

Formalization and Extension of Social Security to Achieve Decent Work in Cambodia

Labour Economic Conference 2024: Economic and
Employment Recovery and the Path to LDC Graduation

Finn KOH
ILO Program Manager



What is Decent Work?



- Opportunities for work that is productive and delivers a fair income
- Safety and security in the workplace
- **Social Protection** for All
- Better prospect for personal development and social integration
- Freedom for people to express concerns, organize and participate in decisions that affects their lives
- Equality of opportunity and treatment for all women and men

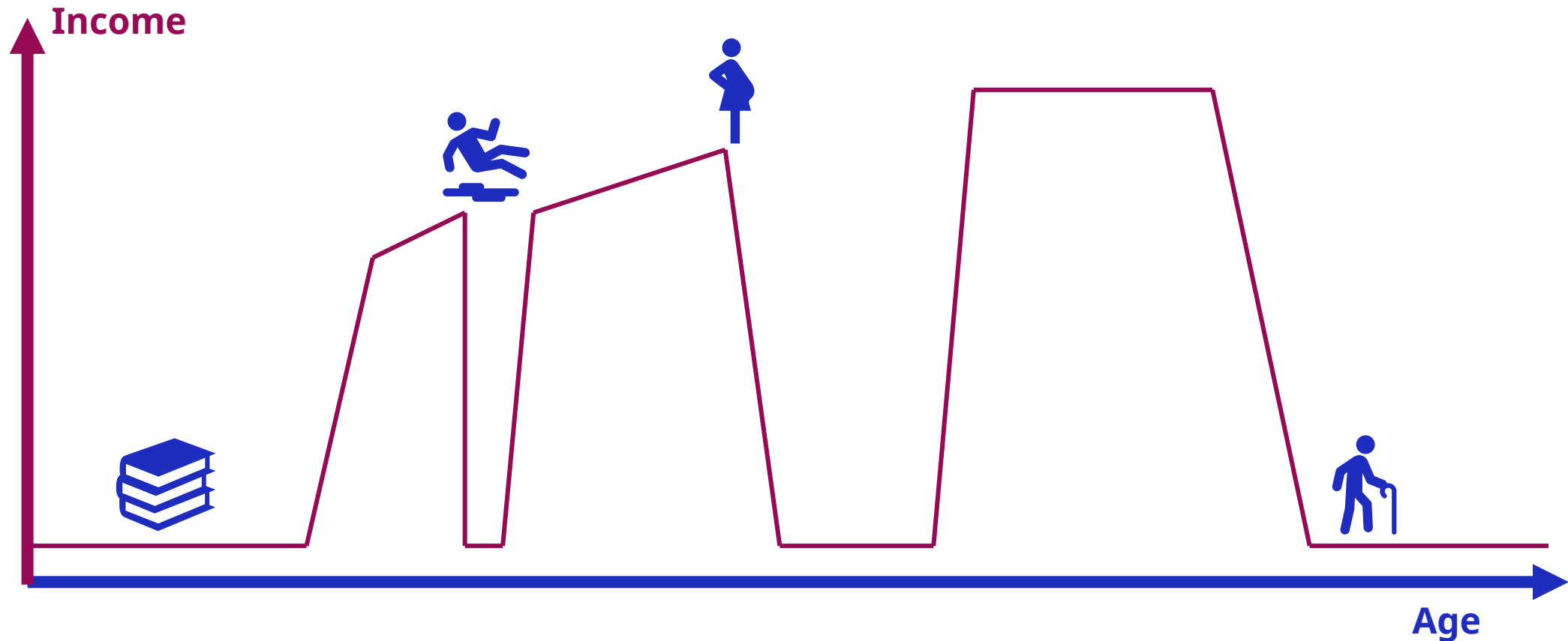
Source: Adapted from Rubery, 2015, ILO Non-standard Employment Around the World 2016

► Social security is...

Schemes established to provide protection and to improve the capacity of Cambodian citizens to effectively deal with economic risks and other vulnerabilities resulting from the changes of living and working conditions. (RGC, NSPPF 2016-2025)

Entitlement to social security is based on payment of contributions.

Changes of living and working conditions?



For workers

Provides greater protection during income shortfalls

A more robust social protection system will help workers during times of unexpected income shortfalls, such as during pregnancy, old-age, health issues, unemployment and work-related disability. This could contribute overall welfare improvements, including a reduction in poverty and improved health outcomes, and help smooth aggregate demand in times of economic challenge.

Increases labor mobility

Improved social protection could help increase labor mobility by reducing the negative effects of temporary unemployment.

Requires forced savings for old age

The pension scheme requires workers, with matching contributions from employers, to save for old age. This could have a significantly positive effect by reducing the likelihood of income shortfalls when older, thereby reducing old age poverty.

Provides greater predictability about health spending

The health insurance scheme entitles workers to receive healthcare services without additional costs, thereby increasing the predictability of their costs. This could reduce the likelihood that workers or their families have to take on health-related debts during an emergency.

► Impact at individual or household level

- Preventing the loss of productive capital
- Accumulate productive assets
- Increase innovation and risk taking in livelihoods of poor households
- Increase investment in Human Capital
- Impacts on labour force participation

► Impact at enterprise level

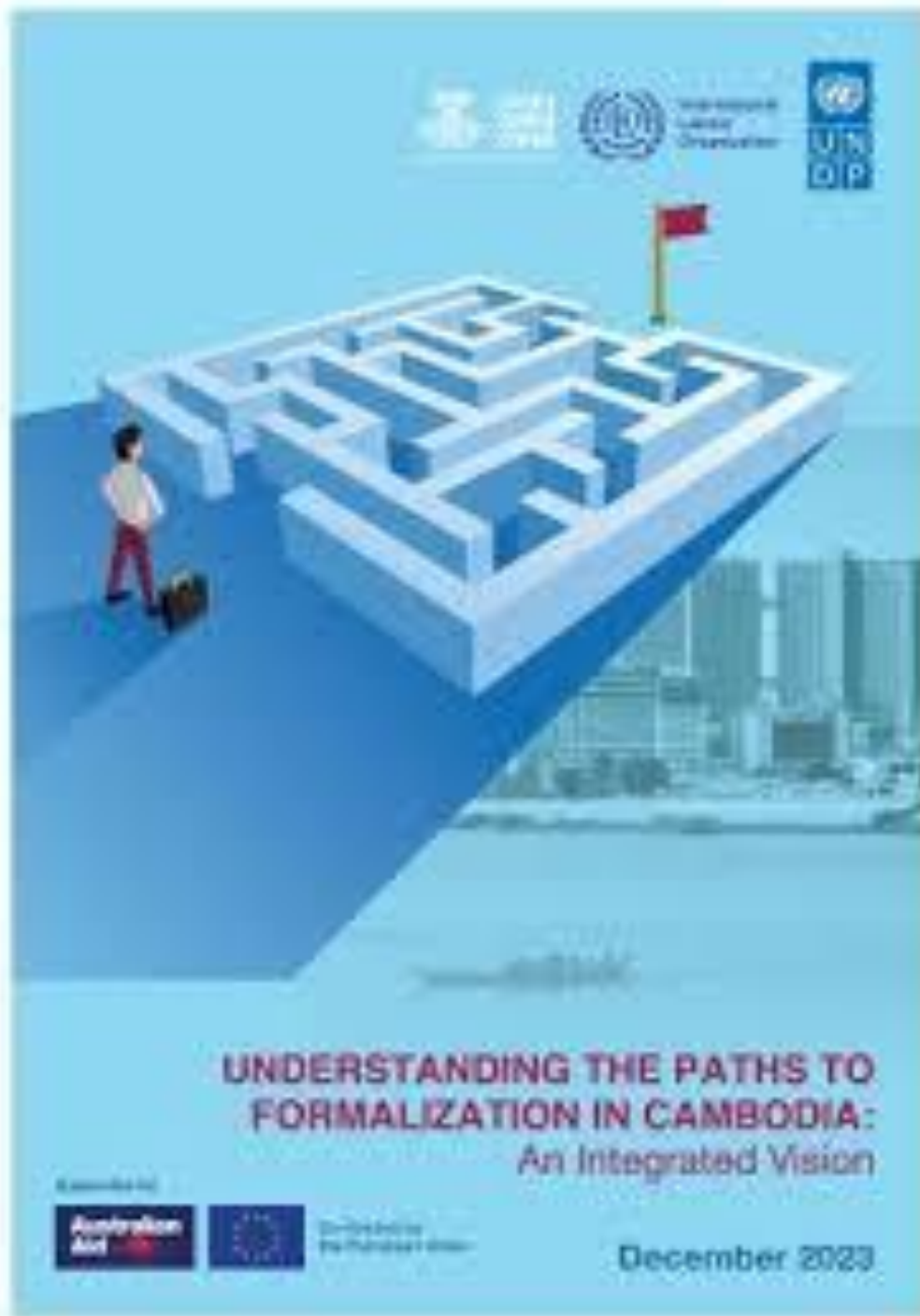
Increased worker retention (reduced turnover)

Research showed that after an Increased productivity: by 10% increase in social security coverage

- **Viet Nam firms experienced:**
 - per-worker revenue gain between 1.2 and 1.5 per cent
 - a profit gain up to 0.7 per cent
- **Indonesia**
 - per-worker revenue gain of up to 2 per cent

▶ Impact at the national level

- Facilitate economic reforms
- Enhance social cohesion and reduce inequality
- Enhance human capital



ព្រះរាជាណាចក្រកម្ពុជា
ជាតិ សាសនា ព្រះមហាក្សត្រ

កងរដ្ឋាភិបាលកម្ពុជា

យុទ្ធសាស្ត្រជាតិ ស្តីពីការអភិវឌ្ឍសេដ្ឋកិច្ចក្រៅប្រព័ន្ធ
ឆ្នាំ២០២៣-២០២៨

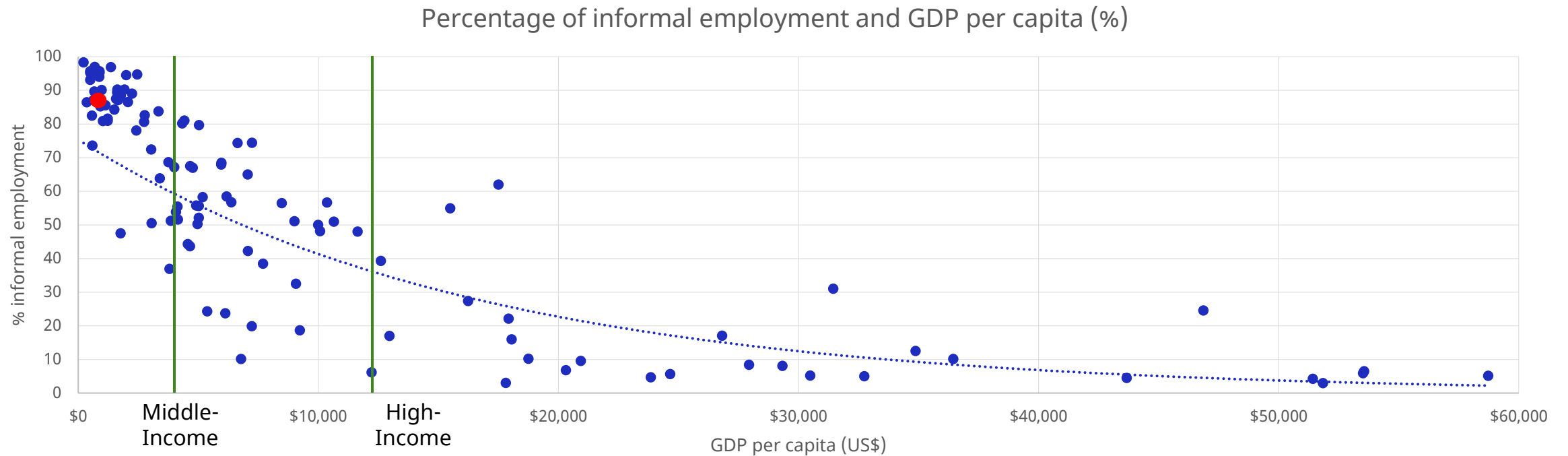


រៀបចំដោយគណៈកម្មាធិការគោលនយោបាយសេដ្ឋកិច្ចនិងហិរញ្ញវត្ថុ
ខែកញ្ញា ឆ្នាំ២០២៣

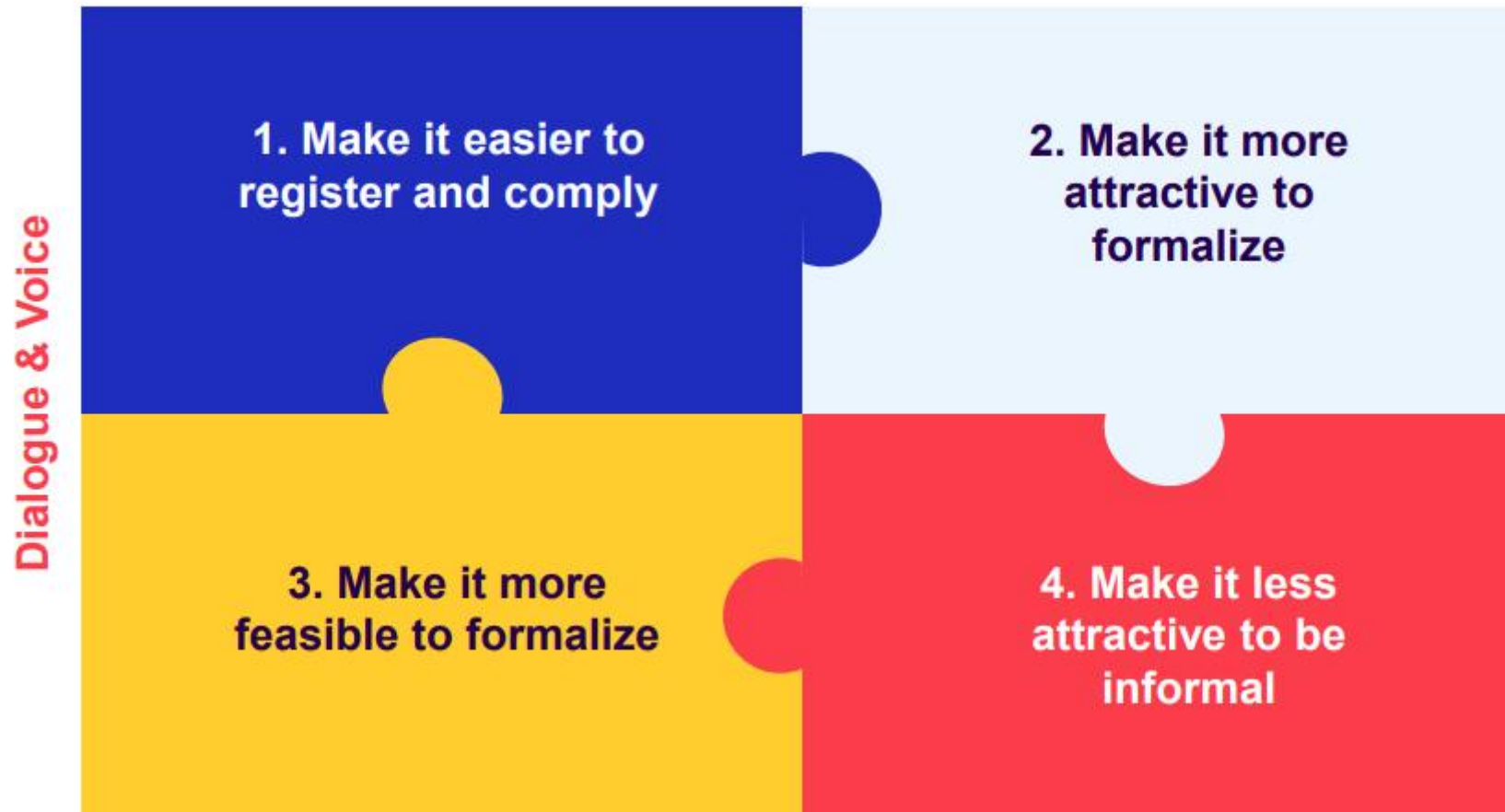
▶ What is INFORMALITY?

- **Informality exist in the absence of formality. It can exist in different sectors where an economic unit or a worker is not formal**
 1. Informality exist in the absence of formality: if not formal -> means informal
 2. Informality can exist in different sectors: Sectors can be formal or informal -> no such thing as an informal sector
 3. Economic unit can be formal or informal: Businesses, enterprises, establishment, micro-enterprises (self-employed) can be formal or informal -> no such thing as an informal economic unit
 4. A worker can be formal or informal: A worker can be formal or informal and this is not dependent on the sector, or the economic unit but on whether the worker is receiving social protection (work injury compensation, pension), entitlement to employment benefits (paid leave, sick leave, etc), subjected to national labour legislation (employment contracts, registration, laws on workplace safety etc),

Formalization, Economic Development, and Resilience



How to address Informality



► Policy recommendations for implementation 2024-2028

Establishing a monotax system, including defining a tax-exempted income for small enterprises when annual income is below the minimum threshold

Establishing PIT in place of payroll tax and keeping the threshold low to create incentives for micro-small businesses to formalize

Building a culture of reporting and compliance. Waiving fees for registration and reporting of income and introduction of fines for non-compliance

Systemize and consolidate development services for formal (registered) micro-small enterprises

► Policy recommendations

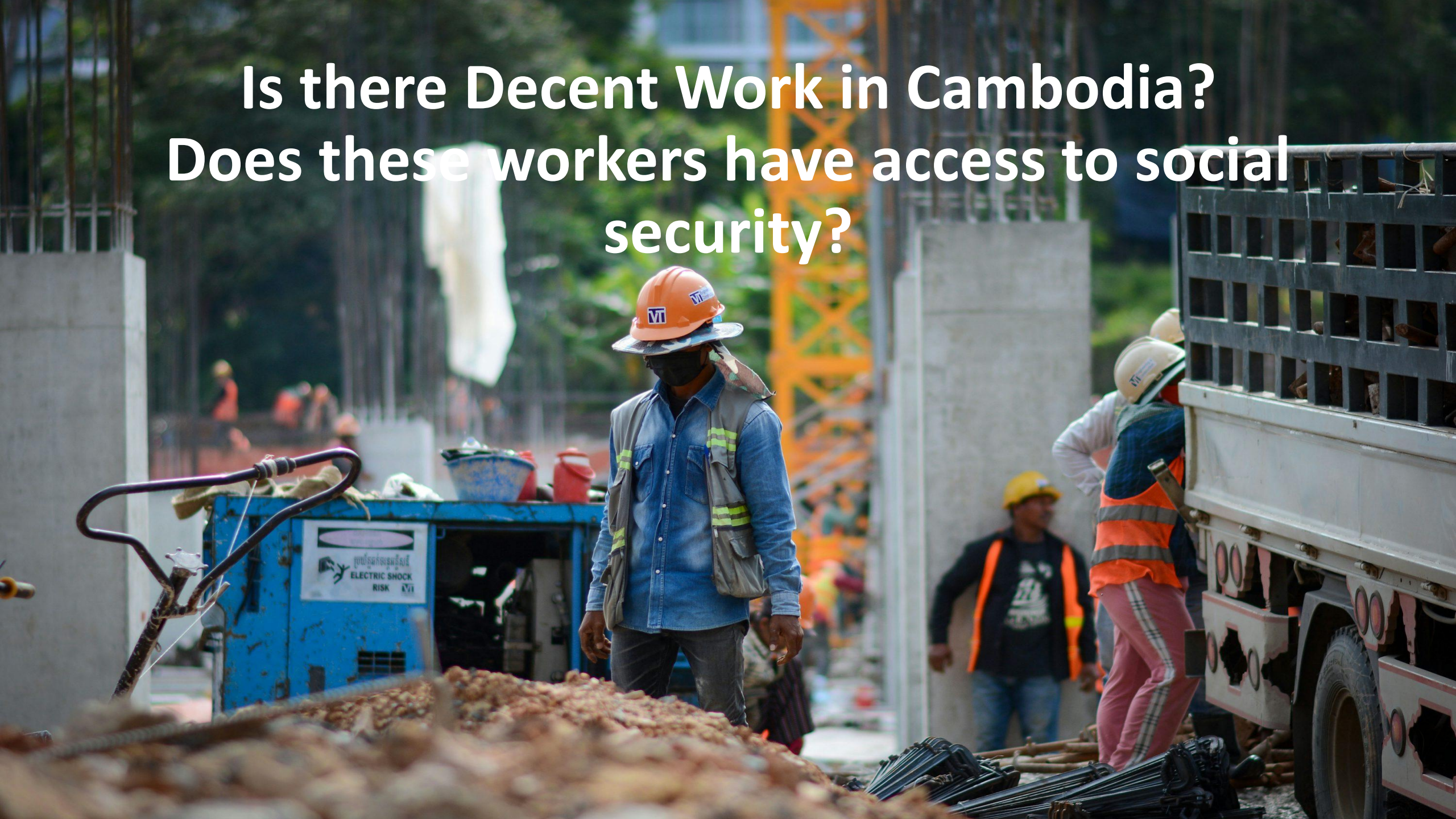
Incentivise formalization and compliance to social security laws by co-contributing NSSF contributions as a means of increasing coverage of social protection

Increase enforcement of non-compliance and public education for registration and reporting of income for micro small enterprises, self-employed and workers

Leverage partnerships with industry leaders, business chambers through industry-specific programmes to increase productivity and support access to market for formal micro-small medium enterprises through procurement of goods and services.

Accelerate decent employment and job creations in growth sectors by scaling up support to train and increase skills competencies of the workforce in these sector

Is there Decent Work in Cambodia?
Does these workers have access to social
security?



Why is the person in the picture not wearing a helmet?



- ✓ He is not aware of the law that helmets are needed when riding motorcycles
- ✓ He is aware of the law but thinks that it doesn't apply to him
- ✓ He thinks that the helmet is not useful and doesn't protect him
- ✓ He does not own a helmet
- ✓ There is no police on the street

A high-angle, wide shot of a garment factory in Cambodia. The factory floor is filled with rows of sewing machines and workers. Many workers are wearing face masks. The workers are focused on their tasks, and the overall atmosphere is one of a busy, industrial environment. The lighting is bright, and the colors of the workers' clothing and the fabric on the machines are varied.

Is there Decent Work in Cambodia?
Does these workers have access to social
security?

gettyimages®
Credit: Xinhua News Agency

► **Formalization is the KEY to Achieving Decent Work in Cambodia**

To achieve the ambition of becoming an upper-middle income country by 2030 and a high-income country by 2050, **formalization of the Cambodia's economy is fundamental**

Formalization of the economy will support the **growth of micro-small enterprises, jobs creations and extend coverage of social security**. This will increase competitiveness, diversification and resilience of the economy

By pushing for greater formalization

Governments can have greater oversight over the **application of labour laws** and to design **labour policies that can respond to the needs of the industry** and to support quality economic growth

Businesses can have better **access to markets** and responsive and effective support from Government to improve **profitability and productivity**

Workers can realize their **access to social security**, fairly remunerated work and a safe workplace