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► Policy Report

Economic Empowerment in Rural Areas in Egypt

STRATEGIES FOR EXTENDING SOCIAL SECURITY TO
WORKERS CURRENTLY IN THE INFORMAL ECONOMY

2024



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► About the Publication

Within the framework of partnership between the International Labour Organization (ILO) and the Egyptian Ministry of Social Solidarity (MoSS) towards advancing economic empowerment for the more disadvantaged communities from Takaful and Karama cash-transfer programme beneficiaries, the ILO Norway-funded project “Egypt’s Youth Employment: Economic Empowerment under Forsa Programme (EYE Forsa)” worked over 4 years to provide support to the national Forsa programme, managed by MoSS, by contributing with necessary technical assistance and through implementing specialized capacity-building programs and job-matching activities to support wage and self-employment opportunities, with an aim to offer yet another mechanism of support to members of the poorest households as part of a more holistic approach for social protection in Egypt.

The EYE Forsa project built on previous and extended cooperation between the ILO and MoSS in formulating and setting the basic parameters of the national “Forsa” program, with the belief that productive employment and decent work are key to alleviate poverty.

The ILO EYE Forsa project has successfully managed to improve employability skills of more than 1,500 of jobseekers in Asyut and Sharkiya, in addition to the implementation of interventions to promote wage employment, including the organization of 4 job fairs that were attended by 11,760 jobseekers in the two governorates and the rolling out of a training for employment programme that resulted in the placement of 800 jobseekers. As part of the project’s self-employment and entrepreneurship components, 3,400 of beneficiaries have been supported to sustain their income-generating activities and startups through the delivery of business development and entrepreneurial skills training, as well as providing productive assets to 400 beneficiaries in Asyut and Sharkiya.

Prioritizing national ownership and sustainability, the ILO EYE Forsa project ensured that all programmes and tools, including ILO’s renowned employability and self-employment capacity-building and training toolkits are well established and institutionalized among project’s key stakeholders, not only at the central level within Ministries of Social Solidarity and Youth and Sports, but also at the local levels among community-development associations and non-governmental organizations.

From this perspective and as part of the knowledge production and sharing activities, the EYE Forsa project, following the conclusion and delivery of its key outputs, has worked to produce a number of policy briefs/Information notes that build on the experience and knowledge gained during the implementation period of the project, incorporating key policy-oriented messages, and offering actionable solutions, in addressing the needs and challenges of the more disadvantaged groups including Takaful and Karama beneficiaries to access sustainable sources of income, through either wage or self-employment work opportunities, as well as to benefit from available social protection and security services, to sustain and improve their livelihoods.

Most of Takaful and Karama beneficiaries, the main target group of the ILO EYE Forsa project, fall within the framework of informal employment, with a large segment depending on income generated by basic self-employment home-based productive activities or through informal jobs that are not covered by any formal arrangement, including social security and necessary protection. This policy brief explores the possible mechanisms to extend the coverage of the social security services provided by the State to beneficiaries of Takaful and Karama programme, especially through MoSS and other governmental entities, along a wide range of social security schemes. Acknowledging the specific characteristics and livelihood conditions of Takaful and Karama is key to develop social security schemes that take into consideration the nature and scale of self-employment forms of work as well as the particular conditions prevalent in the informal economy where many work opportunities are availed for low-skilled labour on seasonal and casual basis.

In addition to theoretical foundation provided at the beginning regarding the main concepts of the informal economy and the various forms of employment that are most common in the informal sector, and how informality poses challenges to having access to social security schemes and protection, this policy brief delves in the situation in Egypt reflecting on the legal framework and featuring the key characteristics of social protection and security systems in Egypt and their implication on informal employment with focus on the beneficiaries of Takaful and Karama programme. The policy brief then outlines the possible approaches Egypt may consider for extending social security coverage to the self-employed and wage workers operating in the informal sector, inviting insights from international experiences where similar countries managed to develop mechanisms to expand social security coverage.

This policy brief offers policy-oriented, actionable message to support policymaking in the field of social security and protection. The policy brief was prepared by Mr. Pierre Plamondon and Ms. Aya Gabr.

During the drafting process, comments were received from Ms. Christina Behrendt, Head of the Social Policy Unit of the ILO Social Protection Department, Ms. Celine Peyron Bista, Social Protection and Employment Policies Specialist, and Ms. Shana Fabienne Hoehler, Technical Officer, Social Health Protection.

Introduction

This policy brief is looking at the extension of social security coverage in Egypt, with a special focus on self-employed and informal workers, and workers in small private enterprises.

Even if looking at the extension under the angle of informality, such criteria is hardly applicable in practice. Usually, social security administrations consider whether the person is in a contractual relationship with an employer if there is a written contract, or if the economic unit is registered, among possible criteria. It thus becomes very hard to identify informal employment and determine appropriate measures to attract these workers under social security coverage.

The policy brief is structured as follows:

- Section 1 proposes a definition of informal employment and outlines the challenges in extending social security coverage,
- Section 2 presents the situation in Egypt as regards social security coverage and the existing challenges for its extension,
- Section 3 presents the general approaches for extending social security coverage,
- Section 4 describes different international experience on extending social protection with possible applications in Egypt, and
- Section 5 recommends a series of measures aiming at extending social protection in the specific context of Egypt.

1. Definition of informal employment and challenges in extending coverage

Informal productive activities designate all productive activities carried out by persons or economic units that are – in law or in practice – not covered by formal arrangements. Thus, informal productive activities can take place within the formal sector, the informal sector, and the household own-use and community sector. Within formal economic units, informal productive activities relate to employees and contributing family workers with informal jobs, workers doing unpaid work informally, and persons with formal jobs with some of their income, hours worked, or activities not formally declared.¹

We can therefore observe that informal employment cannot be associated with a circumscribed group of workers and will very often affect more women than men.



1.1 Defining informal work and informal employment

The ILO (International Labour Organisation) defines informality not only within employment, but also within other forms of work.²

Informal work covers all productive activities carried out by persons that are – in law or in practice – not covered by formal arrangements, including productive activities defined as employment not covered by formal arrangements and productive activities carried out with a different intention than to generate pay or profit (own-use production work, volunteer work, unpaid trainee work, and other work activities) that are not covered by formal arrangements. The concept of informal work is meant to serve as an overarching reference concept not intended to be measured in its totality (since it would be too labourious and of little practical use).

¹ ILO, New standards, increased visibility: improving measurement of the informal economy,

<https://ilostat.ilo.org/new-standards-increased-visibility-improving-measurement-of-the-informal-economy/>

² ILO, Extending social security to workers in the informal economy – Lessons from international experience, 2021.

Informal employment is defined as any activity of persons to produce goods or provide services for pay or profit that is not effectively covered by formal arrangements such as commercial laws, procedures to report economic activities, income taxation, labour legislation and social security laws and regulations providing protection against economic and personal risks associated with carrying out the activities. Some examples of these protections are advance notice of dismissal, severance pay and paid annual or sick leave. An example of informal employment would be casual day labourers, who earn wages without a fixed employer. This is often seen in agriculture and construction. Informal employment also includes people involved in many kinds of self-employment or own-account work (self-employment with no employees). One example would be people who work on their own equipment at home for a piece rate without direct supervision. Contributing family workers – family members who help out with a family business without pay or without formal employment status – can also be included in this category. So are people who are indirectly employed through a temporary agency.

The term “**employment in the informal sector**” is an enterprise-based concept that is defined in terms of the characteristics of the place of work of the worker. The informal sector consists of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. The informal sector is a subset of unincorporated enterprises not constituted as separate entities independently of their owners, typically operating at a low level of organization, on a small scale and with little or no division of labour and capital as factors of production. The informal sector³ consists of unregistered and small, unincorporated private enterprises engaged, at least partly, in producing goods and services for the market.

- An enterprise is unregistered when it is not registered under national laws, such as commercial acts, tax or social security laws, or professional associations’ regulatory acts.
- An enterprise is considered small when it has fewer permanent employees than a certain number (for instance five employees). The number is set in the national context.
- An enterprise is unincorporated if it is not a legal entity set up separately from its owners. This usually means that no complete set of accounts is kept.
- When people produce goods or services just for their own household’s consumption, such as food or childcare, this is not counted as an informal sector activity.

1.2 Barriers to social security coverage⁴

Some groups of workers are in situations that make it more difficult to extend social security coverage to them. Yet, many countries have successfully extended coverage to categories of workers and provided better protection.⁵

While a diversity of schemes exist in many countries, labour-based social insurance, in most cases, remains the central pillar of social security systems. Such schemes are based on an explicit contract in formal enterprises in the context of an identifiable employment relationship between a dependent worker and an employer.

In developing countries, workers that are not in such position are generally not covered by law by labour-based social insurance. This is the case for the self-employed who represent a large proportion of informal economy actors who are not covered most of the time.

The growing number of “dependent” workers where the employment relationship is unclear, ambiguous or hidden are another category excluded from social insurance coverage. In addition, some labour laws and social security legislation do not cover enterprises with a number of employees under a certain threshold, thereby leaving these workers unprotected by statutory social insurance.

In other cases, even where the laws exist but may not be applied, excluding de facto workers from their labour rights. This is the case for example for wage workers without contract in formal enterprises (undeclared workers), who represent a relatively high share of total informal employment in middle income countries.

³ From: ILO, National employment policies: A guide for workers’ organisations, Policy responses to the informal economy, 2015.

⁴ ILO, How to extend social protection to workers in informal employment in the Asian region, 2019.

⁵ ILO, Extending social security to workers in the informal economy – Lessons from international experience, 2021.

Some categories of workers face additional challenges such as:

Workers in SME (Small and medium enterprises)



- **Administrative barriers:** Many MSEs struggle to comply with administrative requirements. Complex and burdensome administrative procedures and services can hamper enterprise formalization and discourage employers to enrol their employees in the social security system.
- **Employment relationship not clearly identifiable:** Legal frameworks may not be applicable for enterprises below a certain minimum size, which leaves workers in MSEs unprotected by statutory social insurance.
- **Limited contributory capacities:** Many SME (Small and medium enterprises)s are characterized by low productivity, and in many cases both wages and business revenues are lower, and often more volatile, than in larger enterprises. This limits employers' and workers' financial capacity to contribute to social insurance.

Agricultural workers

The limited state capacity for reaching rural areas (for administering and delivering services) often results in the exclusion of agricultural workers from social protection coverage.

Even where the legislation does not explicitly exclude agricultural workers, criteria on the duration of employment or working hours may effectively exclude large groups of agricultural workers, such as temporary/seasonal workers, in particular day labourers or part-time workers.

In addition, many agricultural workers do not have an identifiable employment relationship and may therefore not be included in legislation that covers employees only.

Moreover, low and fluctuating incomes due to seasonality, the remoteness of the work and living place, high labour mobility and a lack of organization also contribute to the exclusion of many agricultural workers from legal or effective coverage.



Self-employed workers



- **Administrative barriers:** Even if self-employed workers are covered by legislation, they may still face administrative barriers related to the declaration of their incomes, record-keeping, the payment of contributions and the receipt of benefits.
- **Costs and inadequate financing arrangements:** In many cases, self-employed workers face a "double contribution challenge": in the absence of an employer, the burden of paying the full contribution (employer and employee parts) falls on them.
- **Benefits not aligned with priority needs:** Depending on the situation of workers, different types of benefits and services may be necessary to meet their needs, in particular their most immediate needs.

Migrant workers are often excluded from social protection in both their home and host country. Some social security schemes limit coverage to citizens or permanent residents. Another reason for non-coverage is workers' immigration status and, in some cases, their legal exclusion.

- Administrative barriers: Migrant workers often lack documentation thus bureaucratic and administrative requirements may restrict their access to benefits.
- Lack of portability: In the absence of social security agreements between origin and destination countries, migrant workers find it difficult to accumulate contributions for benefit eligibility.

Domestic workers experience frequent job turnover, irregular payment of wages, in-kind payment of wages and no employment contract. Such employment arrangements create unique obstacles.

- Legal exclusion: Their employment relationship is typically not recognized under labour law. And legislation often excludes them from social protection provisions by the minimum requirement of employment contract, workplace, income and working time.
- Enforcement: labour inspectors are rarely mandated to enter private households. Even if they have such legal mandate, an inspection process involves a high cost because of the dispersion of workplaces.
- Isolation: An isolated working environment limits access to information about social protection and organization for collective bargaining.

1.3 Challenges in extending social security to workers in the informal economy⁶

► Exclusion from legal coverage

The legal framework may exclude or constrain the participation of certain categories of workers in social security schemes, and, as a consequence, keep certain categories of workers in the informal economy. In many countries, an identifiable employment relationship between an employer and a dependent worker is the key determinant of social protection coverage, which excludes categories of workers who lack such a relationship.

Even if they are covered in principle, some categories of workers may also be effectively excluded by rules set out in national legislation with regard to place of work or type of contract, or by minimum thresholds with regard to size of enterprise, length of contract, number of working hours or salary. In fact, workers with temporary or part-time contracts or in self-employment are less likely to be covered than workers with permanent contracts.

For some categories of workers, social security coverage may not be mandatory; yet voluntary coverage usually does not tend to lead to a significant extension of coverage to difficult-to-cover groups, such as domestic workers and self-employed workers.

► Complex and burdensome administrative procedures

Complex and burdensome procedures may discourage employers and workers from registering for social protection programmes and thus qualifying for benefits. In particular, micro and small enterprises have limited administrative capacities and own-account workers do not benefit from the intermediary role of an employer to handle the time-consuming and complex administration of registration and payment procedures.

► Benefits not aligned with priorities

The needs of informal workers may differ according to their social and family status or their exposure to specific types of risks associated with working conditions/ environment. Where benefits are not perceived to meet priority needs, workers and employers may be reluctant to contribute.

⁶ From: ILO, Extending social security to workers in the informal economy – Lessons from international experience, 2021.

► Cost and inadequate financing arrangements

Contribution levels may not be adapted to workers' earnings and may be perceived as too high by both employers and workers, especially if they do not see the value of social protection or lack information about existing benefits. In particular, self-employed workers may face challenges in contributing to a scheme because they often also have to bear the employers' share of contributions.

Another potential barrier arises when financing arrangements, in particular contribution collection arrangements, are incompatible with the unstable incomes of some groups of workers. For example, agricultural workers whose incomes follow seasonal patterns may not be able to pay social insurance contributions on a regular basis.

► Lack of enforcement and control, and low compliance

Weak enforcement of applicable labour and social security regulations may impede the extension of coverage and contribute to a low level of compliance. Inspections are even more difficult where employment relationships are concealed or undeclared.

► Lack of information and awareness

A lack of information about and awareness of social security are additional factors that contribute to weak incentives to register.

Illiteracy and language barriers, which are usually higher among rural populations, may make it more difficult for workers to understand legal rules that are usually written only in official languages.

► 2. The situation in Egypt

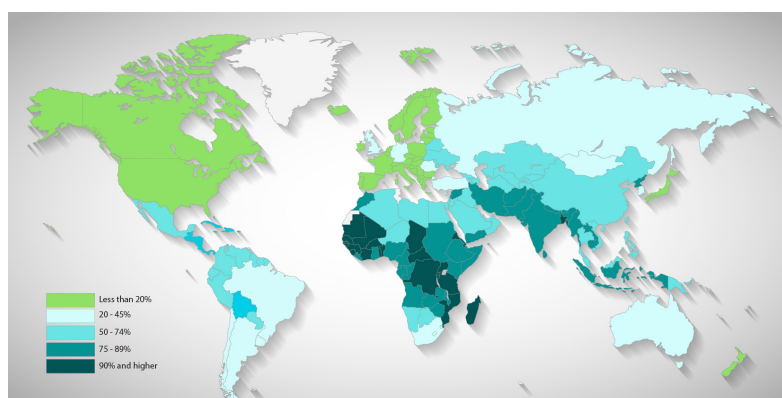
2.1 Informal employment worldwide and the situation in Egypt

The informal economy is strongly linked to the degree of economic, social and institutional development, as well as the structure of the economy and the labour market.

While the informal economy exists everywhere, it is more prevalent in low-income countries, where it represents 89 per cent of total employment, compared to 82 per cent and 50 per cent, respectively, in lower-middle and upper-middle-income countries and 16 per cent in high-income countries. When considering the percentage of formal to total employment, Egypt stands in the 50-74 per cent range (see Chart 1).⁷



Chart 1. Percentage of informal employment in total employment (%), 2019



Source: ILO (International Labour Organisation), Women and men in the informal economy: A statistical update, 2023.

2.2 Legal provisions on coverage

Article 2 of the Social Insurance and Pensions Law defines the categories of workers covered by the social security system. It namely includes:

- Civil servants and public enterprises,
- Private sector subject to labour law provisions, based on the regularity of a work relation, except for contracting, cargo handling, fishing, and land transportation labour,
- Domestic and family salaried workers,
- Self-employed workers,
- Migrant workers (working abroad), and
- Casual workers.

Hence, legally speaking, the social security coverage applies to most categories of workers in Egypt. This is good news, but there needs to be greater compliance, which also requires some work for overcoming financial, administrative and awareness barriers.

The following section describes legal provisions regarding agriculture workers for whom coverage represents a particular issue.

Legal coverage of agriculture workers

The following conditions apply regarding the coverage of agriculture workers:

Salaried. The law covers employees of private sector subject to labour law provisions, based on the regularity of work relation between insured and employer, with the exception of contracting, cargo handling, fishing, and land transportation labour.

Self-employed. The law covers, inter alia:

- Self-employed persons engaged in a commercial, industrial or agricultural activity. Their activity should be regulated by special Laws or are required to receive a license for practice such activities from the competent administrative body.
- Owners of agricultural lands covering one feddan and more.
- Owners of domestic, environmental, rural and family industries.

Casual workers. The law covers, inter alia:

- Temporary workers in agriculture whether in fields, gardens, groves, or livestock, small animals or poultry breeding projects, apiculture, or land reclamation and cultivation. Temporary workers are workers for an employer, for a period less than six uninterrupted months, or workers practicing work not included, by its very nature, in the employer activity.
- Holders of agricultural lands less than one feddan, whether owners or lessee against lease and/or farming.
- Owners (non-holders) of agricultural lands less than one feddan ownership.

In addition, there are specific conditions that apply to short-term benefits because of the nature of these benefits and their applicability to certain categories of workers (see Table 1.1).

Table 1.1. Eligibility conditions for short-term benefits

Sickness and maternity	Work injury	Unemployment
<ul style="list-style-type: none"> Salaried workers (private sector). Pensioners and survivors, are covered only for medical care (no wage compensation). Civil servants and public enterprises receive wage compensation directly from the employer. 	<ul style="list-style-type: none"> Salaried workers (civil servants, public enterprises, private sector). Exclusions: self-employed, casual workers, Egyptians working abroad. 	<ul style="list-style-type: none"> Salaried workers (public enterprises and private sector). Exclusions: civil servants, self-employed, casual workers, Egyptians working abroad.

2.3 Effective coverage

Table 1.2 shows that workers covered under NOSI (National Organization for Social Insurance) represent only 30 per cent of total employment in the country. This represents a very low effective coverage rate.

The coverage rate is higher for women, but this is due to a significantly lower labour force participation rate for that group.

Table 1.2. Number of persons covered under NOSI

	Male	Female	Total
Civil servants	2,301,341	1,587,130	3,888,471
Private sector (salaried workers)	5,863,956	935,862	6,799,818
Public enterprises	346,630	70,165	416,795
Self-employed and casual workers	1,239,406	352,056	1,591,462
Other	158,112	50,694	208,806
Total covered	9,909,445	2,995,907	12,905,352
Total employment	36,535,882	6,627,492	43,163,374
Coverage rate	27%	45%	30%

Source: ILO (International Labour Organisation), Actuarial valuation of benefits provided under the Social Insurance and Pensions Law as of June 2021 (forthcoming).

It is estimated that only 287,000 agriculture workers are covered by NOSI, which is very low compared to the total agriculture workforce in the country.

2.4 Level of social security contributions

Since social security coverage is also affected by the level of contribution imposed to members, it is interesting to list contribution rates applicable to each social security branch (see Table 1.3).

Some observations:

- The total contribution rate for old-age, disability and death insurance is 21 per cent. This rate is projected (under the law) to increase gradually to 26 per cent until 2055.
- Sickness and maternity benefits include contributions for the financing of medical care that are transferred to the Ministry of Health and Population.

Table 1.3. Contribution rates

Old-age, disability and death insurance	Contribution rates
<ul style="list-style-type: none"> • Salaried workers 	Insured: 9% of salary Employer: 12% of salary
<ul style="list-style-type: none"> • Self-employed 	Worker: 21% of selected earnings
<ul style="list-style-type: none"> • Casual workers 	Insured: 9% of minimum insurable earnings Treasury: 12% of minimum insurable earnings
Sickness and maternity (including medical care)	Insured: 1% of salary, 4% of salary for public enterprises and domestic workers Employer: 3% of salary for civil servants and public enterprises, 3.25% of salary for other salaried workers
Work injury	Employer: between 0.5% and 1.0% according to the risk of the establishment (2.0% for construction, ground transportation and fishing sectors)
Unemployment	Employer: 1% of salary
Bonus system (defined-contribution scheme)	Insured: 1% of salary Employer: 1% of salary

Regarding agriculture workers, landowners of less than one fedin are considered as casual workers who are subsidized for social security contributions (they pay 9 per cent and the Treasury pays 12 per cent).

Landowners of more than one fedin are considered as self-employed (employers) and they must pay the total 21 per cent contribution. Non-possessors of land are considered as casual workers.

2.5 Observations on social protection coverage in Egypt

Those observations are formulated in relation to international social security standards and in particular Convention No. 102 and Recommendation No. 202.

▶ Extended legal coverage, but low effective coverage

Legal coverage includes most categories of workers. However, effective coverage is low because of the difficulty to ensure contribution compliance for workers outside the government, the public sector and large enterprises.

Reaching workers and employers in small enterprises, the self-employed and casual workers face many challenges. Small enterprises pay low wages, and their business revenues are also low, thus limiting employers' and workers' financial capacity to contribute to social insurance.

Self-employed workers, for their part, face administrative barriers related to the declaration of their incomes and the payment of contributions. In addition, they must pay the full contribution (employer and employee).

▶ High contribution burden for certain groups

The level of contributions is high as a percentage of remuneration. This is especially true regarding contributions for long-term benefits, and contributions for the health component of sickness and maternity benefits.

This contributes to the non-compliance of certain categories of workers with a low contributing capacity.

In addition, high contribution levels may represent a factor that encourage employers and workers to under-declare the earnings on which social security contributions are calculated and transmitted to the social security institution, thus (1) depriving NOSI (National Organization for Social Insurance) from important contribution revenues, and (2) reducing the level of benefits to which contributors will eventually be entitled. Some time ago, CAPMAS data showed that the real salaries of workers in the private sector could represent more than three times the salaries declared for social insurance purposes.⁸

One can question whether contribution subsidies offered to casual workers are effective and equitable. Certain categories of self-employed persons in the agriculture sector are in working situations similar to casual workers (just differing in their status towards NOSI (National Organization for Social Insurance) according to the size of the land), but they are not eligible for the contribution subsidies, thus raising equity issues.

Contribution subsidies are not very efficient in attracting agriculture workers under social security because of the limited capacity of casual workers to even pay their portion of 9 per cent of earnings. A 180 pounds monthly contribution on minimum insurable earnings of 2,000 pounds appears too high for many of these workers.

▶ Certain measures introduced to reach the uncovered

Certain measures exist to encourage participation in certain sectors that are more difficult to attract under social security coverage. Executive Regulations specify the insurable wage of certain groups of insured, the method of contribution calculation, payers and dates of payment. For example:

- Contributions by casual workers are calculated on the minimum wage (in case they cannot prove their actual earnings level). In addition, their contributions are subsidized.
- Domestic workers and salaried family members may request an adjustment of their salary base for contributions.
- Insured earnings are adjusted for workers who do not receive their salary on a monthly basis.
- Egyptians working abroad may pay contributions in advance every six months or annually.
- Contribution may be paid through various means (bank transfer, credit card, check, cash, etc.)

⁸ This information was obtained from CAPMAS at the time the ILO produced an actuarial report supporting the pension reform proposals in February 2017.

In addition, NOSI (National Organization for Social Insurance) recently undertook IT developments and has created a department in charge of the extension of social security coverage. The department includes four units for each of category of workers (salaried, self-employed, Egyptians working abroad and casual workers) with a specific action plan adapted to each group.

Terms of reference include the development of cooperation with other government bodies, the development of awareness among workers on the advantages of social security coverage, and the introduction of additional means to facilitate the payment social security contributions. These actions should contribute to an eventual improvement of social security coverage in the country.

► Penalties in case of non-compliance

The law provides for a series of penalties for:

- Failure to register employees to the social security institution,
- Failure to pay contributions and provide a list of covered employees to NOSI, and
- Preventing access of NOSI (National Organization for Social Insurance) to the place of work for accessing documentation and employees' records.

Penalties were defined for the general context of salaried employment with a clear employer-employee relationship. They are imposed despite the particular circumstances of seasonal or daily workers who may face difficulty in paying contributions on a regular (monthly) basis.

► Lack of communication between different government entities

Channels of communication have not yet been developed between the different government entities to share data on specific groups of under-covered workers. For example, data on agriculture workers should be shared between the Ministry of Agriculture and NOSI (National Organization for Social Insurance) for acquiring a better knowledge and introduce measures adapted to this group of workers.

► Targeted programmes for specific groups

Apart from social insurance (contributory) schemes, two programmes were developed to protect the poor through income support. This represents a way to expand social protection to vulnerable groups.

- **Takaful** is a family income support programme to families with children (0-18 years). It aimed to produce human development outcomes, specially nutrition, maternal and child health, and school enrolment and retention.
- **Karama** is a social inclusion programme to persons, specifically the elderly 65+ and the disabled who cannot work. It aims to provide social protection and decent life for the most vulnerable persons. It also includes orphans (0-18) who are living outside institutions and whose caretakers are their extended family members.

Eligibility conditions to these cash transfer programs represent a deterrent to social insurance participation. The maximum income for eligibility to Takaful and Karama is 400 pounds per month, while minimum contributory earnings under social security is 2,000 pounds per month. In addition, persons receiving these cash transfers are subject to verification every three years. They thus risk to be pushed out of the programme at any time.

The FORSA programme

The FORSA programme is introducing a complete process of alleviating poverty and reducing vulnerability of poor and vulnerable people, to eventually move off social protection provision into more productive and resilient livelihoods, and thus to help these people to be financially self-sufficient without depending on social welfare.

Forsa targets people at the working age (18-55) in the households rejected in the conditional cash transfer support system as well as those in the households benefiting from cash transfer who are liable to be graduated or could be excluded from eligibility with minor intervention to change in their socio-economic status to above the poverty line.

The main eligibility criterion for participation in the FORSA programme is whether the applicant's monthly income is less than the poverty line.

It is foreseen that FORSA will support both those that are poor but not eligible for the Takaful and Karama programmes (i.e., they do not have children in school age or are not over 60 or are not disabled) as well as be offered to beneficiaries of Takaful and Karama to enable them to achieve higher incomes while reducing dependency on social assistance and reducing the Government's fiscal pressure. Those who apply for, and are accepted to benefit from FORSA, will agree to receive a time-limited (one year) cash benefit as consumption support, to support the household until the income-generating service tracks generate income.



3. General approaches for extending social security coverage

The extension of social security to the informal economy faces major challenges. However, some countries have designed specific mechanisms to facilitate that coverage.⁹ Efforts to extend the coverage of social insurance have been successful when they included the adaptation of benefits, contributions and operations to the characteristics of some categories of informal economy workers.

These may include:

- Consider introducing subsidies on contributions to support affiliations to certain categories of workers,
- more flexible contribution payments to take into account income fluctuations or seasonal revenues (for workers in agriculture for example),
- introducing specific mechanisms to determine contribution levels for employees and self-employed workers where real incomes are difficult to assess (capitation or lump-sum payment based on size of economic activity, on area cultivated, etc.), and
- reducing the costs of registration; and offering small-scale contributors "simplified schemes" in terms of both registration and compliance with tax obligations.
- Modernize and introduce digital governance with platforms and connectivity adapted to groups hard to reach too.

⁹ From: ILO, Extending social security to workers in the informal economy – Lessons from international experience, 2021.

3.1 Two broad policy approaches

Successful examples of the extension of social security coverage to workers in the informal economy have focused on two broad policy approaches.

1. In many countries, the extension of social security to larger groups of the population has focused on the extension of contributory mechanisms (typically social insurance) and in that way has contributed to the formalization of employment. Frequently, this approach prioritizes groups of workers who are relatively close to the formal economy and have some contributory capacity and who are therefore more easily included in social insurance mechanisms. To be effective, this approach usually combines a change in legislation with measures to remove financial and administrative barriers, such as measures to adapt contribution rates and benefit packages.
2. In other countries, social security coverage has been extended to larger population groups through the large-scale extension of non-contributory (tax-financed) social protection mechanisms to previously uncovered groups, independently of their employment status. Such schemes are largely financed by government revenue stemming from taxation and in some cases by mineral resource revenue or external grants as well. This approach is based on the expectation that “investing in people” through social protection helps to facilitate access to health and education, enhance income security and enable workers to take greater risks, thereby generating positive results in terms of human capital and productivity that will facilitate the formalization of employment in the medium and long terms. These two approaches to extending social protection coverage are not mutually exclusive but may be mutually supportive in many ways. In fact, many of the countries that have successfully extended social protection coverage have combined the two approaches in integrated two-track social protection strategies that pursue the principle of universal protection, while taking into account the contributory capacities of different groups of the population.

Both approaches, and their combination in an integrated approach, are reflected in the ILO Social Protection Floor Recommendation, 2012 (No. 202) and the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

Many observers agree that the way forward to universal social protection requires a combination of contributory and non-contributory social protection mechanisms. Non-contributory schemes play an important role in ensuring that everyone enjoys a basic level of protection, in particular population groups that do not have access to any other social protection mechanisms. Contributory mechanisms will continue to play a vital role in providing adequate benefits, because they tend to offer broader scope and higher levels of protection.

The extension of social protection coverage to workers in the informal economy requires a comprehensive strategy to overcome the various barriers to the extension of social protection coverage. In most cases, a combination of different measures is required to address different barriers and to offer an effective, equitable and sustainable solution. While solutions always need to respond to the concrete challenges faced by workers and employers, a number of general lessons learned may be provided like:

- Promoting a comprehensive and integrated strategy for the extension of coverage,
- Extending legal coverage and adapting the legal framework,
- Meeting workers’ needs and designing adapted solutions,
- Raising awareness, share information and enhance trust,
- Taking into account the financial capacity of workers in the informal economy,
- Simplifying administrative procedures,
- Ensuring the enforcement of the law and enhancing compliance, and
- Embedding social protection in an integrated approach to facilitate the transition from the informal to the formal economy.

3.2 Specific approach for agriculture workers

Measures to include agricultural workers under social security and labour legislation should recognize the specific conditions of work in the agricultural sector, including seasonality and the remoteness of the home and workplace.



4. International experience on extending social protection

This section presents specific actions undertaken in different countries to expand social protection coverage.

4.1 Expanding coverage in the agriculture sector

Ecuador. Regulated as part of the general social security law, the Peasants' Social Insurance (Seguridad Social Campesino (SSC)) covers own-account workers in agriculture; SSC includes health and maternity coverage for the whole family and coverage in case of old age, invalidity and death of the insured person.

The SSC is managed by the Social Security Institute (Instituto Ecuatoriano de Seguridad Social (IESS), which also manages the general social security scheme. Agricultural workers can register individually or through a peasants' organization, which is responsible for collecting contributions and for transferring them to the IESS. Access to the scheme is facilitated through a good and reliable service infrastructure in all provinces.

Based on the principle of solidarity, the scheme is financed through a combination of contributions by the insured, cross-subsidization by employers and employees registered in the general insurance scheme, contributions by public and private insurance entities and a state subsidy. SSC has enabled the Ecuadorian rural population to benefit from social insurance based on the principle of solidarity. It is the main social security mechanism for rural workers, of whom 73 per cent are covered under the SSC (23 per cent under the IESS general insurance scheme).

4.2 Removing administrative barriers to coverage

Jordan. The expansion of social security to workers in micro and small enterprises within the Outreach-to-All Strategy was accompanied by a media campaign that was specifically targeted at both workers and employers and aimed to raise awareness of the importance of social security. It was launched by the Government in cooperation with employers' and workers' organizations and also involved students.

Philippines. The implementation of the Domestic Workers Act in 2013 was accompanied by an information campaign conducted by civil society organizations, which was not only targeted at domestic workers and their employers but also at the general population and, among other things, aimed to change attitudes towards domestic workers. Media outreach exercises are regularly conducted, and the Government has declared 30 April as National Domestic Workers' Day.

Uruguay. The adoption of law 18.065 regulating domestic work was followed by a broad-based information campaign in 2006, which helped to widely publicize the law.

4.3 Facilitating contribution collection and financing mechanism

▶ Redefining reference earnings

Determining social security contributions based on monthly incomes may not be appropriate for those in the informal economy who face a high volatility of income on a daily or seasonal basis. It may therefore be necessary to adapt reference incomes to the situation of the target group. For some categories of employers and workers, determining contributions based on annual or quarterly basis can facilitate coverage for employers, workers and the social security administration.

Brazil. Simples Nacional, which covers microenterprises, requires just one annual payment.

▶ Contribution categories

Costa Rica. The mandatory social insurance for the self-employed uses contributory categories. Depending on the income of the self-employed person, the State subsidizes part of the self-employed person's contribution to achieve a total contribution rate of 11 per cent of their monthly income for health and 7.75 per cent for pension insurance. To facilitate the calculation of income, self-employed workers are grouped into different income categories based on the national minimum wage. To determine reference income, they are required to submit proof of income and expenses for the last six months as well as an income tax statement and other administrative forms and certificates.

Cabo Verde. The mandatory social security scheme for the self-employed, the contribution rate is fixed and amounts to 19.5 per cent of the reference income that reflects the minimum wage for public sector workers. The contribution rate of 19.5 per cent of income is lower than the total contribution rate of 25 per cent of the salary of employed workers, yet higher than the 8 per cent employee contribution rate, which complements the employer contribution rate of 17 per cent.

Brazil. Rural workers are classified into three categories for which different contribution rules are established: employees, individual contributors and the "specially insured" (segurados especiais).

- Employees are classified in three income categories, to which different contribution rates (8-11 per cent of reference income) apply.
- Individual contributors include self-employed farmers with land more than 4 módulos fiscais in area (1 módulo fiscal refers to between 5 and 110 hectares, depending on the municipality) who employ fixed-term workers. Individual contributors can choose the contribution rate. They can contribute the minimum rate of 20 per cent of the minimum monthly salary or a minimum contribution fee set at 11 per cent of their earnings. The system provides the flexibility to increase or decrease contribution percentage at any time.
- The category of the "specially insured" refers to rural subsistence farmers without employees other than family members and with land of less than 4 módulos fiscais in area. They contribute 2.1 per cent of the total sales value of their products (+0.2 per cent for the National Rural Learning Service (Serviço Nacional de Aprendizagem Rural (SENAR)) (Ministério da Previdência Social, n.d.). Members of all three categories have access to the same benefits as those under the General Social Welfare Scheme. Their pension is calculated on the basis of the minimum wage.

Tunisia. The self-employed are grouped into ten income brackets regarding the occupational group (physician, shopkeeper, architect, artisan, etc.) and the size of the firm or farm. The scale is based on the average incomes for each occupation and income brackets vary from 1 to 18 times the inter-trade minimum wage or the minimum agricultural wage. Insured persons must contribute according to the income bracket on this scale. They are free to contribute on the basis of a higher income bracket and can request to be grouped into a lower bracket, if they can prove that the real income is lower than the income set for their category.

► Simplified contribution payment mechanisms

Uruguay. Monotributors is a particular social security collection method, but implemented as a tax category, for self-employed workers with a limited turnover and with small commercial activities in public communities and environments. It is strongly focused on boosting coverage in the informal economy. Small businesses that fall into the category of Monotributors can choose between paying a single tax on revenue generated by their activities, named “monotributo”, instead of paying the special social security contributions and the existing national taxes, except in the case of export earnings. A fraction of the taxes collected through Monotributo scheme are then transferred by the tax authority to the Institute of Social Security to finance the social security coverage (except unemployment benefits).

Recent tax reforms on Monotributors scheme have led to the elimination of some restrictions to be considered “monotributistas” companies, including the abolition of the restriction related to the site where the activity takes place, the type of activities (including some production activities), the type of companies (coverage is extended to companies in fact, not registered), the conditions of sale (accepting companies that sell on credit), the maximum billing, and opens the possibility to sell (for some activities) not only to the final consumer, but also to other companies and to the government. As a result of these reforms, in less than three years from the effective date of the new law (June 2007), number of firms and workers covered previously in this category of coverage tripled.

The more flexible design mechanisms for funding and collecting contributions have yielded very important impacts. This scheme is based on joint efforts between social security institutions and the authorities responsible for collecting taxes.

Argentina. Monotributo contributors can make one payment instead of payments to four different systems. Payments have to be effected monthly before the 20th of the following months in cash, online, by credit or by debit card. Contributors do not need to submit a sworn declaration concerning value-added tax (VAT) and income taxes and do not have to keep accounting records. They have to make a self-categorization into one of the 11 contributory groups every four months, which is subject to verification by the entity in charge.

Brazil. Companies can file one single simplified annual tax declaration instead of the various tax and social security declarations that they had to present at the municipal, state and federal levels previously. Instead of paying each tax or contribution separately and according to different calculation.

► Subsidizing contributions for workers with insufficient contributory capacities

Jordan. Private sector employers may reduce their contribution to the old-age, disability and death branch by up to 50% for new insured personnel under the age of 30.

Iraq. A recent law has introduced a government contribution for workers excluding those in the oil sector and migrant workers. The Government contribution is set at 8 per cent of covered earnings for registered formal workers, and 15 per cent of the earnings category (chosen by the voluntarily insured) for self-employed and informal workers.

Turkey. The country implemented a series of employment subsidy programmes during 2017. The policy initially provided subsidies to businesses recruiting employees from among people who had been unemployed for at least two months and 20 days in the preceding three months (informal employment was not included). The subsidy covered all social security contributions at the minimum wage level.

In 2018, these programmes were extended until 2020 and the subsidies were significantly increased in some sectors. The duration of support was set at 18 months for female and young employees (aged 18-25) and at 12 months for others, not to exceed December 2020.

Another programme, launched in 2018, targets the employment of young people (aged 18-25) in manufacturing firms with between one and three employees in the preceding year. Employers must have a “certificate of mastery/proficiency” in that business. Both the salary (at the minimum wage) and all the social security contributions of the employee are paid by the state every other month until December 2018 for up to two new employees.

The government is also set to pay the employer’s share of social security contributions linked to the minimum wage for those aged 18 to 29 who are employed within three months of on-the-job training. The subsidy is paid for 42 months in the manufacturing sector and 30 months in other sectors and covers training programmes starting in 2018.¹⁰

Argentina. As a response to the economic crisis, Argentina introduced in 2008 the régimen de promoción y protección del empleo registrado. Employers’ social security contributions for newly registered workers were reduced by 50 per cent for the first year and by 25 per cent for the second year and payment and registration procedures were facilitated.

4.4 Compliance and incentives: adapting inspection mechanisms and strengthening incentives for formalization

Uruguay. In Uruguay, Act No. 18.065, adopted in 2006, has established norms for regulating domestic work that require all employers, including employers of domestic workers, to register with the social security institution (Banco de Prevision Social). A special unit within the labour inspectorate monitors the compliance and regularization of domestic workers with respect to the payment of social security contributions (General Labour and Social Security Inspectorate). The inspectorate is authorized to inspect workplaces, including private residences.

Costa Rica. The social insurance institution has implemented a range of measures to improve the collection of social insurance contributions by self-employed workers and employers. The institution employs a group of specialized inspectors to oversee the registration of self-employed workers. The inspectors work in several economic sectors and according to different schedules so as to enable both daytime and night-time supervision. In addition, more administrative staff and inspectors have been hired to enhance the administrative capacity to follow-up cases of evasion. The institution has also allocated more resources to acquire the physical, material and technological resources needed to successfully implement this strategy, which has allowed the extension of contributory coverage to all parts of the country, including to self-employed workers in rural areas.

France. Social insurance coverage of domestic workers is facilitated through a service voucher system that has significantly contributed to the formalization of the sector since 2006. Through the Chèque emploi service universel (CESU) mechanism, employers of domestic workers may easily register their workers and pay contributions. Employers may deduct half of the social insurance contributions of domestic workers from their income tax up to a limit of €6,000 per year. In addition, households of persons with disabilities (assessed degree of disability of at least 80 per cent) and other categories are entitled to a full exemption. Studies have demonstrated that two thirds of CESU users have declared a previously undeclared employee.

► Using digital tools

Malaysia. The introduction of a mobile application to verify enterprise registration and a mobile application that locates unregistered enterprises with a GPS via Google have significantly reduced the time required to detect and verify unregistered enterprises. Between 2015 and 2016, the total number of enterprises visited increased by 14 per cent, while the number of unregistered enterprises visited increased by 23 per cent.

Saudi Arabia. The General Organization for Social Insurance implemented a new system to consolidate all inspection data (paper-based and electronic) and reduce the duration of inspection processes by organizing field inspections based on the inspector’s geographical location and expertise. That full business intelligence system uses real-time field inspection data and is able to calculate information in seconds, allowing for a significant increase in the number of field visits.

China. The labour and social security inspectorate of Qingdao in Shandong Province, China, has developed a set of tools that enhance the allocation of inspectors and the collection and analysis of data.

¹⁰ European Commission, Turkey implements extensive employment subsidies, in ESPN Flash Report 2018/32, June 2018.

▶ Applying meaningful and adequate sanctions

Chile. The level of fines is dependent on the size of the enterprise and the number of workers affected. The sanctions framework also provides for the possibility that small enterprises may discharge themselves from sanctions by regularizing workers and attending training sessions.

▶ 5. Recommendations for Egypt

Extending coverage amongst self-employed and casual workers is a very important policy objective. It represents a complex agenda, but many countries are gathering important lessons and good practices, as seen previously. Recommendations for an increase of coverage of the self-employed, informal workers, and workers in private enterprises would consider the following elements.

- **Attractive contribution levels for short-term benefits.** Unregistered workers generally have a primary interest in acquiring insurance against short-term risks (e.g. health, maternity, work injury, unemployment) rather than long-term pensions. Contribution rates associated with short-term benefits should be established at levels that do not discourage participation.

In the forthcoming actuarial valuation of the Egypt social insurance scheme, it is observed that contribution rates for short-term benefits (sickness, maternity, work injury and unemployment insurance) are significantly higher than the actual cost of these benefits. This may result from a lack of awareness of social security contributors about their right to benefits. But it is also possible that employers have adopted the practice to continue paying salaries during employees' sickness or maternity leave, or certain labour practices may prevent insured persons from claiming unemployment benefits (such as the abuse of resignation letters by employers). Social security contributions should be established at attractive levels, while ensuring an appropriate financing of the different benefits.

It is also suspected that many workers and employers declare very low salaries compared to what is actually paid to workers, or that part of the remuneration is paid as bonuses or are in kind, which reduces the remuneration subject to social security contributions. People may not be inclined to claim benefits based on such low salaries.

Finally, to our knowledge, there is no precise accounting ensuring that contributions paid for the health coverage at NOSI (National Organization for Social Insurance) corresponds to the actual cost of these benefits. A contribution higher than the actual cost would discourage participation. The portion of the contribution rate of the sickness (and maternity) branch that is transferred to the Ministry of Health and Population should be established very carefully to correspond to the real cost of the health coverage.

- **Subsidized contributions.** The introduction of subsidies could contribute to an increase in coverage. However, a Treasury subsidy representing more than half the contribution may be regarded as excessive, especially for self-employed persons with high incomes.
- **Adaptation to different types of work arrangements.** It is important to differentiate provisions and coverage approaches depending on the type of work arrangement, since workers in the informal sector cannot be treated as one unique group.
 - NOSI (National Organization for Social Insurance) should continue to develop simplified contribution payment mechanisms adapted to the reality of self-employed and casual workers.
 - The frequency of social security contributions should be determined such that it is adapted to the situation of specific groups. For domestic and agriculture workers, as well as Egyptians working abroad, determining contributions based on annual or quarterly basis can facilitate coverage for employers, workers and the social security administration.
 - Measures to include agricultural workers under social security and labour legislation should recognize the specific conditions of work in the agricultural sector, including seasonality and the remoteness of the home and workplace.

- **Improved efficiency of inspections and application of penalties.** On-site inspections should be improved and the application of fines in case of non-compliance should be correctly enforced. This requires a close follow-up of delinquent employers by a well-equipped and sufficiently resourced team of social security (or labour) inspectors.
- **Better communication between different government entities.** Channels of communication must be developed between different government entities to share data on specific groups of under-covered workers.
- **Raising awareness.** NOSI should continue to develop mechanisms to disseminate insurance-related information to raise awareness among under-covered groups of workers on the existence of social security and the advantages of being covered.

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