



# Social protection for informal construction sector workers: Case Cambodia

## Context

The construction industry in Cambodia employs between 200.000 and 250.000 workers. It consists of complex sub-contracting arrangements. Large firms, often foreign companies tend to operate in the formal sector but only employ a small number of staff.

One of these large firms will subcontract 10 local companies, one for cement work, another for electrical work, etc. These 10 companies then in turn subcontract another 100 local enterprises. The construction value chain is so long that the workers on the ground do not necessarily have any idea which firm should register and pay contributions for them to the NSSF.

Like Chuck, workers do not have written contracts. The findings of an EU-SPS/Finland funded study indicate that 99% of workers are informally employed. Another central feature of the sector is that 70% of the construction workers are only seasonally employed and often return to their rural homes.

Currently only formal sector workers whose employers have registered the company and its employees with National Social Security Fund (NSSF) are entitled to Social Insurance Services like Employment Injury Insurance (EII) and Social Health Insurance scheme (SHI).

As the graph below indicates, formal sector workers registered with NSSF are only 13% of the total Cambodian workforce, 1.1 million workers. This means that 87% of the workforce are informal and are not entitled to any social insurance services.

The EU-SPS/Finland funded Social Protection for Informal Workers –project attempts to understand how the workers that are currently informal (but not too poor to contribute towards their own social security) could



Photo by Alex Consiglio.

join the NSSF. The Ministry of Labour and Social Affairs and NSSF have requested EU-SPS/Finland and ILO to investigate this.

## Overview of challenges\*

In order to facilitate the inclusion of informal workers into NSSF's contributory social protection, the joint EU-SPS/ILO project identified the following challenges that need to be addressed:

### Identification of firms

The firms are supposed be active and register themselves with NSSF. NSSF does not have a mechanism or a strategy to identify the firms that should register with it. Further, NSSF has not been able to coordinate with other authorities, e.g. with the Ministry of Land Management, Urban Planning and Construction that approves the construction permits.

### Registration of the firm and workers

Firms have to register at the NSSF branch offices, often far away from the places where firms operate. While registering, the firms also have to present all their



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workers in order to validate their documents. This is a challenge because many workers do not have an ID-card. Firms are also asked to present a business license. However, according to the Economic Census of 2011, 97% of the firms do not have a business license.

### Communication and outreach

While almost 90% of the unregistered firms are aware of NSSF, most of the workers, the key beneficiaries of the EII and SHI, have very limited information of how they could benefit from the NSSF services.

### Entitlement

The firms that are currently registered with NSSF contribute on average only for 7 months per year for the workers. This is because of the seasonal nature of work. Most of the construction workers also cultivate during the agricultural season in the rural areas far away from their urban workplaces. This means that for the 5 months that the employer is not contributing, the workers are not entitled to EII and SHI benefits. This also makes it difficult for the workers to acquire benefits that require a contributory history, like maternity leave.

### Who is responsible for NSSF contributions?

The findings indicate that 47% of the non-registered firms considered the high cost of contributions the reason for not being willing to register with NSSF. Currently the employers are responsible for paying both the EII and SHI. While it is usual that the employer pays for the EII, the international practice is that contributions of the SHI are normally shared between the employer and employee.

## Recommendations to improve inclusion of the informal workers\*

### 1. Improve coordination between Ministries for identifying the firms

The newly established Cambodia National Social Protection Council as a policy coordination body should establish a framework for sharing data between the ministries to make the databases of ministries accessible for other ministries.



Photo by Markku Malkamäki.

**Chuck Yuern** wakes up early six days a week, takes a ferry across the river at 6 am. Then she cycles 1,5 hours to her workplace, a construction site in Phnom Penh, the capital of Cambodia. She starts the work at 8am and works for eight hours. Her role is to mix cement and sand and build frames. She earns 6 USD in an hour, whereas the men in the same construction site earn 10 USD.

*"I have been in this same construction site for 2 years. The contractor pays my salary twice in a month." Chuck has been working for the same contractor for several years but does not have a written contract. "Since my husband also works in a contraction site, we are able to save some money every month. With our savings we buy construction materials and build small houses for others and earn extra from that."*

*Chuck and her husband have two children. One of them was recently in a traffic accident and had to stay three months in a hospital. "I had to pay 1000 USD for the hospital bills and for the medicine. I also paid 400 USD for the traditional doctor. Luckily we had some savings."*

*Chuck has heard of the National Social Security Fund (NSSF) but she is not a member of it. NSSF currently provides Employment Injury Insurance (EII) and Health Insurance for the workers of companies that have registered with NSSF and pay the necessary fees. Chuck is not covered because the company that she works for is not registered with NSSF.*

The key ministries of interest for the firm identification and registration are the Ministry of Commerce that provides licences to the firms, Ministry of Labour which is in charge of occupational safety and health OSH and the Ministry of Land Management, Urban Planning and Construction that issues permits for construction projects.



## 2. Review Registration procedures

In order to facilitate the actual registration process, the NSSF should consider using a local agent or introducing mobile units that would visit firms and identify the workers there.

## 3. Strengthen Communication

NSSF should establish a communication unit to make the firms, existing registered workers and public aware of the benefits that NSSF provides. It is essential that all the key stakeholders are informed about the reforms that NSSF intends to initiate.

## 4. Ensuring effective protection

The success of NSSF has until now been measured by the number of registered members. However the fact that the average member only contributes for 7 out of 12 months indicates that for five months there is no protection. Also, when pensions will be introduced next year, the contribution for 7 months will not meet the eligibility criteria for the pension. Instead of measuring the number of newly registered members NSSF should consider measuring the number and frequency of contributions, not just the first time registration

## 5. Review contribution arrangements

Currently the firms are paying all the contributions for both EII and SHI. This is a substantial cost for the firms and not an international practice. The findings indicate

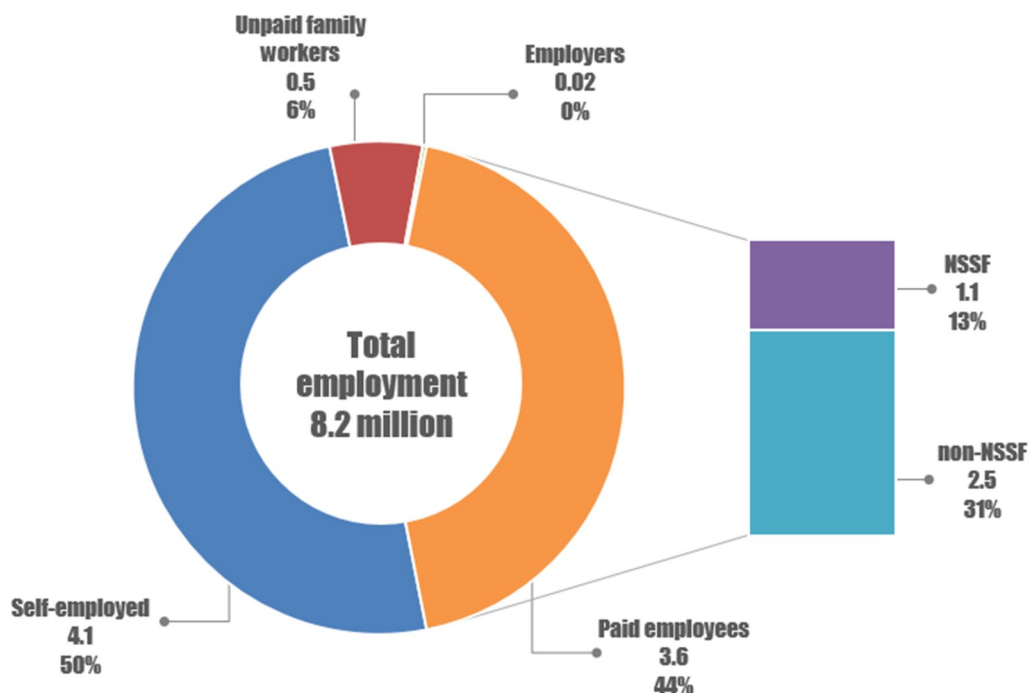
that this cost is a disincentive for firms to register and an incentive for some firms to become informal again. Shared contributions should be re-established.

## 6. Imposing a levy on the construction sector

A short-term option to extend social protection to the informal constructions sector workers is through a levy on the cost of the construction projects. With the levy welfare funds can be established that can finance a range of social security benefits for the workers. The main contractor will pay for the levy. The challenge with this approach is that the informal workers will not be registered with the NSSF. They will be covered by EII and SHI only as long as they work in that particular construction site. Hence this model does not contribute towards the formalization of the project.

## 7. Imposing higher contribution rates on main contractor if sub-contractors are unregistered with the NSSF

The main contractor would in this approach be responsible for providing NSSF the details of other firms and their workers. The NSSF would then verify whether the sub-contractors and workers are registered with NSSF. If not, the main contractor would be liable for higher contributions rates. This approach would encourage the formalisation of workers but would require better coordination between the ministries (see Recommendation 1).



Source: Cambodia Socio Economic Survey 2014



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*\*Challenges and recommendations are adapted from EU-SPS and ILO funded study by Nathalie Both, Martin Evans and Stefan Thewissen: Practical Options for the Extension of Social Protection to Workers in the Informal Economy in Cambodia, ODI draft, 2018*

*The views expressed in this briefing note reflect the lessons learned during the 4 years of the EU-SPS Programme, but they are not official positions of the partnering institutions (EU-Commission, OECD, MFA-Finland, THL).*



*A painter painting a highrise building in Phnom Penh without any security gear. Photo Alex Consiglio*

**WHAT DOES INFORMALITY MEAN?**

*Informal work and informal economy are labor market definitions. Informal workers are not covered by statutory social security. Formal economy is the one regulated by law. In Cambodia all companies with one or more workers should be registered with NSSF.*

*Companies with one or more workers and registered with NSSF can be said to be working in the formal economy and having formal workers. This means that in principle all the informal workers who earn a salary can be incorporated into the NSSF as long as their employers are willing to register with NSSF. This is not likely to happen, at least during the short term, because registering with the NSSF will incur costs for the companies.*

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**Implementation:**

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