SOCIAL SECURITY FOR ALL WORKERS

How to Consider the Needs of Informal and Non-Standard Workers
Social Security for All Workers - How to Consider the Needs of Informal and Non-Standard Workers

(Policy Document)

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1. Introduction

Modern global trends that substantially alter the characteristics of human labor pose a major challenge to social security systems around the world. These trends primarily include the spread of the phenomenon of non-standard and atypical employment, which implies an increase in the number of workers who do not represent full-time employees, but fulfill specific tasks and do not have an employment contract. In addition to these groups of workers, countries with developing and transition economies, are characterized by a large army of informal workers. Social security systems created in the industrial era are designed for employees with standard, full-time jobs who make monthly contributions to various social insurance programs. An increase in a number of non-standard and informal workers is therefore incompatible with these systems.

Almost half of the employed in Georgia (49%) \(^1\) are classified as self-employed. A vast majority of them are agricultural workers engaged in subsistence farming, thus they represent informal workers. According to the Statistics Bureau, the share of informal employees in the non-agricultural sector constitutes 36.2% of the labor force.\(^2\) Thus, it can be said that the share of those engaged in informal and non-standard labor in the country is quite substantial, and therefore, the country’s social security system should take this feature into account. However, the current reality provides little basis for this assertion.

The social security system in Georgia is mainly based on the targeted social assistance (subsistence allowance) program. The latter was created in 2006 and has undergone many changes since then, however a study by the United Nations Children’s Fund suggests\(^3\) that the program still has significant shortcomings - e.g. only 54.3% of the poorest decile of the population is covered by the program. It is important to note that the current system focuses on the poorest sections of society and does not aim to provide financial support to persons in times of unemployment. It should also be noted that in general, social assistance systems, in their essence, focus on reducing poverty, and thus, their target is the coverage of extremely vulnerable households.\(^4\) Consequently, workers in the informal sector, who sometimes earn more than the average salary, are not covered under this system. There are no exact data on this topic in Georgia, but studies show that some of the recipients of subsistence allowance are engaged in informal economic activities.\(^5\) Clearly, this does not mean that the existing subsistence allowance system fully covers informal and non-standard workers in the country. Consequently, these people are left without any social protection mechanism, which puts them at great risk in the event of temporary or long-term unemployment.

Considering the fact that Georgia does no operate any known income-maintenance schemes (neither the unemployment insurance system nor the unemployment benefits), it can be said that the degree of protection of employees in the formal sector is not particularly high either. However, unlike informal workers, they have one advantage - the Labor Code

\(^1\) National Statistics Bureau, 2019  
\(^2\) ibid  
\(^3\) United Nations Children’s Fund, 2017  
\(^4\) Asian Development Bank, 2016  
\(^5\) State Audit Office, 2016
provides for compensation of at least 1 month’s salary for an employee in the event of their dismissal.  

Thus, it becomes clear that the vast majority of informal workers are benefiting neither from the subsistence allowance system nor from a little protection offered to the formal workers under the employment legislation. This clearly indicates the need to reform the social security system. This policy paper reviews the various alternatives to social protection (in particular, provision of income security in the period of unemployment) and their relevance in the Georgian context.

According to international recommendations, the document concludes that the unemployment benefit system, funded from collective taxes, is the most promising in terms of maximizing the coverage of informal and non-standard workers. In the first phase of implementation, this involves inclusion of those beneficiaries who are capable of work among the recipients of social assistance and the distribution of benefits to them. The next step is to open the system to all workers (including those in formal or informal sector) who will lose a source of income as a result of job loss.

2. Financial support mechanisms for the unemployed

Unemployment insurance

The unemployment insurance system operates in almost all the OECD member countries, as well as in some less developed and transitional economies. The main essence of this system is that the employee makes insurance contributions to a special fund during the employment period. As a rule, in most countries, the employer and the state also make contributions to the unemployment fund. The co-participation of the state varies from country to country - in some cases it is regular, and in other cases the state gets involved only in times of economic crises. Therefore, in case of loss of employment, a person reserves the right to receive unemployment benefits, which shall be transferred from their own savings. Benefits are granted for a certain period of time and they replace a certain percentage of a person’s previous salary. Benefit distribution time frame and replacement rates vary by country: Belgium, for example, is exceptional because an unemployed person can receive unemployment benefit for indefinite period of time, while in Lithuania the period of unemployment benefit receipt is the shortest in Europe and is set at 20 weeks. Salary replacement rate ranges between 12% (UK) and 90% (Portugal). Also, there are important differences in how the system is administered: In the Ghent system (Belgium, the Scandinavian countries) unemployment insurance funds are administered by social partners (mainly trade unions), while in most continental European countries the administrative powers are exercised by state institutions. Regardless of which entity administers it, there are certain prerequisites established in the system for the beneficiary of unemployment benefits: they ought to have a job history (therefore, they

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6 Labor Code of Georgia  
7 European Commission, 2013  
8 ibid  
9 ibid
must have a history of making contributions to the fund) and their dismissal should be for reasons beyond their control. At the same time, the beneficiary has the obligation to look for a job, and they receive assistance from the relevant services in that regard. Due to all the above factors, unemployment insurance systems have different coverage of the unemployed population – in different places reach could be more comprehensive or less so. However, the discussion of these details is not relevant for given analysis, as the use of this system in countries with less developed, largely informal economies is associated with many difficulties.¹⁰

The first and foremost problem is that the number of people employed in the formal sector in less developed countries is very small compared to informally employed people. In order for the unemployment insurance system to work properly, the necessary condition is risk-pooling - that is, the number of participants in the system should be as large as possible, and those with low and high risk of job loss should be involved to accumulate the appropriate funds and balance the risks. Because the share of workers in the formal sector in low-income economies is small, they are unable to mobilize sufficient funds in the said insurance schemes. As for those engaged in informal and non-standard labor, they are not able to participate in these programs at all, due to the peculiarities of their working arrangements.

Graph 1: Unemployment insurance coverage rate

Note: The diagram shows the share of beneficiaries of unemployment insurance system among the unemployed in a particular country. The blue columns indicate the developed economies, and the green - the transitional and developing economies. Source: International Labor Organization

Consequently, as the review of the International Labor Organization¹¹ confirms, the unemployment insurance systems are mainly distributed in countries with developed economies. In developing countries, where these systems exist, the coverage is very low and so are the benefits. For example, as Figure 1 shows, the median unemployment rate coverage of the unemployed by the unemployment insurance system in developed economies is 61.3% (Austria, Germany, Finland, and Belgium have 100% coverage). In

¹⁰International Labour Organization, 2019

¹¹ibid
developing and transitional economies, the figure is 10.6%. Only a few developing countries (Belarus, Thailand and Mongolia) show a better rate - unemployment insurance here covers an average of 30% of the unemployed.

Lastly, it must be said that in addition to the clear, financial issue, the problem in developing economies is the lack of resources for the administration of the system and the malfunction of the bureaucratic apparatus.

**Unemployment Allowance**

The most common alternative to unemployment insurance is the system of unemployment allowance. Similarly to the unemployment insurance institute, its main goal is to provide financial support to the unemployed, although unlike the insurance system, it is funded not by the contributions of employees and employers, but under the general budget of the country.

There is also a significant difference between these systems in their administration. If the unemployment insurance system puts the person’s work history, the number of contributions and the reason for the loss of employment as preconditions for the issuance of benefits, the unemployment allowance system does not and cannot take these factors into account. The precondition for issuing an allowance is that the income of the person / of their family has fallen below a certain (minimum) level. Consequently, unemployment allowance systems in its essence implies an assessment of a person’s / family’s income (so-called means-test). Given this, the administration of unemployment allowance systems can be much more expensive than unemployment insurance, as it requires not only an initial assessment but also constant monitoring of the recipient's income during the period the person receives benefits. In addition to the above administrative costs, the amount of disbursed benefits obviously has a significant impact on the overall cost of the program.

It is important to distinguish between unemployment allowance and social assistance (subsistence allowance), as they are commonly confused. These systems indeed have a lot in common: both are tax-funded (and not by contributions to the insurance fund), and in both cases when determining whether the person deserves assistance, their income is being assessed. However, these programs serve different functions - the main focus of the social assistance program is poverty reduction, while the unemployment allowance system ensures the financial security of the citizen during the period of their unemployment.

Social assistance systems are widespread in developing countries and they focus on the most vulnerable. The latter, at the same time, is the last (and often the only) network of social security, and the precondition is only a confirmed need. In contrast, in relation to the unemployment allowance recipient, there are expected to continue their job-search and return to the labor market, as are the unemployment insurance recipients.

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12 Vroman, 2001

13 Asian Development Bank, 2016
The combination of these systems varies greatly from country to country. As we have already mentioned, the first safety net in developed countries is mainly unemployment insurance. However, there are developed economies where not insurance but unemployment benefits play a leading role (e.g. Hong Kong, Australia - see Table 1).

Table 1: Unemployment benefits system in Australia
Appendix 1:
The job seeker allowance in Australia is designed for those whose income is below a certain level. To receive this allowance, a citizen must be considered unemployed (or must be ill or injured). It should be noted that the local definition of unemployment allows a citizen to perform part-time or other non-standard / temporary / irregular work. Consequently, the job seeker's allowance does not preclude the recipient from having a certain income, although the level of benefit is reduced depending on what income the citizen receives.

The system has been changing in Australia for years. Currently, there is a so-called Free Zone - (Income below a certain limit is allowed and does not affect the benefit). If the income exceeds the second mark, then the benefit is reduced by 50%, and if it rises to the third mark, then it is reduced by 70%, and finally, after exceeding the limit, it is completely terminated. Other reforms implemented in the system since 1995 include the following: The benefit of job seeker has become individual - the individual's income (and not their family's) is estimated, although, clearly, the financial situation of family members is also taken into account. The analysis showed that such a gradual reduction in the allowance increased the employment rate among the beneficiaries (mostly part-time workers).

Source:
http://webarchive.urban.org/UploadedPDF/410228_ui_and_ua.pdf

Regardless of which program is the leading one, it is critical to note that we usually have at least two of the three mentioned above. In developed economies, these two mainly include unemployment insurance and unemployment allowance, while in developing countries, the combination of social assistance and, in some cases, unemployment allowances are more common. It must be said that in the OECD countries, all three of them are often represented. 14 In Estonia, for example, the first pillar of social security is unemployment insurance. If a person completes the period of receiving the insurance benefit and cannot return to the labor market, they will be transferred to the unemployment allowance system. For those citizens who, despite receiving assistance, are unable to return to the labor market due to objective reasons (e.g., they have an obligation to take care of a family member) or their disability, the last safety net is social assistance.

Lastly, it must be said that in terms of informal workers’ coverage, the system of unemployment allowance is obviously a much better alternative to the unemployment insurance, considering that (theoretically) anyone, regardless of their form of employment, can join the system.

Universal Basic Minimum Income

14 Trumm, 2006
While it is true that the system of unemployment allowance is a better alternative to the unemployment insurance in terms of covering informal and non-standard workers, however, as noted in the previous section, its administrative costs can be very high. That is why a universal basic income is considered as an alternative. This means regular fiscal benefit for all members of a given community, regardless of their employment status.\textsuperscript{15} The two main characteristics of the universal basic minimum are: universality and unconditionality.

The universal nature of the benefit is that it belongs to "everyone." As a rule, the only condition that can be imposed here is the citizenship of a particular country or the right of residence and age (18+). The idea of universality is backed up by several arguments: avoiding the introduction of targeting (so-called means-testing) automatically avoids the problems that characterize such systems. In particular, the risk that those who do not need it will receive assistance and / or those who need it most will be left out is eliminated. The second reason is that universality avoids stigma, which often prevents those who really need help from applying. At the same time, citizens no longer have to incur additional costs in order to receive benefits (e.g. a visit to the relevant agency, filling out an application, etc.). Finally, the workforce will have less interest in hiding informal economic activity because it will not prevent them from receiving benefits.\textsuperscript{16}

The second important feature is that receiving benefit does not imply any preconditions on the part of the recipient. It should be noted that a number of social assistance programs impose certain preconditions on the recipients / families - e.g. The condition that the minors in the family should go to school, the condition that the newborns in the family should be fully vaccinated, and so on. The universal basic minimum does not impose any such conditionalities.

The idea of a universal basic income has many proponents and opponents. Supporters emphasize that this type of tool is actually saving costs to the extent that it prevents very large sum of administration expenses necessary for running targeted programs. At the same time, it is guaranteed to reach the poorest decile of the population, while it is well known that targeted programs, especially in low-income countries, fail to reach even half of the poorest group.\textsuperscript{17} The main argument of the opponents is obviously related to the financial side of the program - its implementation will put a heavy burden on the budget and may increase the risks of inflation.

Lastly, it should be noted that the universal basic minimum is more of an idea than a widespread practice. According to the World Bank, by 2020 there were 22 pilot projects in the world (ongoing and completed) in various countries or regions, including the developed countries (e.g., several states in the United States, Finland, the Netherlands), as well as the developing world (e.g. Kenya, Madhya Pradesh in India, several regions of Brazil, Mongolia, etc.). However, existing experience does not yet provide an opportunity to draw solid conclusions about the effectiveness and efficiency of the universal basic minimum.

\textsuperscript{15} World Bank, 2020
\textsuperscript{16} ibid
\textsuperscript{17} ibid
3. Existing situation in Georgia

None of the programs discussed in the previous section are functioning in Georgia. As mentioned in the introduction, the only social security net in this country is the subsistence allowance, which falls into the category of "social assistance".

The current social assistance system was established in 2006 by Government Regulation N 59. According to the document, the goal of the program is to reduce the level of poverty in the country and prevent it. In the framework of this program, a database of socially vulnerable families was created. In order for the families to join the program they must submit an application. After submitting an application, the households are evaluated by a social agent from the Social Services Agency. Based on the assessment, the family is given a welfare score. The welfare score is calculated based on the socio-economic status of the family. In particular, the assessment criteria include family income, income-generating property, the status of family members (whether a member of a family has a special status, that of a disabled person, a pensioner, a single mother, etc.), expenses, utility fees, the needs of family members, and so on.

As for the allowance itself, it is assigned according to the following scheme: if the family’s welfare score is less than 30 0001, they receive 60 GEL for each member of the family, as the points increase, the allowance decreases, in a following manner: 30 001 to 57 001 - 50 GEL for each of the member; 57 001 to 60 001 - 40 GEL; 60 001 to 65 001 - 30 GEL and finally a family whose score is more than 65 001 but less than 100 001 - 10 GEL. It should be noted that in addition to money transfers, families also receive other (non-monetary) benefits (benefits public transport, utility bills, rent co-financing and other one-time monetary benefits).

The state initiative of 2018 was of special importance in the social protection system, according to which it became necessary for the unemployed member of the family receiving subsistence allowances, who is capable of work, to register as a job seeker on the labor market management information portal - worknet.gov.ge. A year later, a decree came into force, according to which, if member(s) of the family, with the welfare score of <100 000, registers a salary, as shown in the Revenue Service data, and the amount of the salary (calculated as an average of 4 months' salary per family member), differs with the amount declared in a “family declaration” (the corresponding column – “salary”) by more than 175 GEL, this is not a reason for a family to have subsistence allowance withdrawn for a period of one year.

The last two changes in the administration of the system indicate that economic activation of beneficiaries and their return to the labor market is becoming a priority. This approach is backed by the argument that about half of those receiving benefits are able to work and do work informally. The same source concludes that the existing subsistence allowance

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18 Government of Georgia, 2006
19 Social Service Agency, 2020
20 Government of Georgia, 2019
21 State Audit Office, 2016
system has some negative effect on the motivation of beneficiaries to find work in the formal sector. However, this effect has not been accurately measured and analyzed.

On the other hand, since 2015, the country has been pursuing an employment policy, with the main focus on "activating" the unemployed - that is, returning them to the labor market. To this end, the state offers a variety of employment services to job seekers: e.g. training (requalification), subsidized employment, etc. However, this policy does not provide for any financial support for the unemployed (e.g. unemployment insurance benefits or unemployment allowance).

It should be noted that in the Georgian context, subsistence allowances are often equated with unemployment benefits. Such an approach is obviously wrong. The reason for this, first of all, is that the existing social assistance, in its essence, is a means of protecting families from poverty, and it has a very weak connection with the issue of employment/unemployment. After receiving an application for social assistance, the state evaluates the family (and not the individual) to determine how poor the family is. This assessment includes a question about the number of persons in the family, who are capable of work, although the existence of this question does not mean that a given family will not receive social assistance if it includes a family member who is capable of work. As already mentioned, the system evaluates the family's consumption, their expenses and considers their affiliation with socially vulnerable groups. This is the basis for setting an allowance and not whether the families members have or don't have a job.

On the other hand, the target groups for subsistence and unemployment benefits are significantly different from each other, and therefore the state policy towards them should be different. The income of people engaged in informal and non-standard work is, in some cases, high enough for a family to be excluded from the group of socially vulnerable. Consequently, during the period of temporary unemployment, there is a high probability that these individuals are less likely to address the Social Services Agency to receive assistance. Firstly, because there is little chance of them being considered eligible for the social assistance, and secondly, because the period from submitting an application to receiving subsistence allowance is at least 3 months. Thus, starting a new job may take less time than getting social assistance.

Therefore, it is important to have the financial assistance program in the country (e.g. unemployment benefits), the main target group of which will be not the "poorest" population, but the "temporarily unemployed". This would allow both formal and informal sector workers (those not included in the "poorest" group) to enjoy some financial security during periods of temporary unemployment. In the following section, we will discuss in more detail what the "unemployment allowance" program can look like in the Georgian context.
4. Directions for social protection system reform

As there is already a targeted social assistance system in Georgia, the introduction of a new “target-based” program should be implemented in several stages, starting with some specific changes in the existing system. In particular:

1. **Identification of those subsistence allowance recipients who are “capable of work” and their inclusion in the “unemployment allowance” program**

It is important to distinguish between subsistence allowance beneficiaries who are able to work and those who are not able to earn a living. This, in itself, implies the elaboration of a definition of “capacity to work” and its application in practice in the assessment of new cases. This group can be considered as a “pilot group” - they will continue to receive financial assistance, but this will be “unemployment” and not “subsistence” allowance. This in itself means that in addition to providing benefits, the state should offer the beneficiaries employment services and help them re-integrate into the labor market. The obligation to engage in these activities and to accept the job offer must be defined as a precondition for the beneficiary to receive the benefit.

The imposition of these obligations carries a potential high risk, if “suitable work” is not defined by the relevant legislation. As of now, most of the vacancies concentrated in the Employment Promotion Service are low paid (400-500 GEL), as are most of the jobs in the service sector in general. The idea of a suitable job involves a number of parameters, such as the relevance of the offered job to the interested person’s education, experience, and so on. Of particular importance is that the remuneration for the offered job should be significantly higher than the unemployment allowance in order to motivate the beneficiary to be employed in the “formal sector”. This is especially important given that some of the recipients of subsistence allowances are already involved in the informal economic activities.

2. **Granting an “individual” character to unemployment allowance**

It is important that the “unemployment allowance” is “individual” and not “family” benefit. Primarily this is due to the fact that unemployment as an event refers to an individual and not to the family. The study showed that when the beneficiary of the benefit disbursement was the entire family (couple), only one of them (usually a man) tried to find a job, considering that if both of them were to be employed, they would risk losing the benefits, altogether. Thus, if the “unemployment allowance” is directed at the family, it pushes certain family members (usually women) not to start working. That is why Australia and the United Kingdom, after years of reforms, have shifted to the individualized benefit system for the job seekers. Clearly, when evaluating one family member, the income of other members of the family is taken into account, but the benefit is given to the individual.

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22 As a rule, this issue is regulated by the Employment law. Work is currently underway on a new bill, and this issue must be taken into account.

23 Millar, 2003
and the increase in income of other member of the family is not directly related to the loss of the said benefit.

3. **Gradual reduction of unemployment allowances in parallel with the increase of income**

In order to reduce the negative impact of benefits on job seeking motivation, it is also important to gradually reduce benefits. In particular, the unemployment allowance should be gradually reduced in parallel with the increase in income. At the same time, there must be a certain "free zone" - the minimum amount of income that will be allowed to be received without losing unemployment allowances. It must be said that a step in this direction has already been taken in Georgia, when a grace period has been established for receiving a benefit in case of receiving a certain income (see above). That is why it is important, first of all, to assess the impact of this change on the behavior of recipients of subsistence allowances. And further reforms should be based on the results of the study.

4. **Simplifying administration**

Anyone can lose their job. In case of unemployment, timely assistance is crucial. Thus, it is important to be able to join the system in the shortest possible time period - e.g. within a maximum of one month after submitting the application. This in itself is related to the increase in the number of human resources needed to administer the system, so that it takes less time to study, evaluate, and consequently assign benefits to each case.

5. **Conclusion**

In countries where the number of non-standard and informal workers is high, the general recommendation is that the social security of citizens should not be tied to the status and form of their employment, as much as possible. The main reason for this is that the income of these people is unstable and unpredictable. Consequently, they cannot make regular contributions to the unemployment, health care or any other type of social insurance fund. Thus, contribution-based social security systems are less relevant.

Consequently, priority is given to more "universal" and collective tax-funded programs. Among the alternatives discussed in the document (unemployment insurance, unemployment allowance, universal basic minimum), the unemployment allowance system was considered the most relevant in the Georgian context, as the program can be used by all the unemployed regardless of their previous employment form, if it is established that their income is below the minimum marker.

Unemployment allowance recipients, in the first instance, may be only those persons receiving a subsistence allowance who are capable of work. It is important that they receive employment services from the state and have a commitment not to turn down the suitable job offer. The logical continuation of the reform that has already begun in Georgia will be that a person will have the right to receive a certain amount of income while receiving

24 OECD, 2018
unemployment benefits. Withdrawal of the allowance, therefore, should happen gradually, in parallel with the increase of the person's income.

All of the above measures are aimed at making it easier for beneficiaries of unemployment allowance to transition to a "decent" employment. However, in order to go through this process of reforms as smoothly as possible, it is critical to have a very clear communication with the beneficiaries.

If the program proves to be successful, at later stages, it is necessary to include all workers (from the formal or informal sector), who will lose a source of income as a result of losing their job.

5. Recommendations

- It is important to develop a definition of “capacity to work” and to identify, accordingly, those persons among the recipients of subsistence allowance who are capable of work;
- The benefit issued to persons capable of work should be re-qualified as an “unemployment allowance” issued to an individual and not to the family, and the various employment services offered by the state should be determined as the precondition for obtaining the said benefit;
- It is important to evaluate the results of the government-initiated reform, according to which the recipient of subsistence allowance would continue to receive social assistance for one year even if, at the same time, a separate income was declared by them;
- In case of receiving the unemployment allowance, it should be possible to receive income up to a certain limit, and the benefit should be removed in stages, in parallel with the increase of the person's income;
- Extending the system of unemployment allowance to the whole society should be done in several stages, after a detailed assessment of the first transition period is concluded.

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