although many expressed a preference for contributions to be made on a weekly basis, others preferred contributions to be levied on a quarterly basis.

Box 2.13. Deferral of contributions in crisis times

In response to the recent economic crisis, the Government of Belgium adopted measures in favour of self-employed workers whose circumstances had greatly deteriorated as a consequence. One of these allowed the self-employed experiencing cashflow problems to request a deferral of payment of their social security contributions.

Source: European Employment Observatory (2010).

2.4. Disincentive, adverse-selection and moral-hazard barriers

Many self-employed people who have the resources to participate in the system do not see the benefit of contributing. This may be a rational approach to take – if the contributions paid by the self-employed worker end up providing an additional benefit which is perceived as only marginally more attractive than what they may receive under social assistance if they do not contribute at all, then it is not in their financial interest to participate in such a system. A second instance which might give rise to such behaviour is if the benefits provided under social security are not considered of value, or only payable under certain conditions – conditions that may be difficult for the self-employed to meet. An example would be benefits payable after a relatively lengthy minimum continuous service requirement. Third, such workers may not consider that they will need certain benefits – for example, many self-employed workers see themselves either working into retirement or plan to sell their business at retirement and use the funds to provide for their retirement. We cover the second and third issues in more detail under section 2.7.

- **Disincentive issues.** There are a number of possible policy and administrative measures that can be taken to mitigate the disincentive problem:
 - ***Putting in place a compulsory system.*** The Asian Development Bank believes this is the most effective approach to extend social security to the self-employed (box 2.14). A number of compliance measures are needed to ensure that effective monitoring is carried out; for example, coordination among different government agencies is often essential. However, even with a compulsory scheme it is important that benefits are set at a level that encourages compliance among the self-employed.

Box 2.14. Auto-enrolment

A number of countries have chosen a middle way between compulsion and voluntary provision: auto-enrolment. This consists of automatically enrolling informal and self-employed workers in a pension scheme – membership is in effect the default option. Membership is, however, still voluntary but workers must opt out of membership, requiring them to make a choice and meet a number of administrative requirements. Such an approach, still relatively marginal but existing in a number of OECD countries, plays on the inactivity or inability of individuals to make decisions in order to increase membership numbers. Politically, it may be easier than to make membership compulsory and has a number of administrative advantages.

- ***Ensuring that benefit levels incentivize the self-employed to join.*** This requires not only that benefit levels are communicated effectively, but also that “adequate” benefits (box 2.15) are paid and that their value is demonstrated practically through financial education and effective communication (for example, interactive websites with benefit projections, brochures, and so on).

Box 2.15. Adequacy of benefits

Providing adequate benefits creates an important incentive effect. If there is little differentiation between the value of contributory social insurance benefits and budget-financed social assistance benefits, there is a large incentive to avoid payment and affiliation to the contributory programme. This applies particularly to the self-employed who can choose to opt in or out of a system.

Mesa-Lago states that, “to avoid disincentives for affiliation, the benefit levels of the average contributory pension, minimum pension and tax-financed pension should be suitably differentiated” and that, “the tax-financed pension should be at most half of the minimum contributory pension and this should have a similar relation to the average contributory pension”.

Providing adequate and not just minimum levels of benefits has other advantages. Public confidence in social security increases. This has subsequent positive impacts on political support for social security plus increased levels of contribution compliance. Adequate benefits have positive feedback impacts on economic development and support other goals such as family cohesion and gender equality.

Source: Mesa-Lago (2012).

- **Adverse selection.** Another issue arising in a voluntary system is adverse selection, particularly in relation to benefits payable on unemployment or sickness. If it is optional to join, logically it is more likely that those already in ill health or at more risk of becoming sick and those more likely to lose their job will decide to do so. Although this is not a barrier to joining, it may lead to financial constraints on social security which are often responded to by certain conditions and waiting times in respect of adhering to a system. These waiting times (that is, the contribution period required before a member is eligible for benefits) act as a disincentive and barrier for all self-employed. Under China’s voluntary and government-subsidized health-care and pension schemes for farmers, for instance, participation is based on family units so as to avoid adverse selection and to quickly extend coverage. Another approach to dealing with adverse selection is to group all benefits provided under social security for the self-employed; eligibility for all benefits is related to a unified contribution payment record. In this way, the self-employed cannot choose particular benefits and therefore select against the system. It may also be an effective way of ensuring that the self-employed are covered for all risks – by offering health and disability benefits which may be attractive for the self-employed, they are automatically covered for others such as old-age and unemployment benefits.
- **Moral hazard.** The so-called moral hazard problem is that, once in the system, the self-employed may change their behaviour as they know they are insured against certain risks. For example, they may take more risks with safety at work or fail to minimize the risk of losing a job. As with adverse selection, this problem is shared with salaried employees and is not a barrier in itself to securing coverage for the self-employed. However, it requires measures to be taken by the social security administration to ensure that such behaviour can be changed and its effects mitigated. This may require the setting of benefit levels at an appropriate level.

2.5. Lack of confidence in social security

2.5.1. Barrier

Lack of confidence in social security may result from a perception that social security will not meet its promises, from general scepticism towards government or as a specific negative response to social security reform. Often this lack of confidence may arise as a result of specific changes to a programme or in response to negative news stories, even when the overwhelming majority of benefits paid and conditions may not have changed.

2.5.2. Responses to this barrier

The most effective approach to dealing with this barrier is effective communication and education at different levels and stages to reinforce the positive messages of social security, and inclusive social dialogue to explain why changes in social security may be necessary. Although communication and education campaigns are necessary, they are not sufficient in themselves – what is more important is for the target group to adopt a positive and lasting change in mind-set in support of social security.

The promotion of social security should be ongoing and can start relatively early (some countries start promoting the general ideas around social security in schools). Effective communication and education reinforcing positive messages around social security and the idea of a “social security culture” will ensure that the message is more likely to get through.

When changes or reforms to social security occur, administrations may also take the opportunity to launch targeted communication and education campaigns focusing on these changes.

It is important that different communication channels are used – for example, using the Internet is appropriate for some self-employed workers, while others may not have access to it. There should be a focus on simple messages which should be defined in the communications strategy. Indeed, a report by the DWP (2011) in the United Kingdom showed that, while one third of respondents claimed that their information was obtained through TV messages, less than 10 per cent cited the Internet as the source of information. The report also showed that the more complex messages were less well received; for example, there was a greater awareness of the increase in pension age (45 per cent of those surveyed) than the need to complement the state pension with other income (only 21 per cent of those surveyed). Therefore, a mix of communication channels should be used to reach as many of the self-employed as possible.

In addition to general communication campaigns, targeted communication and regional policy can increase adhesion rates, as highlighted by the following example of farmers’ adhesion to social security in Turkey (box 2.16).

Box 2.16. Factors influencing adhesion rates to voluntary schemes in Turkey

A 2011 study examined which factors increased the probability of farmers signing up to voluntary social security insurance in Turkey. The study found that adhesion rates to the retirement branch of social security were positively correlated with the farmer’s level of knowledge of agricultural insurance, whether they undertook non-agricultural activities and their age. These studies are useful in the drawing up of related policy measures and regional policies which support adhesion of the self-employed.

Source: Tümer, Keskin and Birinci (2011).

2.6. Lack of awareness of benefit entitlements

2.6.1. Barrier

This may arise due to a lack of information, difficulty of access to information or difficulty in understanding information provided. Lack of awareness can be a barrier to membership as it reduces the perceived value of social security membership for the self-employed worker. As the self-employed are often working on their own, they can find it difficult to secure information.

2.6.2. Responses to this barrier

There are various approaches to overcoming this barrier:

- **Improving access to information.** As discussed above, this can mean multiplying the number of diffusion channels for information and increasing opening hours of offices. It can also mean increasing the frequency of information provided – for example, providing annual benefit statements which clearly detail benefit entitlements. In addition, information targeting industry, support groups or social networks can be a useful way to reach the self-employed (**box 2.17**).

Box 2.17. SEWA – The Self-Employed Women’s Association in India

SEWA is a trade union set up in 1972 which represents self-employed women workers in India. It is estimated that 94 per cent of the female workforce in India are in the so-called “unorganized” economy. SEWA’s main objective is to move these workers into formal employment, thus allowing them to benefit from work, income and social security. SEWA believes that “growth, development and employment occurs when ... women ... have work and income security and food security. It also occurs when they are healthy, able to access child care and have a roof over their heads”. SEWA not only acts as an advocate and support group for the self-employed but also offers basic health-care and child-care services. Such associations can be an effective vehicle for reaching a large number of self-employed workers.

Source: <<http://www.sewa.org>> (accessed on 21.08.2012).

- **Providing financial education.** Sometimes the issue is not a lack of information itself but rather a question of assisting those receiving the information and applying it to their situation. This is closely related to the choice of communication channels and content chosen and can also include the training of social security administration staff in charge of communicating with the target groups so that they can effectively explain benefit and contribution rules. Financial education is a particular issue for the self-employed and informal workers given that they are generally less well informed than salaried employees and, in addition, do not have the same support structures.
- **Tailoring the information provided.** It is important to anticipate the information needs of different target groups in order to decide on key message points. As the terms and

conditions under which the self-employed work are often more advantageous than those of salaried employees, communications can focus on this issue as well as explaining the benefits themselves. For example, the European Employment Observatory reports that in Slovakia calculations showed that in a situation of equal labour costs and expected retirement pensions, the net income of a sole trader was 39 per cent higher than that of an employee, due in part to the fact that the self-employed pay contributions from a lower assessment base.

- **Improving the quality of information** by making it simple, interactive and easy to understand.
- **Using other incentives to encourage the target group to make contact.** The self-employed often need an incentive in order to make contact. One way of doing this is to put in place a service or product that is valued. In Kenya, the Mbao Pension Plan was set up to specifically target small and medium-sized enterprises as well as the self-employed and those in the informal sector. The Retirement Benefits Authority (RBA) teamed up with health specialists to offer a free ear, nose and throat check-up for the self-employed. During this programme, RBA informed workers of the presence and advantages of the Mbao Pension Plan. Takeup of this scheme has been very encouraging.

2.7. Inappropriate benefits

2.7.1. Barrier

One of the key barriers to increasing membership in voluntary systems is that benefits are not valued by potential members. This may be due to a lack of both awareness and information regarding benefit entitlements (section 2.6) or a lack of confidence in social security. Sometimes this is a perception rather than reality; when this is so, the issue can be addressed by effective communication.

However, in many countries, benefits are indeed not always appropriate to the specific needs of the self-employed (box 2.18). They need to reflect the characteristics of the self-employed person’s work and family circumstances.

Box 2.18. Informal sector in the United Republic of Tanzania: “Why we don’t join social security”

In a survey conducted by the National Social Security Fund (NSSF) in the United Republic of Tanzania, 70 per cent of those interviewed said that benefits provided were of little interest to them. At the top of the list of demands was the payment of school fees; social security schemes were considered irrelevant and seen as paying benefits only at some time long into the future.

Source: Ubwani (2011).

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2.7.2. Responses to this barrier

Addressing the problem of inappropriate benefits requires the provision of benefits that meet the needs of the self-employed. For example:

- Benefits should take into account the variable-income nature of much self-employment (box 2.19). This can mean that social security systems accept variable levels of contribution and also that benefits that replace lost income (for example, for periods of sickness or unemployment) reflect the income that would have been earned at the relevant time of the year rather than average income over the year.

Box 2.19. Tailoring benefits to the self-employed in Spain

In Spain, a separate social security scheme for the self-employed includes benefits particularly targeted to these workers:

- benefits payable when work stops – the aim is to protect the self-employed when their activity ceases, and includes paternity or maternity leave;
- sickness benefits, payable from the first day of sickness;
- early retirement benefits for self-employed workers in hazardous occupations and which offer the same protection as for other workers.

- Many self-employed people may need protection of assets as well as protection of income.
- There is generally a greater demand for more short-term benefits such as unemployment and sickness protection.
- The self-employed could be offered a choice of benefits with varying contribution levels (box 2.20). This is possible in a voluntary system. Although adverse selection issues and possible low takeup would need to be addressed, this approach can link benefits provided with the desires and needs of the self-employed.

Box 2.20. Social security choices for the self-employed

In the Czech Republic, the self-employed have the option to contribute towards the sickness insurance system. In Hungary, the self-employed have different payment options, meaning they often have less protection regarding pensions and maternity leave than employees. In Portugal, although the scheme is compulsory for the self-employed, there are two contribution levels, leading to different levels of benefit.

- The system might allow the withdrawal of pension savings in response to certain events (such as unemployment, or health-care or housing needs). Although some retirement savings systems already allow such flexibility for all workers, these are in the minority. The advantage of such a flexible approach is that social security is then seen by the self-employed as providing

valuable benefits and responding to their particular needs. It should, however, be noted that the withdrawal of retirement savings for other needs will, of course, reduce the benefits received at retirement unless these are then compensated by additional contributions later. In addition, such an “early withdrawal” framework needs to be controlled and monitored to ensure that withdrawal was in response to a specific and documented need. Some countries with national provident fund systems which allow such flexibility have faced a problem of inadequate benefits. Ideally, a more appropriate approach would be to ensure that there is sufficient coverage for all risks the self-employed face, rather than allowing them to use resources destined for retirement savings for other uses.

- Defined contribution arrangements for the self-employed may make it easier to manage and administer irregular working patterns. For the self-employed worker, the tight link between individual contributions made and benefits received may make their benefit entitlement more transparent than a defined benefit entitlement based on a fragmented contribution history. However, in a number of countries which use a defined contribution approach, a problem of benefit adequacy has been observed which may be a particular issue for the self-employed with their irregular, variable and often low income levels.

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3. Branch-specific issues

The barriers, responses to overcome them and country examples in [section 2](#) cover a wide range of branch experiences but often highlight general approaches. This section sets out branch-specific issues in more detail.

3.1. Old-age benefits

Scheme design should duly take into account the fluctuating and often low income of the self-employed, the usually high operating cost of having a separate scheme or schemes for the self-employed and, when determining benefit rights, there should be recognition of past service and contributions paid in the general scheme and in schemes for the self-employed. In addition, setting minimum service requirements for eligibility for benefits should reflect the fact that the self-employed normally have more frequent interruptions of work activity and are more likely to be penalized by such requirements.

Government involvement is a prerequisite for extending coverage. It normally takes the form of contribution subsidies for contributory coverage, budget-financed old-age social assistance and social pension provision (either universal or targeted to selected groups) and partly or fully financing administrative costs.

As the approach to old-age coverage varies significantly by country, even within a region ([box 3.1](#)), the treatment of the self-employed will vary. The approach chosen and whether the self-employed are included in the general or a dedicated scheme, as well as whether membership is mandatory or voluntary, will depend on a number of factors. These include the structure of the employment market, administrative capacity, effectiveness of compliance measures, and the importance of the self-employed in the overall working population. The approach may also reflect the country’s history and culture; for example, in a number of countries of the former Soviet Union such as Armenia, Azerbaijan, Georgia and Kazakhstan, self-employed workers are compulsorily covered in the general scheme.

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Box 3.1. Old-age benefits – country practices in the Asia and Pacific region

In Asia and the Pacific, practice in terms of coverage for the self-employed varies widely according to the different approaches adopted. There are four main approaches:

- Some countries, such as the Philippines and the Republic of Korea, include the self-employed in the main scheme on a compulsory basis (sometimes under certain conditions such as a minimum income requirement).
- In Bahrain, Brunei Darussalam, some provinces of the People’s Republic of China, Jordan, Malaysia and Thailand, coverage for the self-employed is on a voluntary basis.
- In Australia, India, Japan, and Oman the self-employed are excluded from general scheme coverage, but may be covered in separate schemes or through social assistance.
- In some countries, such as Japan and Sri Lanka, coverage depends on the category of work, with some self-employed people covered under the main scheme and some excluded.

Source: SSA and ISSA (2011).

3.2. Disability, work injury and sickness benefits

How social security responds to disability among the self-employed is a challenging issue. Although the demand for work injury benefits is particularly high among the self-employed, there are a number of problems regarding the monitoring of such claims and the problems of both moral hazard and adverse selection (if such benefits are voluntary). Some countries do provide long-term disability benefits for the self-employed, but conditions are often strict. This problem is magnified for short-term sickness benefits which, in general, are either not provided to the self-employed or provided under certain conditions (box 3.2). However, practice varies widely. 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 (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.

Box 3.2. Sickness and maternity coverage – country practices in the Americas

Just as with old-age benefits in the Asia and Pacific region (box 3.1), practice regarding sickness and maternity benefits varies widely, even within a region. In the Americas, for example:

- In Argentina, the self-employed are not covered for either cash sickness benefits or maternity benefits. However, those who are classified as “small contributors” – defined as “persons who sell goods, rent goods, provide services, or are members of workers’ cooperatives or certain enterprises specified by law with fewer than three workers” – are covered on a mandatory basis for medical benefits. For other self-employed workers, coverage for medical benefits is voluntary.
- In Brazil, the self-employed are covered for cash sickness and maternity benefits. Twelve months’ contributions are required for cash sickness benefits and 10 months’ for maternity benefits.
- In Canada, self-employed persons in Quebec covered by the Quebec Parental Insurance Plan are eligible for maternity and parental benefits while there is voluntary coverage for cash benefits for self-employed persons in other provinces. Medical benefits are provided to all residents in Canada.
- In Chile, Colombia and Peru, adhesion is compulsory. In Mexico, coverage for benefits is on a voluntary basis.

Source: SSA and ISSA (2012).

3.3. Carer benefits

A small number of countries have extended benefits previously only available to the employed to the self-employed as well. One example is the provision of carer benefits in France. Independent workers who decide to put their work on hold to care for a relative at the end of their life are now eligible for a payment for up to 42 days.

3.4. Health benefits

Access to health-care benefits and services is often the highest priority for those working in the informal sector.

Financing mechanisms to extend coverage include budget-financed National Health Systems and contributory social health insurance and community-level health insurance, and services and benefits may be delivered using public and private facilities. In many countries, for a number of reasons, access to affordable and adequate health care is limited and private out-of-pocket expenditure commonplace for employees and self-employed workers alike.

To extend coverage to the self-employed (section 2.4), one possibility may be to levy a unique contribution which covers membership of different branches of social security. For example, eligibility for a basket of essential medical benefits could be linked with contributions for old-age benefits. Of note, in some countries the self-employed are eligible for medical benefit provision (under certain conditions), but excluded from sickness and maternity cash benefit programmes.

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3.5. Survivor benefits

These benefits are generally not provided under specific schemes for the self-employed. Where self-employed workers are members of schemes covering all workers, provision normally exists but the level and award of such benefits is being re-evaluated by some social security administrations.

3.6. Unemployment benefits

This can be relevant for workers who experience a loss of assets due to a natural or human-induced event. For example, a taxi driver who has his or her car stolen will need a replacement income plus coverage for the loss of asset (if insurance has not been contracted privately). Unemployment benefit does apply in such circumstances in a number of countries under certain conditions (normally, a relatively long “waiting period” is required before the person becomes eligible for benefits).

3.7. Maternity and paternity benefits and family allowances

In Europe, only one third of entrepreneurs are women. One reason for this low proportion is the lack of social security benefits – in particular, family-related benefits. The European Union recognized this and in 2010 passed a directive to ensure that the self-employed have a right to a range of benefits including maternity pay and pensions. Such an approach is also consistent with the objective to provide benefits which the self-employed are likely to value.

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4. Specific target groups

The aim of this handbook is to address the issues relating to coverage of the self-employed in social security. As has been detailed earlier, the term “self-employed” covers a range of individuals in different working situations and in different parts of the economy. The approaches and measures put in place to increase coverage of the self-employed will vary according to the nature of a person’s work and situation. Many countries have separate schemes for different categories of self-employed workers (for example, farmers, fishers, agricultural workers and those in the liberal professions), reflecting this reality.

Future handbooks will focus on some of these specific target groups. For example, a separate handbook will cover migrant workers; although a number of migrant workers will have self-employed status, the specific issues which affect this group (and other target groups covered in other handbooks) require a separate study.

In this section we briefly touch on some broad issues relating to self-employed workers in some of these target groups. However, full coverage of the issues facing many of these target groups will be covered in subsequent handbooks.

4.1. Agricultural workers

The ILO (2010b) estimates that over 1 billion people are employed in the agriculture sector. Of these, many are self-employed, with variable and often low levels of income. In addition, agricultural workers are exposed to certain risks which can exacerbate their fluctuating levels of income and not only leave them open to more variable income levels but increase their need for social protection. Agricultural work is often more hazardous than other jobs with an estimated 170,000 work-related deaths per year.

Responding to the need for social security in the agricultural sector requires a holistic approach, taking into account the agricultural working environment and collaborating with other stakeholders to reduce the risks that self-employed workers face. In addition, social security administrations should consider whether there is adequate coverage of self-employed workers in the event of natural disasters. Such events can result in the catastrophic loss of earnings and assets.

The measures suggested earlier in this handbook regarding flexibility in contribution collection are also recommended in this context. Financing of benefits is often challenging and government subsidies are widespread. They often account for a significant proportion, ranging from 30 to 80 per cent, of the total cost of social security benefits for the agricultural sector.

A number of countries in Europe, including France, Germany, Greece and Spain, have dedicated social security arrangements for farmers. Contributions may be assessed on income, as in France, or based on land values, as in Germany.

4.2. Domestic workers

Domestic workers can often represent a significant share of the employment force in any given country. In Latin America and the Caribbean, 10 to 18 per cent of women employed are in domestic work. Domestic work is also important in women’s employment in many countries in Asia and the Pacific and Africa: for example in the Philippines, it is estimated that 11 per cent of women are in domestic work; with 11 per cent in Botswana, 12 per cent in Namibia, and 16 per cent in South Africa.³ Coverage in social security of such workers is often low; according to the ILO, in 2009 in Latin American and the Caribbean around 30 per cent of domestic workers were covered for social security.

Often such workers are specifically excluded from social security. Regulations may state that such workers are not covered or set minimum working hours or income thresholds. In Belgium, domestic workers are excluded from social security if they work less than 24 hours a week. In Panama, domestic workers working less than three days per week for the same employer are excluded from medical coverage and the retirement pension. In Argentina, medical coverage is provided only if a domestic worker works at least 6 hours for the same employer, which is often not the case for self-employed workers. Exclusion may also be as a result of limited working hours and low wage income as well as a lack of organization and a strong political voice.

4.3. Rural workers

Although rural self-employed workers include agricultural workers, the group also comprises other workers with similar characteristics, and can therefore be targeted by specific measures to extend coverage. The characteristics of such workers include having lower levels of income than urban workers, and more difficult access to social security offices and medical and educational services. In addition, much of the population in rural areas do not have access to banking services and choice of communication channels may be limited. In Africa, Asia (boxes 4.1 and 4.2) and the Pacific, the majority of the population still lives in rural areas and therefore the extension of coverage requires specific and targeted measures to this group.

Rural workers, including the self-employed, may be covered in either separate or general social insurance schemes.

3. See <<http://wiego.org/informal-economy/occupational-groups/domestic-workers>> (accessed 21.08.2012).

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Box 4.1. Extension of social security coverage to the rural population in China

By adopting a developmental welfare approach and targeting universal coverage by 2020, the People’s Republic of China has witnessed remarkable social security coverage extension over the past decade. Major initiatives include the 2003 launch of the New Rural Cooperative Medical Scheme (NRCMS) as a voluntary programme covering all rural residents, the means-tested Rural Medical Assistance Programme (RMAP), the 2007 coverage expansion of the means-tested Minimum Subsistence Income Guarantee Scheme (MSIGS) from urban to rural areas, and the 2009 trial implementation of the voluntary New Rural Pension Programme (NRPP).

Under both NRCMS and NRPP, participation is based on family units to ensure quick coverage extension and avoid adverse selection. In addition, local and central government cover the administrative costs of the social insurance agencies and provide premium subsidies as an incentive to join. Under NRCMS, which covers both outpatient and inpatient services, government subsidies account for around 80 per cent of total contributions, and the actual average per capita subsidy has grown from 20 CNY initially to CNY 240 in 2012 – the same subsidy as for urban residents. People living under the poverty line receive an additional premium subsidy under the RMAP. In 2010, RMAP provided assistance to 56.35 million people, including subsidies for 46.15 million people to join the NRCMS (with an average subsidy per person of CNY 30), and direct assistance to another 10.19 million (with average per capita assistance of CNY 657.10). The Urban Residents Basic Medical Insurance Scheme (URBMIS), a scheme modelled on and similar to NRCMS, was launched in July 2007. By the end of 2010, 836 million people or 96 per cent of the rural population had joined NRCMS.

NRPP is composed of a government-financed basic pension (paying a minimum of CNY 55 per month) and an individual account pension. The retirement age is set at age 60 for both men and women and the scheme covers all rural residents above 16 years of age who have not yet participated in the urban basic pension scheme. Individuals can elect to contribute to their individual accounts an amount according to one of the five contribution scales ranging from CNY 100 to CNY 500 each year (there are more and higher scales in some places), for which the local government will provide an annual subsidy of at least CNY 30. The minimum personal contributions of those in vulnerable groups, such as seriously disabled persons, are paid either partially or fully by the local government. For the basic pension, central government will provide a 100 per cent subsidy to the less-developed central and western regions and 50 per cent to the developed eastern region (with the remainder to be covered by local government). Coverage was extended to around 11 per cent of rural areas in 2009 and 24 per cent in 2010. On 1 June 2011, the Chinese Premier announced a new pilot Pension Insurance Programme for Non-remunerated Urban Residents (PINUR) modelled on NRPP and implemented as of 1 July 2011. The government expected both programmes to cover 60 per cent of mainland China by the end of 2011 and all uninsured urban and rural residents by the end of 2012.

Note: USD 1.00 = approx. CNY 6.37.

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Box 4.2. From separate funds to a universal scheme – the case of the Republic of Korea

By adopting a gradual approach, the Republic of Korea managed to extend health insurance coverage to the entire population in the 12 years from 1977 to 1989. After having compulsorily covered employees of large corporations, government employees and teachers under separate funds, the Government conducted a pilot on extending national health insurance coverage to the self-employed in three rural areas in 1981, and in one urban area and two additional rural areas in 1982. Benefits include proportional reimbursement of both inpatient and outpatient care. Participation by the self-employed is supported by government subsidies and based on family units, and contributions are assessed according to both income and property ownership.

National Health Insurance achieved universal coverage of the population by including the rural self-employed in 1988 and the urban self-employed in 1989. In 2000, all health insurance societies (including about 230 for the self-employed and firms with fewer than five employees) were merged into a single national health insurer, the National Health Insurance Corporation (NHIC). The proportion of government subsidy in the total revenue of the health insurance scheme for the self-employed was 44.1 per cent in 1988 and 25.6 per cent in 1999. Under the current single health insurance scheme, a general tax subsidy accounted for 10.6 per cent of the total revenue of the unified health insurance system in 2008 (compared with 12.8 per cent in 2006), and a subsidy from tobacco tax accounts for 3.5 per cent of health insurance revenue (compared with 4.3 per cent in 2006). While total administrative costs before the merger ranged from 4.8 per cent in the scheme for government and school employees to 9.5 per cent in the scheme for the self-employed, it was reduced to 4 per cent in 2006 and 3.8 per cent in 2008.

Source: Kwon (2009).

4.4. Liberal professions

This category of self-employed workers includes accountants, lawyers and other professionals. Such workers are generally well informed regarding the social security system in their country and have sufficient annual income to pay the contributions necessary to adhere to social security. The main reasons such workers do not join social security often include:

- **The disincentive effect.** Many of these workers are well off and simply see it as not financially interesting to join social security. Many envisage making their own arrangements, for example, for old-age retirement, perhaps using the proceeds from the sale of their business. For such workers, making membership compulsory or opting for an auto-enrolment approach may be justified.
- **Under-declaration of income.** Close liaison and coordination among government organizations together with regular controls may be the best approach to dealing with this issue. Other measures set out in [section 2.2](#) can also be applied.
- **The barrier of variable income constraints** may also apply, which may require flexibility in how contributions are assessed and collected.

4.5. Migrant workers

Often, migrant workers are self-employed or work in the informal sector. A separate handbook on social security coverage and migrant workers will be published as part of this series.

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5. Conclusion

This handbook has identified a number of barriers to, and challenges for, the extension of social security coverage to the self-employed, and offered possible policy and administrative responses to overcome these, based on international experience. The key findings are as follows:

- For the ISSA, the importance of extending social security coverage to the self-employed cannot be overestimated. Ensuring protection of those who are among the most vulnerable of workers is more than an issue for social security law: it is a moral and human rights issue. Putting in place social security for the self-employed is also consistent with the ILO’s efforts to promote social protection floors.
- Extending coverage supports individual well-being, reinforces family structures and social cohesion, and facilitates economic development. There are also wider advantages of increasing coverage such as strengthening support for social security.
- The self-employed often make up a large part of the labour market. Therefore, political ambitions to increase coverage for the population as a whole can only make significant advances if effective strategies are found to target the self-employed.
- The nature and characteristics of the self-employed vary between and within countries; they range from the most vulnerable and poorly-paid workers to those in the liberal professions, and from workers in the informal sector to those in the formal economy. Effective and successful extension measures therefore need to take into account the different types of self-employed workers and differentiate the approaches adopted.
- The examples show that significant and often rapid extension under contributory social security programmes to the self-employed is possible. However, to achieve this, a number of different but complementary measures need to be put in place, including:
 - financing efforts, typically in the form of targeted government support (for example, contribution subsidies);
 - effective administration measures responding to the needs of the self-employed (for example, simplification of joining procedures);
 - benefits and contributions tailored to the self-employed (for example, flexible contributions, appropriate benefits and family or household-based membership).
- Innovative administrative practices have been the drivers in many countries behind the rapid extension of social security coverage to the self-employed. Facilitating access to social security is a major element in increasing coverage. Improved services and communication (for example, e-services) are essential in improving the relationship between social security

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administrations and the self-employed, and an effective tool in demonstrating the value of membership for this group.

- Working with interest groups and representatives of the self-employed can also be very effective in increasing membership and therefore coverage.
- Compulsory membership may be the optimal approach but may not always be possible due to political or administrative barriers. The alternative of auto-enrolment can also be effective.

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