
Innovations in extending social insurance coverage to independent workers

Experiences from Brazil, Cape Verde, Colombia, Costa Rica,
Ecuador, Philippines, France and Uruguay

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List of acronyms

BFC	Bases Fictas de Contribución (Contribution Fixed Bases), Uruguay
BPC	Bases de Prestaciones y Contribuciones (Benefits and Contributions Bases), Uruguay
BPS	Banco de Previsión Social (Social Welfare Bank), Uruguay
CCM	Complemento de Cuota Mutual (Mutual Quota Supplement), Uruguay
CCSS	Caja Costarricense de Seguro Social, (Costa Rican Social Insurance Fund), Costa Rica
CJPU	Caja de Jubilaciones y Pensiones de Profesionales Universitarios (Retirement and Pension Fund for Professionals with a University Degree), Uruguay
CNPS	Centro Nacional da Pensão Social, (National Centre for Social Pensions) Cape Verde
DANE	Departamento Administrativo Nacional de Estadística (National Administrative Department of Statistics), Colombia
DGI	Dirección General Impositiva (General Revenue Administration), Uruguay
EAP	Economically Active Population
EPS	Entidad Promotora de Salud (Health Promoter), Colombia
IBC	Ingreso Base de Cotización (Basic Contribution Income)
IESS	Instituto Ecuatoriano de Seguridad Social (Ecuadorian Social Security Institute), Ecuador
ILO	International Labour Organization
INE	Instituto Nacional de Estadística (National Institute for Statistics), Cape Verde
INPS	Instituto Nacional de Previdência Social (National Social Welfare Institute), Cape Verde
INSEE	Institut National de la Statistique et des Études Économiques (National Institute of Statistics and Economic Studies), France
INSS	Instituto Nacional do Seguro Social (National Social Insurance Institute), Brazil
IPEA	Instituto de Pesquisa Econômica Aplicada (Institute for Applied Economic Research), Brazil
ISSFA	Instituto de Seguridad Social de las Fuerzas Armadas (Armed Forces Social Security Institute), Ecuador
ISSPOL	Instituto de Seguridad Social de la Policía Nacional (National Police Social Security Institute), Ecuador
IVM	Seguro de Invalidez, Vejez y Muerte (Disability, Retirement and Life Insurance), Costa Rica

MSA	Mutualité Sociale Agricole (Social Agricultural Mutual Fund), France
PILA	Planilla Integrada de Liquidación de Aportes (Integrated Form for Contribution Settlement), Colombia
RBC	Basic Contribution Income, Colombia
RGPS	Regime Geral da Previdência Social (General Social Welfare Scheme), Brazil
RPPS	Regime da Previdência Social próprio dos Funcionários Públicos e Militares (Social Welfare Scheme for Civil Servants and the Military), Brazil
RSI	Régime Social des Indépendants (Social Scheme for Independent Workers), France
RUA	Registro Único de Aportantes (Single Registry of Contributors), Colombia
SGRP	Sistema General de Riesgos Profesionales (General System of Occupational Hazards), Colombia
SGSSS	Sistema General de Seguridad Social en Salud (General System of Social Security in Health), Colombia
Simplex	Sistema Integrado de Pagamento de Impostos e Contribuições das Microempresas e das Empresas de Pequeno Porte (Integrated System for Payment of Taxes and Contributions of Micro and Small Enterprises)
SME	Small and Medium-sized Enterprises
SSC	Seguro Social Campesino (Rural Social Insurance), Ecuador

1. Introduction

Only one in five people worldwide has adequate social security coverage. It is for this reason that many countries, particularly developing countries, have implemented reforms to extend the coverage of social protection systems, either by contributory or non-contributory means.

Extending coverage to independent workers represents a key challenge in extending contributory coverage. In many developing countries, this category of workers represents the overwhelming majority of total employment. As such, any strategy for contributory coverage extension should consider the category “independent workers” as a target group. Although this seems obvious, in practice, social insurance coverage does not reach these workers in many countries.

Independent workers tend to be more vulnerable to the adverse effects of the economic cycle, which increases the importance of designing strategies and policies to guarantee them adequate social protection.

The difficulty in extending coverage to such workers consists of multiple factors, including irregularity of earned income, which is closely linked to job insecurity; the high level of heterogeneity of the labour market across countries and among groups of workers; low levels of organization or association; competitive vulnerability; the permanent struggle for the business' economic survival, and the mistrust they often feel regarding social security institutions, among others.

In addition to the issue of income insecurity, and in the absence of an employer, independent workers must take on full responsibility for social security contributions themselves. This represents an economic barrier to extending coverage, even for workers with a steady income. Thus there remains a need to find ways to include independent workers, who have a limited payment capacity and therefore require subsidies from the State to participate as contributors, in the social security system.

Another issue in independent workers' social protection is related to their mobility within the labour market, since they frequently have to jump between working for others and being self-employed and between formal and informal work. Consequently, their contributions to social security are not continuous. The interruption of contributions which is generated by this mobility is a barrier to be overcome by such workers and social security institutions alike, in order to create mechanisms enabling the consolidation of rights to benefits. Solutions to this problem are complex, and may entail the establishment of reduced contributory periods for benefit entitlement. This represents an actuarial cost for social insurance programmes, which must often be subsidized by other groups of workers or by the State.

In addition to the elements outlined above, there are administrative difficulties in two specific areas: collection and contributory control. When compared to traditional collecting systems intended for employees, the collection of contributions from independent workers involves particular complexities and high administrative costs. In terms of contributory control, the monitoring of independent workers is extremely costly when compared to monitoring of companies. This represents an administrative obstacle which cannot be solved solely by inspection services, and which demands a more holistic approach including the creation of incentives.

We must highlight the link between policies extending coverage to independent workers and formalization policies, which go hand in hand. A considerable number of independent workers are micro business owners. Therefore, policies to extend social

protection are related to and are a part of a wide range of policies and instruments meant to formalize micro and small companies.

In-depth study of the characteristics of independent workers and their ability to access social security includes a series of technical and theoretical complexities which this paper does not intend to expound. In this document the theoretical and analytical approach is foregone in order to address the need for a more practical understanding of the innovations introduced in the countries studied, such that the experience of these countries may feed in to social security management strategies in other countries.

This document analyses the relatively successful experiences of seven developing countries and one developed country in providing coverage to independent workers. It seeks to demonstrate the links between results regarding coverage with concrete details of financing practices, management, and financial organization in Brazil, Cape Verde, Colombia, Costa Rica, Ecuador, France, and Uruguay. It details national strategies which have sought to expand coverage through subsidies and targeting by income level; the experience of countries who have introduced interesting innovations in restructuring their administrative frameworks in combination with special incentive schemes, and which have achieved positive results. Lastly, it describes the cases of countries that have created special schemes for micro and small companies, and thereby had a significant impact on social security coverage.

The choice of countries followed two criteria. Firstly, they were chosen because they have a relatively high level of independent worker coverage, particularly given that in developing countries social security schemes operate in environments with some degree of informal economic activity. However, it should be clear that in none of the selected countries is the social insurance coverage of the studied group approaching one hundred per cent, with the exception of France. Secondly, they were chosen for the relatively comprehensive data available regarding the subject of social security coverage for independent workers. The scope of analysis is determined by the availability of the necessary information for each country. Further work in this field could seek to address other countries that have been making progress in extending coverage to independent workers, or they could develop the study of the elements considered herein.

This study comprises twelve chapters. In chapter two, we present the definition and the main characteristics of independent work, the importance of independent workers in the labour market of each country studied and their coverage levels in respective social protection systems. Chapter three summarizes the different mechanisms used by these countries to increase the coverage of independent workers. Chapters four, five, six, seven, eight, nine, ten and eleven comprehensively map the experience of each of the countries studied, providing a characterization of their social security systems, the coverage of independent workers and reforms and innovations introduced to extend coverage. Chapter twelve provides a conclusion through systematizing the various types of practices implemented by the countries examined, revealing the importance of establishing concrete coverage targets and incentives specifically targeting this category of workers.

2. The importance of independent work and coverage levels

The relative proportion of independent workers in the labour markets of developing countries has demonstrated a marked upward trend. Independent workers represent a heterogeneous group in terms of mechanisms for professional integration, levels of education, social organization, type of productive activity undertaken and income levels. The category independent worker can include the worker who pursues a liberal profession in a modern office, middle-income small-holders and the poor urban street vendor. Many of these workers hold precarious jobs which contribute to a low or null contributory capacity for social security programmes.

In this document, the category of “independent work” is synonymous with the category “self-employment job” used by the International Labour Organization (ILO, 1993). According to the official definition, “self-employment job” includes four subgroups of workers, namely:

- (1) Own-account workers: those workers who, working on their own account or with one or more partners, have not engaged on a continuous basis any employees to work for them during the reference period.
- (2) Members of producers' cooperatives or associations: those working in a cooperative producing goods and services, in which each member takes part on an equal footing with other members in determining the organization of production, sales, the investments and the distribution of the proceeds of the establishment amongst their members.
- (3) Employers: those workers who, working on their own account or with one or a few partners and, in this capacity, have engaged one or more persons to work for them in their business, on a continuous basis and including the reference period.
- (4) Contributing family workers: those working in a market-oriented establishment operated by a related person living in the same household, but who cannot be regarded as partners, due to their degree of commitment to the operation of the establishment, in terms of working time or other factors to be determined by national circumstances.

The highest number of independent workers is included in the first subgroup which, together with contributing family workers, represents the group which experiences the greatest difficulty in integrating social insurance schemes.

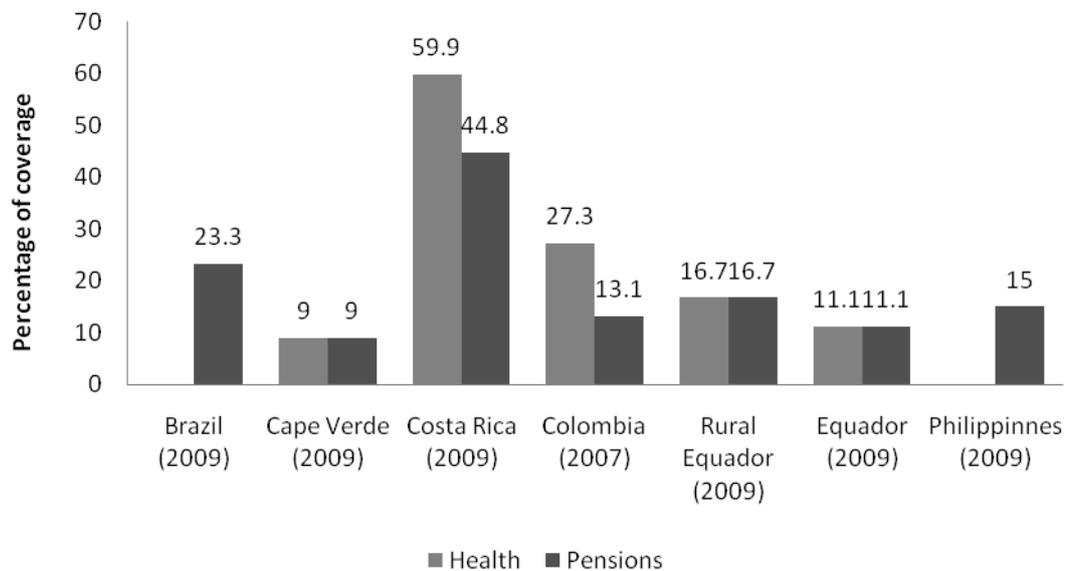
The composition of the labour market varies greatly from country to country. For instance, in Colombia, independent workers account for 54 per cent of the total employed population, which is a high percentage when compared to countries such as Costa Rica, Uruguay, and Cape Verde, in which they account for 18.5 per cent, 27.7 per cent, 30 per cent, and 31.2 per cent, respectively. On the other hand, own-account workers amount for 20 per cent of Brazil's economically active population, whereas in Ecuador, they represent a remarkable 48 per cent of the total employed population.

Similarly, there is a high variation in the concentration of independent workers in rural and urban areas. In Costa Rica, 56.5 per cent of such workers perform their activities in rural areas, whereas in Colombia, 28 per cent of this category of workers works in rural areas. The ratio of male participants is generally higher. In countries such as Costa Rica, the relative participation of men is about 62 per cent. Of those addressed in this study, we specifically highlight the Ecuadorian case, which includes a total of 42 per cent of

independent workers working in the agricultural sector, of which more than half are men living in rural areas. In France, most independent workers are men, and there are great differences between sectors of activity. An overview of the labour market reveals that it is very heterogeneous and dynamic, and this accounts partly responsible for the complexity of the problem.

As previously mentioned, the countries studied demonstrate a relatively high level of coverage for independent workers in their social protection systems, given that they are predominantly developing countries. Figure 1 shows the coverage rates by country for social insurance programmes in health and pensions calculated on the basis of each social insurance programme's potential target population.

Figure 1. Independent workers' coverage rate in health and pension programmes, selected countries



Source: Bertranou, 2009; Durán-Valverde, 2009; Farné et al. 2008; ILO, 2010 and 2011; Saravia, 2009.

One may observe that in spite of the significant efforts by the studied countries to provide cover to independent workers, coverage is generally still modest, especially in countries with higher levels of informal economy activity. In the case of France, coverage reaches 100 per cent of registered workers¹.

¹ Even though there is an informal economy, the lack of available detailed data does not allow for the determination of the total number of independent workers in the informal economy.

3. Summary of innovative mechanisms to extend social insurance coverage to independent workers

This section summarizes the mechanisms developed in the countries studied in order to increase the contributory coverage of independent workers.

3.1. Differentiated contributory categories

Establishing contributory categories is a mechanism by which the payment of social security contributions by independent workers is established at a level different to that applicable to employed workers, or further, by which different contribution levels for such workers are set according to income level.

Categorization used in Brazil

In Latin America, among the most successful experiences in this field, the policies implemented by Brazil's National Social Insurance Institute (INSS) stand out.

INSS identifies three categories in the labour market in relation to the Brazilian social security system: employees, individual contributors, and the special insured. The last two categories are the most relevant in terms of analysing the progress made in the country as regards independent workers' contributory coverage. The category of “*individual contributor*” includes independent workers and people performing unpaid activities, whereas the “*special insured*” category includes rural workers¹.

In the case of the “individual contributor” category, as established in the Social Welfare Simplified Plan, the INSS allows the worker to choose the social insurance contribution rate. The worker may contribute with the minimum fee of 20 per cent of the minimum monthly salary, or he may chose a minimum contribution fee set at 11 per cent. The only difference between one and the other is that those contributing with a lower fee have no entitlement to the pension for years of contribution, in contrast to those who choose the 20 per cent contribution. The system allows contributors to change their contribution percentage whenever they deem it necessary, and to either increase or decrease their contribution rate at any time.

In the case of the “special insured”, the scheme allows subscribers to adapt the payment of contributions according to variation in the market value of their produce. The contribution fee is set at 2.3 per cent of the total marketing of produce. In this category, beneficiaries are also not entitled to the pension during their years of contribution. However, workers characterized as “individual contributors”, and “special insured” have the same benefits, under the General Social Welfare Scheme.

Along with other efforts on the part of the INSS, this type of differentiated contributory mechanism has enabled one in four own-account workers in Brazil to be protected by the social insurance system. This is undoubtedly a very positive result within the scope of developing countries.

¹ This category includes farmers, artisanal fishermen, miners and indigenous people, among others.

Contributory categories in Cape Verde

In Cape Verde, the National Social Welfare Institute (INPS) also implemented significant reforms in this field. In 2009, the registration of independent workers for social insurance became compulsory, the benefits granted to this category of workers were matched to those legally established for employees and a specific contribution system based on income categories was adopted.

Workers must contribute 19.5 per cent to an income category of their choice, with the categories set at similar increments to the contribution bands for salaried workers. The value of the contribution is based on a reference income, which may not be below the minimum salary for public administration.

Table 1. Cape Verde: Contribution base for independent workers, 2009

Category	Calculation	Contribution amounts
1	1 x income x 19.5%	2 730
2	2 x income x 19.5%	5 460
3	3 x income x 19.5%	8 190
4	4 x income x 19.5%	10 920
5	5 x income x 19.5%	13 650
...		
N	n x income x 19.5%	n * 13 986 * 19.5%

Source: Drafted on the basis of the Decree-Law no. 49/2009 of the 23rd of November, National Institute of Social Welfare (INPS).

For instance, if the reference income is set at the value of CVE 13.986 (US\$ 163), and the workers chose category number two (2 x income x 19.5 per cent), the contribution value is CVE 5.460 (US\$ 64). Due to its simplicity, this mechanism makes payments more accessible.

The subsidy to the contributions of low income independent workers in Costa Rica

Costa Rica also has a successful experience with a mechanism of this sort. This country's social security is managed by the Costa Rican Social Insurance Fund (CCSS).

The State plays a key role in financing the Costa Rican social security system, as evidenced in the subsidy to contributions by low income independent workers. The contribution rate of independent workers is determined in terms of a part of their monthly income which is set at a rate close to the level of country's minimum salary. For independent workers with low monthly income, the contribution fee paid to social insurance is therefore lower than the universal contribution fee set by the CCSS². The difference between the percentage of contributions borne by the worker and the total contribution fee is borne as a subsidy paid by the State, which in turn offers an additional 0.25 per cent contribution over wages.

² The percentage contribution for health insurance was set at 11 percent over monthly received income, whereas the rate was set at 7.75 percent for pensions' insurance.

This mechanism implemented in Costa Rica has contributed to a coverage rate for independent workers of 60 per cent in health insurance and 44.8 per cent in pensions' insurance in the year 2009.

3.2. Collective registration systems

Collective registration mechanisms enable independent workers grouped into independent organizations, such as producers' associations or cooperatives to have the opportunity to enter into collective or group insurance agreements with a social insurance scheme. This facilitates the registration of workers who are organization members by providing them the benefits granted by social security. Experience shows that this mechanism has had a very favourable impact on rural areas, especially among organized independent workers in the agricultural sector.

The organization is in charge of grouping the workers by signing an agreement within which it undertakes, working in conjunction with the state institution responsible for the management social security, to create contribution declaration documentation, in order to collect previously negotiated contributions from insured. Contributions received are subsequently transferred to the social insurance institution by the same organization.

Collective Insurance Agreements with Costa Rica's farmers

This practice has been highly successful in Costa Rica under the management of Social Insurance, an institution in charge of managing Collective Insurance Agreements with farmers. In this case, contributory fees are established according to the specific productive activities performed by the workers registered in an organization, and according to the contributory capacity of the registered group. Contribution rates are established through specific and regular reference incomes for certain organization members, rather than according to income categories, as in the case of individual registration. Different contribution scales may therefore be established within the same organization. The organization is in charge of entering each of its registrants in the scale considered to be the most adequate to his income; this determination is subsequently confirmed by social insurance inspectors. The agreement is evaluated annually, and may be renegotiated and extended.

A similar mechanism was recently introduced in Colombia, but management in Colombia's social insurance system is more decentralized.

The collective registration agreement in Colombia

In Colombia, registration of workers in the health system is the responsibility of the Health Promoters Enterprises (EPS)³. These entities are responsible for the registration and collection of workers' contributions for health insurance, and are also in charge of hiring Health Providing Institutions who provide services directly to hospitals, clinics and laboratories, among others.

In this system, an organization – be it a board, an association or a legal person – is legally authorized to enter into a Collective Registration Agreement with an EPS. Through this type of insurance, each worker member of the organization may change EPS even if initially the decision was taken collectively.

³ The Colombian health system is part of the General System of Social Security in Health.

Also important is registration through cooperatives and pre-cooperatives, through which independent workers may access social security system services as associate workers. Such organizations undertake before the National Health Superintendence⁴ all obligations and rights usually undertaken by employers.

This mechanism in part accounts for a 27.5 per cent coverage rate in health and 13.1 per cent in pensions in Colombia. Generally speaking, one may say that collective registration mechanisms strengthen and consolidate the institutionalization of participant organizations as regards their members, which may be considered to be an extremely positive side effect.

3.3. Special mechanisms for collecting contributions

Ensuring a sustainable increase in contributory coverage depends on implementing strategies which ensure contribution payment, and simultaneously follow up on the potential insured who due to evasion or ignorance failed to pay their contributions. This section introduces some of the mechanisms implemented to facilitate registration, where required, with the aim of increasing collection effectiveness.

Colombia's PILA and RUA

The Colombian social insurance system must be highlighted, since it has two mechanisms allowing the establishment of an effective collecting method: the first is the Integrated Form for Contribution Settlement (PILA), and the second is the Single Registry of Contributors (RUA).

PILA is an electronic platform which enables the establishment and payment of contributions to the General System of Social Security, both for employees and for independent workers. This mechanism has facilitated easier user access to Colombia's social security system⁵. Payment of contributions through the PILA is compulsory, since there are no alternative methods. By acting as a centralized system, it has promoted effective monitoring and supervision of contributors, thus contributing to reduced levels of evasion.

The RUA has established itself as a tool allowing for the detection of irregularities such as contribution evasion and multi-registration. The system allows the cross-referencing of registrants' contributory information contained in several social security subsystems: the General System of Social Security in Health, the General System of Pensions, and the General System of Occupational Hazards.

These two mechanisms have enabled great progress in the collection effectiveness of Colombian social insurance.

Contribution collection measures adopted by Costa Rica

Costa Rica's social insurance system also succeeded in implementing mechanisms to improve the collection of contributions by independent workers and employers. In the last

⁴ It is the body responsible for supervising Colombia's health system, which authorizes the establishment of EPS, and Health Providing Institutions.

⁵ The platform implemented an "Assisted Form" system, supporting the management of social contributions to people lacking the necessary means, such as Internet access, to make the corresponding cancellation.

few years, CCSS, the entity responsible for the social contribution collection has implemented a series of programmes essentially directed at hiring administrative staff and inspectors, in order to reinforce the follow up of cases of evasion by employers and independent workers.

Costa Rica's social insurance institution includes a corps of specialized inspectors for overseeing the registration of independent workers, who work in several economic sectors and according to different schedules, to enable both daytime and night-time supervision.

In addition to good human resources, the programme also has allocated resources to acquire the physical, material, and technologic resources needed to successfully implement this strategy. The incorporation of a greater number of social security inspectors has allowed for the extension of contributory coverage to all parts of the country, including to independent workers in rural areas.

3.4. Mechanisms aimed at including micro and small companies

In order to extend contributory coverage, social insurance systems may integrate specific mechanisms to cover different company categories, such as micro and small companies. This type of measure has primarily facilitated the formalization of companies, but has also simultaneously contributed to reduce exclusion from the social security system. In this section, we introduce three successful examples of such schemes. The first is the simplified scheme⁶ currently in force in Uruguay, called Monotributo. The second example is located in Brazil and is called Simples Nacional (National Simple) or Super Simples (Super Simple). The third is the French Auto-entrepreneur scheme.

The case of Monotributo in Uruguay

The Monotributo scheme consists of an optional unified tax package, which includes the payment both of social security contributions and of taxes. This scheme covers micro and small companies performing their activities mostly in the informal economy. In addition to Uruguay, Monotributo was also implemented in other countries, including Argentina.

From the year 2000, the Board of Directors of the Social Security Institute of Uruguay, which is responsible for managing social insurance, has acknowledged that an important sub-set of own-account workers was governed by inadequate rules which had contributed to its potential marginalization from the social protection system. Several studies have shown that more than 80 per cent of this type of worker was excluded from social security coverage. It was in this context that the Monotributo scheme was promoted. Its aim was not only tax formalization, but also to ensure social protection to independent workers who up until then were excluded from the system.

Initially, this scheme's results were unsatisfactory, which led to a series of internal changes in 2006, allowing, among other things, for the easing of restrictions on access to

⁶ Simplified systems may be used to increase the inclusion of important groups, but at the expense of reducing the coverage of general schemes. This diversion effect has generated much controversy in social insurance system management.

this special scheme⁷. One of the most significant reforms that this scheme has undergone was the inclusion of one-person businesses, in addition to de facto companies, with some restrictions. The reform extended the type and maximum number of activities companies may be involved in⁸, and incorporated into the system those companies selling their products by credit card. Before the reform, only small companies selling products to end consumers were included. Currently, registration for the scheme is allowed not only to companies selling to end consumers, but also to those marketing their products to private companies and the State, although there are some exceptions. Also, there was an increase in the maximum turnover allowed for a company to entitle it to enter this scheme. This measure enabled annual increases over 100 per cent both for small commercial companies and service providers.

The scale of the results generated by this scheme is evidenced by the increase in the average annual growth of one-person businesses registered. Between 2002 and 2006 this amounted to 1.3 per cent, whereas between 2007 and 2009, when the reforms came into force, the increase amounted to 6.5 per cent. In absolute terms, the reform generated an estimated increase of 12,722 one-person businesses registered between the dates above.

The case of auto-entrepreneurs in France

In 2008, the French Government launched a new status for business owners. Auto-entrepreneurs are independent workers with an annual turnover under € 81,500, for trading activities, or under € 32,600 for service provision.

Auto-entrepreneurs are subject to specific regulations on taxation and social security contributions. Registration in social security schemes is compulsory for auto-entrepreneurs. Unlike the rates applicable to other independent workers, contributions are established as a package, in terms of an income percentage (which varies from 12 per cent and 21.3 per cent, depending on the sector within which the business is located). Auto-entrepreneurs also may choose to pay a universal package, determined as a percentage of income, which incorporates both social contributions and income taxes, thus greatly easing the accounting in the business creation stage.

“Auto-entrepreneur” is a flexible independent worker status which aims to encourage and facilitate business creation and development. An auto-entrepreneur may for instance also undertake some wage labour. It can be seen as a tool to formalize work which was previously undeclared for several reasons (procedure complexity, incompatibility with other declared income sources, etc.), especially in service providing (cleaning, gardening, etc.). This initiative was very successful from its inception, in terms of business creation. In 2011, there were more than 700,000 active business owners.

The case of Super Simples in Brazil

In Brazil, Simples Nacional has become an important mechanism to protect workers in micro and small companies. This special scheme was established in 1996 under the terms of the *Lei do Simples* (“Law of Simple”), and has been the object of important changes since its enactment.

⁷ These changes were introduced through the Ley de Reforma Tributaria de 2006, (2006 Tax Reform Law) in force since July 2007. The reform was promoted by the BPS Board of Directors, and subsequently undertaken by the Executive and the Parliament.

⁸ There was an inclusion of companies selling goods, and providing services, as well as of small artisan producers.

Simples Nacional enables a simplified tax procedure for micro and small companies. The scheme has created an integrated system for the payment of some taxes and contributions to social security. In the case of taxes, five federal taxes were integrated, together with one state tax, one municipal tax, and the contributions of employers to the INSS.

Registration in the scheme is optional and can be completed online. For the purposes of Simples Nacional, a micro company is defined as a business owner or legal person whose annual gross income is equal to or under 240,000 Brazilian Reals (R\$, or US\$ 145,000 annually), and a small company is considered to have an annual gross income between R\$240,000 and R\$2,400,000 (US\$ 1,450,000 annually). Based on this classification, there is a system of progressive contribution percentages to the INSS. Registrants enjoy lower contribution rates when compared with those applied in the General Scheme. This scheme has had an important impact. The production of micro and small companies represents more than 20 per cent of the GDP, and they contribute to about 10 percent of all taxes collected.

For vulnerable workers who are not covered by the Simples Nacional, the INSS offers coverage through registration as an individual contributor as detailed in the Social Welfare Simplified Plan, presented in section 4.2.1 of this document.

This simplified scheme, as well as Uruguay's Monotributo Scheme and France's auto-entrepreneurs scheme, highlight the importance of moving toward the establishment of specific schemes specifically targeting the labour market's vulnerable sectors, such as micro and small company workers, including their respective owners. None of the cases of special schemes considered in this document have resulted in a limitation of labour rights.

3.5. Mechanisms aimed at including agricultural independent workers

The case of the Social Agricultural Mutual Fund (MSA) in France

The MSA was created in 1900 as a form of mutual insurance for agricultural workers, including both the employed and the self-employed. This scheme preceded the current social security scheme, and has kept its specific form since then. The MSA was very much linked to farmers' trade unions, and has maintained a strong identification with a rural way of life.

When the social security system was created in 1945, the MSA was in charge of managing farmers' social security. Farmers in France, together with other independent workers, were reluctant to adopt a centralized social security system coordinated by the State. This situation explains why the independent farmers' scheme took so long to harmonize with other social protection schemes (health insurance and pensions), and still maintains its specificity (freedom of choice of the insurance entity providing benefits regarding health, work accidents and occupational diseases, disability, and sick leave).

MSA is largely financed through general taxation, national solidarity taxes, and specific state subsidies. In 1960 a special budget called "attached budget of agricultural benefits" was created to compensate for the farmers' low contribution level. The budget is directly managed by the Ministry of Agriculture.

The demographic constitution of MSA's target population has a strong impact on its peculiar culture and on its financing mechanisms. Due to the rural exodus, farmers are becoming less and less numerous in France. In 50 years, MSA lost one million registered independent farmers, and the employed population was the most affected by this reduction.

In 2011, the MSA protected more than 1.6 million people through the scheme for the employed, of which 28 per cent were active contributors, 53 per cent retired farmers, and 19 per cent dependents (spouses and dependent children). MSA's independent farmer scheme has more than 500,000 contributors.

The case of Ecuador's Peasants' Social Insurance (SSC)

A relatively successful experience is Ecuador's SSC, a special scheme covering agricultural independent workers and artisanal fishermen. The Social Security Institute (IESS) is the entity responsible for the country's social security system and this includes management of the SSC.

SSC includes coverage in the case of sickness and maternity for the whole family, and in case of old age and death for the directly insured. The value of the old age and the total permanent invalidity pensions corresponds to 75 per cent of the minimum contribution salary.

Registration in the SSC may be done either individually or collectively⁹, but most registrations take place collectively. The collection of contributions and their transfer to social insurance management is made by the rural organization. In addition to the contributions of protected rural families, SSC is financed through a supportive system involving registrants and employers of the national social security system, as well as the State's subsidiary revenues. SSC's contribution rates are lower than the rates of the General Mandatory Insurance, hence its solidary character.

Registration in the SSC is restrictive, since it depends upon having continuous or occasional own-account work in an activity of the economy's farming sector, while living in a rural area. SSC has enabled the Ecuadorian rural population to benefit from a solidary social insurance mechanism. In 2010, the SSC covered 918,056 people, and granted pensions to 36,135 people¹⁰.

3.6. Pro-active and independent worker proximity approach

The Cape-Verdean experience of using a pro-active approach with independent workers has had a very positive impact on coverage increase. This approach consists of communication campaigns specifically targeting independent workers, together with a set of education and awareness activities at the local level, both in urban and in rural areas; it also includes opening service centres in strategic locations.

INPS' intervention can be divided into three stages. In the first stage, the Institute focused its strategy on communicating with independent workers in urban areas, and in areas where formal employment prevails. There was a development of brochures, TV spots, radio programmes, and advertising in the country's printed newspapers. The second stage consisted in the establishment of alliances with independent workers' organizations. Further to this aim, the INPS has conducted workshops with trade unions, religious organizations, producers' organizations, and women's organizations, among others. The third stage involves consolidating its presence in the country's rural areas. In addition to the

⁹ To analyse the basic characteristics of this registration system, we recommend consulting the section of this document regarding the «Collective Registration System».

¹⁰ For 2007, IEISS shows a total of 2.715.678 registrants in the General Insurance and in the Rural Social Insurance.

activities with independent workers, INPS officials have been working with children and youths in education centres, across the country's different islands.

In order to get closer to independent workers, the Institute opened service centres in locations where the flow of independent workers is higher. These centres are characterized by Social Welfare Units and provisional service desks. In these centres, in addition to being able to access information on the range of benefits on offer, independent workers may register, pay their social contributions, and withdraw benefits, among other services. A factor in the scheme's success is that all service centres are equipped with an integrated computer system allowing them to perform about 80 per cent of all administrative procedures on site ¹¹.

The opening of such centres has allowed, among other things, a reduction in the (implicit) registration costs borne by such workers through a lowering of the contribution amounts. The first provisional service desk was opened in 2010, in the capital's largest popular market. By 2011, INPS had opened about nine service centres around the country.

The INPS abandoned a strategy in which all initiatives rested with the worker, and adopted an "active intervention strategy", through which the Institute approaches the target group, and develops close ties with the workers' organizations and the community, aiming to educate, raise awareness, promote and facilitate registrations.

¹¹ The computer system is called Social Welfare Integrated System.

4. Brazil - The extension of the General Social Insurance Scheme

Brazil is a country committed to its social expenditure, and particularly committed to the extension of social security. A proof of such a commitment is the country's well-structured social security scheme and the innovations made in expanding coverage.

The Brazilian social security system (Previdência Social - Social Security) is divided into three essential schemes, briefly explained below ¹:

- (1) General Social Insurance Scheme (RGPS): together with the social insurance scheme for civil servants, it is Brazil's main social security scheme, ensuring the coverage of private sector workers, covering employers, employed workers, domestic workers, independent workers, and rural workers. It is characterized by being a compulsory registration scheme, and by its public management.
- (2) General Social Insurance Scheme for Civil Servants (RPPS): this scheme has many features in common with the general scheme, such as mandatory registration, and public management. The main difference is the fact that it is specifically for civil servants.
- (3) Supplementary Insurance Scheme: this scheme stands out for being a supplementary private management and voluntary registration scheme aimed at workers with a higher income. Through this scheme, beneficiaries may have access to increases in their retirement pension ("aposentadoria"), among other benefits which surpass the limits of the other two schemes.

There are also further types of voluntary personal saving, as well as social assistance programmes targeted at the most vulnerable social groups. Nevertheless, for the purposes of this document, we shall focus our analysis on the General Scheme, and on the coverage expansion options it offers independent workers.

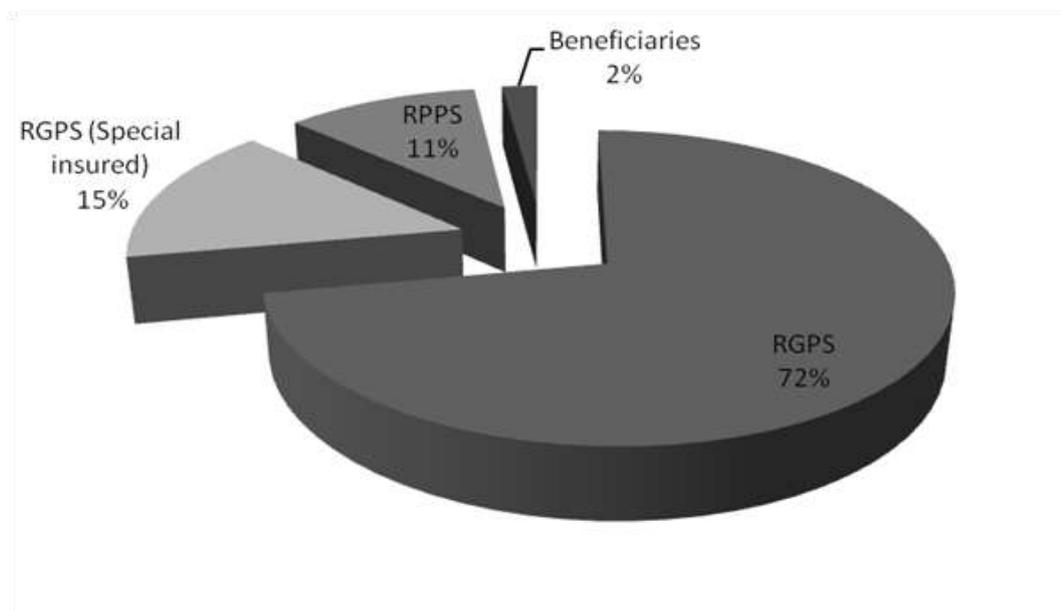
4.1. Social security coverage situation

According to the data of the Brazilian Social Welfare Ministry (2008a), in 2007, 64 per cent of the working population was registered in one of the social protection schemes as contributors. The remainder non-contributory 36 per cent represent approximately 29.87 million people. However, of the total number of non-contributors, around 1.22 million people access social security services as beneficiaries, which is why the percentage of the socially unprotected working population corresponds to 35 per cent.

Figure 2 shows the distribution of the working population benefitting from social protection in the year 2007. The first to stand out are the contributors of the Social Insurance General Scheme (72 per cent), followed by Special Insurance contributors (15 per cent), by the contributors of Civil Servant and Military specific Schemes (11 per cent), and lastly by those who have access to social protection as beneficiaries (2 per cent).

¹ For a more detailed analysis of Brazil's Social Welfare System, see document «Panorama da Previdência Social Brasileira» - «Overview of Brazilian Social Welfare» (Ministério da Previdência Social, 2008a - Ministry of Social Welfare).

Figure 2. Brazil: Overview of the Working Population's Social Protection, 2007



Source: Social Welfare Ministry, 2008a (based on the 2007 National Household Survey).

Own-account workers stand out among the groups with greater coverage problems. According to the data of the Social Welfare Ministry (2008a), in 2007 approximately 44 per cent of such workers having contributory capacity did not have social security, whereas in the group of workers without contributory capacity 31.7 per cent were in the same situation.

According to the information given by the Social Welfare Ministry (2008a), own-account workers had a 23.7 per cent coverage rate in 2007, which is low when compared to civil servants (100 per cent), private sector employees (76.7 per cent), and domestic workers (34.4 per cent).

The most recent data available for same Ministry reveal that 48 per cent of the economically active population are contributors to one of the social protection schemes.

In 2008, the Social Insurance General Scheme had a total of 39,652,510 contributors, the category of individual contributors being the second one in importance (14.60 per cent), surpassed only by the category of employed workers (either in the public or private sector), who represent 80 per cent of this scheme's total number of contributors.

4.2. Innovative measures for inclusion in social insurance

The enactment of the 1988 Federal Constitution is one of the main Brazilian social security landmarks, since it entailed a series of changes in social security, and above all, the consolidation of the Social Security System (Alves Rangel et al., 2009).

Specifically, Article 194 establishes the general provisions for Brazilian social security, referencing essential aspects such as universality of coverage, uniformity and equivalence which must characterise the benefits and services of urban and rural populations, among others, and which are vitally important in building a comprehensive social security system.

However, and as noted by Alves Rangel et al. (2009), the social security system has always been connected to the labour market for employed workers, which jeopardizes the coverage of some groups with special features, as in the case of rural and own-account workers.

Taking the above into account, there was a development of proposals and initiatives with the aim of offering and increasing social protection coverage to such groups. Below, we explain some of the measures which stood out among those implemented so far.

4.2.1. Differentiation of contributory categories

According to the criteria established by the Brazilian National Institute of Social Security, there are different categories contributing to social security determined by the contributor's work situation, and adapted to his or her employment characteristics. Special emphasis must be given to the categories of “employed worker”, “individual contributor”, and “special insured”. Own-account or autonomous workers are included in the “special contributor” category, whereas rural workers are included in the category of the “special insured”.

Regarding the importance of both groups, it is known that informal work is one of the characteristic features of the Brazilian labour market, reaching over 30 per cent of the EAP for the period between 1981 and 2007 (Alves Rangel et al., 2009).

According to recent data by the Social Welfare Ministry, Brazil has a population of 189,952,795 people, of which 92,394,585 (49 per cent) belong to the working EAP. The composition of the working population is led by employed workers (59 per cent), with the second largest group being own-account workers (20 per cent), which shows the latter's importance within the Brazilian labour market structure.

Table 2. Brazil: Labour Market Structure, 2008

Category	People	%
Employed workers	54 187 086	59
Domestic workers	6 626 001	7
Own-account workers	18 688 789	20
Business owners	4 143 956	4
Other categories	4 161 275	5
Unpaid workers	4 587 478	5
Total of Working Population	92 394 585	100

Source: Social Welfare Ministry, 2008b.

(a) Individual Contributor

This contributor category includes independent workers (own-account workers), which are considered to be one of the most sensitive groups as regards social security coverage. This category is part of the Social Security Simplified Plan, which provides protection for all workers with an income below 36,000 R\$per year (US\$ 21,500).

With the aim of adapting social protection systems to these workers, some benefits were introduced such as the reduction of the minimum contribution, which in the particular

case of individual contributors was reduced from 20 per cent to 11 per cent of the minimum monthly salary. It is important to note that each individual contributor may decide on the contribution percentage to be paid. The key difference is that those who choose the reduced rate are not entitled to a retirement pension for years of contribution to the system, unlike those who choose the 20 per cent rate, who enjoy all the benefits of the Brazilian social protection system. Another facility brought about by the system's reform is the fact that contributors may change their contributory option whenever they deem necessary, with the only condition that the 11 per cent rate contribution periods have no influence in obtaining benefits when determining contribution time.

(b) **Special Insured**

The special insured are workers performing their activities in rural areas and family companies, and with no permanent employees, such as small farmers, artisanal fishermen, miners and indigenous people, among others.

The main innovation regarding this group is the contribution based on the value of production sales, which is a mechanism allowing workers to equate their contributory obligations to their income, which is generally irregular. The percentage of the established contribution corresponds to 2.3 per cent of the gross sales of their production.

The beneficiaries of this scheme, which was established in 2008, receive the same benefits granted to contributors in other categories through the General Social Welfare Scheme. As an added benefit, they are ensured access to such benefits in times of low productivity or in case of crop or production loss for any reason.

This scheme grants retirement pensions at 60 years old in the case of men, and at 55 years old in the case of women, for an amount equivalent to the national minimum salary. This benefit is subject to 15 years of rural activity.

4.2.2. Granting of incentives to small and medium companies

Another element related to social insurance inclusion and coverage extension is the incentive package for small and medium companies, called *Simplex* programme, and subsequently renamed *Super Simplex*.

The aim of this measure is to reduce informality in Brazilian companies, which directly and simultaneously affects workers' employment and coverage situation. Generally, such incentives can unify, simplify, and ease the tax collecting procedure. Such measures increased the formalization of small companies, and promoted the creation of new employment contracts, and, consequently, improved the inclusion of workers in the social protection system.

(a) **Simplex**

The *Simplex* (Integrated System for Payment of Taxes and Contributions of Micro and Small Companies) was created in 1996 with the aim of formalizing employment and social security in many small and medium companies. The system allowed the unified payment of some federal taxes and of social security contributions. This established a single fee, based on a progressive scale of annual sales. This participation fee was based on gross sales, not on profits. Furthermore, this measure introduced the demand that such companies had accounting management books.

The law defines micro-companies as businesses with a turnover above 240,000 Brazilian Reals, based on the annual sales limit, and small companies as businesses with a turnover above 2,400 Brazilian Reals.

(b) Super Simples

In 2006, the Simples Nacional (National Simple), or Super Simples, was created (Governing Law n. ° 123, of December 14), replacing the Simples and establishing a new company tax treatment, which included in its package of mandated payments taxes on movement of goods and service provision, tax on services of any nature, as well as State and local taxes, which were not included in the previous system.

This reform established the deduction at source of mandatory contributions. As in Simples, the rate was reduced as regards the general system. Such reduction was made gradually, from the companies' monthly sales. This reform eliminated the companies' obligation to keep regular accounting. The benefits granted to small and medium companies stemming from the creation of Simples and its subsequent extension (Super Simples) are described in table 2.

Table 3. Brazil: Benefits of Programmes Simples and Super Simples

Taxes and contributions included in Super Simples	Taxes and contributions included in Simples
Income tax	Tax on Financial Transactions
Contribution to the Social Integration Programme (PIS), and the Heritage Training Programme for Civil Servants	Tax on the Import of Foreign Products
Social Contribution on Gross Income	Tax on exports
Contribution for the Financing of Social Security	Tax on Legal Persons' Income
Tax on industrialized products	Tax on Rural Property
Tax on movement of goods and service providing	Social Security Contribution on Financial Movement
Tax on services of any nature	Contribution to the Guarantee Fund for Time of Service
Contributions to Social Security by legal persons	Contributions to the Workers' Social Insurance
State and local taxes	

Source: Alves Rangel et al., 2009.

(c) Supplementary Law

One of the last measures adopted by the Brazilian authorities with the aim of reducing and simplifying company taxation and contributions, and consequently extend social security was the creation of Supplementary Law n.º 128 (2008), aimed at individual micro company owners (whose turnover limit is 3,000 R\$per month).

This Law works as an extension of the Super Simples, directed at Brazil's smaller companies which deserve further special treatment. The main advantages are: 1. the fact that the taxation of each of these units is determined by a fixed monthly fee, regardless of income earned during that period and 2. the fact that the units covered by this Law are exempt from income tax, from tax on industrial products, from contributions to the Social Integration Programme, from contributions for social security financing, and from employer contributions to the INSS.

As a result of these exemptions, companies covered by the Supplementary Law must fulfil only the following obligations: 1. 11 per cent of the minimum salary, corresponding

to the workers' social security contribution, 2. R\$ 1.00 due to tax on movement of goods and service providing and 3. R\$ 5.00 due to tax on services of any nature.

The implementation of such programmes targeted at micro, small, and medium companies has brought about important changes in the recent years. According to Delgado et al. (2007), in the period 2000-2005 there was a significant increase (40 per cent) in the number of companies choosing the Simples Law, which translates into such companies' regularization, and in the consequent integration of their workers into the social security system. This author also mentions the evolution regarding employed workers, which strengthens the argument that such programmes benefit the bonds of formal work. In this regard, according to the data, there has been a significant increase in the number of employed workers declared by registered companies, which showed a steady increase average of approximately 18 per cent during the 2000-2005 period.

Finally, Saravia (2009) has observed an important increase in the number of contributors to the Social Protection System in the 2000-2006 period, the largest increase being recorded among lower wage levels. The latter are related to the workers in the informal sector, who are the main target group for the schemes detailed above.

5. Cape Verde - A pro-active approach to extending coverage to independent workers

Cape Verde is among the sub-Saharan African countries with the best economic and social outcomes. Owing to its performance, the country was recently reclassified by the United Nations Organization as a middle-income country. The population of Cape Verde consists of about 508,000 inhabitants, divided into archipelago of 10 islands located on the far west of the African continent.

This country's social protection system includes three schemes: a contributory scheme, the Compulsory Social Protection, a non-contributory scheme called Rede de Segurança (Safety Network), and a Supplementary Social Protection scheme. The social protection scheme is the responsibility of the Ministry of Youth, Employment and Human Resources Development. However, management is shared between the National Social Welfare Institute (INPS), who is responsible for managing the contributory scheme, and the National Centre for Pensions (CNPS), who is in charge of managing the non-contributory pension scheme. There is also a group of social assistance programmes regarding issues such as education, health, employment, and housing, the management of which is shared by several public institutions. Mandatory social protection covers both employed workers¹ and independent or own-account workers (the latter being the designation used in Cape Verde).

This document seeks to map the main strategies the INPS has been implementing to extend the coverage to independent workers.

5.1. Coverage situation of independent workers

In Cape Verde, 87 per cent of the economically active population have work². Of this working population, 30 per cent consists of independent workers, 44 per cent are workers in micro-companies, and the remaining 26 per cent are employed workers, many of whom are employed by the public sector.

According to a study performed by ILO (2011a), in 2009 the INPS' contributory coverage reached almost 25 per cent of the EAP, which shows a strong growth tendency in the last years³. This coverage is comparatively high within the context of sub-Saharan Africa, where the average coverage only reaches 5 per cent of the EAP. However, the challenge is still a considerable one: 75 out of 100 people with employment are not covered by social insurance.

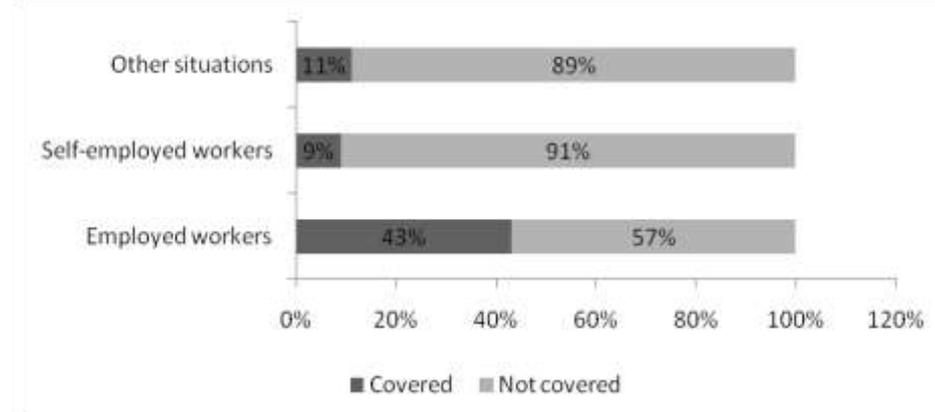
Regarding the coverage rate of independent workers, the Survey of Cape Verde's Working Population in 2009 revealed that the former reached 9 per cent (see figure 3). This was mainly due to the reforms introduced by the INPS.

¹ INPS divides employed workers into three schemes: Central Administration Civil Servants' scheme, local Government Civil Servants' scheme, and Employed Workers' scheme.

² The remaining value represents the unemployment rate, which is low when compared to African countries.

³ General coverage regarding the working EAP is 29 percent.

Figure 3. Cape Verde: INPS coverage in working EAP %, according to working situation, 2009



Source: ILO, 2011a.

The category of independent workers mainly includes agricultural workers, street vendors, traders, and liberal professionals. The largest coverage of independent workers is centred in the islands or territories having the highest urbanization rates and the lowest poverty incidence rates.

The issue of independent workers' low coverage by social insurance in Cape Verde exists across sectors of the economy. However, the rates are particularly low in commercial and agricultural activities.

If on the one hand, micro-companies, including micro one-person businesses (independent workers' micro-companies), represent an important employment source, on the other hand, that group is particularly affected by the lack of social protection. It is estimated that in 2009, only 12 per cent of the companies with two or less workers were covered by social insurance.

5.2. Innovative mechanisms in independent workers' coverage

INPS legally incorporated independent workers into the social security system in the year 2003, through Decree-Law n. ° 28, of August 25 (Republic of Cape Verde, 2003). However, in practice the extension of coverage only began in the year 2009. Therefore, this scheme may be considered to be relatively “young”.

Although the coverage rate of independent workers is still far from satisfactory levels for a middle-income country, it is important to note the great efforts made by Cape Verde's social security management to innovate and expand coverage. Within a very short period of time (about a year) independent workers' coverage went from zero to nine per cent (Cape Verde's National Institute for Statistics, 2010). It is expected that such rates continue to improve in the short and medium term, due to INPS' continuous efforts.

Among the several tools implemented by INPS to extend coverage, the reform of the law regulating the independent workers' scheme, made in 2009, represented an important step⁴. Furthermore, the INPS, together with the Ministry of Youth, Employment and Human Resources Development, worked with the support of ILO experts to draft the Plano Operacional para a Extensão da Segurança Social aos Trabalhadores Independentes e

⁴ See the Decree-Law no. 49/2009 of the 23rd of November, National Institute of Social Welfare (INPS).

Domésticos (“Operational Plan for Extending Social Security to Independent and Domestic Workers” - ILO, 2010). This document was approved in 2010 and will remain in force until 2013. It summarizes the strategy the institute has implemented to increase independent coverage. Below, we introduce a summary of the main reforms and innovations introduced by Cape Verde, aimed at increasing the coverage of independent workers.

5.2.1. Mandatory registration of independent workers

The declaration of mandatory social contribution payments by independent workers was essential as a starting point to initiate a pro-active strategy for the extension of coverage. This measure was applied in the reform of the 2009 law. Prior to such reform, laws allowed independent workers to register voluntarily in social insurance, and coverage was extremely low⁵. Few countries in sub-Saharan Africa implemented such requirement in their law.

In addition to the above requirement, INPS also implemented other reforms to favour the registration of independent workers. One example is the new possibility for workers leaving the country in search of employment to remain within the system.

5.2.2. Benefits matching the benefits of employed workers

The benefits granted to independent workers were matched to the benefits established by law for employed workers. Such benefits include disability, old age, and survivor's pensions, sickness, maternity, and paternity leave, as well as in the event of adoption⁶.

In the case of sickness benefits, beneficiaries may receive transfers during a maximum period of 365 days. Particularly, as regards benefits in kind for sickness, beneficiaries are entitled to medical and hospital assistance, medications, and diagnostic tests, among other benefits.

This benefit scheme represents an important incentive for independent workers to incorporate into the INPS.

5.2.3. Contributions according to income categories

The INPS adopted a contribution system based on income categories for independent workers. This mechanism is completely different from that applied to employed workers.

Workers must contribute with 19.5 per cent of the category of their choice; which is similar to the contribution salary. The value of the contribution is based on a reference income, which may not be below the minimum salary for public administration. For example, if the Institute establishes a reference income of 13.986 Escudo de Cabo Verde (ECV, US\$ 163), and the workers choose the number two category, the value of the contribution amounts to 5.460 ECV (US\$ 64), as shown in table 3.

⁵ Under the previous law, the only workers who were compulsorily required to contribute were independent workers under 45 years old, in the case of women, and under 50 years old, in the case of men.

⁶ For old age benefits, the worker must contribute for at least 15 years, whereas for disability and life benefits, one must contribute for at least 5 years.

Table 4. Cape Verde: Contribution base for independent workers, 2009

Category	Calculation	Contribution amounts
1	1 x income x 19.5%	2 730
2	2 x income x 19.5%	5 460
3	3 x income x 19.5%	8 190
4	4 x income x 19.5%	10 920
5	5 x income x 19.5%	13 650
...		
N	n x income x 19.5%	n * 13 986 * 19.5%

Source: Drafted on the basis of the Decree-Law no. 49/2009 of the 23rd of November, National Institute of Social Welfare (INPS).

Since it consists of a relatively simple scheme, workers have no great difficulty at the time of paying contributions.

5.2.4. Pro-active approach to extending coverage to independent workers

One of the strategies generating the greatest impact in increasing coverage was the adoption of a “pro-active approach” when relating to the target group, which in this case consists of independent workers and their organizations.

This approach consists of communication campaigns specifically targeting independent workers, together with a set of education and awareness- raising activities at the local level, both in urban and in rural areas.

The aim of the information addressed to independent workers is to raise awareness among this section of the population regarding the need for social security and its advantages, since it is known that poor knowledge on this topic is one of the factors in explaining the lack of incentive to register for social security.

INPS' active intervention can be divided into three stages. In the first stage, the Institute focused its strategy in communicating with independent workers in urban areas, and in areas where formal employment prevails. The second stage consists in establishing alliances with independent workers' organizations, and the third involves the consolidation of their presence in the country's rural areas. As it proceeds to other stages, INPS wishes to achieve an increasing presence in rural areas.

Figure 4. INPS intervention to extend coverage to independent workers



Source: ILO, 2010a.

In the first phase, the Institute developed a continuous information campaign, using several communication channels including information brochures, TV spots, radio programmes, and advertising in the country's printed newspapers.

In a second phase, the Institute focused on establishing alliances and actions in partnership with independent workers' organizations. The joint work with such organizations has been the basis for the pro-active strategy, allowing greater contact with workers, and an opportunity to learn about their particular concerns and needs. To this end, the INPS has been conducting workshops with trade unions, religious organizations, producers' organizations, and women's organizations, among others. The organization of such workshops and other community activities involves the direct participation of INPS officials who give information on social insurance to workers. Presentations include topics such as the benefits associated to social insurance, beneficiaries' obligations, the procedures of contributions and payments, and the importance of social security in the country, among others.

The third phase expects INPS to increasingly consolidate its presence in rural areas of the country, where the majority of independent workers are located.

In addition to the direct activities with independent workers, INPS officials have been working with children and youths in education centres across the country's different islands. The aim is to show future contributors the benefits of social security, and the important role that this institution plays in national development. According to the INPS, this strategy represents an opportunity for students to encourage their parents to register in social security.

Thus, the INPS has abandoned a "passive strategy", in which all initiative rested upon the worker, and adopted an "active strategy", through which the Institute develops close ties with the community and specifically with independent workers' organizations, aiming to educate, raise awareness, and promote registration.

5.2.5. Greater proximity of the INPS to independent workers

In order to get closer to independent workers, INPS opened service centres in locations where the flow of independent workers is higher. These centres are characterized by Social Welfare Units and provisional service desks. In these centres, in addition to accessing information on the benefits offered by the INPS, independent workers may register, pay their social contributions, and withdraw benefits, among other services. A factor for success is that all service centres are equipped with an integrated computer system, which allows them to perform about 80 per cent of administrative procedures on site ⁷.

Furthermore, under the motto: "INPS mais perto de si" ("INPS closer to you"), the Institution has been assuming a new active position by going directly to where independent workers are, which has contributed to lower (implicit) registration costs borne by such workers, and therefore lower the contribution rates, among other benefits.

The first provisional service desk opened in 2010, in the capital's largest popular market, the market of Sucupira. By 2011, around nine service centres had opened in several cities across the country.

⁷ The computer system is called: Sistema Integrado de Previdência Social (Social Information Integrated System).

5.3. Challenges

The progress achieved by Cape Verde in extending coverage to independent workers has occurred rapidly. However, a significant part of the extension strategy has yet to be implemented.

As progress continues, INPS will probably face growing difficulty in increasing the number of contributors due to the fact that independent workers who remain excluded will have their precarious working conditions worsened, which evidently increases the registration's marginal cost. Nevertheless, within the context of sub-Saharan Africa, Cape Verde is an exceptional case in terms of recent innovations and experiences in extending social insurance coverage to independent workers.

6. Colombia – Best practice in independent workers' coverage

6.1. Characterization of the Colombian Social Security System

The major milestone in the recent development of the Colombian Social Security System is the enactment of Law n.º 100, of 1993¹ (Law n.º 797, of 2003 revoked some of its provisions), re-establishing pre-existing laws and introducing changes with the aim of increasing population coverage.

Thanks to this reform, two schemes were established: the contributory scheme, directed at people with economic capacity to contribute to social security, and the (non-contributory) State subsidized scheme, for all those lacking such a capacity. Formally, the Colombian social security system comprises three main pillars, summarily explained in table 4.

Table 5. Colombia: Components of the Social Security System

System	General System of Social Security in Health (SGSSS)	General System of Pensions	General System of Occupational Hazards (SGRP)
Description	System responsible for the regulation of health services, and the promotion of population access at every level, in addition to the granting of cash benefits for disability, and maternity leaves to those belonging to the contributory scheme.	System whose purpose is to protect the whole of the population against contingencies stemming from old age, disability, and death, based on the acknowledgement of the pensions and benefits established by law.	It is the scheme protecting registered workers against working contingencies, such as work accidents or occupational diseases.

Note: In addition, other systems are acknowledged, such as the Family Subsidy System, and the Unemployment Benefit System, which are irrelevant for the purposes of this paper.

Source: Bertranou, 2009.

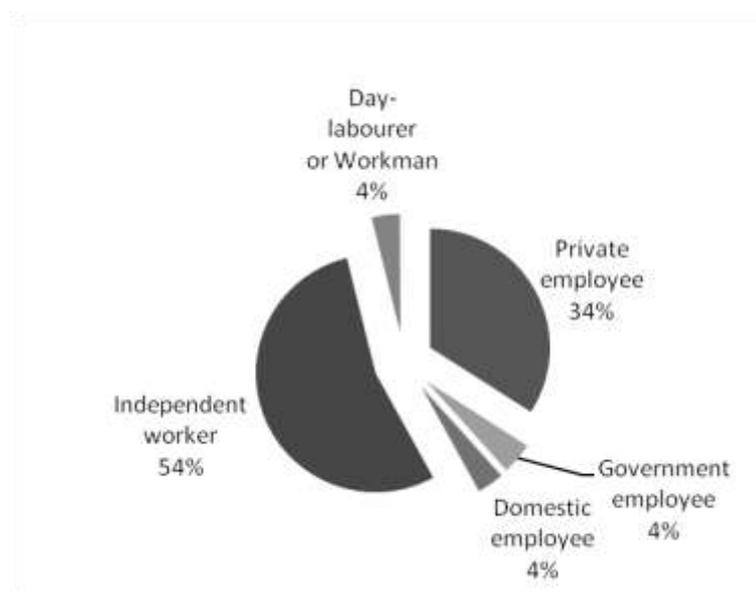
Generally, the health and pensions' subsystems have had the most impact in Colombia, with a number of common features between them. Such subsystems are the most relevant for the purposes of this paper. It is on their basis that we analyse the situation of independent workers, coverage indicators, and the most significant elements of such contributors' coverage.

6.2. Independent work in Colombia

According to the data given by the National Administrative Department of Statistics (2010), in the course of the period December 2009 - February 2010, the total employed population numbered 18,742,208 people, of which around 54 per cent are independent workers, as illustrated in figure 5.

¹ Congress of Colombia. Law n.º 100, of December 23, 1993, which creates the Integral Social Security System, and establishes further provisions.

Figure 5. Colombia: Workers by professional situation, 2009 (percentage)



Source: Drawn up by the author on the basis of the information given by the National Administrative Department of Statistics, 2010.

As figure 5 demonstrates, the percentage of independent workers represents, in relative terms, little over half the total employed workers in Colombia, marking this group as particularly significant in terms of the country's labour dynamics.

Regarding the distribution of independent workers by professional situation, as shown in table 5, below, own-account workers are the most important group (8,158,804 people), followed by employers (952,148 people), unpaid family workers (936,544 people), and finally unpaid workers in other companies (91,545 people).

Table 6. Colombia: Distribution of independent workers, December, 2009

Professional situation	People	%
Self-employed	8 158 804	80.47
Employer	952 149	9.39
Unpaid family worker	936 545	9.24
Unpaid worker in other companies	91 545	0.90
Total	10 139 043	100.00

Source: Drawn up by the author on the basis of the information given by the National Administrative Department of Statistics, 2010.

When analysing total independent workers by urban capital (“cabecera”), it appears that in urban areas or district/province capitals, self-employment has a participation rate of about 72 per cent, whereas in rural areas self-employment accounts for approximately 28 per cent of total independent workers. This conclusion is consistent with the findings of Farné et al. (2008) in their study on independent work and social insurance in Colombia in 2007, which establishes that urban independent work has shown a growing tendency over recent years.

6.3. Social security coverage of independent workers

The registration of independent workers in the social security system has elements in common with the registration of employed workers, such as the requirement for mandatory health and pensions' schemes, and the specific contents of the benefit package, among others. However, it also shows some peculiarities. Table 6 describes the characteristics of the contributory scheme for independent workers in the three main social security systems.

Table 7. Colombia: Registration characteristics by contributory scheme, independent workers

Subsystem	Registration	Basic Contribution Income (RBC) ^{a/}	Contribution rate
Health	Mandatory		12.5%
		Calculated on the basis of declared income and no lower than one national minimum salary b/.	16.0%
Pensions	Mandatory		
Professional hazards	Voluntary	Calculated on the basis of declared income and no lower than two national minimum salaries.	The rate varies depending on the economic activity, on a disabling injuries index, on accidents, and on the occupational health programme.

Source: Drawn up by the author on the basis of current laws.

Note:

a/ The RBC must be declared in advance, in order to settle contributions in February each year.

b/ Health promoters take reference from a presumed income as a minimum basis (calculated according to the level of education, working experience, economic activity, area, and declared assets). Should income supersede such presumed income, contributions are based on the real income.

Regarding the levels of coverage of independent workers and their characteristics, it is important to review the conclusions presented by Farné et al. (2008) in their study on independent workers and social insurance in Colombia in 2007. Among the main observations as regards the structure of independent work and its relation to social insurance, it was found that, in the period under review, around 80 per cent of own-account workers were registered in the health system, whereas in the employers' group this percentage rose to 85.6 per cent. Regarding pensions, the former represented 6.4 per cent of total registrants and the latter 16.4 per cent. Registration in the professional hazards system was lower in both cases, at only 4.6 per cent for own-account workers, and 14.5 per cent for employers.

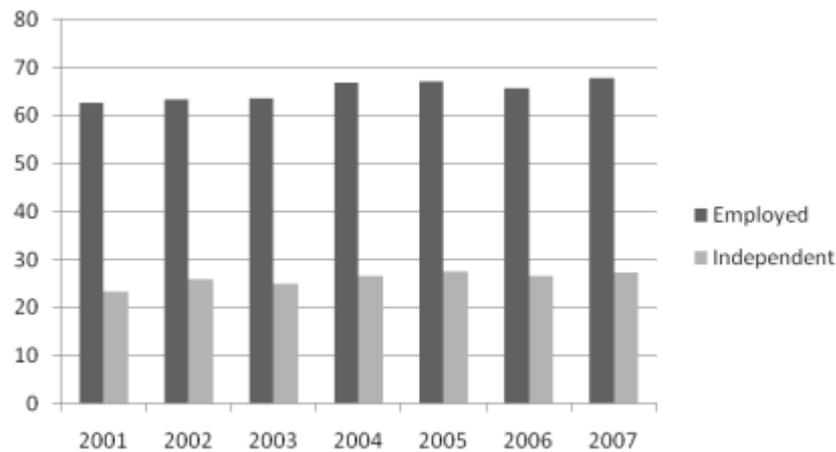
Obviously, independent workers' social coverage indicators are relatively optimistic. However, it is important to mention that many people who declared to be registered in the social security system are in fact registered in the subsidized scheme, as beneficiaries ("contributor's insured relatives")².

² Those registered as beneficiaries include those who in spite of not making any contribution, are nevertheless covered by the General System of Social Security in Health as members of a family household, and due to their kinship to and/or economic dependence on a registered contributor.

In light of the above, it is necessary to analyse the registration of independent workers as contributing workers³. According to data taken from the Survey of Family Households, performed by DANE, the number of independent workers registered in social security as contributors significantly differs from the figures previously presented.

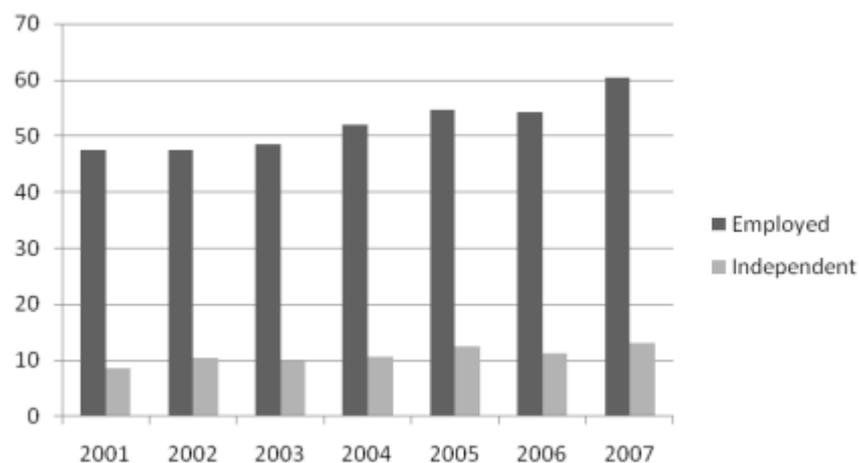
Graphics 3 and 4 illustrate the registration in the health and pensions' systems by Colombian workers as contributors, within the period 2001-2007.

Figure 6. Colombia: Health system contributors, EAP (percentage)



Source: National Administrative Department of Statistics, 2008.

Figure 7. Colombia: Pensions' system contributors, EAP (percentage)



Source: National Administrative Department of Statistics, 2008.

As illustrated in the figures above, 2007 saw a moderate growth of independent workers' coverage in both schemes. Specifically in the case of health coverage, in 2007 it represented 27.3 per cent of the total number of workers in this category, whereas in 2001, it only represented 23.4 per cent. As regards the independent workers' coverage rate in the pensions' scheme, this went from 8.5 per cent in 2001 to 13.1 per cent in 2007.

³ To further analyse the statistics of workers registered in social insurance as contributors, either independent or employed by others, please refer to the paper prepared by Sánchez (2009).

Evidently, there are differences between contributor groups when comparing employed workers (of whom 68 per cent pay health contributions and 60.5 per cent pay pension contributions) and independent workers. This situation may be due to the following factors: 1. the characteristics of the independent workers' scheme, in which it is common to find high levels of tax evasion and fraud in income statements and 2. the fact that the control and supervising mechanisms for employed workers are stricter, including a formal remuneration sheet mechanism to avoid such situations⁴. In view of the above, we may conclude that in spite of the increase in Colombia's coverage of independent workers, when compared with the average for Latin America, the challenge of increasing voluntary contributory registration still prevails.

These workers' coverage rates are relatively positive when compared with those prevailing in other developing countries. This situation may therefore be interpreted as representative of a relative success by the Colombian authorities in this area.

6.4. Innovative mechanisms in independent workers' coverage

The phenomenon of low coverage for independent workers by the social security system, mainly as regards contributory registration, has led to great efforts in order to improve coverage indicators at all levels. In this area, the Colombian government has been developing interesting mechanisms, as well as initiatives to facilitate access to the population's most sensitive sectors, including independent workers.

The following describes the practices which have contributed to improvements in the coverage of independent workers as contributors (for a summary of the innovations, see Annex 1).

6.4.1. Integrated Form for Contribution Settlement (PILA)

The design of this mechanism aimed at facilitating smoother user access to Colombia's social security system.

PILA is an electronic platform which enables the settlement and payment of contributions to the General System of Social Security, both for employees and for independent workers. Among this mechanism's most relevant features, of particular importance is the ability for users to make the payments to several social security subsystems in a unified way, which translates into time saving for users and for the other people involved in the form settlement procedure.

Payment of contributions through PILA is mandatory (Decree 1931, of 2006) for all contributors, which means that this type of payment has consolidated itself by promoting the effective control and supervision of contributors, with the aim of reducing tax evasion.

⁴ The document «Independent Workers and Social Protection in Latin America» (Bertranou, 2009) mentions as obstacles to the registration of independent workers, among others, job insecurity, low contributory capacity, income irregularity, rotation and exchange with formal and informal employed work as well as mistrust of institutions. On the other hand, Farné et al. (2008) mention (as determining factors for the lack of registration by independent workers) restrictions stemming from low income levels, problems with the institutional design of protection systems, and the socio-economic characteristics of individuals.

Another advantage of the system is the “Assisted Form”, through which people without the necessary electronic means (computer and Internet) may settle their contributions by telephone, with the assistance of a human telephone operator.

With this variant of PILA, contributors needing the assisted system communicate with the operators, requesting the settlement of their contributions. Afterwards, the operator registers the data and settles the contributions, giving the contributor/worker a form number or a remuneration sheet number, and a code he must use to make the payment in the financial institution of his convenience, one day after said settlement (and within a maximum term of 5 days).

In this last phase of the PILA (and the Assisted Form) procedure, the payment of the determined settlement may be made in cash, by cheque, debit or credit card, or by any other payment means authorized by the financial entity where payment is to be made, which gives contributors several options to fulfil their obligations.

6.4.2. Single Registry of Contributors (RUC)

This is another feature which facilitates easier supervision and control of the population registered in Colombia's social security system. The Single Registry of Contributors is a tool which enables the cross-referencing of contributory information for workers registered in the various social security subsystems (Health, Pensions, and Professional Hazards), with the aim of detecting irregularities such as contribution payment evasion, levy evasion, and multi-registering, among others. When irregular cases are detected, the information is reported to the competent authorities and different control bodies, so that the information is checked, and the necessary corrective measures are taken, as well as measures to ensure the recovery of the missing resources, when applicable.

6.4.3. Collective Registration

Another advantage provided by the Colombian social security system in registering independent workers is the option of collective registration through associations which group individuals sharing common interests or geographic proximity. This form has only recently been implemented in Colombia, which is why we cannot yet assess its performance. However, it has already shown very satisfactory results in other Latin America countries.

Within the terms of the laws currently in force, the responsibility for paying contributions lies with independent workers. Among its advantages, we highlight the fact that workers collectively registered have the authority and the ability individually to change Health Promoter (EPS), despite that the latter was initially chosen collectively through an association.

It should also be noted that registrations made through cooperatives and pre-cooperatives allow independent workers to have the same access to the services of the social security system as associated workers, and to adopt the obligations and rights usually assigned to employers, before the National Health Superintendence and the management.

6.4.4. Legislative changes in special cases

Lastly, we highlight a distinctive feature of the social security system in Colombia: the inbuilt flexibility in laws governing the registration of independent workers.

The enactment of Law n. ° 100, of 1993, and subsequently of Law n. ° 797, of 2003, determined the framework guidelines for the social security system and its different subsystems. However, many such guidelines were not practicable, and the laws were rigid. In subsequent years, a number of decrees from the Colombian authorities have led to a series of regulatory changes which have significantly favoured independent workers.

Firstly, it was found that the laws according to which independent workers declared their Basic Contribution Income (IBC) only allowed them to make such a declaration in January, preventing them from making any changes throughout the year. This rule was made flexible in order to take into account the productive cycles and variations the economic activity over the course of the year. This enables such workers to make changes to their IBC, and declare it at PILA, according to their individual economic situation.

The greatest benefit of this measure lies in the fact that it allows independent workers to adjust their income. Due to the structural characteristics of their economic activity, they are prone to experience difficult economic situations which may result in the reduction of their income, and consequently of their contributory capacity.

In this vein, we should also highlight another element of the social security registration law which benefits independent workers. The News Report, an information note which may be drafted by independent workers (as well as by employers) allows workers to describe any circumstances partially or permanently affecting the amount to be cancelled at the EPS. With this tool, independent workers have been given an important legal tool which allows them to conform to the law while taking into account any fluctuations which may occur in their economic activity, and which may affect the status of their registration in social security.

Another noted change introduced in Colombian laws is the possibility given to independent workers to contribute to the health scheme with no mandatory requirement to contribute simultaneously to the pensions' scheme, according to their financial situation. This measure was adopted with the purpose of providing individuals lacking contributory capacity to make payments to both subsystems (which are mandatory, as previously mentioned) with the possibility of choosing at least the benefits of the health subsystem.

In conclusion, it is remarkable that in recent years there has been a marked effort to implement legal changes, and that an extensive effort has been made to maintain and extend the contributory coverage of independent workers in the Colombian social security system. It is expected that such changes are reflected in future indicators for this area, and that they may enable significant improvement in the coverage of independent workers.

7. Costa Rica – Best practice in adapting social insurance to independent workers

It is widely acknowledged that job insecurity, income irregularity, a high heterogeneity among groups, a low organization level, a low or null contributory capacity, competitive vulnerability, the permanent struggle for company survival, and mistrust regarding social security institutions are structural features of integrating independent workers into the labour market. Although being external to social security, such features historically hinder the registration of many of these workers in Latin America's social security schemes.

Nevertheless, there is a consensus in the region regarding the fact that the high percentage of independent work which is currently excluded from social security could be significantly lower should the administrative and programmatic configurations, internally established by social security institutions, be better adapted to the needs and characteristics of independent workers, and not respond only to the peculiarities of the modern urban sector's employed workers, which in Latin America are a decreasing minority of the workforce in relative terms.

Given that within the Latin-American context Costa Rica has enjoyed relative success in increasing social security coverage levels for the self-employed population, the below described experience of the Costa Rican Social Insurance Fund, in spite of the challenges it still faces, provides a clear example that, with effort and an innovative spirit, a social security institution make significant progress in what is admittedly a complex procedure of adaptation and inclusion of the groups most in need of social protection. In the path to building socially inclusive societies, which are more cohesive and prosperous, we expect that the experience shared herein may be capitalized upon by other countries as a method to gauge appropriate solutions to respond to the challenge of integrating the large majorities excluded from social security institutions.

7.1. Genesis of best practices of independent workers' social protection

In Costa Rica, independent work is the second most important way of entering the labour market. For every ten active workers, around three work independently¹. According to the national survey made of family households in the year 2009, the population linked to this type of work reached 371,000 people, of which 70.4 per cent (267,000 people) were covered by health social insurance, and enjoyed the same protection scheme applicable to employed workers.

As described below, the lessons of the Costa Rican experience related to this significant level of coverage of independent workers are drawn from a study of the revision of the social security model designed between the 1940s and 2010.

The stated intention of ensuring social protection to independent workers goes back to 1941, when the Costa Rican Social Insurance Fund (CCSS) was created under Law n. ° 17,

¹ This proportion has been relatively stable over the past three decades, a period in which the economy underwent a profound structural transformation, which was marked by the transition from a model based on agro exports and on focusing on few products, to a diversified model directed to the industry, tourist services, and trade, together with a growing participation of women in all professional categories.

establishing the mandatory social insurance format not only for employed workers, but also for independent workers, aiming to protect them against sickness, maternity, disability, old age, and death risks, and instituting a mandatory contribution system for employers, workers, and the State.

Two extremely important additional laws concluded the configuration of the legal and tool platform which forms the basis for the subsequent coverage extension of health ² and disability insurance, and old age and life insurance (IVM):

- Law n. ° 24, of July 2, 1943, established social guarantees as a constitutional right and assigned social insurance management to the CCSS, granting it autonomy for that purpose, and ensuring it as a constitutional principle ³.
- Law n. ° 2738, of May 12, 1961 (Law of Social Insurance Universality), assigning the CCSS the constitutional responsibility of ensuring coverage to the whole of the national population.

It should be noted that the conceptual and ideological basis for the described legal framework covering employed and self-employed workers rests on three principles: solidarity, contributory equity, and State subsidiarity, which in turn rely implicitly on the following four premises:

1. The best way to face a certain type of risk rests with public, universal, solidary, equitable, mandatory insurance.

It is considered that private insurance markets face difficulties related to inaccurate or asymmetric information, which due to a lack of adequate regulation, may be particularly serious in the case of health insurance and of primary health care, which are considered to be an “asset” also positive externalities and be meritorious. In this sense, we argue that market incentives and profitability pressure tend to cause strong market segmentation, and a substantial increase in the cost of health care services.

2. Inconvenience of population segmentation.

From a financial point of view, it is clear that social security, which is directed to the poorer classes, cannot be exclusively financed by the latter. Considering that the rich and the poor are essentially exposed to the same health hazards, a division by income level would leave the social security programme for the poor without financing. On the other hand, in the case of pensions', it would be impossible to ensure the poor with minimum benefits exclusively financed by them. Therefore, we consider that in both cases (health and pensions) a higher level of solidarity is necessary, in order to register the highest possible proportion of the population in the contributory system, and to establish adequate social protection for the poor, and for those who cannot afford the whole of the insurance premium, including independent workers.

² Initially named Sickness and Maternity Insurance.

³ This new legislation eliminates the requirement for mandatory registration for independent workers, establishing the mandatory registration of all employed workers, and a wage ceiling for contributions. As shown below, the Worker Protection Law of 2000 re-establishes the mandatory registration of independent workers.

3. Role of central government in financing the inclusion of the population in the contributory system.

Since independent workers and some of the poor have some contributory capacity enabling them to participate in the co-financing of their insurance, it would be a financial error to exclude them from contributory schemes. Since sooner or later it will be necessary to grant them benefits, it is only logic that they have in some way contributed to finance them. It is also socially wise to do so, since benefits become a right and not a privilege. If only those who may afford the whole of the insurance premium were protected, the system would be reduced to protect the middle class, and some segments of the underprivileged population, which would mean that the majority would lack insurance, their only protection being a non-contributory programme financed by the National Budget, within the affordability of the State. In this sense, it is convenient that the State intervenes to complement the contributions of lower income groups, namely poorer independent workers ⁴.

4. Social effectiveness and financial sustainability.

The fourth premise is related to the social effectiveness of social insurance, perceived as the attainment of a dynamic and rational balance between three core elements: coverage, quality, and cost. In this sense, the fact that health insurance considers that health care is a right and not a commodity does not relieve it from the challenge of establishing a balance between coverage, quality, and cost considered to be adequate and feasible by society ⁵.

Contrarily to what has been observed in other countries, Costa Rica built, relatively early and from such premises and principles, a solid framework, through which it established the constitutional right to social protection, and created the constitutional tool to make such a right effective (CCSS), granting constitutional autonomy to CCSS to manage social insurance (including the possibility of changing the contribution amounts in accordance with actuarial requirements).

These initial conditions were strengthened over almost seven decades, to the point where the health insurance evolved from a “Bismarckian” model, aiming to protect employed workers and their dependent family members, to a universal protection system, with a procedure similar to the procedure followed by most industrialized countries, especially in the Europe.

As an immediate consequence of this universality of Costa Rican social insurance, the protection of independent workers has progressively developed over the years, characterized by several important stages which are summarized in table 7, below.

⁴ This does not exclude a non-contributory Scheme in which the protection of the absolutely poor, lacking all contributory capacity, is exclusively financed by the State.

⁵ This entails that at any moment this balance must be tempered by the necessity of financial sustainability, the latter being perceived as the financial feasibility by the CCSS to provide the future population with the group of benefits currently established on regulatory and programmatic levels; this depends on the fulfilment of the programmatic principles of social security.

Table 8. Costa Rica: Main stages of the procedure of independent workers' coverage

1941	Law n. ° 17 creates the Costa Rican Social Insurance Fund.
1943	Article 65 of the Political Constitution establishes the principle of national solidarity. The Second Law of Social Insurance is enacted, establishing the mandatory registration of all employed workers. The Labour Code is enacted.
1961	Reform of Article 177 of the Political Constitution, establishing the obligation to universalize social insurance and State subsidiarity.
1975	The Board of Directors of the Costa Rican Social Insurance Fund approves the Regulation for extending social insurance to independent workers.
1978	Voluntary registration is regulated: although in 1975 the mandatory registration for independent workers was established, the rule was not applied, and in October, 1978, a new regulation was approved, establishing voluntary registration in the health insurance, and optional registration in the pensions' insurance.
1984	The Collective Insurance Agreements are created, in order to allow social insurance to negotiate collective insurance policies with self-employed workers' Associations, based on a presumed income: it started with the coverage of organized farmers, and rapidly extended to other categories of self-employed workers.
1995	Establishment of the requirement for people who wish to voluntarily register in the health insurance to simultaneously register in the pensions' insurance. Registration in the pensions' insurance has been optional for the voluntarily insured since 1978.
2000	The Law of Worker Protection is enacted. It establishes the mandatory registration in social insurance for independent workers, introducing the scheme of private supplementary pensions (of specific contributions), which are mandatory for the whole of the employed population. Reform of Insurance Law aiming to strengthen the mechanisms of contributory control, and to fight payment evasion and slowness.
2005	Beginning of the mandatory application of the insurance to self-employed workers. The social insurance sets in motion a series of initiatives to extend coverage to employed and self-employed workers.
2010	Entry into force of the General Law on Migrations and Foreigners, establishing the requirement for an insurance by the CCSS for foreigners as a condition for the issuance of permanent or temporary residence permits, or for the granting of a working visa. Registration at the CCSS is also necessary to renew such documents. The renewal must be made every two years by all who have obtained the documents within the terms of that Law. On the other hand, by means of a negotiation procedure between CCSS' Financial Management and the independent workers registered through the Insurance Collective Agreements, such workers agreed to make mandatory contributions to the pensions' scheme.

Source: Adapted from Durán-Valverde, 2009.

7.2. CCSS adaptation to the needs of independent workers

A more detailed analysis of the procedure of including independent workers in CCSS contributory programmes shows that much of the success is due to the important efforts of CCSS to adapt its administrative models and the contents of its programmes to the already mentioned needs of this group of workers. The specific actions adopted for this purpose are the following.

7.2.1. State contribution subsidization inversely proportional to the contributory capacity of each socio-professional group/income

As in many other countries, in Costa Rica independent workers are an extremely heterogeneous group in terms of their integration into the labour market, education, social organization, distribution by economic activity, and income level. Many of them hold

precarious jobs which translate into a low or null contributory capacity for social security programmes. To respond to such structural characteristics, CCSS chose a focus which legally consolidated a mandatory registration scheme, complementing independent workers' contributions with State subsidies. Regarding the latter, the law establishes that "... The difference between the contribution percentage paid by the insured and the total contribution percentage falls upon the State as a complementary contribution. Nevertheless and additionally, the State must make a contribution of 0.25 per cent of the independent workers' contribution bulk."⁶

In this sense, once the total contribution percentage applicable to independent workers is actuarially determined, said percentage is divided between the contributor and the State, such that smaller contributory capacity matches a greater State subsidy, and vice-versa. This contribution rate is determined on the basis of a presumed income table, which in turn is related to the minimum salary. Therefore, as in the case of employed workers, independent workers must also adjust their contribution amount according to the variation in presumed income scales and the minimum salary. This income table is approved by CCSS' Board of Directors, who sets and technically adjusts it according to actuarial recommendations. According to this rule, average income and high income independent workers receive no State subsidy for their contributions.

As shown in table 8, the current income scale has six categories. The first one corresponds to a ¢110,000 Costa Rican Colones (¢110,000) income, equivalent to 53.4 per cent of the minimum salary for unskilled workers (roughly US\$ 197), with an overall contribution rate of 11.0 per cent divided into 3.75 per cent to be borne by the insured, and 7.25 per cent as complementary contribution or State subsidy. On the other hand, independent workers with an income equal to or above 10 minimum salaries must pay the complete overall contribution of 11.0 per cent, and do not benefit from any State subsidy. A similar dynamic is applied to pensions' insurance⁷.

Table 9. Costa Rica: Contributory scale of independent workers by salary range, 2010

Salary range	Contribution percentage					
	Health insurance			Pensions' insurance		
	Contributors	State	Joint	Contributors	State	Joint
110 000	3.75	7.25	11.00	4.25	3.50	7.75
From 110 001 to less than 2 MS	5.50	5.50	11.00	6.00	1.75	7.75
From 2 MS to less than 4 MS	6.25	4.75	11.00	6.25	1.50	7.75
From 4 MS to less than 6 MS	7.25	3.75	11.00	6.50	1.25	7.75
From 6 MS to less than 8 MS	8.25	2.75	11.00	6.75	1.00	7.75
From 8 MS to less than 10 MS	9.50	1.50	11.00	7.25	0.50	7.75
From 10 MS to more than 10 MS	11.00	0.00	11.00	7.75	0.00	7.75

Note: MS is the minimum legal salary for unskilled workers, set at 206,045 colones (US\$ 368.80) in January, 2010.
Source: Caja Costarricense de Seguro Social, 2010.

⁶ As established by the Regulation for the registration of independent workers.

⁷ It should be noted that the contributory table applicable to own-account workers was established according to the registration form: either individual or collective (through Insurance Agreements); however, a single table has been applied since January, 2008.

In view of the above, it is clear that the main innovation of Costa Rican social security as regards the contributory scheme for independent workers lies in a strong State presence in subsidizing contributions for low income workers.

7.2.2. High level of contributory solidarity from employed work

In addition to the important role played by the State in subsidizing the contributions of independent workers with a low contributory capacity, employed workers also play a significant solidary role. The insured “self-employed” amount to 20 per cent of total of registrants in health insurance, and to 14 per cent in pensions' insurance, whereas the contributions paid by this group amount to 4.5 per cent in health, and 6.3 per cent in pensions. In turn, incomes subject to contributions associated with self-employed workers amount to 9.5 per cent of total incomes subject to contributions in health insurance, and to 7 per cent in pensions' insurance, while the presumed income declared by self-employed workers corresponds to 40 per cent of the salary declared by employed workers, which in 2005 was about US\$ 190 per month.

7.2.3. Mandatory contributory registration requirement

The Worker Protection Law, which was passed in 2000, changed the nature of registration for independent workers in social insurance from voluntary to mandatory, establishing a gradual implementation procedure for that purpose. This law subsequently generated three new relevant regulations.

1. A regulation for the registration of independent workers and the voluntary insured in November 2004, established that independent workers must register “... within eight working days subsequent to the start-up date or the acquisition of the company or business”, providing at least the following information: name, personal data, identification number, company name, and worker activity, physical address, telephone numbers, fax, and e-mail address, if applicable.
2. Implementation in March 2005, of a national programme for the registration of independent workers, divided into four stages⁸: a) registration of active physical employers, b) registration of liberal professionals, c) registration of independent workers in other economic activities, and d) registration of independent workers linked to Collective Insurance Agreements by small and medium farmers.
3. Approval by the CCSS Board of Directors of the *Strategy to extend contributory coverage and to control payment deadlines*⁹, in December 2005, which proposed to increase the contributory coverage of employers to an 88 per cent level within a six year period, by incorporating 115,886 micro companies, as well as to increase the contributory coverage of independent workers to a 70 per cent level in 10 years. This strategy was accompanied by a series of actions meant to control the payment deadlines of the employers and independent workers who were incorporated into the

⁸ Upon the agreement of the Board of Directors adopted in Article 8 of Session n. ° 7950, of April 21, 2005, it was decided to leave at the end the mandatory registration in Disability, Old Age and Life Insurances by small and medium farmers insured through collective agreements, in view of the economic vulnerability of this population sector.

⁹ Article 21 of Session n. ° 8019, of December 15, 2005.

system¹⁰. In parallel, the supervising work of the inspector group focused on those economic activities, country areas, and working shifts (day and/or night) with a greater tendency to favour evasion. For that reason, the new hired inspectors are available to work in different shifts, to travel for several weeks to different areas of the country, and to supervise different economic activities.

7.2.4. Collective registration agreements with organizations of producers grouped into associations and cooperatives

It is widely acknowledged that there is a direct link between the workers' organization capacity and the ease of including them in social protection contributory systems. Therefore, the lack of organization of independent workers becomes an obstacle to their coverage. In this sense, the Costa Rican experience of introducing a collective registration model framed within the scheme of "Collective Insurance Agreements" produced surprising contributory coverage results among the independent workers' population of the rural world, especially among female farmers.

This mechanism, which emerged in the 1970s, translates into the possibility for independent workers grouped in organizations, mainly self-managed cooperatives and associations, to endorse Collective Insurance Agreements which cover all of their members. Under this scheme, the organization with which the agreement is signed undertakes to prepare a monthly report, to collect contributions among its associates, and to transfer the latter to social insurance. Textbox 1 in the following page illustrates how this registration mechanism works.

Box 1.

Operating mode of Collective Insurance Agreements with independent workers

The procedure to conclude the Agreement basically consists in a negotiation between the parties, subject to certain regulating conditions established by the CCSS. To initiate the procedure, the interested organization files an application for registration with the regional management or the financial management of the social insurance, together with documentation proving its legal personality and associate number. After the organization is accredited, the negotiation procedure begins. Under no circumstances is the inclusion of employed workers accepted, nor that of workers who do not perform activities consistent with the nature of the organization. On the other hand, the rights of Collective Agreement registrants are the same as those established for employed workers.

A fundamental aspect in negotiating is the determination of the contribution amounts, which are established according to the activities performed by the organization and to the contributory capacity of the associated group, by means of specific presumed income references, instead of ranges. Therefore, several contribution scales are established within the same organization, so that there may be a single contribution for each income scale. Therefore, the organization itself undertakes to integrate every associate into the scale it considers to be more appropriate to his income. This procedure is subject to confirmation by a sampling performed periodically by the inspectors.

The contribution collection and the distribution of documents justifying the rights to the insurance's benefits are made by the organization through the internal channels of its choice. The organization sends a monthly report to the CCSS, together with the respective resources, thus operating as a contribution collector.

¹⁰ The programme comprised the creation over three years, and beginning on 2006, of 247 new positions, 105 for inspectors in charge of employers' mandatory registration, 20 for inspectors reinforcing mandatory registration for independent workers, 5 for platform staff, in charge of independent workers voluntarily choosing to register, and 117 to reinforce the control of payment deadlines (58 for the employers' area, and 59 for the independent workers' area). To complement this allocation of human resources, the programme also considered the financing of the physical, material, and technological resources necessary to implement such a strategy.

Although in the past some agreements with undetermined terms have been signed, a maximum one year term is currently negotiated. During this period, it is not permitted to change the established contributions, even if the Board of Directors changes the contribution scales to be applied to the new affiliated organizations. For this reason, contributions are adjusted annually at the time the agreement is renegotiated.

The agreement may be terminated with a three month notice by any of the parties subscribing it within the one year duration term. The role of the CCSS' Board of Directors in this procedure is to establish general guidelines, to approve the increases in the contribution scales, and to settle force majeure disputes.

Source: Durán-Valverde, 2009.

An essential factor in the success of this model is the sense of ownership on the part of participant organizations, to the point that this collective insurance mechanism also represents a tool for strengthening social cohesion and organizational and political capacity for farmers and other groups organized into cooperatives and associations. In addition, the State participates through subsidizing the contributions paid by these groups.

7.2.5. Contribution portability (with maintenance of rights) between the workers registered as employed and those registered as self-employed, and vice-versa

In view of the irregularity in received income, many independent workers are forced to switch not only between informal activities, but also between informal and formal economy activities. In order to compensate this interchange between employed and self-employed work, either informal or formal, CCSS has generated a mechanism to ensure independent workers portability in their contributions.

7.2.6. Decrease in transaction costs

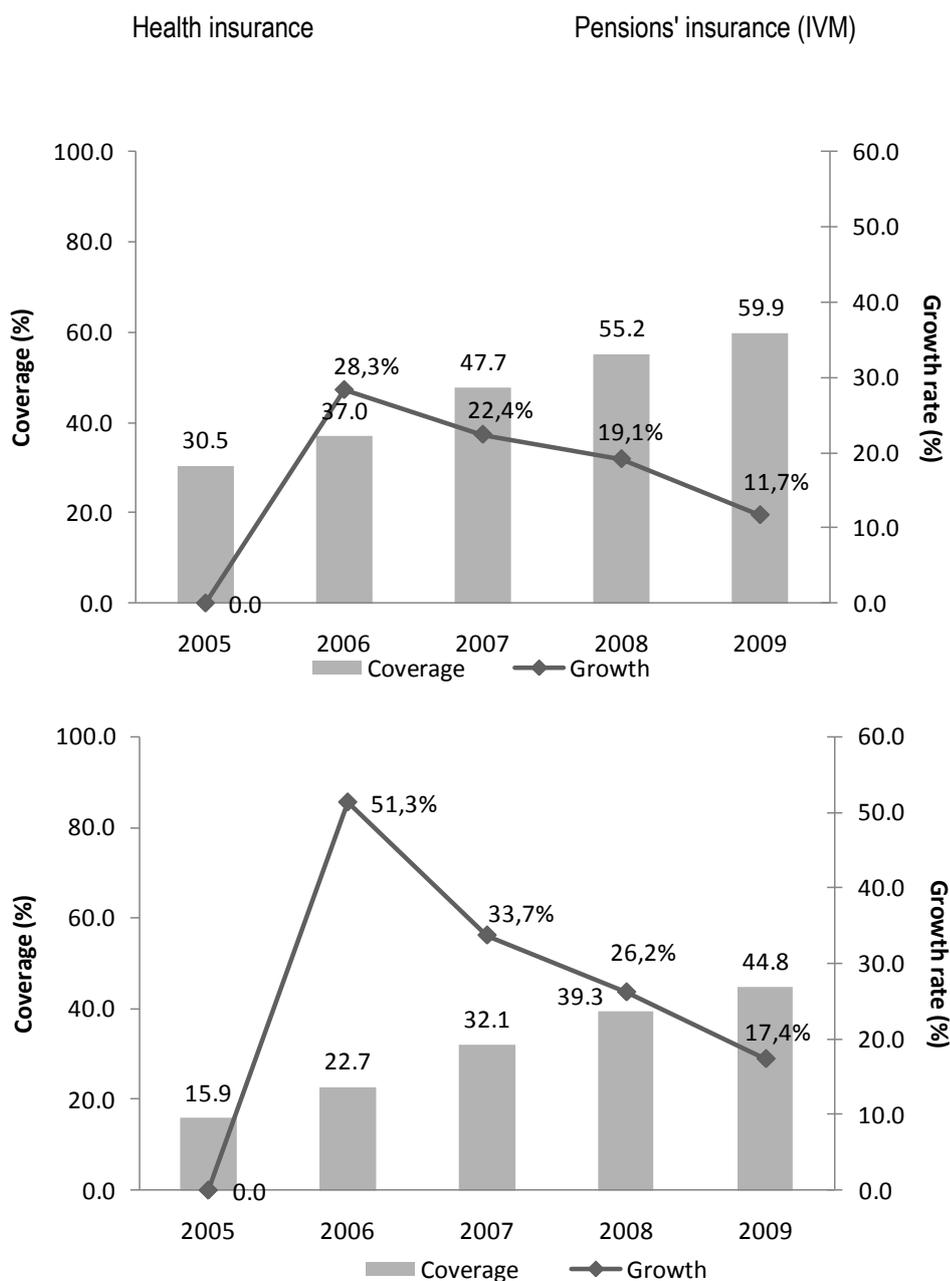
It is known that the nature of independent work entails a perception of the economic world which is completely different from that of employed workers. Therefore, independent workers' relationship with social security institutions is also different.

In its eagerness to register the largest possible number of independent workers in social insurance, CCSS has devised strategies to minimize the transaction costs linked both to contribution payments and access to benefits. The amount to be paid is detailed in a physical invoice which is periodically sent to the registered contributor, and which is a rights' supporting document at the time of accessing health benefits. In turn, the corresponding payment may be made at CCSS facilities, at branches of the national financing system (banks and cooperatives), at commercial establishments such as supermarkets or chemists, or, alternatively, online by debiting checking or savings accounts.

7.3. Challenges

Undoubtedly, the above described aspects (for more details, see Annex 2) reflect CCSS' innovative drive to achieve the registration of more medium and low income independent workers; however, as shown in figure 8, universality of contributory coverage has not been achieved, and remains one of the system's greatest challenges. In the case of health insurance, six out of every ten independent workers with contributory capacity contribute to this insurance, whereas for the Pensions' Insurance (IVM), this proportion falls to about 4. However, the greatest increases in coverage in recent years have occurred in this scheme.

Figure 8. Costa Rica: Independent workers' contributory coverage rate and annual growth by protection scheme, 2005-2009



Source: Actuarial Management, CCSS.

The system must advance even further in adapting to the conditions, needs, and aspirations of independent workers. The following are examples of actions for that purpose: a) to establish either new periodicities for contribution payments, or a level of contributions which varies according to the productive cycles of independent work; b) regarding pensions, to offer differentiated coverage according to the preferences of independent workers, since many of them could be interested in coverage against death and disability, but not against old age. This would be a strategy to further attract such workers into the system, with the final purpose of covering all risks; c) reduction of administrative costs, and d) improvement of investment management.

In short, if on the one hand we acknowledge the progress achieved regarding best social protection practice for independent workers, on the other hand, it is clear that there is still a long way to go.

8. Ecuador - The case of the Peasants' Social Insurance

Social security coverage in Ecuador is characterized by the relative importance of farming in the Ecuadorian labour market, and by the prominent role of the Peasants' Social Insurance (SSC) within the country's social security infrastructure.

This chapter aims at detailing the most important elements of the SSC, which is an innovative mechanism, intended to extend social security coverage to peasants, a group which is traditionally excluded. The first section establishes the main characteristics of the Ecuadorian Institute of Social Security (IESS). The second part analyses Ecuador's farming population, its role within the labour market, and its main coverage indicators, since it is SSC's main beneficiary and *raison d'être*. Lastly, we review the SSC concept through an institutional perspective, with the aim of showing its main characteristics.

8.1. Main characteristics of the Ecuadorian Social Security System

As established in the document *Diagnosis of the social security system in Ecuador* (Durán-Valverde, 2008), the Ecuadorian social security system consists of the following institutions: a) IESS, b) Armed Forces Social Security Institute (ISSFA), and c) National Police Social Security Institute (ISSPOL). These entities generate a group of typical social security programmes in the 9 branches of social security established by ILO's Convention n. ° 102.

The IESS is the country's main social security institution, and it administers the following insurance and short term benefits: Peasants' Social Insurance (health and old age pensions); individual and family health insurance (prevention and recovery), including cash benefits; general work hazards insurance; general insurance for disability, old age, and life pensions; reserve funds; and the unemployment protection Fund, among other short term cash benefits.

Within this portfolio of social protection and insurance, we highlight the SSC.

With the support of ILO, Ecuador's Government is working on a draft social security system reform, which includes protection mechanisms which seek to move towards more universal coverage. The SSC is an essential aspect of the current social security system. This situation was consolidated in the new Political Constitution of Ecuador, in which the Institute and the SSC are the only institutions listed by name.

8.2. Participation of the farming population in the Ecuadorian labour market

The SSC's target population are self-employed farm workers, artisanal fishing workers, and their families. Due to its nature, this population resides in the country's rural areas.

According to the data of the 2005 Survey of Family Households, 48 per cent of working EAP workers is considered to be own-account workers. 42 per cent of all of this category's workers are dedicated to activities of the primary sector of the economy (see table 9).

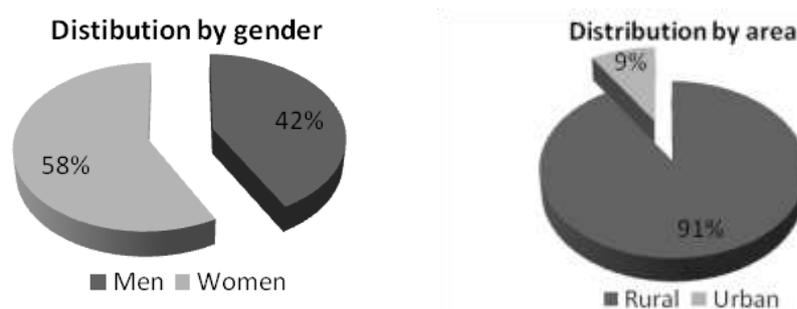
Table 10. Ecuador: Independent workers by sector of activity, 2005

Sector of Activity	People	%
Agriculture, forestry, hunting and fishing	1 221 236	42
Trade, restaurants, and hotels	929 681	32
Construction	87 605	3
Manufacturing industry	271 782	9
Other activities	221 366	8
Community, social, and personal services	152 084	5
Total	2 883 755	100

Source: Instituto Nacional de Estadística y Censos, 2006a.

As shown in figure 9, the population of own-account workers engaged in agricultural activities is predominantly male (58 per cent of farming workers are men). We should also mention the fact that 91 per cent of this population consists of workers in rural areas.

Figure 9. Ecuador: Characteristics of own-account farming workers, 2005

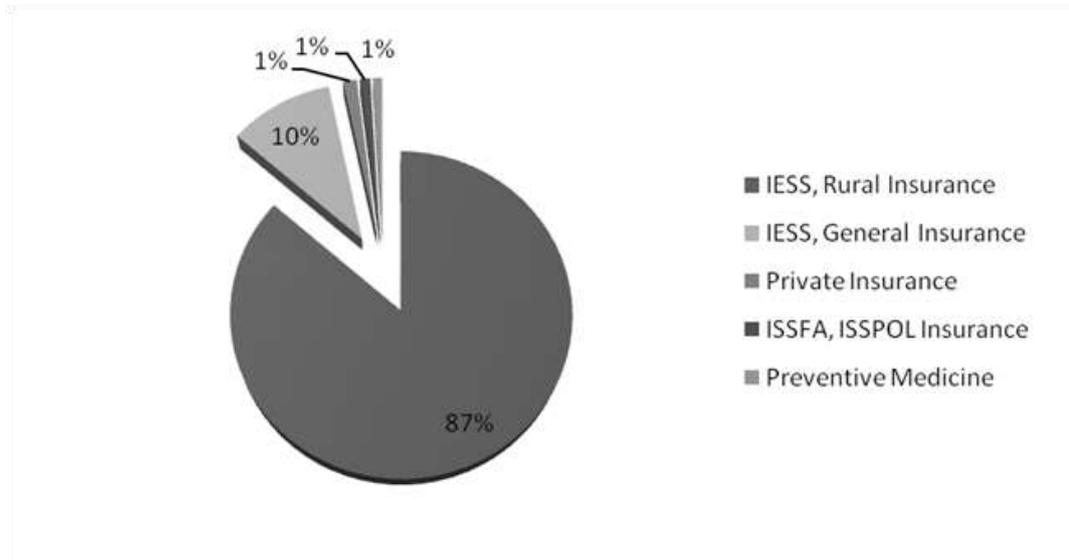


Source: Instituto Nacional de Estadística y Censos, 2006a.

Regarding coverage, most (86 per cent) own-account workers who perform farming activities are not covered by any social security; however, the great majority of farming workers who register in social security do so through the SSC¹. See figure 10.

¹ According to data of the 2005 Survey to Family Households, a total of 262,986 active workers registered in the SSC was recorded. Out of this total, 181,932 belong to the sector of private self-employed workers, and 83% of this universe (151,156) consists of agricultural or farming independent workers.

Figure 10. Ecuador: Coverage of independent farming workers, 2005



Source: Instituto Nacional de Estadística y Censos, 2006a.

8.3. Innovations in Peasants' Social Insurance

SSC is a replacement social security scheme, created with the aim of extending coverage through farming organizations. This aim is expressed in Article 2 of the Social Security Law (2001), which establishes the following:

“... The following are required to request the protection of the Peasants' Social Insurance special scheme: workers dedicated to artisanal fishing and rural inhabitants 'usually' working in the countryside, on their own account or on the account of the community they belong to, who do not receive compensation from a public or private employer, and who do not hire people from outside the community or third parties to perform economic activities under their purview”.

The main elements of this type of insurance are listed in table 10.

Table 11. Ecuador: Main characteristics of the Rural Social Insurance

Application scope	<ul style="list-style-type: none"> ▪ SSC insured or retired head of household. ▪ His/her spouse or cohabiting partner. ▪ His/her dependent children and relatives.
Benefits	<ul style="list-style-type: none"> ▪ Health (promotion, prevention, environmental sanitation and community development); preventive and recovery dental care; care during pregnancy, delivery, and puerperium. ▪ Disability and old age pensions. ▪ Funeral support.

Individual registration:

- Verbal request by the head of household or registrable family member.
- Copy of the identity documents of the head of household and his/her dependents. In the absence of such documents, an original birth certificate must be presented.

Organization Registration:

- Requirements**
- Written request (by an organization representative).
 - The organization must be located in a rural area. It must be active, have a general and permanent nature, and be open. Its mission must be the overall development of the community.
 - Most of its members must express the desire to register.
 - A community diagnosis must be approved by SSC's Insurance and Benefit Supervision Sub-management.
 - Admission must be approved by SSC Management.

Source: Instituto Ecuatoriano de Seguridad Social, 2012.

The SSC's main innovations are listed below.

8.3.1. Focus on rural population coverage

From its beginning, the SSC has been a social insurance option directly targeting the rural population, assuming that national solidarity should be addressed to the most vulnerable population, with the aim of providing solutions for their needs. The SSC is based on the principle of universality, according to which social security must be extended to the whole of the Ecuadorian population.

According to data by Ecuador's *Instituto Nacional de Estadística y Censos* (National Institute of Statistics and Census) (2006b), the SSC is the main social security mechanism for the rural population, which comprises around 4.5 million people. The percentage of SSC registrants is 73 per cent, whereas the second most important insurance mechanism is the IESS general insurance (23 per cent), the remaining 4 per cent being divided among ISSPOL, ISSFA, and other insurance mechanisms.

8.3.2. Highly subsidized financing model

The SSC financing structure is based on the solidarity principle, which is why the registrant's contribution is minimal, when compared to other resources in the financing of insurance. Its financing structure is highly subsidized. It comprises the solidary contributions of employers and of General Mandatory Insurance registrants, both with and without a dependency relationship, the mandatory contribution of public and private insurance integrating the National Social Security System, the contributions of families protected by the Rural Insurance, and the State's contribution.

According to Durán-Valverde (2008), the main SSC contributions established in Articles 5 and 136 of the Social Security Law are the following:

- (1) Solidary contribution borne by employers, calculated on the basis of taxable income (tax base) of those registered in the General Mandatory Insurance scheme, either with or without a dependency relationship, and of voluntary scheme registrants.
- (2) Mandatory contributions by public and private insurances integrating the Social Security National System.

-
- (3) The differentiated contribution of families protected by the Rural Social Insurance, corresponding to 2 per cent and 3 per cent of the portion of the minimum contribution salary of those registered under a dependency relationship.
 - (4) The State's mandatory financial contribution to the General Mandatory Insurance on the tax base of registrants with a dependency relationship, and
 - (5) Other allocations made by the Executive to finance that insurance's solidary benefits, in accordance with the Law's General Regulation.

8.3.3. Important geographic presence and service infrastructure

The SSC is characterized by an integral service structure, through which it has a remarkable regional presence.

Currently, it has 597 dispensaries divided among Ecuador's 24 provinces. These dispensaries are the units through which beneficiaries have access to the health benefits mentioned in table 10.

It is important to mention that when it comes to other types of specialized medical care, registrants may choose to resort to the medical units of the general individual and family health insurance, as well as to other units which have agreements with the IESS.

8.3.4. Management Structure

As previously mentioned, the SSC is a specialized scheme managed by the IESS, although it holds sufficient administrative independence within the national social security management structure. This is particularly useful in that it ensures the support of the authority governing social security.

SSC management is under the responsibility of the management of the Rural Social Insurance. This body's main functions are insurance procedure management, pensions' delivery, health and cash benefits, and acquiring medical care services. Furthermore, as mentioned by Durán-Valverde (2008), SSC rural dispensaries are subject to this insurance's management.

In short, Durán-Valverde (2008, p. 116) indicates that operationally the SSC “is characterized by operating under a model of geographical de-concentration and operative decentralization, under the hierarchy of SSC's Management, which in turn reports to IESS' general management, and must submit its policies and programmes to the approval of that entity's Board of Directors”.

8.3.5. Great importance in the national political scene

Throughout its development, the SSC has adopted a promoting role in building social security which has filtered into other spheres of the Ecuadorian society, facilitating the strengthening of the leadership role of rural organizations in the political arena.

Around the SSC a series of rural organizations and federations were built up, and have come to play lead roles in political representation for people in the rural sector and throughout the country more generally. The numbers involved in the Unified Federation of the Peasants' Social Insurance and of the National Confederation of the Peasants' Social Insurance make these organisations particularly prominent. These two organizations incorporate the great majority of farmers. Other farmers' organizations are also included, such as the National Federation of Rural Organizations, the National Federation of Native

Rural Organizations, the Ecuadorian Native Federation, and the National Federation of Free Ecuadorian Farmers, among others.

These organizations have fought for ideals connected with the SSC, which has included the extension and strengthening of its rights, the need to constitutionalize the scheme, and actions against its privatization, among others. Furthermore, they have taken defensive stand, and tackled many other issues which affect the rural population, such as public sector privatization, land reform, and many other issues vitally important for the sector's development.

In spite of these highlighted achievement, the SSC is affected by a series of factors which indicate that some challenges remain. For instance, registration drives in recent years have not achieved the desired dynamism, and a great number of people living in rural areas remain uninsured. Specifically, registration in the SSC has been losing significance when compared to the growth of the rural population. Diagnosis reports have indicated that there are problems in the information processing and registration systems, as well as in the inspection of registrants and their respective contributions, among others.

The SSC remains a social security bastion in Ecuador. In the year 2009, it accounted for 917,417 protected people, 227,694 families, and a total of 34,729 retirees. On the international stage of initiatives aiming to universalize social security, it is a worthy example to be followed by nations concerned with extending social protection to the most vulnerable groups.

9. Philippines: The use of information technologies in extending coverage

9.1. Introduction

The Philippines has been developing considerable efforts towards extending social insurance coverage, with significant progress, as evidenced by the achieved coverage rates, including those regarding independent workers.

The configuration of the Philippines' social protection system includes the classic components of the social security systems, as well as other non-contributory programmes. Table 11 shows a summary of the system and of the institutions involved in the system.

Table 12. Philippines: Description of the social protection system

Type of scheme	Description	Institutions
Non-contributory scheme (social assistance)	Universal or focused programmes financed by taxes.	Ministry of Social Welfare and Development; Ministry of Health; Ministry of Labour and Employment.
(Mandatory) contributory scheme	<ol style="list-style-type: none"> Established benefit schemes (BD). Managed by public sector institutions. Established contribution schemes (CD). Individual account schemes, with mandatory savings, addressed to some groups of workers. 	<ol style="list-style-type: none"> <i>Government Service Insurance System (GSIS); Social Security System (SSS), AFP-RSBS (military), Philippine Health Insurance Corporation (PHIC).</i> HDMF (Pag-IBIG) and AFP-RSBS as mandatory savings' schemes; GSIS and OWWA as life insurance. 1/
(Voluntary) contributory scheme	Private pension plans, managed by large companies, beyond the GSIS Mutual Fund.	

Notes: 1/ EI HDMF is a savings and housing body. It relies on several loan programmes for its members.

Source: Drawn up on the basis of Orbeta and Manasan (2012).

The Government Service Insurance System (GSIS) and the Social Security System (SSS) are the main institutions managing social security. The former manages the protection of civil servants, and the latter manages the protection of private sector workers. Social insurance registration is mandatory.

Both institutions offer protection against a variety of contingencies, with the exception of health, since in 1997 that responsibility was transferred to the Philippine Health Insurance Corporation (PHIC).

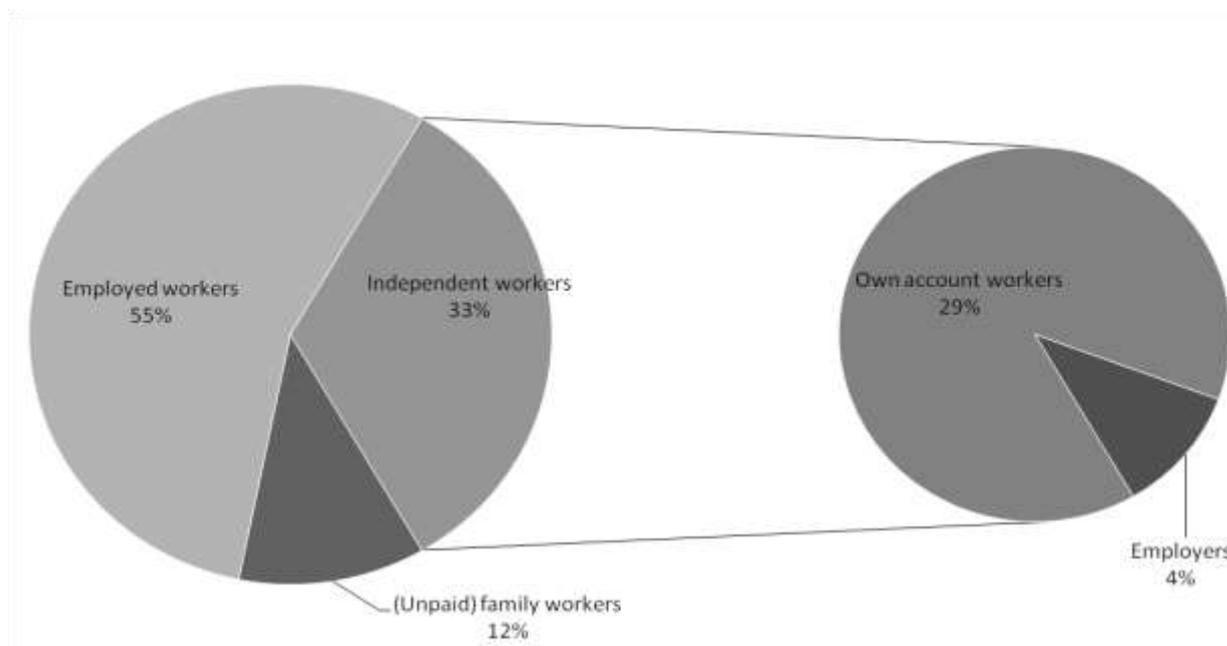
This section summarises the efforts developed by the SSS to extend social security coverage to independent workers. Firstly, we present some general information, and subsequently we highlight some of the characteristics and innovations which allowed to encourage the registration of independent workers in social insurance.

9.2. Independent workers in the Philippines

According to the information published by the Department of Labour and Employment (DOLE) for 2011, the working economically active population in the

Philippines amounted to approximately 37.1 million people ¹, of which around 33 per cent were own account workers, i.e. around 12.3 million.

Figure 11. Philippines: Composition of the labour market according to occupational categories. 2012



Source: Drawn up on the basis of DOLE (2012).

As one may see, nearly half of the working Philippine EAP falls within the category of self-employed workers, with a strong prevalence of micro-companies: approximately 81 per cent of the productive units have 1-4 employees, and around 92 per cent have less than 10 workers. This situation is a major challenge for the Philippines' social security, given the known relation between company size and informality level.

Until 2012, the Philippine labour market was focused on the service sector, which included around 53 per cent of the working EAP; the agricultural sector included 32 per cent, and the remainder of such population was located in the industry sector. As usually happens with transitions to a normal economy, employment in the Philippine agricultural sector has been decreasing its participation in the labour market when compared to the 1990's; there has been a relative participation transfer of employment to the service sector (DOLE, 2012).

9.3. Social Security for independent workers

The Social Security System (SSS) was established by the Social Security Law (1954), and began operating in 1957, covering private sector workers ².

¹ According to the United Nations Population Division, in 2012 there were around 96.4 million people in the Philippines.

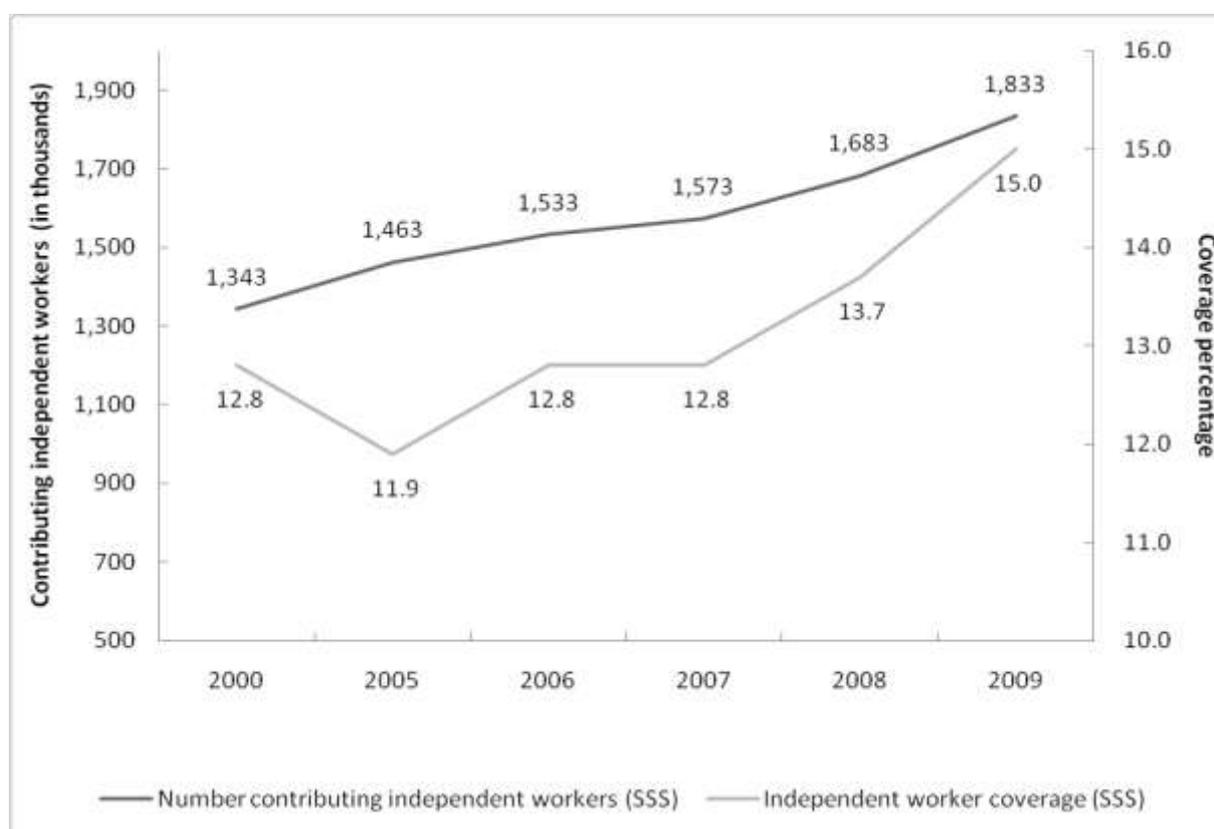
² The SSS is controlled by the Social Security Commission, which is composed by workers' representatives, and chaired by the Secretary of the Department of Labour and Employment.

Since 1980, the SSS has been gradually incorporating independent workers into its legal coverage. Currently, coverage is mandatory for independent professionals, business owners, farmers, fishermen, (independent) arts professionals, professional athletes, street vendors, and others (Mahidol Migration Centre et al., 2011). Such a requirement for mandatory registration is in itself an innovation when compared to other countries in Southeast Asia, where social insurance registration is voluntary.

The benefits provided for independent workers are established in the Social Security Programme (SS), and include maternity, disability, old age, and death services, as well as burial benefits. Furthermore, the SSS has an additional programme called the Employee's Compensation Program (CE), the benefits of which are limited to employed workers³.

Regarding the extension of coverage to independent workers, up until 2009 the SSS had incorporated approximately 15 per cent of the independent EAP, which translated into 1.8 million covered workers. Figure 12 displays information on the evolution of coverage rates⁴.

Figure 12. Philippines: Independent workers, active social insurance contributors (in thousands), and SSS coverage percentage. 2000-2009



Source: Drawn up on the basis of Orbeta (2011:30).

³ Benefits include a double compensation for workers who have suffered from contingencies such as sickness, death, and working accidents. To access such benefits, employers pay an additional 10 Philippine peso (10 PhP) per month, with some exceptions.

⁴ The total SSS coverage registered in 2009 amounted to around 28.5 per cent of the working EAP, excluding civil servants. This percentage translates into around 8.6 million active contributors, although this population should be added with around 197 thousand contributors of the Overseas Filipino Workers scheme (OFW).

Between 2000 and 2009, the coverage of independent workers increased about 36 per cent, although with a relatively irregular tendency in the last years (Orbeta, 2011). Similarly to other social security systems operating in developing countries, coverage is mainly centred in men, who represent approximately 60 per cent of all active contributors.

Until 2012, there were around 4.4 million independent workers registered in the institution, which shows a significant effort towards increasing registration in the programme.

9.4. Mechanisms to extend coverage to independent workers

In the last years, the Social Security System (SSS) has been making efforts to broaden the contributory coverage of independent workers, and has had some impact on informal economy workers.

We should point out the efforts developed by the Philippine social security administration to introduce innovations, particularly administrative innovations, as regards coverage extension. Such innovations include the following:

- Differentiation of income categories;
- Intensive use of information and communication technologies: identity card for registrants; information and self-service/service terminals; and a web platform for member use;
- Subscription of covenants with banking institutions to facilitate contribution payment;
- Access to personal loans and other benefits.

The above mentioned innovations are briefly described below.

(a) Application of income categories

According to the legislation in force, independent workers must mandatorily contribute to the SSS, provided they are under 60 years of age, and have a monthly income over PhP 1,000 Philippine peso (PhP 1,000, around US\$ 23. 2)⁵. In the specific case of farmers and fishermen, the minimum contribution income is PHP 1,500.

The programme contribution rate is uniform, with a value of 10.4 per cent⁶. However, the calculation of contributions to the SSS is made using a contributory scale based upon 29 categories or income ranges; but to each income category there is a uniform income or salary subject to a contribution.

For instance, the first income category, i.e. the lowest, is established between PHP 1,000 and PHP 1,249, with an associated taxable uniform income of PHP 1,000. When considering the different contributory categories, the monthly contributions of independent workers lie between PHP 104 (around US\$ 2.4) and PHP 1,560 (around US\$ 37.4).

⁵ For the exchange rate of PHP 41,5 per dollar in June 2013.

⁶ This contribution rate equals the rate applied to employed workers. In this case, workers contribute with 3.33 per cent, and employers contribute with 7.07 per cent, according to reference salaries.

Although the same contributory scale is used for all registrants, the possibility to perform minimum and maximum contributions creates an incentive to independent workers' registration. We should highlight the fact that benefits received by own account workers are equivalent to those received by employed workers, except as regards the advantages the latter may obtain through the Employee's Compensation (CE) programme.

(b) Use of information and communication technologies

In managing social security institutions, the use of information and communication technologies is an extremely powerful tool which generally allows to increase information efficiency, effectiveness, and quality. The Philippine case is an example thereof.

In this sense, the SSS introduced three innovations, namely: firstly, the handing of smart cards to registrants and programme beneficiaries; secondly, the installation of Self Service Information Terminals (SS IT); and thirdly, the use of a web platform with free access to the Institution's registrants.

Smart cards. Since 2005, the main social security institutions, namely SSS, GSIS, Pag-Ibig, and PhilHealth, put into service a multifunction unified card (Unified Multi-Purpose ID - UMID); it is a smart card allowing storing information and performing transactions in the several institutions of the system. All programme insured and beneficiaries have the card, whose goals are the following: to identify social protection participants, to facilitate the implementation of procedures, and to facilitate monitoring in order to further fraud fighting.

It is believed that the use of smart cards has improved coordination between social protection programmes as regards information, although there is a certain consensus as to further reinforcing the scope of such an initiative.

In the case of the SSS, all workers making at least one monthly contribution have the right to a UMID. During the registration procedure, the worker is required to provide his facial image and fingerprints, in addition to his personal data.

Since 1998, both the insured and the beneficiaries of the SSS hold the Social Security Scheme's identity card, also called "SSS Card", which facilitates the management of administrative procedures, among other things, and has allowed to improve management transparency (ISSA, 2009).

Due to its characteristics, the SSS card is an essential tool for contributory control, mainly for independent workers. Furthermore, there is evidence of its establishment reducing the operational risk undertaken by the Institute.

Self-service information terminals (SSIT). From 1999 onwards, the SSS placed Self-Service terminals (SSIT) in different parts of the country; they consist of touchscreen machines, designed with a user-friendly interface.

The use of the SSS card allows registrants the possibility to obtain information on contribution payment, balance, and other information on existing loans, as well as to perform other operations in the institution (ISSA, 2009).

With the application of such a technology, and in addition of offering a service to its members, the SSS may use it for advertising, since the machines hold the capacity to display signs and electronic alert (Social Security System, 2008). Furthermore, the terminals are used to perform searches on different themes regarding the services provided by the institutions, i.e. it allows gathering information on registrants at a low cost.

The SSS has been promoting the extensive use of terminals, mainly after a study which revealed that 36 per cent of member consultations and requests could be formalized through the SSIT (Social Security System, 2008).

Web platform. In the last years, the SSS has been using information systems as a tool to improve communication and transparency levels; a specific example of just that is the implementation of a web platform named My.SSS, which is accessible to all registrants.

My.SSS service is a free platform, designed so that registrants may view information on administrative records, and even make contribution payments through an online connection to the banks. Therefore, the members of this service may view registration details, SSS ID card numbers, input history, information on all received benefits, and balance history of requested loans, among others. Furthermore, users may use the web platform to process personal loans.

The service also provides a forum supervised by institution employees, through which members may get clarification on specific procedures, as well as discuss issues related to the institution.

Furthermore, it should be mentioned that a great part of the information members access through such platform may be obtained through automated telephone support provided by the SSS (Social Security System, 2009). This service is free of charge and makes it possible to access information at a low cost for people who, for whatever reason, do not use the Internet or live in areas with no access to information technologies.

(c) Facilities of payment through the banking system

In the last years, the SSS has entered into agreements with local banks, with the purpose of facilitating contribution payment management to workers and employers, therefore reducing the registrants' transaction costs. It seems reasonable that the greatest positive impact of such a measure is observed in independent workers.

The incorporation of such agreements has allowed to extend the institution's administrative capacities, as well as to generate economies of scale through the use of the banks' service platform. With such a measure, the SSS transferred collection management to the banks, and generates efficiency.

The SSS also developed the Auto-Debit Arrangement system (ADA), which allows affiliates to register voluntarily, with the purpose of making the automatic payment of contributions, and other commitments with the institution, such as the payment of debts on loans (Ortega, 2006).

Affiliates may voluntarily register in any of the banks offering the service. The purpose is to allow the bank to make automatic monthly debits in the savings account or the checking account, and therefore transfer such funds to the SSS to pay social security contributions. Registration in the system may be made online in most banks.

With this measure, the SSS aims at reducing non-payment or delay fees, since the bank debit takes place in the day of payment. Furthermore, the development of the ADA system allows to reduce the transaction costs workers must bear to induce the monthly payment of their contributions to social security.

(d) Affiliates' access to loans

The SSS has been developing programmes which go beyond social protection benefit providing. The institution has created several short term and long term loan programmes for registered workers.

Due to the provided facilities, low interest rates, and reduced number of requirements, independent workers mainly choose short term loans.

Salary loans are the short term option the Institution offers to the insured. Until 2012, around 1.3 million loans had been offered to different types of workers, including independent workers. Each accepted loan must be paid within the maximum term of 24 months.

The ability to access short term loans in favourable conditions is definitely a very attractive innovative element, especially when considering the corporate behaviour characterising independent workers.

10. France – Social security coverage of independent workers in the schemes RSI and MSA

The French social security system is the result of years of development. The first means of coverage appeared in the nineteenth century with mutual insurance funds (sociétés de secours mutuel) and social insurance institutions created by big companies. Their development was even more pronounced with the official recognition of mutual insurance funds on March 28, 1852. The law of April 1, 1898 further helped their development, providing them with full support from the government. In parallel, mechanisms of social assistance for indigents appeared from the French revolution onward, but with very limited scope and resources.

Inspired by the Bismarkian experience, several attempts to impose social insurance mechanisms were developed at the beginning of the twentieth century. However, the construction of a coordinated and complete social security system started in 1945 with the ratification of 4 and 19 October orders. These orders, partly inspired by the Beveridge measures introduced in the United Kingdom, established a wide system of mandatory insurance for pensions, health, and other provident schemes, integrating the entities that already existed (social insurance institutions, mutual insurance fund). The pre-existing structures were maintained as well as the organisation by professional branches, which resulted in a diversity of interlocutors and schemes coexisting within the over-arching social security system.

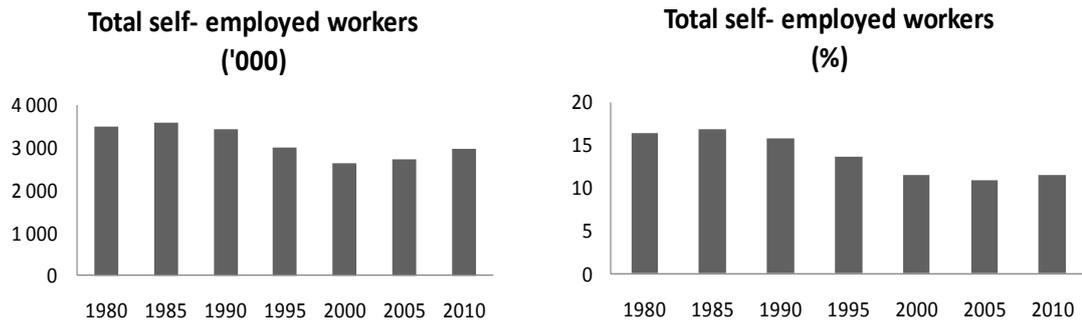
10.1. Independent workers in France

As in many countries, levels of social protection (in terms of levels of benefits and extent of risk coverage) remained lower for independent and agricultural workers for various reasons. In France, independent workers' professional organisations were reluctant to cooperate with a state-coordinated centralized system. As detailed below, several schemes and institutions were in charge of independent workers and it is only recently that both schemes and institutions have come together, pushed by new demands related to greater professional mobility and pressure on institutions' cost efficiency.

In France, independent workers have decreased steadily over the past 30 years as illustrated in figure 11. As far as coverage is concerned, all registered independent workers are covered by social security and actively contribute¹, no data is available regarding informal independent workers as of today.

¹ In France commercial registries, tax registries and social security schemes communicate in order to ensure that all registered independent workers pay taxes and social security contributions.

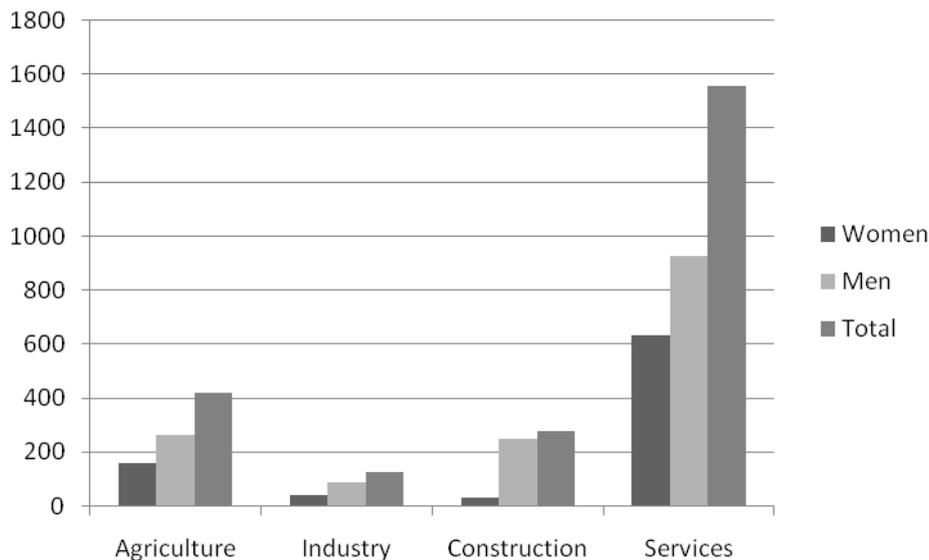
Figure 13. France: Total self-employed workers in France in absolute number and in proportion of total employment (1980-2010)



Source: Drawn up by the author on the basis of ILO data (Key Indicators of the Labour Market), 2011b.

Independent workers represented 11.6 per cent of the active population in 2011 (ILO, 2011b) and worked mainly in services. As shown below, the number of men is higher than the number of women, who represent 36 per cent of independent workers and are almost absent from the industrial and construction sectors (Institut national de la statistique et des études économiques, 2012).

Figure 14. France: Independent workers in France, by sector of activity and by gender in 2011



Source: Drawn up by the author Elaborated on the basis of INSEE data, 2012.

The last statistical study specifically on independent workers by the national institute of statistics (INSEE) in 2002 showed that the average revenue of independent workers was a little over €30,000 a year. Still, it also underlined important disparities depending on sector of activity. For instance, independent workers in the liberal professions enjoy an average revenue over €54,000 whereas those working in agriculture make just over €14,000 a year.

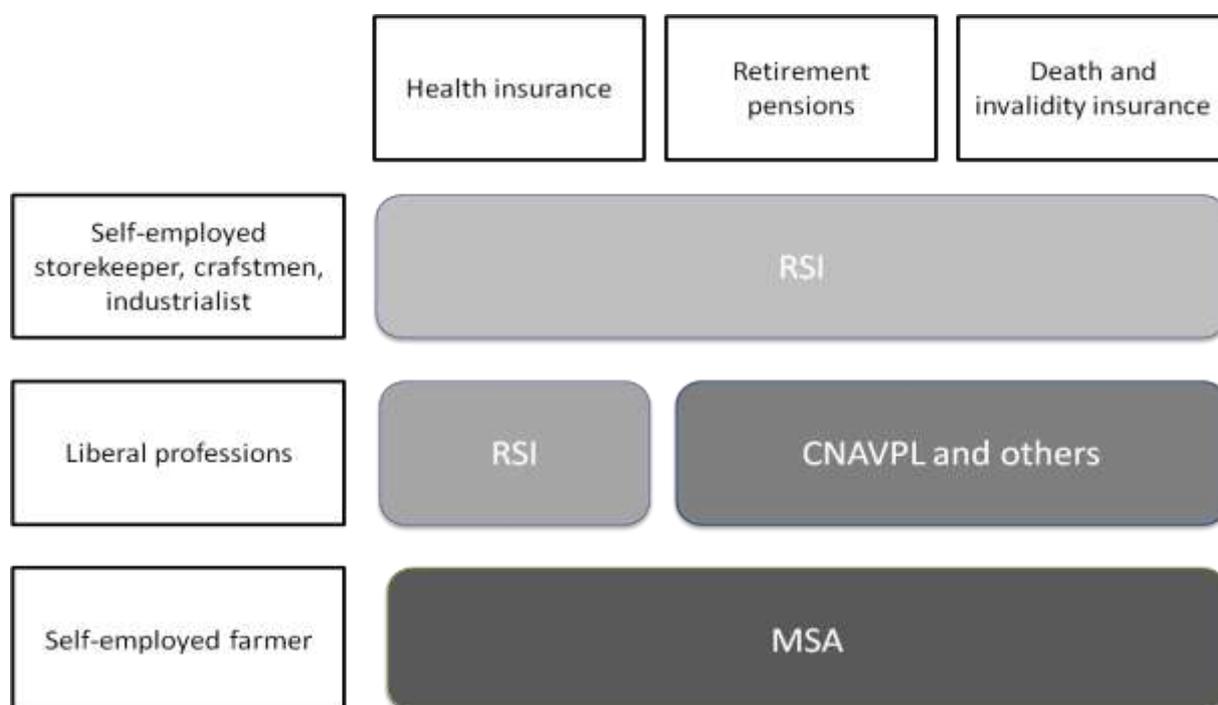
10.2. Social Protection Schemes

In France, independent workers fall into different categories which correspond to different social security schemes and institutions:

- (a) Self-employed shopkeepers, craftsmen and industrialists (*commerçants, artisans et industriels*)², are covered by a unique social protection regime, the Régime Social des Indépendants (RSI).
- (b) Liberal professions (*professions libérales*) are covered by the RSI for health insurance and by various schemes (depending on the sector of activity) for pension and provident schemes.
- (c) Self-employed farmers (*agriculteur exploitant /chef d'exploitation*) are covered by the Mutuelle Sociale Agricole (MSA) for health, pension and provident schemes.

Non paid workers are covered either by relatives' schemes or by non-contributory schemes in France, since they are not considered independent workers. Any self-employed person who declared his or her revenues falls into one of the above categories depending of the nature of his or her activities (including non-salaried paid domestic work, etc.).

Figure 15. France: Social protection schemes for independent workers in France, 2012



Source: Drawn up by the author on the basis of institutional activity report of Caisse Nationale RSI, 2011b and MSA, 2012b.

This paper concentrates on the RSI and MSA schemes since they cover the majority of French independent workers and since the situation of liberal professions in France is unique and therefore not usefully transferable to other settings.

(a) Social Scheme of Independents (Régime Social des Indépendants - RSI)

The RSI was created in 2005³ and merged three existing insurance funds: the CANAM, the ORGANIC and the CANCAVA⁴ and their respective networks. It covers the following target population:

² NT: In France professionals such as the baker, the butcher, the shoemaker are considered entrepreneurs of micro and small enterprises (artisans).

-
- Self-employed craftsmen registered at the “registre des métiers” (specific registry for craft activities).
 - Self-employed people working in industry and trade registered at the “registre du commerce et des sociétés” (registry for trade and companies).
 - Some other self-employed people working in specific services professions, (such as commercial agents, head of private education institutions, etc.) registered as independent businesses.
 - Liberal professions for health insurance only (such as architects, lawyers, doctors, etc.)⁵.
 - Self-employed of the two first categories’ spouse who decided to be registered as “conjoint collaborateur” (spouse who also work for the business as a non-salaried worker).
 - Auto-entrepreneurs (see details below).

For this target population, affiliation to the RSI is mandatory. The RSI has a representative structure and ensures affiliation, contribution collection, benefit provision and preventive medical actions in favour of affiliated members. In 2010, the RSI had 2.5 million contributors (of whom three quarters were men), it covered 3.9 million people for health insurance for a total of 6.8 billion euros and provides pensions to 2 million people for a total of 8.3 billion euros.

(b) Social Agricultural Mutual Fund (Mutualité Sociale Agricole - MSA)

The MSA was created in 1900 as a form of mutual insurance for people working in agriculture, including both non-salaried and salaried workers. The MSA was very close to farmers’ unions at the time and maintained an exclusively rural focus (for instance, contrary to other mutual insurances, it never opened to other types of memberships). This specific identity was in keeping with, and continues to fit to some extent today, farmers’ needs and identity.

When the social security system was created in 1945, the MSA was put in charge of the management of farmers’ social security, which remained fairly independent and distinct from the rest of the social security system. Farmers in France, along with other independent workers to some extent, were reluctant to adopt a centralized, state-coordinated social security system, believing at the time that private insurance was the most effective way of ensuring coverage and that state intervention would result in a rise in social taxes with no real or perceived increase in benefits. This situation explains why the independent farmers’ scheme took some time to become harmonized with the other social protection schemes.

The MSA protected more than 1.6 million people through the non-salaried scheme in 2011, including 28% active contributors, 53 per cent retired farmers and 19 per cent of

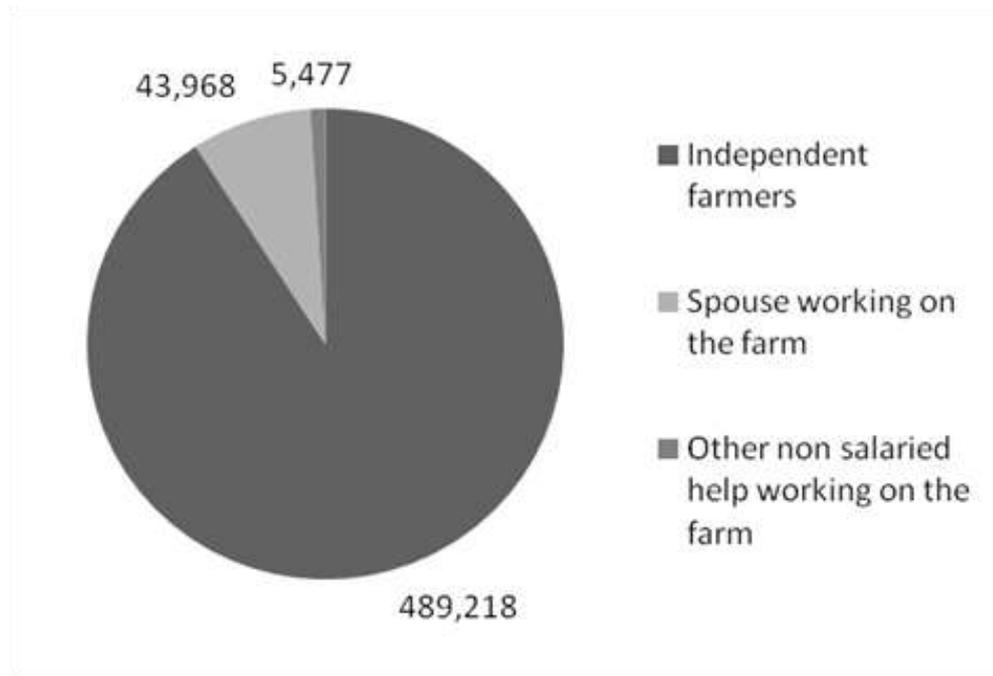
³ Ordonnance n°2005-1528, December 8th, 2005.

⁴ Respectively: Caisse nationale d’assurance maladie des professions indépendantes (CANAM); Organisation autonome nationale de l’industrie et du commerce (ORGANIC); Caisse nationale d’assurance vieillesse des artisans (CANCVA).

⁵ Registered and affiliated to the appropriate pension funds.

dependents (dependent spouse and children). It distributed pensions to over 1.6 million members of the non-salaried scheme ⁶. The MSA independent farmer scheme counts over 500,000 contributors, as demonstrated in figure 14.

Figure 16. France: Contributors to the MSA non-salaried scheme, 2011



Source: Drawn up by the author on the basis of MSA data, 2012a.

The MSA is a truly unique organization, clearly distinct from other social security institutions in France. Since the central organ is a mutual insurance directed by its members and not a public institution, regional entities enjoy a high level of autonomy; the whole system is much more decentralized than other social security institutions. For instance, medical control does not have a central unit, it is fully decentralized in the regions. However, as have many social security institutions in France, the MSA has undergone a series of concentration measures and resource reallocations in order to become more cost effective.

⁶ Including people who are not protected by the MSA for health and other risks since they chose a private insurer, which explains the difference between the number of retired protected by the MSA and the number of pensioned.

10.3. Innovations for independent workers' social protection

10.3.1. *Towards adapted benefit packages*

Following a trend of progressive harmonization of the various French social protection schemes, the benefit packages offered by the RSI are close to the salaried workers packages⁷. For instance, pension calculation is the same as well as average pension level. Since 2004, the complementary pension scheme is mandatory, thus increasing the level of pensions that had previously generally been lower than the one enjoyed by salaried workers. Healthcare benefits are the same for both independents and salaried workers, but paid sick leave remains different to some extent.

To this day, specific rules apply for independent farmers. For instance, insurance schemes are mandatory for health, pensions, disability and death and work injury, but independent farmers have the freedom to elect their provider for health and employment injury, that can be different from the MSA. It means that private and mutual insurers can provide those schemes. This situation is unique in France where affiliation and contributions are mandatory, regulated depending on the profession, and have to be done in the assigned social security institution. For the rest of the population, free choice of insurance provider applies only for supplementary insurance and, sometimes, complementary insurance.

As far as independent farmers are concerned, benefits are progressively getting closer to the general schemes for salaried and other non-salaried workers. For instance, health benefits, family allowances and work injury schemes are aligned with the other schemes. Paid sick leave and invalidity pension remain low, which is partly due to a different way of perceiving those risks by farmers (and thus a low willingness to pay for coverage). Hence, paid sick leave and disability pensions are perceived as remote by independent farmers and, especially for paid sick leave, less necessary than other guarantees⁸.

10.3.2. *Differentiated contributions and financing mechanisms*

For the RSI scheme, contributions are calculated depending on revenues, on a progressive basis, and as follow.

⁷ In France, to the exception of health insurance (excluding paid sick leave), benefit packages are negotiated by branches of activity, thus package content can vary between salaried workers in different sectors.

⁸ Some argue that since the farm can still function for some time when the farmer is sick thanks to family solidarity for example, farmers value paid sick leave less, and thus farmers unions are reluctant to accept mandatory coverage when negotiating with the State. It is also important to underline the complexity of actual implementation of paid sick leave to independent workers (controls, etc.).

Table 13. France: Calculation of contributions for RSI

Type of contribution	Base	Rate (%)
Health and maternity	Up to € 36 372	0.6
	Up to € 181 860	5.9
Paid sick leave	Up to € 181 860	0.7
Pension – base	Up to € 36 372	16.65
Pension – complementary	Up to € 35 876	7.2
Pension - complementary for craftsmen	Between € 35,876 and € 145 488	7.6
Pension - complementary for industry and trade	Up to € 109 116	6.5
Pension for Invalidity – death for craftsmen	Up to € 36 372	1.8
Pension for Invalidity – death for industry and trade	Up to € 36 372	1.3
Family allowances	Total professional revenues	5.4
CSG - CRDS*	Total professional revenues	8.0
Vocational training	€ 36 372	0.15

Note: * General taxes directly affected to social security schemes that experience imbalances.

Source: Drawn up by the author on the basis of Caisse nationale RSI data, 2011a.

In total, these contributions are not as high as social security contributions for salaried workers, however, one must keep in mind that contributions for salaried workers are shared between the employer and the employee. As a consequence, the weight on the individual is higher for independent workers. One major difference is also the fact that most salaried workers in France enjoy supplementary insurance, often negotiated and partly paid by their employers, for health and provident plans. In order to reduce out-of-pocket payment for healthcare services and to ensure higher levels of protection for other risks, the French government decided to develop a series of incentives for independent workers to get supplementary coverage. The Madelin regulation⁹ allows independent workers to get tax reduction whenever they subscribe for specific supplementary insurance contracts developed by insurers following specific guidelines.

For independent farmers, pension calculation and contribution rates remain very distinct from the other schemes, even though many reforms have led to an increased equalization of pension levels, especially through the introduction of a mandatory complementary pension scheme in 2002 (several decades after its extension to other sectors of activity). This is related to the fact that the basis for contributions calculations for independent farmers is very different from other schemes. Indeed, they have several options for the base revenue used for social contribution calculation. These include several options of fixed sum based on regional averages (linked to options of revenue evaluation

⁹ «La loi n° 94-126 du 11 février 1994 dite «loi Madelin», reprise par l'article 154 bis du code général des impôts, permet au travailleur non salarié (TNS) de déduire de son revenu imposable les cotisations versées au titre d'un contrat Madelin, afin de se constituer une retraite complémentaire, de s'assurer au travers d'un contrat prévoyance (incapacité de travail, invalidité, décès), d'un contrat mutuelle (complémentaire santé) ou de garantie chômage.» («The Law n° 94-126 of 11 February 1994 'Loi Madelin', adopted by Article 154 bis of the General Tax Code, allows the self-employed (TNS) to deduct from taxable income contributions under a contract Madelin, in order to provide a supplementary pension or other benefits under a provident insurance contract (for incapacity, disability or death insurance), a mutual agreement (complementary health insurance) or unemployment guarantee.»), <http://www.loimadelin.com>.

on the basis of average revenue per acre) and the option of taking for real revenue as the base (though is still marginally used)¹⁰. Then, the contribution rates are as follows:

Table 14. France: Contribution rates, 2011

Type of contribution	Rate (%)
Health and maternity – base	10.84
Pension – base	16.01
Pension – complementary	3
Work injury	Fixed sum (~€ 300)
Family allowances	5.4
CSG – CRDS	8

Source: Drawn up by the author on the basis of Ministère de l'Agriculture, 2011.

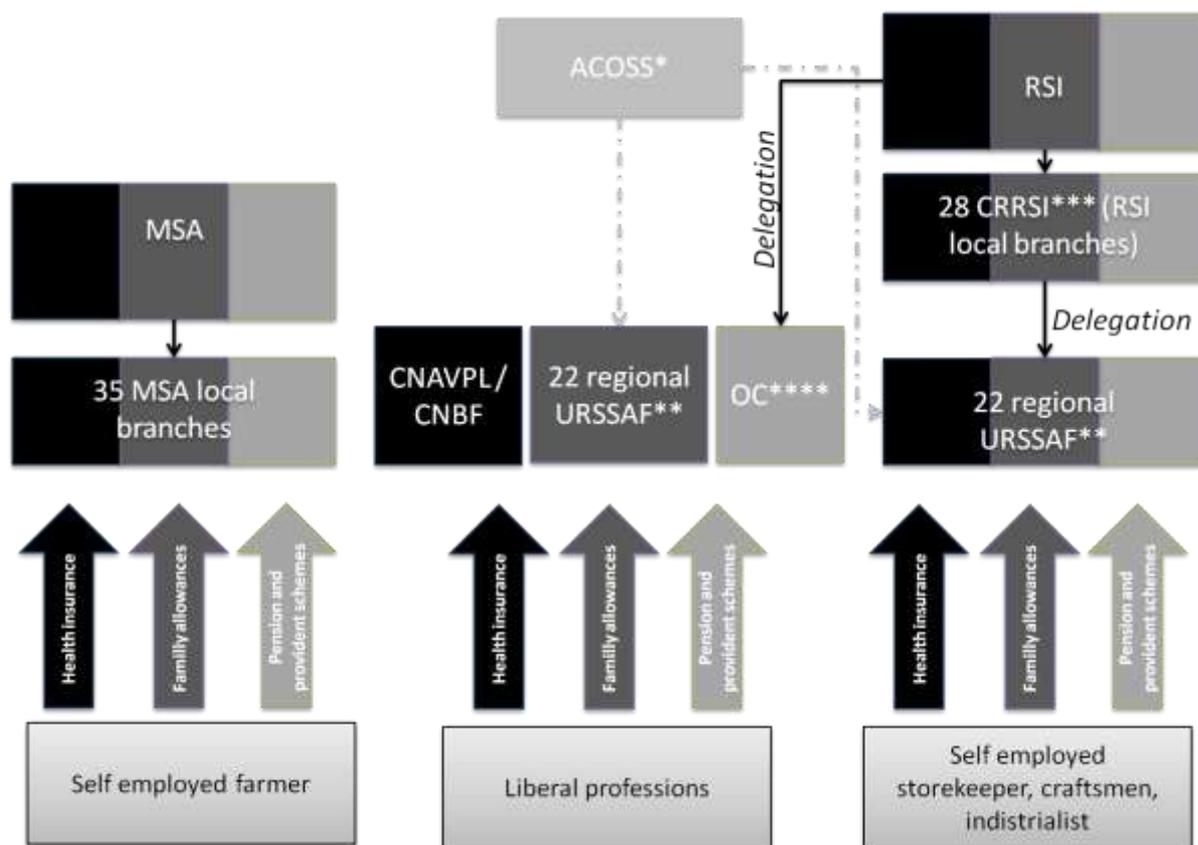
The MSA scheme is financed through general taxes, national solidarity taxes and punctual State subsidies. Hence, as early as 1960, a special budget called “budget annexe des prestations sociales agricoles” (BAPSA) was created in order to compensate for farmers’ low level of contribution. The BAPSA is directly managed by the Ministry of Agriculture; its revenues come from VAT (a third of the fund), other general taxes, solidarity between social security funds and contributions (15 per cent of the fund).

10.3.3. Adapted collection mechanisms

As illustrated in figure 15, contributions collection for health insurance, family allowances and pension and provident schemes is realized through a unique interlocutor: RSI for independent workers (except liberal professions) and MSA for independent farmers.

¹⁰ Since the determination of the basis for contributions calculation is complex, the MSA has an online form that allows independent farmers to enter their information and then obtain an estimation of their contributions.

Figure 17. France: Contribution collection by scheme, 2012



Notes:

* Agence centrale des organismes de sécurité sociale, head of URSSAFs.

** Unions de Recouvrement des Cotisations de Sécurité Sociale et d'Allocations Familiales, meaning the Organizations for the payment of social security and family benefit contributions. They were local but are currently concentrating in 22 regional entities (end of the merger scheduled for 2014).

*** Caisse Régionale du Régime Social des Indépendants (RSI local branches).

**** Organisme Conventionné (insurance group or mutual insurance to which the RSI delegated contribution collection for health).

Source: Drawn up by the author on the basis of institutional activity report of ACOSS, 2011; Caisse nationale RSI 2011b; MSA, 2012b e CNAVPL, 2012.

In order to adapt to its members’ constraints, the RSI allows for various payment schedules. Contributions can be paid monthly or quarterly, and when the economic situation of the considered business requires, payment can be rescheduled or delayed to the following year.

10.3.4. Administrative innovations

One major innovation brought about under RSI is the “Interlocuteur Social Unique” (ISU), which provides affiliated workers with a single point of contact for affiliation, contribution collection and benefit provision. It is one main objective of the fusion started in 2005, but also the result of a wider progressive merger process within recent decades. The history of social protection in France which saw schemes built according to profession, led to a large number of schemes and institutions, multiplying the costs and contributing to system complexity. The current economic situation has necessitated more efficient institutions. This, combined with the greater professional mobility experienced by the active population, meant that it made sense to progressively harmonize schemes where possible.

The RSI also developed a series of online services for members (access to payment history, benefit history, pension calculation, etc.) and advisory services for entrepreneurs

Box 2.

A new status for enterprise creation: the Auto-entrepreneur

In 2008, the French government passed a law on the modernization of the economy ¹¹, which included the creation of a new status for entrepreneurs: the auto-entrepreneur. Auto-entrepreneurs are independent workers working either in trade or service provision (or, to some extent, liberal activities) with a turnover lower than 81 500€ for trade activities or 32 600€ for services provision. Above those limits, the status changes and falls into other legal status for companies and independent workers.

Auto-entrepreneurs are subject to specific taxation and social contributions. Registration to social security is mandatory for auto-entrepreneurs, and most of them have to register to the RSI (excluding liberal professions, except for health). Still, people who are in parallel salaried workers keep their health insurance and register only for the other benefits. Contributions, contrary to what applies to the rest of independent workers, are fixed as a package in percentage of revenue:

- Auto-entrepreneurs in trade sectors: 12 per cent;
- Auto-entrepreneurs in service provision: 21.3 per cent.

Auto-entrepreneurs even have the option of paying a global package as percentage of their revenues that includes both social contributions and income taxes, which is an important innovation that greatly facilitates the accounting in the business creation phase.

Auto-entrepreneur is a flexible independent worker status that aims at facilitation enterprise creation. For instance, this status is compatible to some extent with salaried work. In many ways, it can be viewed as a tool for formalization of work that was previously undeclared for various reasons (complexity of procedures, incompatibility with other sources of declared revenues, etc.), especially in services (housekeeping, gardening, etc.)

This initiative has been very successful in terms of enterprise creation since its launch. In 2011, it had more than 700,000 registered entrepreneurs who were active. In 2010, auto-entrepreneurs represented 25 per cent of RSI contributors, even though only half of them declared revenues and thus actually paid.

Source: Le portail des auto-entrepreneurs, 2012.

10.4. Challenges ahead

It should be underlined that the creation of the RSI has brought major innovations with the aim of improving services (affiliation, contribution collection and benefit provision). However, many of its initial objectives are yet to be achieved, as it has been faced with many challenges that have delayed the operational effectiveness of the merger, thereby affecting quality of provided services:

- The political context has been difficult, since a multiplicity of reforms to social benefits at the national level were hard to put in place while simultaneously merging existing schemes (pension reforms, health insurance reforms).
- The success of the auto-entrepreneur status has resulted in a substantial increase in affiliations.
- The merger of information systems was more complex than anticipated and could not be fully completed, especially given the considerable pressure caused by the above factors.

¹¹ Loi n. ° 2008-776 of August 4 2008 on the modernization of the economy.

-
- The absence of a merged information system within the RSI and efficient data base exchanges between the RSI and the entities that had delegation for contribution collection resulted in difficulties and delays in establishing the ISU.
 - There was a subsequent loss of quality in service provided to clients, delay for affiliations, delay for closing transactions (for example, pensions were back to be calculated manually at some point).
 - These challenges have been taken into account and subsequent difficulties should be resolved in coming years, but they illustrate the difficulty of merging social protection institutions and networks, especially as far as information systems are concerned.

Regarding the MSA, the demographic constitution of its target population has a strong impact on its peculiar culture and on its financing mechanisms. Indeed, due to massive urban drain (linked with a tremendous increase in labour productivity related to mechanization), farmers are less and less numerous in France. In fifty years, the MSA has lost a million affiliated independent farmers.

11. Uruguay - The inclusion of independent workers in the Monotributo scheme

Not only is the Uruguayan social security system a pioneer in Latin America, it also is one of the systems recording the greatest development during the twentieth century, and is among the region's most broad and advantageous systems. Nonetheless, structural changes in the economy, the labour market, the composition of the family unit, and in demography have contributed growing financial tensions in the last decades, together with a new social risk structure, which is defined by a gradual trend towards a less egalitarian society, with some sections of the population excluded from social protection.

Within this context, over the last 15 years the country has undertaken a series of reforms aimed at redefining the system's structure, and has developed the Monotributo scheme, among other tools. This scheme was designed to reduce the exclusion of independent workers, who in Uruguay, like in many other developing countries, are a segment of the economically active population, increasing in relative terms, with a highly vulnerable integration into the labour market, and with very low social security coverage. As mentioned above, this is due to the adverse conditions many of them are subject to, such as a high level of job insecurity, income irregularity, small contributory capacity, high job seasonality, and consequent labour seniority. In addition to this scenario, there is intra-group heterogeneity, a low organization level, competitive vulnerability, a permanent struggle for business survival, and a low level of education.

Obviously, the fact that such workers have no access to the opportunities enjoyed by other workers regarding social protection prevents them from fully developing their productive potential, thus limiting the country's growth possibilities and State revenues. It is also evident that the same workers entail costs for the State, since they fall ill, need social assistance, and, in some cases, fall into criminality. Furthermore, if there is no improvement of such workers' circumstances, there will be an increase in the risk of intergenerational transfer of social exclusion.

It is frequently said that the programmatic and administrative adaptation of social security organizations to the needs and characteristics of such workers is an essential element to increase the rate of coverage. However, evidence shows that due to the complexity of the causes of exclusion, there is still much work to be done in this area, and in a great number of countries. The Uruguayan experience regarding the Monotributo scheme may be of interest to other countries, insofar as they have contributed to the system approaching the goal of universal coverage, and a growing number of independent workers enjoys the economic and psychological advantages of fully participating in society.

11.1. Independent work coverage and Monotributo genesis

In Uruguay, independent employment represents the second biggest group of the labour market, and around three in every ten workers work independently. The development of the social security system has included two stages in expanding this group of workers' institutional coverage. The first stage occurred in the twentieth century, with the development of the intergenerational solidarity retirement scheme (distribution scheme) for dependent and independent workers, run by a public entity, the Social Welfare

Bank (BPS). The General Scheme for One-person Business Workers was then created within the contributory scheme for non-dependents ¹.

Meanwhile, the Scheme for Professionals with a University Degree was established. It is composed of two State connected funds ², whose activity is regulated by the Central Bank. The first is the Social Security Notary Fund, which is related to the special features of the notary profession, and undertakes the responsibility for old age, disability, and survival benefits, for sickness benefits, and for funeral expenses. There is a Health Notary System linked to it, covering its associates' health contingencies. The second is the Retirement and Pension Fund for Professionals with a University Degree (CJPU), covering university graduates practicing their profession as liberal professionals, with the exception of notaries ³, and which is an intergenerational solidarity scheme established over a basis of fixed (or presumed) contribution salaries divided into ten categories, and covering mostly disability, old age, and survival risks. Simultaneously, there is a second voluntary registration pillar, through which this Fund is assigned to act as a collecting agent for its associates' voluntary savings, which are intended for welfare savings funds based in the country, including those managed by Welfare Savings Funds Managing Entities, or for the hiring of retirement insurances in insurance companies qualified for that purpose.

As was typical in most Latin American countries, the structural reforms implemented in social welfare system during the 90s enhanced the link between the right to benefits and formal employment, in spite of the fact that even at that time, insecurity trends arising from the growth of informal employment and unemployment were already notorious. In early 2000, it was acknowledged that a significant section of own-account workers with limited economic activity was governed by inadequate rules which fostered their marginalization within the social protection system. In this sense, several studies have shown that more than 80 per cent of this type of workers was excluded from social security coverage.

This provided the context for the second stage, which began with the creation of the Monotributo scheme, established in Article 590 of Law n. ° 17.296, of February 21, 2001, and consisted of a unified optional tax payment which replaced special contributions to social security generated according to economic activity, as well as all applicable national taxes in force (except for import taxes). Initially, this scheme focused on small one-person businesses ⁴ developing business activities in the street or in public spaces. Six years after entering into force, it had not achieved its goals regarding the inclusion of informal sector own-account workers.

¹ In 1996, this Scheme was reformed with the establishment of a mixed scheme which receives contributions and grants benefits in a combined way. Its first pillar is the distribution scheme. The second pillar is the retirement scheme by compulsory individual savings (capitalization scheme), managed by the private sector. There is also a third pillar, similar to second one, but which is optional for categories of income above a certain level.

² State connected institutions are those institutions jointly managed by the executive power and the associates.

³ Initially, it only covered certain graduates from the University of the Republic. However, it is currently under reform, aiming to include a larger number of graduates from not only the University of the Republic, but also from nationally acknowledged private Universities.

⁴ Established as regards the maximum number of authorized workers and positions (or locations), the maximum value of assets, the annual sales turnover, the type of authorized sales and the maximum range of positions.

Therefore, according to 2006 records, the total registration of independent workers in the three described schemes is estimated to be 116,160⁵ workers, the General Scheme for One-person Business Workers having the greatest percentage of associates (61 per cent), followed by the Retirement and Pension Fund for Professionals with a University Degree (30.8 per cent), and the Monotributo covering only 2.2 per cent (See table 13).

Table 15. Uruguay: Estimate of the number of independent workers registered in the social security system, according to the coverage scheme, 2006

Scheme	Absolute amount	Percentage
Scheme for Professionals with a University Degree	42 698	36.8%
Social Security Notary Fund	6 971	6%
Retirement and Pension Fund for Professionals with a University Degree	35 727	30.8%
General Scheme for One-person Business Workers	70 858	61%
Monotributo scheme	2 604	2.2%
Total	116 160	100%

Source: Lanzilotta, 2009.

According to the 2006 National Household Survey, the three described schemes only covered 17.6 per cent of own-account workers. As regards distribution, the coverage of higher income own-account workers (fifth quintile) was 18.8 times that of the first, and 5.8 times that of the second (table 14). Still, of the 52,953 effectively covered own-account workers, only 2,604 (4.9 per cent) were under the Monotributo, and were mainly found in the country's capital.

Table 16. Uruguay: Own-account workers covered by social security according to income quintile, 2006

	Total	Income quintile				
		I	II	III	IV	V
Absolute total	300 285	107 502	76 873	55 853	38 737	21 320
Without coverage	247 332	106 178	72 584	47 433	24 704	-3 568
With coverage	52 953	1 324	4 289	8 420	14 033	24 888
Total percentage	100%	100%	100%	100%	100%	100%
Without coverage	82.4%	97.5%	91.9%	84.1%	73.5%	53%
With coverage	17.6%	2.5%	8.1%	15.9%	26.5%	47%

Source: Lanzilotta, 2009.

In 2006, the Monotributo Scheme was the subject of a profound change which was initially promoted by BPS' Board of Directors, and subsequently undertaken by the

⁵ Since a part of the Funds' registrants also contributes to the General Scheme for One-person Business Workers run by the BPS, that number may be overestimated.

Executive and Parliament. The changes, introduced under the 2006 Tax Reform Law ⁶, in force since July 2007 aimed to facilitate the withdrawal of at least 170,000 people from the informal economy, allowing for the taxation of their productive micro enterprises, and increased access to social security benefits ⁷.

11.2. Reform of the Monotributo Scheme

The reform introduced changes to extend the scheme and make it more flexible, in order to strengthen its effectiveness, allowing for the integration of employed workers into activity sectors historically excluded from social security. To this there, eight changes were introduced.

11.2.1. *Type of authorized companies*

Before the reform, the Monotributo scheme only allowed for the registration of one-person businesses with a maximum of four workers (including the owner of the business and his/her co-working spouse, when applicable) ⁸. After this reform, the following were allowed to register:

- (1) One-person businesses, including those where the owner works with his/her spouse or cohabiting partner, provided they have no more than one dependent.
- (2) “De facto” non-family companies formed by a maximum of two partners, without dependents.
- (3) Companies exclusively formed by family members up to the fourth degree of consanguinity ⁹ or to the second degree of affinity ¹⁰, provided the number of partners is not over three, and companies without dependents, all under the condition of having a small income. We should mention that in order to further promote the social coverage of the Monotributo scheme, the law allows for the inclusion of up to three dependent workers in the cases of seasonal or fixed activities.

⁶ Law n. ° 18.083, of December 27, 2006, and regulatory provisions.

⁷ With the exception of Unemployment Insurance, which is deemed an employer's activity.

⁸ A co-working spouse does not change the company's one-person nature, without prejudice of the establishment of an additional contribution by the employer for the activity of said spouse, in an amount identical to the amount of the owning spouse.

⁹ Up to the 4th degree of consanguinity of the owner registered in the Monotributo scheme: 1st Degree: parents or children; 2nd Degree: uncles, siblings, grandchildren, or grandparents; 3rd Degree: great-grandchildren or great-grandparents, nephews, cousins; 4th Degree: third great-grandchildren or third great-grandparents, great-nephews or double nephews.

¹⁰ Up to the 2nd Degree of affinity of the owner registered in the Monotributo scheme: 1st Degree: spouse's children, siblings, or parents; 2nd Degree: spouse's siblings, grandparents, or grandchildren.

11.2.2. *Type and maximum number of authorized business activities¹¹ and authorized places for their development*

Prior to the reform, enrolment in the Monotributo scheme could only be undertaken by one-person businesses with small incomes who had a single, exclusive business activity subject to the employer's registration, and linked to the sale of goods or the providing of one service, in (mobile or fixed) establishments¹² located in the street or in public spaces. After the reform, small artisanal producers were added, and rural producers were allowed to work on more than one activity subject to employer's registration, provided they complemented the income from their establishment's production of goods in their natural state with the ancillary disposal of other agricultural goods, either in their natural state or submitted to an artisanal process. The business activity is also allowed to be carried out in small locations¹³ which should not exceed 15 m² in size. The following table illustrates the type of business activity authorized, and the profile of the own-account workers benefiting from the reform.

Table 17. Uruguay: Business activities and profile of own-account workers considered in the Monotributo scheme

Business activity	Profile of independent workers
A. Production of goods	
Artisanal food and drinks	Producer of food, desserts, jams, sweets, and liqueurs, artisanal fisherman, etc.
Handicraft	Craftsman working with wood, leather, weaving, jewellery, carpets, etc.
Blocks	Artisanal block producer
Textiles	Producer of fabrics, looms, quilts, cloths, ponchos, etc.
B. Production of services	
Cut, manufacture, and fabrics	Seamstress, crochet maker, artisanal embroiderer, machine embroiderer, artisanal weaver, machine weaver, tailor, dressmaker, ironing.
Cosmetics and makeup	Cosmetologist, stylist, manicurist, hairdresser, podiatrist, makeup artist, epilator.
Private tutoring	Teacher of languages, music, singing, crafts, preparation for exams, and guided study (excluding private lessons at the student's home).
Cleaning	Laundress, car washer, window cleaner, dyers, carpet and curtain cleaner.
Polishing	Furniture and shoe polisher
Massages	Masseur, lymphatic drainage and aesthetics (excludes reiki and yoga).
Repairs	Repairer of refrigerators, televisions, audio equipment, computers, appliances, bicycles, motorcycles, and footwear.

¹¹ Business activity is an activity combining capital and work to produce an economic result.

¹² «Station» means any economic unit located in the street or in public spaces, either mobile or stable, which occupied surface does not exceed 15 m².

¹³ «Small location» means any economic unit located in closed or enclosed locations, inside public or private buildings either built or adapted to perform business activities, with an area not exceeding 15 m² (including the sanitary facilities' area). Units located within large surface shopping centres are excluded from this categorization.

Serigraphy	Screen stamper for image printing.
Food street vending	Seller of goodies, peanuts, ice cream, coffee, popcorn, fruits, vegetables, sausages, burgers, <i>pancho</i> , grilled food, fried cakes, pies, animal feed, in fairs, etc. Includes trolleys, kiosks, fish stores, mini markets (excluding gambling kiosks).
Craft sale	Seller of leather, wood, glass, seeds, and metal craft, as well as craftwork with plumes, jewellery, semiprecious stones, shoes, and trainers.
Sale of multiple articles	Seller of articles for mobile telephones, newspapers and magazines, incense, candles, bags, wallets, makeup, sunglasses, books, tips, rubber articles, perfumes, tools, outdated articles, low-value antiques, batteries, watches, combs, firewood, toys, flowers, school supplies, photocopying services, etc. Market vendors in neighbouring fairs, expo-fairs, permanent fairs, and "techitos verdes" (Uruguayan fair location) (excludes the sale of uniforms).
Surveillance	Watcher of cars, motorcycles, and other motor vehicles.
Multiple services	Locksmith, carpenter, sharpener, bookbinder, mattress salesman, carpet maker, photographer, blacksmith, welder, messenger, painter, plasterer, video rental, advertisement with speakers, stocking run catcher, tattoos, and other similar services established by the Ministry of Economy and Finance, after prior consenting information by the Ministry of Labour and Social Security, the Social Welfare Bank, and General Revenue Administration.

Source: BPS Instituto de Seguridad Social, 2011.

11.2.3. Maximum number of authorized stations or small locations

In both contexts, the simultaneous use of one or more stations or small locations is not authorized. However, the rotation of the station or location between different physical places is allowed, provided it does not entail the development of more than one activity, with the exception of rural workers in the conditions mentioned above.

11.2.4. Type of authorized buyers (clients)

Contributors to the Monotributo scheme were only authorized to sell to the end consumer. Currently, depending on the nature of the goods sold and services provided, they are also authorized to sell to non-end consumers (private companies and the State).

11.2.5. Types of authorized sales

Before the reform, contributors to the Monotributo scheme could only make cash sales, and were not authorised to accept payment by credit card, purchase orders or similar, or to grant financing. With the reform, they were allowed to make sales through the use of credit cards.

11.2.6. Maximum authorized annual turnover by type of economic activity

Before the reform, the maximum allowed annual turnover for trade was 144,000 pesos, whereas for services it was 72,000 pesos. After the reform, these amounts increased to 300,000 and 200,000 pesos, respectively. In both cases, the income resulting from developing the economic activity must not exceed the ceiling established for small companies.

11.2.7. **Monthly amount of the Monotributo scheme, and allocation computable in the social security system**

Before the reform, the establishment of the monthly amount to be paid by the companies registered in the Monotributo scheme ¹⁴ and the corresponding allocation computable in the social security system was calculated based on the applicable rates of social security contributions and taxes charged by the BPS (excluding the Mutual Quota Supplement, unless the contributor chose it) on a fixed salary equivalent to a national minimum salary. After the reform, the monthly amount contributed under Monotributo, and its respective allocation to the social security system results from the application of the sum of the rates of the taxes charged by the BPS ¹⁵ on the basis of a fixed salary of five Contribution Fixed Bases (BFC) ¹⁶. As illustrated in table 17, the Executive may increase the fixed salary on a scale of six to ten BFC, according to the developed activities, the size of the location, and other indexes ¹⁷.

Table 18. Uruguay: Monthly Monotributo amount according to the contribution fixed base level, 2007- Pesos

Fixed Salary (\$U)	Monotributo amount without mutual quota supplement (\$U)	Monotributo amount with mutual quota supplement (\$U)
5 BFC = 1 367	419	1 237
6 BFC = 1 640	503	1 299
7 BFC = 1 914	586	1 360
8 BFC = 2 187	670	1 422
9 BFC = 2 461	754	1 484
10 BFC = 2 734	837	1 545

Source: BPS Instituto de Seguridad Social, 2007.

It should be noted that contributors to the Monotributo scheme maintain all the rights stemming from their registration in the social security system through the BPS. In this sense, they have the right to the calculation of the period of activity for the grant of a benefit, or to increase it should they already have it. Nevertheless, the contributors to the Monotributo scheme who choose to pay the Mutual Quota Supplement (CCM) have access to Social Protection, and to its supplementary benefits (for example: prostheses and lenses coverage, subsidies for treating of circulatory infections, wheelchairs, prosthetic limbs, hearing aids).

One-person businesses with no dependents and with a family household income under three BFC are entitled to a family benefit from the new Family Benefit System. Under the

¹⁴ This single tax excludes the social security contributions and taxes applicable on the remunerations of dependent workers.

¹⁵ Excluding the Mutual Quota Supplement.

¹⁶ After the reform, there is still an incentive of returning a monthly annual quota for contributors paying at the end of each month, and by automatic debit to their bank accounts or with credit card.

¹⁷ The existence of a co-working spouse or a cohabiting partner (for one-person businesses) or of partners determines an identical additional employer's contribution due for the activity of each one of such members.

category of “social Monotributo”, the workers included on the National Register of Promoters of Local Development and Social Economy of the Ministry of Social Development are exempt from contributing to the retirement pension, and pay 50 per cent of the contribution for social works, \$U35 by registration holder, and the same amount for each covered family member.

11.2.8. Type of retirees authorized to register as a contributor to the Monotributo scheme

Before the reform of the scheme, retirees from industry and trade could not be Monotributo contributors. Now, they are eligible for coverage in the following cases:

- (1) If the retiree was a bank employee, a notary, a military or a police officer, he may register in the Monotributo scheme regardless of the amount of the benefit he receives from his Fund, because the benefit he receives is not borne by the BPS.
- (2) Should he be a BPS retiree, he may register in the following situations: retiree by civil and rural contribution, and by domestic service. In such cases, neither the amount nor the type of received benefit is relevant, since it is a benefit for an activity borne by the BPS, but with a different registration from industry and trade.
- (3) In case the retiree has worked in the industry or trade, and he is the owner of a common retirement or retirement due to old age, he may register, provided that the activity he has retired from is not the same activity he wishes to develop in the Monotributo scheme, and that he simultaneously fulfils the following obligations: i) to own a retirement pension not exceeding three Benefits and Contributions Bases (BPC), and ii) to integrate a family household in which each member's average income does not exceed three BPC. All incomes are considered to this end, with the exception of those generated by Citizen's Incomes, Family Benefits, and Unemployment Insurances motivated by the worker's dismissal.
- (4) Retirees who wish to register in the Monotributo scheme may do so as a one-person business owner, a co-working spouse or cohabiting partner, or as a partner in a partnership company, provided he/she meets all the general conditions.

Table 17, below, summarizes the changes introduced in the Monotributo scheme.

Table 19. Uruguay: Summary of changes to the Monotributo scheme

Variable	Previous conditions according to Law 17.296, of 21/02/01, and complementary legislation	Current conditions according to Law 18.083 of 27/12/06, and complementary legislation
1. Type of allowed companies	One-person businesses with a small economic size, with a maximum number of four workers (including the owner of the one-person business, and he/her co-working spouse or cohabiting partner, when applicable).	One-person businesses (with or without co-working spouse/cohabiting partner) with only one dependent worker. “De facto” non-family companies formed by a maximum of two partners, without dependents. “De facto” family companies with affinities up to the 4th degree of consanguinity or up to the 2nd degree, provided they do not exceed three partners, and with no dependents. All of them having a small economic size. The Executive Power has the possibility to include up to three dependents in the previous definitions in the case of seasonal or fixed activities.

Variable	Previous conditions according to Law 17.296, of 21/02/01, and complementary legislation	Current conditions according to Law 18.083 of 27/12/06, and complementary legislation
2. Type and maximum amount of authorized business activities and authorized places for their development	A single and exclusive business activity, subject to the employer's registration, and linked to the sale of goods or provision of a service.	A single and exclusive business activity subject to the employer's registration, and linked to the sale of goods, the provision of a service, or small manual artisanal production, the development of which is only allowed in (mobile or fixed) stations located in the street or in public spaces, or in small locations with less than 15 m ² . Rural producers are authorized to develop more than one activity subject to the employer's registration, provided they complement the income from their establishment's production of goods in their natural state with the ancillary disposal of other agricultural goods, either in their natural state or submitted to an artisanal process.
3. Maximum number of authorized stations or small locations	One station. Rotation of the station between different physical places is allowed, provided it does not entail the development of more than one activity.	One station or one small location. Rotation of the station or location between different physical places between different physical places is allowed, provided it does not entail the development of more than one activity (except in the case of rural workers).
4. Type of buyers (clients) used	End consumers.	End consumers. Private companies (with restrictions). State (with restrictions).
5. Type of authorized sale	In cash.	In cash. With credit card.
6. Maximum authorized annual turnover by type of economic activity	In trade: 144,000 pesos. In services: 72,000 pesos.	In trade: 300,000 pesos. In services: 200,000 pesos.
7. Monthly Monotributo amount, and allocation computable in the social security system	It is calculated by applying rates on social security contributions and taxes charged by the BPS on a fixed salary equivalent to one minimum national salary, excluding the "mutual quota supplement".	It is calculated by applying rates on social security contributions and taxes charged by the BPS on a fixed salary of five Contribution Fixed Bases (BFC).
8. Type of retirees authorized to register in the Monotributo scheme	None	Ex bank employee, professional, notary, military, or police officer. BPS Retiree by civil and rural contribution, and by domestic service. If he has worked in the industry or in trade, if he is the owner of a common or old age retirement with a different origin from that of the new activity to be developed, with a pension ≤ three BPC, and if he is part of a family household with average per capita income ≤ three BPC.

Source: Republica Oriental del Uruguay, 2001 e 2006 (Drawn up from Laws n. ° 17.296 and n. ° 18.083).

Within the terms of the law, the following may not be included in the Monotributo scheme:

- Owners of one-person businesses or their co-working spouses or cohabiting partners, whenever one of them is simultaneously the partner in any type of partnership company or the head of a public limited company, even if he/she remains inactive.

-
- “De facto” companies, when any of their partners is simultaneously a partner and a director.
 - Those who provide personal services outside the dependency relationship, either individually or in a partnership.
 - Limited liability companies, public limited companies, cooperatives, social cooperatives, non-profit civil associations, non-governmental organizations, foundations, rural companies, construction companies, companies which market clothing in shopping centres, exhibitions, fairs and the like, embassy and international organization officials, employers of domestic services.
 - Retirees due to working incapacity in any job.

To ensure compliance with the above and guarantee that workers wishing to evade taxes are not included in the Monotributo scheme, strong control mechanisms were established, including: i) Credit card issuers must report monthly to the BPS and the General Revenue Administration (DGI) on the operations of Monotributo scheme contributors; ii) State agencies must report to the BPS and the DGI on what the Monotributo scheme contributors consume or pay for public services; iii) To extend the scope of the licenses related to economic activities covered by the Monotributo scheme, Municipalities must coordinate with the DGI and the BPS; iv) At the place where their activity is developed, Monotributo scheme contributors must reveal the grounds for their registration with the DGI and the BPS, the last contribution payment receipt, and the documents certifying the origin and existence of the goods. The latter are essential for departmental governments to grant and renew the licences allowing the development of the activities; v) Registration may be made in all branches of the DGI and the BPS, through a single and unique form. Therefore, if it is found that the contributor does not belong to the Monotributo scheme, he/she loses all rights, and must pay Value Added Tax, Income Tax of Economic Activities, and Wealth Tax.

11.3. Lessons to be learned and future challenges

Table 18 demonstrates the evolution of the companies contributing to Uruguay's social security system from 2002 to 2009, divided according to their size (one-person business, small, medium, and large). With the aim of reflecting the effect of the Monotributo scheme's reform on the coverage of independent workers, this analysis was subdivided into two periods: 2002-2006 (pre-reform) and 2007-2009 (post reform).

As can be seen, in the period subsequent to the reform (2007-2009), the average annual number of contributory one-person businesses reached 68,588, i.e. 12,722 more than the average annual number of contributor one-person businesses registered in the previous period (55,866). Nevertheless, in terms of average growth between periods, one-person businesses are the companies registering the most momentum (5.1 per cent), followed by small companies, with only 1.7 per cent. As a consequence, the relative share of one-person businesses regarding the total of contributing companies increased about 2.0 per cent.

Table 20. Uruguay: Evolution of companies contributing to Social Security according to size, periods of 2003-2006, 2007-2009

Company Size	2002	2003	2004	2005	2006	2007	2008	2009	Medium		
									2002-2006	2007-2009	Difference
Total	142 628	141 375	143 654	149 707	155 008	164 120	175 909	176 670	146 474	172 233	25 759
One-person	56 111	54 418	53 885	55 899	59 015	63 870	70 909	70 984	55 866	68 588	12 722
Micro	65 880	66 954	68 557	70 899	71 453	74 143	76 856	76 467	68 749	75 822	7 073
Small	17 191	16 591	17 506	18 775	20 020	21 215	22 766	23 653	18 017	22 545	4 528
Medium	2 952	2 927	3 187	3 566	3 878	4 185	4 614	4 791	3 302	4 530	1 228
Large	494	485	519	568	642	707	764	775	542	749	207
Growth rate		-0.9%	1.6%	4.2%	3.5%	5.9%	7.2%	0.4%	2.1%	4.5%	2.4%
One-person		-3.0%	-1.0%	3.7%	5.6%	8.2%	11.0%	0.1%	1.3%	6.5%	5.1%
Micro		1.6%	2.4%	3.4%	0.8%	3.8%	3.7%	-0.5%	2.1%	2.3%	0.3%
Small		-3.5%	5.5%	7.2%	6.6%	6.0%	7.3%	3.9%	4.0%	5.7%	1.7%
Medium		-0.8%	8.9%	11.9%	8.7%	7.9%	10.3%	3.8%	7.2%	7.3%	0.2%
Large		-1.8%	7.0%	9.4%	13.0%	10.1%	8.1%	1.4%	6.9%	6.5%	-0.4%
Relative share	100.0%	0.0%									
One-person	39.3%	38.5%	37.5%	37.3%	38.1%	38.9%	40.3%	40.2%	38.2%	39.8%	1.7%
Micro	46.2%	47.4%	47.7%	47.4%	46.1%	45.2%	43.7%	43.3%	46.9%	44.0%	-2.9%
Small	12.1%	11.7%	12.2%	12.5%	12.9%	12.9%	12.9%	13.4%	12.3%	13.1%	0.8%
Medium	2.1%	2.1%	2.2%	2.4%	2.5%	2.5%	2.6%	2.7%	2.2%	2.6%	0.4%
Large	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.1%

Source: BPS Instituto de Seguridad Social, 2010.

Through further breakdown, table 19 compares the evolution of contributing one-person businesses and micro companies by economic activity, between the periods of pre- and post- reform. As shown, the evolution was positive for most activities, and was particularly important in one-person businesses engaged in trade, repair of vehicles (cars and motorcycles), agricultural production, reforestation and fishing, which jointly absorb 52.2 per cent of the total number of companies of this type.

Table 21. Uruguay: Evolution of one-person businesses and micro companies contributing to the Social Security by branch of economic activity, periods of 2003-2006, 2007-2009

Activity	Relative weight	Average amount		Average growth		
		2003-2006	2007-2009	2003-2006	2007-2009	Difference
Total of contributing one-person businesses	100.0%	55 866	68 588	1.3%	6.5%	5.1%
Trade, repair of auto vehicles and motorcycles	27.0%	12 815	18 161	5.9%	8.6%	2.7%
Agriculture, animal husbandry, forestry and fishing	25.2%	16 788	18 034	-0.7%	2.4%	3.1%
Professional, scientific, and technical activities	6.6%	2 997	4 334	0.4%	14.7%	14.3%
Transportation and storage	6.5%	4 883	4 818	-1.3%	-1.4%	-0.1%
Manufacturing Industries	6.5%	3 106	4 380	5.1%	9.7%	4.5%
Other service activities	5.9%	2 689	3 668	0.9%	14.0%	13.2%
Construction	3.7%	1 612	2 472	5.8%	11.5%	5.7%
Social services and health related services	3.1%	1 744	2 095	-1.9%	8.7%	10.6%
Computing and communication	2.9%	1 620	1 930	-3.9%	11.0%	14.9%
Administrative activities and support services	2.3%	1 268	1 517	-3.7%	11.1%	14.8%
Accommodation and catering	2.0%	884	1 342	8.5%	8.6%	0.1%
Real estate activities	1.7%	966	1 165	3.1%	3.6%	0.6%
Artistic, show, and recreational activities	1.6%	694	1 100	8.8%	11.1%	2.4%
Education	1.6%	732	990	2.6%	12.2%	9.7%
Financial and insurance activities	1.4%	1 119	1 039	-1.3%	-1.8%	-0.5%
Other activities	2.0%	1 949	1 543	-6.2%	-6.0%	0.2%
Total of contributing micro companies	100.0%	71 401	75 822	2.1%	2.3%	0.3%
Agriculture, animal husbandry, forestry and fishing	35.3%	28 682	28 095	0.5%	-2.5%	-3.1%
Trade, repair of auto vehicles and motorcycles	21.0%	13 245	15 271	4.3%	6.3%	2.0%
Transportation and storage	9.6%	6 461	7 176	3.8%	4.2%	0.4%
Real estate activities	6.2%	4 431	4 647	0.0%	2.9%	3.0%
Manufacturing Industries	5.4%	3 740	4 146	4.4%	3.0%	-1.4%
Other service activities	4.5%	3 294	3 197	0.1%	6.8%	6.8%
Professional, scientific, and technical activities	4.2%	2 613	3 081	5.3%	7.1%	1.9%
Accommodation and catering	2.2%	1 331	1 612	4.9%	9.6%	4.7%
Social services and health related services	1.9%	1 335	1 467	2.8%	3.5%	0.6%
Construction	1.9%	1 028	1 306	5.1%	12.7%	7.6%
Administrative activities and support services	1.6%	876	1 102	5.8%	11.7%	6.0%
Other unspecified activities	1.3%	1 058	981	-1.8%	-3.1%	-1.3%
Computing and Communication	1.1%	665	819	9.5%	7.2%	-2.3%
Artistic, show, and recreational activities	1.0%	596	693	5.5%	5.9%	0.4%
Education	0.8%	564	578	0.4%	4.8%	4.4%
Other activities	2.1%	1 483	1 662	3.1%	3.1%	0.0%

Source: Source: BPS Instituto de Seguridad Social, 2010.

Therefore, even considering that the reform is relatively recent, these results show that the Monotributo scheme has effectively reached a vulnerable group of workers (such as craftspeople, locksmiths, carpenters, grinders, weavers, photographers, blacksmiths,

welders, and car washers, among others), favouring their coverage and inclusion. It is possible to infer that the incorporation of new operating conditions in this scheme significantly contributed to achieving this result. Such new conditions include: i) (both family and non-family) “de facto” companies; ii) the limitation to three dependents in the case of seasonal or fixed activities; iii) small manual artisanal production; iv) small locations; v) sales to private companies and the State; vi) sales through credit cards; vii) a greater limitation of annual income, viii) the calculation basis for the Monotributo; ix) the development of more than one activity by rural workers, and x) the profile of the retirees authorized to register in the Monotributo scheme.

In this sense, the main lesson of this scheme is that, in different contexts characterized by the diversity of socio-economic profiles, the designing of more flexible financing mechanisms may be a valuable tool to achieve social inclusion. Furthermore, this scheme has demonstrated the potential for a strategic alliance between social security institutions and the authorities in charge of tax collecting.

Since Uruguay was able to significantly increase the percentage of decent and protected work in sectors of society which had been previously excluded from social security coverage, the country now faces the challenge to consolidate the large reforms implemented in the last years. These reforms must be carried out within the scope of the new social protection system, enabling to extend the system's universal coverage.

12. Conclusions

The advances made by the social security systems of the countries considered in this study demonstrate the importance of establishing a differentiation policy framework specifically targeting independent workers. This study provides information which aims to help, from a practical rather than a theoretical perspective, the decision makers and the social security administrations which must cope with practical design issues daily.

One of the study's main conclusions is that, in practice, countries choose different paths leading to specific and varied national practices, which we have called "innovations", even within the same country or social security system. The search for such innovations is relevant, given the many facets or dimensions that are involved in defining the complex characteristics and necessities of a highly heterogeneous group which is hard to provide coverage for, as is the case for independent workers.

A common element of the experiences considered in this study has to do with the practical difficulties of attaining coverage for a significant proportion of independent workers. Despite the interesting innovations introduced by countries, it remains clear that developing countries still have a long way to go before achieving universal coverage. The challenges are particularly huge for countries with a large share of independent workers in the informal economy.

It is undeniable that formalization policies are at the centre of the struggle for extending social security coverage to independent workers and therefore should be incorporated into an integrated social security policy framework.

For practical purposes, and without going into detail of the analysis of determining factors of coverage or the success of interventions, the following is a list of elements which seem to affect, depending on the national context, the extension of social security to independent workers.

- (a) An important factor is the State's participation in the subsidizing contributions by low income workers, which allows for the establishment of a progressive compliance system in accordance with contributory capacity. This solidary framework is a stimulus for independent workers' registration in social insurance.
- (b) Mandatory registration and social security contribution payments on the part of independent workers are also essential requirements in strengthening the framework for universalization of social insurance. In the case of the social insurance systems recently created in the developing world, mandatory social contribution payments must be followed by a series of reforms allowing for follow-up, improvement and adaptation of the management and granting of short term benefits.
- (c) The creation of special schemes of differentiated benefits does not seem to be an essential requirement in increasing the coverage of independent workers, but it may work in those countries where these workers have a much reduced contributory capacity, through allowing lower contribution payment levels to be associated with lower differentiated benefits. However, such schemes would have to be transitory and inclined to be coordinated with or integrated into the general schemes as economic and labour market conditions improve. Formalization should therefore translate into better social security coverage conditions.
- (d) As regards the design of coverage extension strategies aimed at specific groups of workers such as independent workers, an important step is the identification of territorial distribution, contributory capacity, and mechanisms for labour integration

for the target population. The case of Ecuador's Peasants' Social Insurance is an important experience in this regard.

- (e) An essential factor to foster an environment of trust in the management of social security funds regards the creation of mechanisms enabling the improvement of the system's transparency, especially in terms of financing. The implementation of a robust accountability mechanism is a responsible act which improves the relationship between the system and its contributors.
- (f) The establishment of an inspection system allows for reduced rates of social contribution evasion, and increases the system's revenues. On the other hand, it is also important to provide for a beneficiary control mechanism in order to reduce the unnecessary payment of certain benefits.
- (g) The introduction of differentiation in the contribution rate paid by independent workers only contributes to a marginal increase in contributions from this group of workers. Differentiation may be established on the basis of lower collecting rates, or with contributions to the system according to the total value of production.
- (h) The creation of additional incentives, such as the personal and mortgage credit programmes for workers registered in social insurance, can consolidate coverage extension, and generate trust in the social security system. Generally, credit programmes offer more favourable financing conditions when compared to the credits granted by the banking system. However, they should not weaken the profitability of social security funds.
- (i) The creation of an (administrative) alliance between the tax authority and the body responsible for social security for the establishment of a unified collection basis for taxes and social contributions, like in the case of Uruguay's *Monotributo* allows for extended coverage to those companies which usually pay taxes, but which are outside of the social insurance contributory system, or *vice versa*. This unified payment mechanism has the advantage of reducing the transaction costs borne by micro businessmen, such as the time and cost of transportation to the place of payment. France's Auto-entrepreneur, and of Brazil's Simples Nacional are example of successes in that area.
- (j) The use of mechanisms allowing for the simplification of registration, collection, and service provision is likely to create an increase in registrations in the system, especially in the case of independent workers, for whom taking time out of their work to entails a high economic cost (transaction costs). It should be mentioned that administrative simplification also increases administrative efficiency and reduces management costs.
- (k) The use of pro-active and proximity approaches with independent workers and their organizations, increases the level of information available to the target group, and indeed society as a whole, on social security, reduces transaction costs of registration and contributions, and favours coverage extension.
- (l) The social insurance systems which have established collective mechanisms for registration and collection have benefited greatly from the increase of coverage to independent workers.

Finally, we must highlight the relevance of the political will necessary to implement these types of mechanisms. Generally, such strategies are part of a series of comprehensive structural reforms, and are included into national strategies of formalization of labour, which allow for an increase in contributory coverage. The long-term dividends of such reforms were the incentive that the countries included in this study needed to implement such reforms.

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Annexes

Annex 1 – Colombia: Best practice in independent workers' coverage

Best practice	Description	Advantages to coverage increase
Integrated Form for Contribution Settlement (PILA)	<ul style="list-style-type: none"> ■ Electronic platform which enables the settlement and payment of contributions to the General System of Social Security, both for employees and for independent workers. ■ It includes a series of elements such as the Assisted Form (contribution payment by telephone with the assistance of a telephone operator), and the possibility to make the payment by cheque, debit or credit card. 	<ul style="list-style-type: none"> ■ Centralises the forms and contributions of people registered in the social security system. ■ Facilitates and introduces flexibility to the procedures to be followed by people registered in the social security system. ■ Enables a greater control and inspection of social security systems' registrants.
Single Registry of Contributors	<ul style="list-style-type: none"> ■ Tool which enables to cross contributory information regarding the registrants of different social security subsystems (health, pensions, and professional hazards). 	<ul style="list-style-type: none"> ■ Allows to detect irregularities such as contribution payment evasion, levy payment evasion, and multi-registering, among others.
Collective Registration	<ul style="list-style-type: none"> ■ Workers belonging to associations and cooperatives may be collectively registered and collectively pay contributions through the organization. 	<ul style="list-style-type: none"> ■ Reduces collection costs for social security management. ■ Reduces transaction costs for workers. ■ Payments are easier to make and the information becomes more accessible to organized workers. ■ Makes use of the existing financial infrastructure of organizations.
Making the existing legislation flexible	<ul style="list-style-type: none"> ■ In view of the existing legislation (Laws n. ° 100 of 1993, and n. ° 797 of 2003), and considering the particularities of independent workers, Colombian authorities promoted a series of changes significantly favouring this population. Among others, there's the possibility of changing the IBC, the "news report", and the no-obligation of contributing to the pensions' scheme whenever the individual's economic situation dictates it. 	<ul style="list-style-type: none"> ■ Allows adapting existing legislation to reality and to the main needs of the independent workers' population. ■ Removes obstacles preventing the registration of independent workers. ■ Gives flexibility to the legislation according to the characteristics of independent workers.

Annex 2 – Costa Rica: Profile of the protective action of social security to independent workers

A- General characteristics of independent workers:		D- Coverage of the rural population and of women	
% of independent workers in the EAP	18.5	Are there any programmes to register agricultural producers or farmers?	yes
% of women independent workers	37.8	Are there any programmes to ensure women's coverage?	No. There's the universal programme
% of urban independent workers	56.5	How are these programmes financed?	Similarly to all other IW
Average income of independent workers / average salary	76.1	Does the State contribute to such programmes? Which is the mechanism?	Yes, subsidy
B- Coverage scheme:		E- Contribution collection:	
Definition of independent worker (professional categories included)		Is there a single contribution collection system?	yes
Compulsory registration of independent workers?	yes	How many contribution collection systems are there? Which are they?	One, CCSS
Are there any group or collective registration mechanisms?	yes	Are there different contribution payment deadlines?	No
Are mutualisms or cooperatives a form of registration?	No	Which are the existing payment deadlines?	Monthly
Single general scheme or special schemes for independent workers?	yes	Are there any contributions in concepts other than cash? -crops sales, etc.	No
Are benefits differentiated for independent workers?	No	On which concept (calculation basis) are such contributions applicable? List them.	Presumed Income
In case there are differentiated benefits, are they lower or higher for independent workers?	Does not apply	Institution, agencies, or establishments participating in the collection procedure:	CCSS branches, financial system agencies, supermarkets, pharmacies
Are there any inspection or supervision mechanisms to apply the mandatory registration requirement?	yes	Is it possible to pay contributions online?	yes
		Is it possible to pay contributions by credit card?	No
C- Financing:		F- Strategies for integration into the system according to registration obstacle	
Independent workers' contribution rate, according to the scheme (overall contrib.)	11.00% Health 7.75% Pensions	F.1- Job insecurity and low or null contributory capacity: Contribution State subsidy inversely proportional to the contributory capacity of each socio-professional group/income, and requirement for mandatory contributory registration (since the year 2000), and inspections.	
Is the contribution rate higher or lower than that of employed workers?	Lower	F.2- Rotation and exchange with formal and informal employed work: Contribution portability (with maintenance of rights) between the workers registered as employed and those registered as self-employed, and vice-versa.	
Are there any contribution rates differentiated by income level?	yes	F.3- Heterogeneity of independent work: Use of a contributory table according to each socio-professional category and income classification.	
Are there any contribution rates differentiated by categories of workers?	No	F.4- Poor organization: Collective registration agreements with organizations of producers grouped in Associations and Cooperatives.	
Are there any State subsidies for contribution payments?	yes	F.5- Mistrust of social security institutions due to poor management: Decrease in transaction costs by facilitating payment locations in the whole of the financial system, supermarkets, pharmacies, and the Internet.	
Are there any tax incentives to contribute as an independent worker?	No		

Annex 3 – Uruguay: Profile of the protective action of social security to independent workers

A- General characteristics of independent workers:		D- CONTRIBUTION COLLECTION:	
% of independent workers in the working EAP	27.7	Is there a single contribution collection system?	No
% of women independent workers		How many contribution collection systems are there? Which are they?	BPS
% of urban independent workers		Are there different contribution payment deadlines?	No
Average income of independent workers / average salary		Which are the existing payment deadlines?	Monthly
		Are there any contributions in concepts other than cash? -crops sales, etc.	No
		On which concept (calculation basis) are such contributions applicable? List them.	Presumed income
B- Coverage scheme:		Institution, agencies, or establishments participating in the collection procedure:	BPS
Definition of independent worker (professional categories included)		Is it possible to pay contributions online?	
Compulsory registration of independent workers?	yes	Is it possible to pay contributions by credit card?	
Are there any group or collective registration mechanisms?	yes	Is there any special innovation related with collecting? Which one?	
Are mutualisms or cooperatives a form of registration?			
Single general scheme or special schemes for independent workers?	Special schemes		
Are benefits differentiated for independent workers?	No	E- COVERAGE OF THE RURAL POPULATION AND OF WOMEN	
In case there are differentiated benefits, are they lower or higher for independent workers?		Are there any programmes to register farmers?	yes
Are there any inspection or supervision mechanisms to apply the mandatory registration requirement?	yes	Are there any programmes covering women?	No, there's the universal programme
		How are these programmes financed?	Similarly to all other IW
C- Financing:		Does the State contribute to such programmes? Which is the mechanism?	Yes, subsidy
Independent workers' contribution rate, according to the scheme (overall contrib.)			
Is the contribution rate higher or lower than that of employed workers?	Lower	F- Strategies of integration into the system according to registration obstacles	
Are there any contribution rates differentiated by income level?	yes	F.1- Job insecurity and low or null contributory capacity:	
Are there any contribution rates differentiated by categories of workers?	No	Contribution State subsidy inversely proportional to the contributory capacity of each socio-professional group/revenue, and requirement for mandatory contributory registration and inspections.	
Are there any State subsidies for contribution payments?	yes	F.2- Rotation and exchange with formal and informal employed work:	
State subsidies as % of the total contributions by independent workers?		Contribution portability (with insurance of rights) between the workers registered in the general Scheme and in the Special Monotributo Scheme, and vice-versa.	
State subsidies as % of the total of benefits granted to independent workers?		F.3- Heterogeneity of independent work:	
Are there any tax incentives to contribute as an independent worker?	yes	Application of a contributory table according to each socio-professional category, and to income classification.	
		F.4- Poor organization: Special Monotributo scheme	

Annex 4 – France: Synthesis of innovations

Innovation	Description
Adapted packages	<p>Towards benefit packages that reach the same level of guarantees and benefits enjoyed by salaried workers</p> <ul style="list-style-type: none"> - Ordonnance du 8 décembre 2005: Creation of the RSI, which merges three insurance funds: the CANAM, the ORGANIC and the CANCAVA and their respective networks, with subsequent harmonization of packages. - Loi d'orientation agricole, 1999: Adoption of a law that asserted the political will to increase agriculture schemes' benefits so that they would reach a level similar to the one enjoyed by the rest of the population. Subsequently, basis for pension contribution calculation changed, pensions were increased and a mandatory complementary pension was created. - Freedom to elect insurance providers: For health and employment injuries, independent farmers are free to choose their provider. This situation is unique in France where affiliation and contributions are mandatory, regulated depending on the profession, and have to be done in the assigned social security institution.
Differentiated contributions and financing mechanisms	<ul style="list-style-type: none"> - Progressive contributions (RSI): For the RSI scheme, contributions are calculated depending on revenues. - Specific basis for contribution calculation (MSA): The basis revenue for contributions calculation of independent farmers is very different from other schemes. Indeed, they have several options for the basis of social contribution calculation. Those include several options of fixed sum based on regional averages (linked to options of revenue evaluation on the basis of average revenue per acre) and the option of taking for basis the real revenue (which is still marginally used). - Subsidized schemes (MSA): As early as 1960, a special budget called "budget annexe des prestations sociales agricoles" (BAPSA) was created in order to compensate for farmers' low level of contribution. The BAPSA is directly managed by the Ministry of Agriculture; its revenues come from VAT (a third of the fund), other general taxes, solidarity between social security funds and contributions (15 per cent of the fund). - The Madelin regulation: It allows independent workers to get tax reduction whenever they subscribe for specific supplementary insurance contracts developed by insurers following specific guidelines.
Adapted collection mechanisms	<ul style="list-style-type: none"> - Interlocuteur Social Unique: With the creation of a unique point of contact, RSI members pay all their contributions (health, pension, etc.) to a unique entity. For independent farmers, the interlocutor is unique as well; the MSA centralizes affiliation, payment of contributions and benefit provision. The ISU was the creation of a unique point of contact for RSI members regarding affiliation, payment of contributions and benefit provision. This includes an important work towards information system harmonization and data sharing. - Payment: In order to adapt to its members' constraints, the RSI allows for various pace of payment
Administrative innovations	<ul style="list-style-type: none"> - Auto-entrepreneur: Auto-entrepreneur is a flexible independent worker status that aims at facilitation enterprise creation. Auto-entrepreneurs even have the option of paying a global package as percentage of their revenues that includes both social contributions and income taxes, which is an important innovation that greatly facilitates the accounting in the business creation phase. - Conjoint collaborateur: Since 2001, the spouse working for the business is officially recognized and has to register to social security schemes as contributors, which include a pension that was put as a new value.

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