Social Security for Workers in Informal Sector

A proposal for a Major Policy Initiative to be followed by a Comprehensive Scheme

SUMMARY

Social Security for the Workers in the Informal Sector

Policy Framework and a Proposal

1. **Political commitment:**

The Point of departure for this proposal is the National Common Minimum Program (NCMP) of the United Progressive Alliance (UPA) Government, which states that

"The UPA Government is firmly committed to ensure the welfare and well-being of all workers, particularly those in the unorganized sector who constitute 93% of our workers. Social security, health insurance and other schemes for such workers like weavers, ... Leather workers, plantation labour, beedi workers etc are to be expanded".

As a sequel to this commitment the Government has assigned the following as one of the terms of reference of the National Commission on Enterprises in the Unorganized/Informal Sector.

"Review the social security system available for labour in the informal sector, and make recommendations for expanding their coverage".

2. **The Contribution and Characteristics of Informal Sector.**
   - 93 per cent workforce;
   - 60 per cent of national income
   - Significant contribution to exports;
   - Higher employment elasticity
   - 57 per cent own account enterprises
   - Poverty and vulnerability of workers;
   - High proportion of women workers in the sector etc.

3. **Emerging Consensus on Social Security**
   - Last three decades characterized by discussions, debates and experiments relating to social security;
   - **The Unorganized Sector Workers Bill 2004** (in circulation) is an outcome of this process.

4. The Proposed Initiative

- Takes into account the actually existing models/schemes (Welfare Fund Model in Kerala, Tamil Nadu and a few other status as well as those administered by the Central Government, SWEA and other models in the voluntary sector, etc.);
- Takes in to account the proposals contained in ***The Unorganized Sector Workers Bill, 2004***;
- Goes beyond all these existing models and proposals by proposing a comprehensive and inclusive model;
- Argues for a major national initiative in the form of a comprehensive national scheme with the participation of States, voluntary organizations in this field, public developmental institutions and representative organizations of workers an d employers (wherever applicable) in the informal sector.

5. Basic Premises

- Social Security to the workers in the informal sector is not a matter of charity or provision of dole;
- Finance is not going to be a critical constraint as revealed in the functioning of existing Welfare Funds (many funds face problems of underutilization) or related models;
- Despite significant contribution to national income, employment and exports, the workers in this sector are not seen as deserving a ***quid pro quo***;
- In this age of economic liberalization and globalization, the state has a responsibility to address emerging vulnerabilities and risks (in addition to the pre existing ones). This points to the need for balancing macro economic policies with macro social policies;
- In the long-term social security contributes to equity that in turn should also contribute to efficiency viz strengthening and enhancing human capabilities (including that of human capital). It is compatible with the objective of long run growth (as revealed through the experience of East Asia). *Most economically developed countries that advocate economic liberalization have strong national social security systems involving government expenditures of the order of 15 to 30 per cent of national income.*

6. Proposed Model

The Main elements of the proposed model are as follows:

- Creation of National Social Security Fund for the workers in the Informal Sector with a corpus equivalent in at least 2 percent of the sector's contribution to national income.

  [A corpus will be created through a one-time contribution from (i) the Central Government, Reserve Bank of India, NABARD, IDBI, SIDBI, EXIMBANK and similar institutions who have a direct or indirect stake in the welfare of workers in the Informal Sector; (ii) voluntary contributions form the all India Institutions with a direct stake in the welfare of workers in the informal sector such as All India Handicrafts Board, KVIC and others; (iii) a specified contribution from the private corporate sector; and (iv) voluntary contributions from Trusts/Foundations/NFUs and any other interested bodies/persons.]

[The size of the corpus of the Fund should look credible in terms of the enormity of the challenge and to signal a message that this initiative represents a serious national initiative that is complementary to the growth-oriented polices. It is also complements the country's efforts in advancing human development by addressing risks and vulnerabilities of the working poor. All these should be seen as strengthening national capacity to face global competition]

[The fiscal burden of the proposal is likely to be minimal since it is based on contributions from workers, employers and the state. Costs of direct provisioning of social security from budgetary resources will be confined to those sections of workers whose capacity to contribute is very low. Fiscal burden from such a responsibility is sought to be reduced by the creation of a national fund (and state funds) whose yield could be utilized for a part of direct provisioning.]

- Creation of a National Social Security Board for Workers in the Informal Sector.

    - This will be membership-based organization. The membership will consist of State-level Social Security Boards, National-level voluntary organization, representatives of national-level workers and employers organizations and other stake-holders. The board will have complete functional autonomy.
    - Its income will consist of the yield from the corpus of the Fund, grant from Central government and contributions from public/private institutions.
    - It will provide a variety of services to the members who implement social security schemes. One main service will be financing of social security schemes where contributions cannot match the specified benefits.
    - Another mandated set of services will be to help build state-level boards, technical aid for management of state-level funds and programmes, compulsory auditing of state level organizations receiving financial assistance and monitoring of functions.

- Creation for State-level Social Security Boards.

    - These will also be based on membership. Membership will consist of existing Welfare Funds (or those to be created), voluntary organizations with social security programs, state-level workers and employer's organizations in the informal sector and other stake-holders. The Board will have complete functional autonomy.

  [States will have the option to retain the existing organizations such as the WFs, create new ones and/or encourage voluntary organizations to become members or create mechanisms for direct provision of social security through the State-level Social Security Boards. The creation of the national fund and the proposed services of the national boards are intended to act as incentives for State to join the proposed scheme. However, there will have to be phased approach so as to give some time for preparation especially for those States who do not have any schemes at present.]

- A state-level fund will be created to finance the members who are providers of social security to informal sector workers.

  [The idea is to have a decentralized organizational system and to give sufficient space for initiatives by workers and their organizations, voluntary organizations and the state. This is expected to encourage existing WFs and similar organizations to function better with a view to get benefits from the proposed state-level boards.]

- District, sub-district and panchayat have ward level offices.
- Specification of benefits.
    - Protective social security (**Mandatory**: sickness, accidents and deaths through an appropriate mechanism such as insurance, old age, maternity. **Optional**: Provident Fund, Gratuity, Unemployment relief, funeral expenses etc.)
    - Promotional social security (**Mandatory:** Assistance for skill acquisition/up-gradation, credit for self-employment, insurance for assets/equipments. **Optional:** Assistance for housing, children's education, marriage of daughters, etc).

- Space for voluntarism

    - The creation of federal structure for social security is expected to provide considerable space for the participation of existing organizations (such as SEWA and WWF) and provide incentives for new voluntary initiatives. Membership in national and state-level boards will entitle them to design and implement programs with financial and technical assistance from the boards. The membership based organizational structure is intended to provide for appropriate social security delivery mechanisms in different regions and/or occupations. Innovative scheme may also be thought of for specific groups (such as home-based workers).

- Gender concerns

  A greater proportion of women workers are in the formal sector than men. Furthermore, women predominate in some specific categories such as home-based workers. Occupations where women form a greater proposition are also the ones where the capacity of the worker to contribute to the social security system is low. There is therefore a greater need for social security for such workers since they are also the poorer and more vulnerable sections.

- Managerial and Technical Support

  Some of the weakness of the existing models emanate from organizational and managerial issues. Strong organizations with adequate managerial expertise are called for (management of funds, auditing, planning for disbursement of benefits etc). A national system with adequate capacity building responsibilities is in a better position to address many of these issues.

- Implementations

  Given the varying nature of commitment and experience at the state-level, a phased approach is recommended. It is important to provide for a self-selecting mechanism in the initial period so that states with existing schemes and some experience may come to board and pave the way for other to join. Incentives such as finance, technical and organization assurance may attract states to join the system as early as possible. A proactive policy with special assistance for the design and organization of the state level boards and related mechanism is likely to appeal more than a legislatively mandated approach for national coverage.

- ***There are a number of important matters of detail that needs to be thought. What is suggested is a period of consultation and dialogue with all the stakeholders.***

SUBHASH BHATNGAR

From: <hms@nde.vsnl.net.in>
To: <ncccl@vsnl.net>
Sent: Thursday, December 30, 2004 4:35 PM
Subject: Unorganised Workers Bill

Shri S.Bhatnagar
Coordinator
National Campaign Committee
for Unorganised Sector Workers.

My der Subhash

Inn continuationn to the discussions we had, I am giving brief comments of HMS on the main issues on the Unorganised Sector Workers Bill, 2004.

1. We are of the view that there should be seperate Board for Agiruilcture Workers under a single Act for Unorganised Sector.

2. The Board structure should be at the state level, where the Act is to be implemented. However there has to be a mechanism at National level to take policy decision.

3. According to HMS even the construction workers covered under the 1996Acts should also be covered under the Single Act for USW. This will help in better mobilisation of USWs to create a pressure upon the appropriate governments for any amendment in the Act.

4. There should be a Single Board at each State/Union Territory level.

5. The mere welfare oriented approach of the legislation will not do. The legislation must also provide for regulation of employment, Minimum Employment Guarantee, Wages and role of the workers for proper enforcement of the bill and the scheme.

6. The minimum basic welfare and pensionary benefits must be included in the Bill. It can not be left to the States.

7. The funds for Social Security have to be contributed from Central and State Revenues. Sharing may be left to the Governments to decide. However, state has more role to play.

Yours Sincerely,

R.A.Mital
Secretary