

Bread Funds, a grass root initiative of social protection by self-employed workers in the Netherlands

Introduction

In 2002 the ILO qualified the fact that in developing countries a large part¹ of labour is performed in the informal economy a 'major obstacle' for the organisation of social security. It is after all extremely difficult, if not impossible to organise social security for workers who are by nature of their labour invisible. As of now, no suitable solution has been formulated for this problem. Perhaps there is no tailor made solution. The topic is especially problematic, since, as Olivier put it, the assumption that familial and community support will fill the void left by inadequate state protection no longer holds true (Olivier, 2014).

In this paper I will describe a grass root alternative for state organised social security, which was developed in the Netherlands. Of course, the Netherlands do not deserve the epithet 'developing', but the reality of socially unprotected work has become relevant in this country as well, as it has in several other developed welfare states. This is caused by the influx on the labour market of workers who perform labour under conditions comparable to those of employees, but unprotected by labour law regulation and employment benefit schemes. Such workers are also referred to as 'new' or occasionally 'would be' self-employed (hereinafter NSE). Much has been said about the complications of this type of labour, it's bright as well as its dark side (Supiot, 1999, Schulze Busschoff & Schmidt 2009, Westerveld 2012). This is understandable because the qualification NSE fits both workers who are truly independent and job seekers who have no choice but to perform labour as 'quasi-employee'. The latter are stuck in the middle: they do not have the social protection of employees, but do not benefit from the trade-off of self-employment either, where the absence of social protection is compensated by the possibility to make profits (Deakin 2004). But, quasi or for real, for all self-employed workers applies that, if they want to have income protection in times of 'entrepreneurial hardship' they must buy or organise it themselves.

The paper is structured as follows. I will begin with a clarification of the target group of this paper, the complexities the effort of classification brings about and the suggestions that have been made to tackle them. Thereafter I give a description of (the history and the state of art of) social employment insurances in the Netherlands. This information is necessary to place the topic within perspective. The next section is dedicated to the initiative of self-employed workers to organise their own social security, its characteristics and its strengths and weaknesses. At the end I will draw some

¹ Over forty per cent, according to an official GNI (gross national income) metric in 2000. Source: Schneider and Enste, 2000.

conclusions about the relevance of this phenomenon for social security, either in countries where the majority of workers is protected through employment benefit schemes, leaving self-employed dependant workers hang out to dry, or for countries where the majority of workers is uninsured for more fundamental reasons.

“New” self-employment, a pluralistic target group

The qualification NSE harbours two complications. One lies in the epithet ‘new’. Not only this qualification is essentially meaningless, as time progresses developments or events, which were in their day and age ‘new’ will at a certain moment lose that quality. When this happens they will have become either obsolete or common practice. The second problem lies in the ambiguity of the target group. In 2004 the Canadian labour market sociologists D’Amours and Crespo developed a classification consisting of six types of NSE work ranging from very self-sufficient to extremely vulnerable (D’Amours and Crespo, 2004). Two years later US labour law professor Stone identified two subcategories of workers who are in her country referred to as ‘independent contractor’. On the one hand she situated the highly skilled professional or craftsman who works for multiple customers, using his own tools and deploying his own talents and entrepreneurial abilities. On the other side of the scale is the low-skilled individual who works as day labourer, usually for a single employer on whom he is dependent for work (Stone, 2006).

In the Netherlands the identification and from there on definition has been an issue for several years as well. This explains why as recent as 2007 the estimates concerning NSE work ranged from 150 to more than 500 thousand (Aerts, 2007). The ambiguity came to an end with a report of the Social and Economic Council (SER) in 2010). Following the recommendation in this report a unanimous definition is now being applied. Based on this definition the number of NSE workers is now estimated at about 800 thousand (CBS, 2014). The SER definition was developed mainly for the sake of taxation - or rather: tax subsidies - but it does not give much insight in the type of worker or his or her social status. Several attempts have been made since then to parse the notion more clearly. For instance, in 2012 the organisers of a conference (a meeting of one hundred experts for one day) came up with a classification consisting of four categories, ranging from the part-time self-employed to the self-employed ‘by choice’.² The Institute of Knowledge about Self-Employment (KIZO) on the other hand developed a model in which NSE work was classified in terms of ‘counter poles’.³ Neither approach

² Wilthagen et al (2012). The four categories are the part-time IC, the ‘top’ self-employed, the dependant self-employed and the self-employed by choice. **improve**

³ www.kizo.nl. The model identifies five counter poles: white collar / blue collar; voluntary / forced self-employed; entrepreneur / specialist; soloist / co-worker, and entirely versus partial self-employed.

offers an applicable instrument for lawmakers or social policy research though. Rather, they are informative as warning against quick and dirty assumptions, let alone solutions. For the topic of this paper Stone's approach of 'bimodality' appears to be useful. For this reason I will refer to the target group of this paper with the US designation 'independent contractor' (IC). This qualification stands for workers who, be it as truly independent entrepreneur or in a position of dependant self-employment, perform labour outside the scope of the employment contract.

Income protection in the Netherlands in case of sickness and disability

In the Netherlands employees are covered by employee benefit insurances that are constructed on the Bismarck model of income related contributions and benefits. This model is used for three ILO acknowledged workers' risks: unemployment, sickness and long-term disability. The sickness and disability scheme do not differentiate to cause: the coverage is the same for workers whose earning capacity has been damaged as a result of a labour related incident, or for reasons in the private sphere. The unemployment risk scheme will remain outside the scope of this paper; the focus is on sickness and long-term-disability. Both schemes have undergone major changes in the past twenty years. For sickness or short-term disability the Sickness Insurance Benefit Act 1996 removed the risk from the public sphere of worker's insurance into the private sphere, by putting it on the plate of the individual employer. From then on it would be up to him to reinstall the employee in another job - or not. In both cases he would have to pay 70 per cent of the employee's wages (up to a certain maximum) for a period of at the most two years. After that period - and provided all efforts to find another job had failed - the employer is permitted to let the employee go. The income protection is at that time taken over by - dependent of the loss of earnings capacity - the Unemployment Insurance Act or the Act on Work and Income Support in case of Incapacity (WIA).⁴

Self-employed workers are no participants in employee benefit schemes, but this does not mean they were entirely unprotected. Until 2004 the risk of long-term disability was insured under the Disability act for self-employed workers (*Wet Arbeidsongeschiktheidsverzekering Zelfstandigen*, hereinafter: WAZ). This state's intervention in entrepreneurship was – at the time of its instalment (1998) - defended with several arguments. If left to their own devices, self-employed workers would waive their insurance due to considerations related to cost or to an optimistic estimate of their own risk.⁵ Private insurers cannot and will not guarantee accessible and affordable insurance to all self-

⁴ For a more detailed analysis see Knegt and Westerveld (2005).

⁵ Explanatory Memorandum (EM) AAW p. 43. A few decades' earlier similar arguments were used to defend the General Residence Insurance for Old Age pensions (AOW 1957).

employed people. Such plans would involve individual contracts, the acceptance and contributions for which would be determined largely according to the insurer's assessment of individual risk....⁶ Four years later another source was tapped. The coalition agreement for the (right-wing) coalition Balkenende II (2003-2006) announced the elimination of WAZ 'in order to improve the scope of social insurance schemes' and in so doing give a boost to labour market participation.⁷ The Explanatory Memorandum of the Act ending access to WAZ motivated the measure with the observation that it is 'essentially possible' for self-employed people to cover the risk of disability with private insurance. Moreover, self-employed people make a conscious choice for entrepreneurship, along with all of opportunities and risks that it entails.⁸

The government was able to get away with this about-face, because the WAZ had at the time become quite unpopular. For a number of reasons (which go beyond the scope of this paper) the level of benefits was out of proportion to the contributions. Calculations by the Council for Small and Middle-sized Enterprises (hereinafter S&ME) had proved that the conditions of private insurances were often more favourable than those of WAZ and that, in some cases, they were also less expensive.⁹ The WAZ was attractive, though, for people with below-average earnings; for self-employed with annual income of less than € 13.000 the insurance was even free. Nevertheless, the various workers' associations did not oppose the elimination of WAZ either, although they would have preferred some discussion of alternatives. This request received no serious consideration; the government compiled all objections against WAZ into one single argument for its abandonment. At the same time, it was acknowledged that the absence of any provision could be problematic for certain groups of self-employed or people who intended to become one. For this reason, agreements were made with the Dutch Association of Private Insurers for a guarantee scheme for self-employed workers who had been denied by an insurer or who were able to obtain insurance only with medical exclusions or additional contributions. However, until this day very little use has been made of this option.¹⁰

Self-employed workers and private insurances

At first sight private insurance seems the most logical alternative for state regulated social protection, at least in developed welfare states. In practice, however, not many self-employed workers are

⁶ Ibid., with regard to a report by the Council for S&ME from 1964.

⁷ Participation, more work, less rules, Global Government Agreement CDA, VVD, D66. (meedoen, meer werk, minder regels, Hoofdlijnenakkoord voor het kabinet CDA VVD, D66) p. 4.

⁸ EM on the legislation ending access to WAZ, p. 2.

⁹ Aerts (2007) p. 284. With regard to a report of the Council of S&ME from 2003.

¹⁰ Source: Evaluation of the effects of the Bill Ending Access to WAZ.

inclined to buy one. Several research studies have shown that after WAZ abolishment about fifty per cent of all ICs have bought private risk insurance, which means the other half is uninsured. This situation is not in all instances problematic. For some workers the enterprise is not the main source of income, which means risk coverage is less necessary. This is the category which “Dutch Design” and the KIZO scheme label as ‘partial’: ICs who run a small enterprise in addition to the family income or to their own income as partial employee or old age pensioner. Others, however, abstain from buying because they cannot afford the product or out of discontentment with the product and its provider. As one self-employed worker put it (in an interview about his motive for participating in an alternative (Bread Fund) arrangement:

“Taking care for one another, that’s to me the essence of insurance, not making a lot of money over the head of the client” (Fink-Jensen, 2014)

This quote reveals a grudge many self-employed workers bear against private insurers. Their products are too expensive – ‘too’ as in: unnecessarily so - they are unavailable for workers who need them most, or they are not covering risks the worker would want to have covered. Moreover they are innately treacherous. Pieter Hilhorst - freelance journalist and one of the first Bread Fund participants - put it as follows:

“Private insurances are expensive and they offer a false sense of security. They are full of fine print and exclusionary clauses. This amounts to deception for self-employed people who become ill” (Hilhorst, 2011).

This observation is from 2011, the same year a report of the Financial Markets Authority was published about the quality of private insurances. The report ended with the conclusion that private insurers ‘must still take major steps in order to gain a better focus on the interests of the customer’ (AFM 2011). Later investigation shows that the branch has taken this signal at heart and enhanced both the quality and the transparency of the product. But, as the quote from an interview in 2014 shows: history like this does not go away easily. Besides, all transparency cannot take away the innate ‘flaw’ of private insurances, which a representative of the organisation for the self-employed once qualified as ‘insurance paradox’: disability insurances are the most expensive in branches where the labour conditions are heavy and the salaries tend to be low. As a result, people who need insurance the most are the least inclined to buy one since the product is out of their reach budgetary.

The observation about the odium of recent history also holds true for the WAZ dossier. The architecture and in the end the abolishment of this social insurance has left a strong impression with self-employed workers. State regulated social insurance has for many of them become another word for the obligation to pay a lot of money for a product that is either too expensive or of doubtful quality.

Or both.

2006-2014. Bread Funds, origin and development

Two years after the abolishment of WAZ some members of a national co-operation of self-employed workers organised a collective form of self-help in case of sickness, which they labelled “Bread Fund”. The initiative came from a sector which Bread Fund ‘godfather’ André Jonker labels as ‘creative’: freelance trainers, coaches and the like (Interview AJ, 2015). In 2010/2011 the concept was launched in the press and after that its popularity grew rapidly. By the end of 2014 there were over one hundred Bread Funds with a total of about 4.000 participants and the end of this upward trend is still not in sight. A minor part is connected to a certain branch or profession, the majority is regional.

The next table gives some insight in Bread Fund numbers, characteristics as well as its development.

Breadfunds, statistics	Situation October 2014	February 2015
Existing Funds	113	129
Number of participants	3.954	4.650
Average number in one fund	35	36
Number of locations	64	73
Cases of illness, september 2014	59 people in 42 groups	79 people in 52 groups
Breadfunds in the make	20	20

Source www.broodfonds.nl

The rapid growth can also be explained by the push and pull activity of the Bread Fund Makers, a foundation that aids and stimulates people in the formation of Bread Funds. This institute has developed a website, which offers a legal format for Bread Fund foundation. The format is optional; Bread Funds are self-steering and as such free to make their own alterations. That is as long as they remain within a certain framework. The name 'Bread Fund' is after all a legally protected brand.

Character traits. How does it work?

The formation of a Bread Fund goes as follows. A group of people open an individual Bread Fund bank account and sign an agreement about monthly contributions each of them will pay to this account. The height of the payment is up to the individual member – again, within certain limits - and it correlates

with the money he or she will receive in case of sickness. The format on the Bread Fund Makers' website gives a framework for contributions (payments on one's own account) and (gifts from other members in case of sickness). In this framework eight levels of contributions and gifts are identified.

Level	Contribution	Gift (maximum)
Level 1	€ 43,75	€ 750
Level 2	€ 55,-	€ 1.000
Level 3	€ 66,25	€1.250
Level 4	€ 77,50	€ 1.500
Level 5	€ 88,75	€ 1.750
Level 6	€ 100,--	€ 2.000
Level 7	€ 111,25	€ 2.250
Level 8	€ 122,50	€ 2.500

The moment a bread fund member becomes ill, he reports this to his own Bread Fund's Board. The signal is communicated to all other members of the Fund and to the Bread Fund Makers. At that time the first control mechanism begins. As one member put it:

“After you call in sick you get about 40 emails from people asking how you are doing. This is nice, but it can also be a burden. On the other hand, there is no sickness control: the donations are made in a sphere of trust that people won't cheat.” (Interview Fink-Jensen, 2014).

Thereafter and after a certain statutory waiting period has passed the sick member receives monthly gifts from all other participants. There is no need to show a proof of sickness; the Bread Fund formula is based on trust. The control and check mechanism rests on the small-scale character of the Funds (30-50 participants) and a certain amount of group meetings each Fund is supposed to organise. Both guarantee that one knows each other. As one member put it:

“It is not the social control, but the social contacts that breed solidarity and prevent that one cheats on one another.”

On the other hand, the Bread Fund Makers have some elements implemented, to prevent embezzlement or fraud. Under the banner 'trust is good, prevention of mismanagement or worse is better' all gifts must be signed for by the treasurer of the Fund to which the sick member belongs and by the treasurer of the BFM's administration. The gift construction is chosen for fiscal reasons. Both the contribution and the donation to sick members are individual payments, which remain under the legal threshold for gifts. As a result they are tax-free. Bread Funds are for this reason also referred to as 'circles of gifts'.

Bread Funds, potential and limitations.

Bread Funds may be a good vehicle to organise group solidarity in case of sickness, they are less suitable for long-term risks. The Bread Fund Makers have been well aware of this: all Funds apply a maximum period of gifts of two years, a period, which corresponds with the ceiling for contributions. The moment an individual member has reached this ceiling the – by then considered superfluous – contribution is restored to his or her own bank account. The same happens when a member decides to leave the Fund, for instance because he retires or changes his status of self-employed to employment. The restitution is taken care of by the Bread Fund Makers, who operate as an intermediary, bookkeeper and body of knowledge for existing Funds as well as for people who want to form one. Another limitation lies in the nature of Bread Funds: as an institution of trust they are not open to everyone. Most funds apply the rule that someone who is already 'in' must introduce a new member. Another general rule for applicants is the fact that have a certain track record as entrepreneur – for instance two years – as well as proof that the enterprise is to an extent sound. To this end they must present the tax report of the past year that forms the basis for the (maximum for) monthly contributions, as well as gifts one can receive in case of illness.

The small scale, self-steering formula is considered vital for the success of Bread Fund, especially in the long run. Institutionalisation is, according to Jonkers perhaps the most important threat for the Bread Fund formula. The moment this occurs, Bread Fund members will turn from involved participants into indifferent, as well as calculating non-participants. For this reason the Bread Fund Makers give warnings at all educational meetings against too many (superfluous) top down rules and regulations. The same consideration lies at the root of the advice to aim for small groups, to organise regular group meetings and to focus on just one item (or risk), in this case income coverage in times of incapacity to work. Both are important differences from public or private income insurances that aim for large populations and an accumulation of risk protection. Needless to say, this character trait of being small scale can be both a strong point as a weak spot. As Fink-Jensen has shown in his master thesis many 'Friendly Societies' of the nineteenth century keeled over on a combination of both elements. They became too large for mutual involvement, but were at the same time too small to provide a sound financial basis for coverage against major risks (Fink-Jensen, 2014).

Conclusions

The Netherlands is no third world country and independent contractors are not representative for workers in the informal economy. Nevertheless, their efforts to come up with an alternative for state organised social security can offer a promising concept for further elaboration on the issue of social

protection of workers that are institutionally unprotected. Undoubtedly, the Bread Fund concept has its limitations. It is only useful for social risks, which may be major from the perspective of the individual, but acceptable for a community (or co-op) of thirty to fifty people. As a result Bread Funds can only provide solutions for a small part of the ILO recognized social risks, and of them not the most serious ones. At the same time, behind this limitation looms an unmistakable advantage for society as a whole. Bread Funds build on and as such generate group solidarity, which may prove to be stronger than the tendency of individualism that threatens traditional social security. Bread Funds can, in other words, be a recipe for group bonding and this is or could be good news for a society threatened with fragmentation.

There are other limitations to the concept as well. The Bread Fund formula is not applicable to classic outsiders such as vagabonds, homeless and long-term jobless people. For them state intervention will remain necessary to protect them from deprivation. But that's no news either. The classic social insurances have always been more for and by middle class workers than for people struggling at the end of the food chain. Whether this limitation implies that the concept is useless from a third world perspective is not for me to say, but my guess is this is not the case. The problematic situation the ILO has identified does not only concern the poorest, but also workers making a living with labour which may very well be 'decent', albeit under circumstances which makes it from the perspective of social policy makers invisible.

A last potential obstacle for the success of Bread Funds is the presence or absence of Internet. The swift communication, efficient bookkeeping and quick transfers of money, which Internet has made possible, are a precondition for the functioning of the Bread Fund formula. When these two conditions are met – the presence of workers making money on a regular base and the presence of internet and internet banking – I do not see why the concept could not be applicable to workers in the informal sector as well. But perhaps I am overoptimistic in this, or blind or ignorant of the true working conditions of this type of workers. After all, the true meaning of 'grass root' is that it is initiated bottom up, by people for whom the circumstances at hand apply and whose expertise as such outreach that of academics presenting 'solutions' behind their working desk.

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