Briefing Paper

Global Economy and Finance Programme
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Developing social insurance schemes for informal and 'gig' workers

Adapting to post-COVID-19 realities

Summary

- The COVID-19 pandemic is exacerbating economic and social insecurity for more than 2 billion people – the vast bulk of them in developing countries – employed in the informal sector. The gap is growing between those with and without access to social insurance safety nets, and is contributing to the dramatic rise in global inequality and lack of social mobility.
- A radical rethink of the nature of work and social insurance is needed, driven in part through a coalition between national governments and international financial institutions (IFIs). There are compelling economic, political and moral reasons for expanding access to social insurance for informal sector workers.
- Social insurance schemes for informal and self-employed workers will need to be subsidized by the state. But fiscal constraints in many developing countries have been exacerbated by the pandemic, and their governments will need help to extend individualized social insurance programmes to these sectors.
- The IFIs will need to develop the capacity to advise governments, and systematically monitor and evaluate insurance schemes in collaboration with beneficiary states. Governments in developed countries and IFIs may also have to provide debt relief and bilateral and multilateral grants, which should be tied to the design and implementation of social insurance policies.
- The G20 has a key role to play in supporting this shift in focus by the IFIs.

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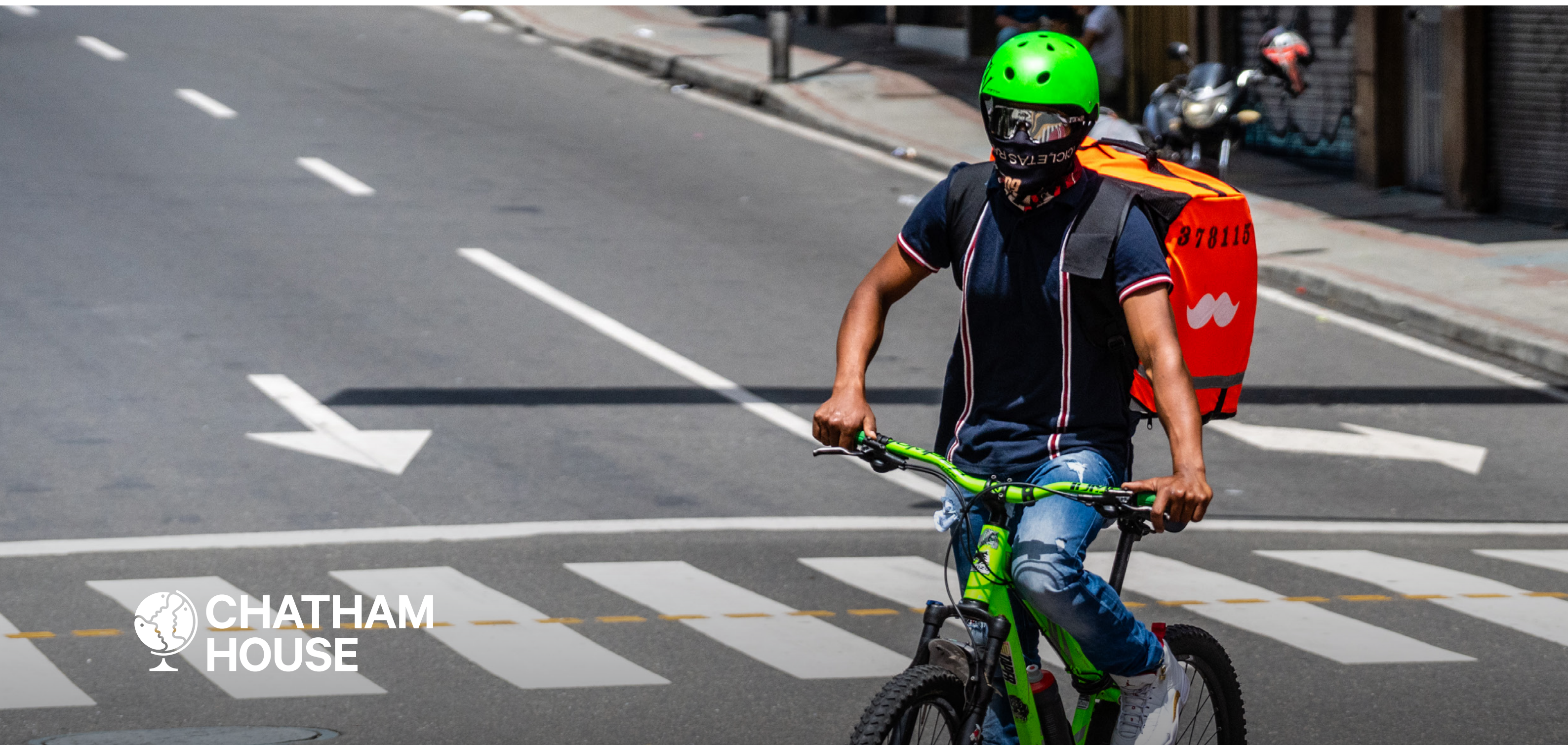

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Introduction

In the early months of the COVID-19 pandemic, governments in the developing world responded quickly to the threat of infection, and to the economic contraction that followed from quarantine measures. A range of governments, in countries from India to Nigeria to Peru, aggressively pushed through stimulus packages intended to shore up economies and provide critical income lifelines to families hit by loss of work or business. The international financial institutions (IFIs) and some developed-country governments stepped up as well, with the IMF making up to '$250 billion of its $1 trillion lending capacity' available to member countries,[1] the G20 recommending a temporary suspension of debt payments for the world's poorest countries, and the World Bank promising to provide 'up to $160 billion in financing from April 2020 to June 2021'.[2]

As economic difficulties continue and poverty and inequality increase, the need to rethink insurance schemes and the social contract between state and society has become pressing.

But as economic difficulties continue and poverty and inequality increase, the need to rethink insurance schemes and the social contract between state and society has become pressing. Indeed, the situation demands no less than a structural reimagining of the nature of work and social insurance in the context of the fractured labour markets that have evolved over the past 30 years. The pandemic is exacerbating the economic and social insecurity of those employed in the informal sector, reflecting a failure of domestic and international policy prescriptions.

A coordinated response is needed between IFIs and national governments to develop flexible, individual and publicly subsidized insurance schemes that provide social safety nets to informal and self-employed workers in developed and developing economies alike. The major shareholders in the IMF and the World Bank will need – with the support of developed economies such as those in the G7 and G20 – to push for policy changes that will specifically support social insurance agendas and programmes targeting informal sector and 'gig' workers. The IFIs will need to develop the capacity to advise on the development of these programmes, and systematically monitor and evaluate their effectiveness, in collaboration with beneficiary governments.

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1 International Monetary Fund (IMF) (2020), 'The IMF's Response to COVID-19', 28 October 2020, https://www.imf.org/en/About/FAQ/imf-response-to-covid-19 (accessed 13 Dec. 2020).
2 World Bank (2020), 'How the World Bank Group Is Helping Countries with COVID-19', https://www.worldbank.org/en/who-we-are/news/coronavirus-covid19 (accessed 13 Dec. 2020).

Box 1. The limitations of basic minimum income schemes

One of the ideas that has become a favourite for policymakers seeking to address inequality and economic insecurity is the creation of a basic minimum income (BMI). However, such schemes, while seemingly elegant in their simplicity, would leave out large portions of the economy most affected by the pandemic: the informal sector and self-employed or 'gig economy' workers. Moreover, they would not address the structural deficiencies of labour markets that have persisted for decades and are one of the major causes of global inequality. Large BMI schemes would only provide an income floor for the extremely poor; the presence of a functioning, inclusive, formal labour market with effective social insurance remains the key to providing a sustainable, long-term path for socio-economic development and economic growth.

The case for expanding social insurance

The dysfunction of formal labour markets, plus the growing gap between those with and without access to social insurance safety nets (such as unemployment insurance, pensions and healthcare), is a central factor in the dramatic rise in global inequality, lack of social mobility and economic insecurity. These problems in turn have contributed to the rise of nationalist, populist movements in the US, Europe, Asia and Latin America, and to social protests that have destabilized established and consolidating democracies alike.

There are also development reasons for expanding access to social insurance for informal sector workers. The most important is the long-standing need to increase productivity, low levels of which are major impediments to development in emerging markets. The reasons for informal labour's low productivity are multiple: low wages, lack of training, a high proportion of labour to capital, and inefficiency.[3] As informal workers make up anywhere from 15 to 80 per cent of the workforce in different countries, improving the productivity of such workers could have a significant impact on economic growth.

The policy responses required are varied, and include training programmes, expanded access to credit, and infrastructure investment. Social insurance of the type proposed in this paper is one of those tools, although it is not the only prescription. While social insurance for informal workers is unlikely to close the productivity gap completely across all channels (in two studies, productivity in the informal sector was estimated to be 30–35 per cent[4] lower than in the formal sector), access to even partial health and unemployment insurance can help avoid economic

3 Surdej, A. (2017), 'Excessive informal sector: a drag on productivity', OECD, 30 August 2017, https://oecd-development-matters.org/2017/08/30/excessive-informal-sector-a-drag-on-productivity.
4 Perry, G. E., Maloney, W. F., Arias, O. S., Fajnzylber, P., Mason, A. D. and Saavedra-Chanduvi, J. (2007), *Informality: Exit and Exclusion*, Washington, DC: World Bank, p. 173, http://documents1.worldbank.org/curated/en/326611468163756420/pdf/400080Informal101OFFICIAL0USE0ONLY1.pdf; and Antón, A., Hernández, F. and Levy Algazi, S. (2013), *The End of Informality in Mexico? Fiscal Reform for Universal Social Insurance*, Washington, DC: Inter-American Development Bank, https://publications.iadb.org/en/publication/10827/end-informality-mexico-fiscal-reform-universal-social-insurance.

shocks that disrupt productivity. As the International Labour Organization (ILO) has noted, accelerating 'the productivity growth of low-productivity workers at the bottom end of the wage/income spectrum is one of the best ways to accelerate average economy-wide productivity growth, while at the same time counteracting increasing inequality'.[5]

The scope of the COVID-19-related economic and social crisis provides a unique moment for a broader re-engineering of social safety nets and labour markets. The types and forms of social insurance programmes needed will vary according to the context. In many cases, informal sector workers in developing economies lack access to basic unemployment insurance and pension systems, while publicly supported systems provide access (albeit often imperfectly) to healthcare. In developed economies, self-employed and gig workers often lack access to unemployment insurance or – as in the case of the US – to comprehensive, affordable healthcare.

Given low levels of popular confidence in government globally, any policy that inserts the state into the process of collecting and redistributing revenue will also likely be met with scepticism and resistance.

Reorienting the role of the state to address inequalities and inefficiencies in modern labour markets will not be easy. Many national governments, especially in developing economies, lack the fiscal capacity to engage in such a re-engineering on their own. There will also be political constraints, including fierce economic and partisan opposition to changing tax structures and regulations in ways that would redistribute income and obligate private employers to make the necessary fiscal contributions. Given low levels of popular confidence in government globally,[6] any policy that inserts the state into the process of collecting and redistributing revenue will also likely be met with scepticism and resistance. (On the other hand, such programmes, if conducted successfully and comprehensively, could help to rebuild popular trust in government.) In addition, in most cases, without significant international political, financial and technical support, even ambitious social programmes will tend to revert to small-scale, incremental initiatives rather than wider-ranging reforms.

Despite these challenges, the ongoing economic crisis and new-found attention to fractured labour markets as a source of inequality present an opportunity for IFIs, multilateral organizations and national policymakers to finally address the dysfunction and structural roots of social and economic inequality. Failure to respond aggressively at the national and international level will not only slow the global economic recovery post-COVID-19, it will also leave long-lasting social scars and inequalities.

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5 ILO (2007), 'Sustaining productivity and competitiveness on a foundation of decent work', in 'Summary Proceedings: Asian Employment Forum: Growth, Employment and Decent Work, International Labour Organization, 13–15 August 2007', https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/meetingdocument/wcms_099198.pdf.
6 Pew Research Center (2017), 'Pew Global Attitudes & Trends Question Database', https://www.pewresearch.org/global/question-search/?qid=2832&cntIDs=&stdIDs= (accessed 24 Jan. 2021).

A huge, under-protected workforce

According to the ILO, in 2020 more than 2 billion people – 62 per cent of the global workforce – were employed in the informal sector, the vast bulk of them in developing countries.[7] The ILO defines the informal sector as consisting of employees who do not pay into social security programmes;[8] more generally, the term can refer to businesses and workers that operate off-books, often without formal contracts or recognition, and without labour protections or benefits such as unemployment insurance and pensions.[9] The sector is heterogeneous. It comprises, among many others, street vendors, domestic workers, undocumented farm workers and individual entrepreneurs (who in many cases themselves employ workers off-books).[10] In emerging economies, the informal sector is massive, constituting an average of 85 per cent of the workforce in Africa, 53 per cent in Latin America, and 59 per cent in Asia and the Pacific.[11] In developing countries, on average more than 95 per cent of economically engaged young people are in informal employment. Women make up the majority of the informal workforce in much of Latin America, sub-Saharan Africa and South Asia.[12] In many cases, rigid labour laws have forced new labour market entrants into shadow or part-time employment.

But the phenomenon is not limited to developing economies. The growing ranks of the self-employed and 'gig economy' workers in Europe and North America also represent a new under-protected, and often underemployed, sector. In the past 20 years, most OECD countries have seen an increase in the share of 'solo self-employed persons' (defined as those who operate on their own without having dependent workers on their payroll) relative to other types of self-employment.[13] And gig workers are estimated to make up 5 per cent of active workers in Italy, 7 per cent in the UK and 14 per cent in the US.[14] According to Boeri et al., '… one-third of OECD countries do not have an unemployment benefit system for self-employed workers'. Also, maternity, sickness, invalidity and injury benefits are often less secure, and pensions often lower, for self-employed and informal workers.[15]

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7 ILO (2020), *COVID-19 crisis and the informal economy: Immediate responses and policy challenges*, Geneva: International Labour Office, May 2020, p. 1, https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/briefingnote/wcms_743623.pdf.
8 ILO (2020), 'A policy framework for responding to the COVID-19 crisis', ILO Policy Brief on COVID-19, 18 May 2020, https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_739047/lang--en/index.htm.
9 ILO (2016), 'Who should be getting minimum wages?', *Minimum Wage Policy Guide*, Chapter 4, Geneva: International Labour Office, https://www.ilo.org/global/topics/wages/minimum-wages/beneficiaries/WCMS_436492/lang--en/index.htm.
10 Sabatini, C. (2020), 'To Save the Economy from COVID-19, Protect Informal Workers', World Politics Review, 14 July 2020, https://www.worldpoliticsreview.com/articles/28911/informal-workers-are-bearing-the-brunt-of-the-coronavirus-economic-impact.
11 ILO (2018), *Women and Men in the Informal Economy: A Statistical Picture*, Third Edition, Geneva: International Labour Office, pp. 13–43, https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm.
12 Ibid., p. 21.
13 Boeri, T., Giupponi, G., Krueger, A. and Machin, S. (2020), 'Solo Self Employment and Alternative Work Arrangements: A Cross-Country Perspective on the Changing Composition of Jobs', *Journal of Economic Perspectives*, Volume 34, Number 1, Winter 2020, p. 170, https://www.aeaweb.org/articles?id=10.1257/jep.34.1.170.
14 Harris, S. D. and Krueger, A. B. (2015), *A Proposal for Modernizing Labor Laws for Twenty-First-Century Work: The "Independent Worker"*, The Hamilton Project, Washington, DC: Brookings Institution, https://www.hamiltonproject.org/assets/files/modernizing_labor_laws_for_twenty_first_century_work_krueger_harris.pdf; and Farrell, D., Greig, F. and Hamoudi, A. (2019), 'The Evolution of the Online Platform Economy: Evidence from Five Years of Banking Data', American Economic Association, *AEA Papers and Proceedings 2019*, Volume 109, May 2009, https://www.aeaweb.org/articles?id=10.1257/pandp.20191040.
15 Boeri et al. (2020) 'Solo Self Employment and Alternative Work Arrangements', p. 187.

Economic impacts of the pandemic on the self-employed and the informal sector

The informal sector has borne the brunt of the quarantine measures adopted to slow the spread of COVID-19, and has suffered disproportionately from the resultant economic downturn. As early as April 2020, the ILO estimated that 1.6 billion informal sector workers would be affected: it expected such workers globally to suffer a 62 per cent decline in income in the first few months of the crisis alone, with workers in lower-income countries projected to earn 88 per cent less and those in upper-middle-income countries 55 per cent less.[16] Data since then have been scarce, in part because of the difficulty of surveying workers in the informal sector. Nevertheless, a World Bank panel study of informal sector workers in Bangladesh, India and Pakistan in mid-2020 suggested that 'informal wage workers were inherently more vulnerable than formal employees to the early COVID-19 employment shock'.[17]

Lack of health insurance is particularly critical since many informal sector workers in the service industries are at greater risk of contracting COVID-19.[18] Some countries, such as Ireland, Mexico, the Philippines, Thailand, the UK and Vietnam, have extended health benefits to at-risk workers or implemented measures to help cover their healthcare costs.

By September 2020, 212 countries and territories had introduced a total of 1,179 economic stimulus and social protection measures, worth a combined $179.8 billion in the 119 countries for which data were available.[19] Many of these measures (just over 50 per cent) consisted of social assistance of some kind, with cash transfers the most common tool (including for small-business owners and wage labourers) along with wage subsidies. A handful of other countries, such as Argentina, Cabo Verde, Ecuador, Egypt, Mauritius, Morocco, the Philippines and Rwanda, are also providing general cash assistance packages. But many general programmes have failed to reach informal sector workers, who are often 'off the grid'. In India, one estimate is that between 62 per cent and 85 per cent of urban workers would not be able to access funds from their country's relief package, because they are not enrolled in social security and insurance schemes.[20]

More generally, the pandemic has exposed how unprepared governments are to assist informal sector workers. Many governments lack reliable information on the activities of the informal sector, or even data on how many people

16 ILO (2020), *ILO Brief: Impact of lockdown measures on the informal economy*, April 2020, Geneva: ILO, https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/briefingnote/wcms_743523.pdf.
17 World Bank (2020), *Beaten or Broken? Informality and COVID-19*, Washington, DC: World Bank, p. 173, https://openknowledge.worldbank.org/bitstream/handle/10986/34517/9781464816406.pdf.
18 ILO (2020), *Social Protection Spotlight: Extending social protections to informal sector workers in the COVID-19 crisis: country responses and policy considerations*, 14 September 2020, Geneva: ILO, pp. 3–4, https://www.social-protection.org/gimi/gess/RessourcePDF.action?id=56833.
19 World Bank (2020), 'Social Protections and Job Responses to COVID-19: A Real-Time Review of Country Measures', 18 September 2020, pp. 1–2, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/295321600473897712/social-protection-and-jobs-responses-to-covid-19-a-real-time-review-of-country-measures-september-18-2020.
20 Dhingra, S. (2020), 'Protecting informal workers in India: the need for a universal job guarantee', London School of Economics and Political Science, 18 May 2020, https://blogs.lse.ac.uk/covid19/2020/05/18/protecting-informal-workers-in-india-the-need-for-a-universal-job-guarantee.

it encompasses. As a result, financial assistance programmes often fail to reach a majority of the population. In the same vein, government efforts to provide cash transfers or tax breaks to businesses, with the aim of incentivizing the retention of workers, miss off-the-books employees. In the US, for example, there have been serious concerns about whether assistance has reached undocumented immigrants[21] working in the shadow or informal economies.[22] In Nigeria, the government's conditional cash transfer programme is 'likely to reach only a fraction of the Nigerians who will need economic assistance', according to Human Rights Watch.[23]

Even at their best, such programmes are palliatives; at their worst, they miss the sectors structurally most affected and at risk from both COVID-19 itself and the associated economic crisis. Moreover, when economies recover, many informal sector workers will be among the last to benefit. Firms are likely to be slow to hire unregulated workers, and sectors employing them will be slower to recover. For this reason, economists fear long-term scarring of labour markets, especially for new entrants to the workforce.

Addressing the long-term vulnerability of the informal sector will require resolving deep-seated structural flaws in many economies, including gaps in social safety net coverage. Even before the pandemic, the World Bank in 2019 was calling for a global 'New Deal' to address the inadequacies of government social insurance programmes.[24]

Re-evaluating the traditional approach to the informal sector

IFIs such as the World Bank and the IMF have traditionally recommended that governments reduce informality in the labour force by streamlining regulations to make it easier for businesses to enter the formal economy. The UN Sustainable Development Goals, too, mention the need to prioritize the 'formalization and growth of micro, small- and medium-sized enterprises through access to financial services'.[25] The central idea behind these suggestions is that once businesses are on the government's books, they can be taxed and their workers will, presumably, be recognized. But there are other reasons for this agenda as well, including its potential to increase productivity and labour market stability.

These monocausal arguments, and the narrow policy prescriptions that flow from them, have long informed international and national programmes to address informality in the workforce; but they have missed the mark. A key problem is that

21 Narea, N. (2020), 'For immigrants without legal status, federal coronavirus relief is out of reach', Vox, 5 May 2020, https://www.vox.com/2020/5/5/21244630/undocumented-immigrants-coronavirus-relief-cares-act.
22 Marr, C., Jacoby, S., Huang, C.-C., Hingston, J., Sherman, A. and Beltran, J. (2020), 'Future Stimulus Should Include Immigrants and Dependants Previously Left Out, Mandate Automatic Payments', Center for Budget and Policy Priorities, 6 May 2020, https://www.cbpp.org/research/economy/future-stimulus-should-include-immigrants-and-dependents-previously-left-out.
23 Human Rights Watch (2020), 'Nigeria: Protest Most Vulnerable in COVID-19 Response', 14 April 2020, https://www.hrw.org/news/2020/04/14/nigeria-protect-most-vulnerable-covid-19-response.
24 World Bank (2019), *World Development Report 2019: The Changing Nature of Work*, Washington, DC: World Bank, https://www.worldbank.org/en/publication/wdr2019.
25 ILO (undated), 'Relevant SDG Targets related to Informal Economy', https://www.ilo.org/global/topics/dw4sd/themes/informal-economy/WCMS_558574/lang--en/index.htm.

such views stem in large part from the seminal work in the late 1980s and 1990s of Peruvian economist Hernando de Soto, who saw the informal sector as evidence of an aspiring entrepreneurial, business-owning class that had been forced underground by onerous state regulations and taxes. That interpretation fit neatly into the predominant neoliberal economic model at the time, and led to the standard recipe of reducing state regulations and bureaucracy. The World Bank's *Doing Business* report is the most famous example of a tool that was intended to incentivize these reforms. Perhaps not coincidentally, such analysis and the identification of root causes of informality also meshed neatly with the interests of a powerful constituency: investors and large, formal, private sector enterprises.

But according to the ILO, 45 per cent of people in the informal sector are not entrepreneurs but 'own-account workers' – workers who are self-employed and have no employees – while 16 per cent contribute to a family business.[26] Many informal workers also participate in more structured enterprises, with about 36 per cent operating as employees rather than as owners or aspiring owners of their own businesses.[27] In other words, the issue is not so much one of entrepreneurs struggling to shake off the shackles of the state, but that the bulk of the informal sector consists simply of workers labouring away in unfair conditions without recognition or protections. While the informal sector's growth may be linked in a broad sense to *too much* regulation on business, most informal workers themselves suffer from *too little* regulation on labour: too few rules requiring businesses to hire workers on the books; too few requirements for businesses or the government to provide social safety nets; and too few programmes to register, catalogue and understand the dimensions and needs of these labourers.

As a result, as World Bank economist Norman Loayza argues, 'policies to address informality should also vary country by country'. Addressing informality should focus not just on rolling back laws and regulations to unburden aspiring entrepreneurs, but also on state efficiency and labour protections.[28] Indeed, recent research in Italy, the UK and the US discovered that, far from voluntarily entering self-employment, one-third of those surveyed would opt for regularized, full-time employment if given the choice rather than remaining self employed.[29]

New-generation insurance schemes

In its 2019 annual development report, the World Bank called for exploration of 'mandated and voluntary social insurance' programmes to build more inclusive labour support. The final declaration of a 2018 G20 meeting in Mendoza, Argentina spoke of the need to ensure decent work 'with a focus on promoting labour formalization and making social protection systems strong and portable,

26 ILO (2018), *Women and Men in the Informal Economy: A Statistical Picture*, Third Edition.
27 Ibid.
28 World Bank (2016), 'New Study Reveals the Complexity of the Informal Sector', 20 July 2016, https://www.worldbank.org/en/news/feature/2016/07/20/new-study-reveals-the-complexity-of-the-informal-sector.
29 Boeri et al. (2020), 'Solo Self Employment and Alternative Work Arrangements', p. 176.

subject to national law and circumstances'. The decision by the G20 to discuss the topic reflected growing recognition of the weaknesses of social insurance in developed and middle-income countries.

In this context, upcoming meetings of the G20 and G7 could provide a unique moment for the world's developed economies to place the issue of the informal sector and gig economy workers on the broader agenda for governments, IFIs and multilateral organizations, such as the UN Development Programme. The first step will be extending recognition of the structural deficiencies in developed- and developing-economy labour markets, and examining ways to redesign national programmes and international financial programmes to address these deficiencies.

Upcoming meetings of the G20 and G7 could provide a unique moment for the world's developed economies to place the issue of the informal sector and gig economy workers on the broader agenda for governments, IFIs and multilateral organizations.

Several options already exist, but to date these have been mainly small-scale or experimental. The Netherlands, for example, has a system of portable, flexible social insurance accounts which involves workers paying into accounts that they can draw down if their incomes decline because of loss of work, retirement or health problems. China, meanwhile, has a pension programme to support rural and informal workers; currently 360 million people contribute to the programme, and 150 million already receive benefits.[30] Elsewhere, Costa Rica and Thailand have similar options for informal sector employees. Other examples include micro-pension accounts in Kenya, Ejo Heza LTSS ('long-term saving scheme') in Rwanda and the Extension of Coverage for the Informal Sector (ECIS) project in Zambia.[31]

At the same time, and notwithstanding the Dutch example above, a struggle over the status and benefits of gig workers is occurring in a number of developed countries. A recent example is in California, involving drivers for app-based ride-hailing services such as Uber and Lyft. In September 2019, the state legislature passed Assembly Bill 5 (AB5), which required gig workers in most cases to be classified as employees and not independent contractors. Uber and Lyft responded with the claim that implementing the law would result in a 20–30 per cent increase in costs, which would be passed on to customers. They and others pushed instead for a ballot proposition to define their drivers as independent contractors, and spent upwards of $200 million in advertising to defeat the law.[32] Their lobbying paid off: the law was rescinded. The battle shows that there will be opposition

30 World Bank (2019), *World Development Report 2019: The Changing Nature of Work*, p. 114.
31 Guven, M., Jain, H., Arulpragasam, J. and Sharif, I. (2020), 'Social insurance for the informal sector can be a lifeline for millions in Africa', World Bank, 20 May 2020, https://blogs.worldbank.org/africacan/social-insurance-informal-sector-can-be-lifeline-millions-africa.
32 Paul, K. and Wong, J. C. (2020), 'California passes Proposition 22 in a major victory for Uber and Lyft', *Guardian*, 4 November 2020, https://www.theguardian.com/us-news/2020/nov/04/california-election-voters-prop-22-uber-lyft. Thanks also to Anar Bata who researched this point.

to any broader policy to address informal sector and gig workers. On the other side of the Atlantic Ocean, however, after a UK Supreme Court ruling, Uber agreed in March 2021 to recognize its drivers as workers, entitling them to holiday pay and pensions.

In designing and implementing social insurance policies and programmes for the large number of workers who are unprotected, policymakers will need to take several factors into consideration. The observations and guidance below draw from existing policy prescriptions, as well as from general lessons regarding public policy and social programmes:

— Given the small size and low profitability of many businesses that employ informal sector workers, **employer-contributed social insurance is often insufficient or in some cases unfeasible** as a means of funding programmes. The levying of fees or taxes on small businesses would only incentivize even more informality and off-books hiring. The fact that, as mentioned, the bulk of informal sector workers are self-employed or employed in family enterprises also partly rules out this social insurance option.

— **In developing economies, the state will need to subsidize individualized social insurance schemes.** These programmes will have to play a redistributive role. Workers in informal and gig sector employment often lack the income to be able to fund adequate private accounts to cover health and/or unemployment insurance and pensions. Without the capacity of firms to contribute co-pays, governments will need to step in and understand and defend the investment as a broader plan for economic support.

— **State support cannot be so generous that the benefits and income exceed those of low-income formal workers.** Excessive support could not only engender political opposition; it could also incentivize formal sector workers to defect to informal employment or self-employment.

— **Informal sector and gig workers will need to make minimum contributions to their own accounts.** But getting workers to do so, as individuals often discount the future, will require incentives to 'nudge' them into contributing at least a minimum of their salaries to social insurance accounts. Those nudges can include specific recognition of their contributions – as is done in Kenya, where participants are rewarded with a gold-coloured coin showing the number of weeks worked[33] – but a variety of tactics should be used. They can include public education campaigns, tax incentives, access to financial services for the unbanked, and access to technology to track and monitor accounts.

— **Participation in flexible, individualized social insurance programmes should be voluntary rather than compulsory.** While this will likely create 'leakage' in the system, with some individuals choosing not to participate or contribute, a compulsory programme would impose a financial burden on lower-wage informal and gig workers. If participation has too high a required

33 World Bank (2019), *World Development Report 2019: The Changing Nature of Work*, p. 115.

financial cost for participants, this could create another level of informality by encouraging workers to remain unregistered and illegally evade compulsory payments.

- **Independence, transparency and state guarantees are essential.** Even in the creation of the US social security system in 1935, the Franklin D. Roosevelt administration had to overcome popular distrust; it took years of demonstrable success to expand the enrolment base. Today, with confidence in government low worldwide, countries will need to create professional, independent bodies to oversee accounts and guarantee deposits, potentially tapping the private sector for assistance.
- **Setting the minimum and maximum contributions at appropriate levels is essential.** If the contribution is too low, it will fail to enable the consumption-smoothing function of social insurance. If the minimum is set too high, it will discourage contributions, especially from poorer workers.
- **For the opening and oversight of accounts and for mobilizing worker participation, national governments and IFIs should seek to build alliances between private businesses, informal sector associations and labour unions.** On the financial side, the need to overcome distrust of the state means that banks, insurance companies and other financial institutions may have to guarantee the oversight and professional management of these accounts. Outsourced management of social insurance accounts will also benefit from the retail outreach, customer service capacity and experience of private sector companies. In terms of mobilizing and working with groups to enrol, it will be necessary to establish collaboration involving formal sector businesses, informal sector businesses, financial institutions, informal sector associations and labour unions. Such alliances could usefully organize intended beneficiaries, explain the programmes and benefits, and provide an important element of trust and protection – provided, of course, there is proper independent regulation of their activities and accounts.
- **In developing countries, sovereign debt forgiveness – not just relief on service payments – and bilateral and multilateral grants for participating governments should be tied to the design and implementation of social insurance policies and plans to support informal and gig sector workers.** Developed and developing economies alike will come out of the current crisis with heavy debt burdens and significantly reduced fiscal space to implement new social programmes. This fiscal climate will provide an opportunity for IFIs, donor governments and developing-economy states to address long-standing structural and productivity challenges, as well as to respond to any long-term economic scarring caused by the pandemic. To that end, IFIs, G20 countries and private lenders should work with client governments to design innovations and interventions in social insurance, backed initially by debt forgiveness and offers of additional lending or grant assistance to jumpstart such initiatives.

This latter point will be particularly crucial as differences emerge between the stimulus packages of developed economies and those of developing ones, especially in terms of the scale of labour market disruptions that such packages will need to address. In September 2020, according to the ILO: 'The estimated fiscal stimulus gap was around US$982 billion in low-income and lower-middle-income countries (US$45 billion and US$937 billion, respectively). This gap represents the amount of resources that these countries would need to match the average level of stimulus relative to working-hour losses in high-income countries.'[34] Narrowing the gap will require not just coordination among developed and developing economies and the IFIs, but also creative new approaches to social policy. This could include the individualized, flexible and portable social insurance programmes described above, as well as targeted efforts to increase formal employment.

The recent election of Joe Biden to the US presidency provides an opportunity for US and G20 leadership on this issue, in collaboration with other G20 members. In the US, Biden's $1.9 trillion economic relief package included funding to shore up private health insurance for individuals and bail out failing pension plans. President Biden's new Treasury secretary, Janet Yellen, a labour economist, will oversee recapitalization of and any potential reforms to the IFIs. An effort to direct organizational and financial attention to structural reforms addressing problems in the informal sector would also play to the Democratic Party's labour base while re-establishing multilateral US leadership – both generally and, more specifically, within the Bretton Woods system and the development sphere. As the host of the next G7 summit in mid-2021, the UK is also in a strong position to advocate for a broad re-examination of the issues and promote appropriate reform.

There are compelling economic reasons for integrating and providing social insurance for the world's 2 billion-plus informal sector workers and the growing legions of gig and part-time workers. These arguments include the potential to increase productivity, expand consumer markets, and help governments and markets generate long-term revenue. There are also moral arguments for finally addressing the needs of a working class left behind by globalization. However, the most urgent and important rationale is political. In 1944, reflecting on the Great Depression and the economic destruction wrought by the Second World War, President Roosevelt acknowledged that 'people who are hungry and out of a job are the stuff of which dictatorships are made'. At a time when inequality has climbed to historic levels, the global consensus over democracy is fraying, public trust in governments has declined and nationalist populism is on the rise, a new social contract that addresses the complex exclusion and insecurity of the new labour classes will go a long way towards recasting and restoring the socio-economic foundations of the global market economy and liberal national and international orders.

34 ILO (2020), *ILO Monitor: COVID-19 and the world of work. 6th edition*, 23 September 2020, Geneva: ILO, p. 3, https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_755910/lang--en/index.htm.

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The views expressed in this paper are those of the author alone.

About this series

This briefing paper is part of a series being published by Chatham House's Global Economy and Finance Programme under the project 'Rebuilding International Economic Cooperation'. The recent election of Joe Biden as US president raises the prospect of a renewed push to find multilateral solutions to global economic problems, coordinated by the G7 and G20 in 2021 and beyond. But the mechanisms of the past won't simply snap back into place. The extent of common ground needs to be established; trust needs to be rebuilt; and technical solutions to problems found.

This project seeks to support that process by putting forward practical, collaborative, politically viable solutions to some of the economic challenges the world currently faces. The papers are authored by independent economic policy experts from the private sector, academia and think-tanks, often with a public policy background. Each paper addresses a specific problem, made more acute by the COVID-19 pandemic, where international economic cooperation can make a significant difference.

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