FOREWORD

As South Africa continues on its remarkable journey to fulfil its vision of eliminating poverty, reducing inequality and addressing the challenge of unemployment, it faces a daunting challenge of addressing the structural and social imbalances carried over from the pre-democracy era. The National Development Plan recognizes that growing an inclusive economy, building capabilities, enhancing the capacity of the state and promoting leadership and partnerships are key drivers in raising living standards to the minimum level articulated within the plan. It recognizes that this will involve a combination of increasing employment and raising incomes through productivity growth, a social wage and good quality public services. It also recognizes that social protection will always be needed for vulnerable groups and for working-age adults who cannot find work. South Africa has a very well-developed social protection system with over 17 million citizens covered. In 2016, there are 11.9 million recipients of the Child Support Grant; 3.2 million Older Person’s Grant beneficiaries; 131,375 Care Dependency Grant; 493,012 on the Foster Care Grant; 230 on the War Veterans Grant and 1.7 million recipients of the Disability Grant. Indeed there are other initiatives not covered under the South African Social Security Agency (SASSA) which runs South Africa’s social assistance programmes.

There are however, significant gaps. Social insurance is available to working-age adults who are formally employed but there is very little social protection to people working in the informal sector. This is well recognized in the social protection chapter of the National Development Plan (Chapter 11) which states that social protection systems must establish mechanisms to cover the risks associated with temporary and part-time workers and the increasing numbers of self-employed. One objective of the plan is therefore to rectify this gap by extending social protection to informal workers.

The United Nations Development Programme (UNDP) and the Department of Planning, Monitoring and Evaluation (DPME) commissioned an issue paper with the aim of problematizing the exclusion of informal workers and low-paid formal sector workers from formal systems of social protection; providing information on the implications of exclusion of informal workers and low-paid workers from formal systems of social protection for the national development agenda; and exploring options for extending social protection to informal workers. Based on a desk review of relevant literature and interviews with key informants, the issue paper culminated in the production of this key document.

The authors conclude by stating that addressing the social security coverage gap needs a suite of interventions, depending on each individual’s income level and their relationship to the labour market. People with inadequate income and no means of support require social assistance. People who are working and can afford to pay contributions should cover their own social insurance needs. In between these extremes, informal workers and low-paid formal workers should be covered by a mix of social insurance and social assistance, as well as labour market activation policies.

We can say, without reservation, that this paper, and more specifically, the recommendations that Stephen Devereux¹ and Ina Conradie² have articulated, opens up a range of options and challenges which must be surmounted to ensure that no-one lives below a defined minimum social floor for all South Africans.

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UNDP RESIDENT REPRESENTATIVE

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<th>Full Form</th>
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<tr>
<td>ASCA</td>
<td>accumulated savings and credit association</td>
</tr>
<tr>
<td>BCEA</td>
<td>Basic Conditions of Employment Act</td>
</tr>
<tr>
<td>COIDA</td>
<td>Compensation for Occupational Injuries and Diseases Act</td>
</tr>
<tr>
<td>COSATU</td>
<td>Congress of South African Trade Unions</td>
</tr>
<tr>
<td>CSG</td>
<td>Child Support Grant</td>
</tr>
<tr>
<td>DSD</td>
<td>Department of Social Development</td>
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<tr>
<td>EPRI</td>
<td>Economic Policy Research Institute</td>
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<tr>
<td>EPWP</td>
<td>Expanded Public Works Programme</td>
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<tr>
<td>ETI</td>
<td>Employment Tax Incentive</td>
</tr>
<tr>
<td>FCG</td>
<td>Foster Care Grant</td>
</tr>
<tr>
<td>GEPF</td>
<td>Government Employees Pension Fund</td>
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<tr>
<td>IDS</td>
<td>Institute of Development Studies</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>ISD</td>
<td>Institute for Social Development</td>
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<td>LRA</td>
<td>Labour Relations Act</td>
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<td>NDP</td>
<td>National Development Plan</td>
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<td>NHI</td>
<td>National Health Insurance</td>
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<td>NPC</td>
<td>National Planning Commission</td>
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<td>NSSF</td>
<td>National Social Security Fund</td>
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<tr>
<td>OPG</td>
<td>Older Persons Grant</td>
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<tr>
<td>OPM</td>
<td>Oxford Policy Management</td>
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<tr>
<td>PAYE</td>
<td>Pay As You Earn</td>
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<tr>
<td>PLWHA</td>
<td>People Living with HIV and AIDS</td>
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<tr>
<td>RAF</td>
<td>Road Accident Fund</td>
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<tr>
<td>ROSCA</td>
<td>rotating savings and credit association</td>
</tr>
<tr>
<td>SAHPF</td>
<td>South African Homeless People’s Federation</td>
</tr>
<tr>
<td>SALDRU</td>
<td>Southern Africa Labour and Development Research Unit</td>
</tr>
<tr>
<td>SARS</td>
<td>South African Revenue Service</td>
</tr>
<tr>
<td>SASSA</td>
<td>South African Social Security Agency</td>
</tr>
<tr>
<td>SMME</td>
<td>small, medium and micro-enterprise</td>
</tr>
<tr>
<td>UIF</td>
<td>Unemployment Insurance Fund</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>WFP</td>
<td>Women on Farms Project</td>
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<tr>
<td>WIEGO</td>
<td>Women in Informal Employment: Globalising and Organising</td>
</tr>
</tbody>
</table>
Glossary

Social protection concepts

The ILO has popularised the use of social protection and social security interchangeably, as two terms describing the full range of social assistance and social insurance policies and instruments – “social security is defined as being composed of social insurance and social assistance” (van Ginneken 1999: 5). In our view this conflation of terms is unfortunate and we do not share this understanding of these concepts. We prefer the following operational definitions.

Social security describes regulated, institutionalised, contributory, employment-related insurance schemes, notably unemployment insurance and pension funds but also benefits related to maternity, health care, invalidity, survivors benefit and family support, usually co-financed by employees, employers and the state under a tripartite arrangement.

Social protection describes various forms of social assistance and social insurance that are not necessarily employment-related but provide protection to poor and vulnerable people against adverse contingencies.

Social assistance is the first main branch of social protection, and describes various non-contributory redistributive transfers made by public bodies (government, charities, bilateral and multilateral agencies, NGOs and CBOs) to poor, vulnerable and food insecure people.

Social insurance is the second main branch of social protection, and describes informal and semi-formal insurance mechanisms (such as subsidised weather-indexed crop insurance for small farmers, or community-based health insurance schemes) that are designed to protect poor and vulnerable people who are not covered by employment-related social security schemes.

The prefix ‘social’ distinguishes this suite of social policy interventions from ‘private’ insurance, which is entirely voluntary and self-financed ‘horizontal redistribution’ – saving against future needs.

Labour market concepts

- Labour markets: “all employed persons whose employment income is predominantly comprised of the returns to their labour, regardless of whether these returns are realised on a wage labour market … in which an employer hires an employee for a specified wage … or through some other transaction” (Heintz 2008: 14).
- Informal labour markets: “informal labour markets encompass rural self-employment, both agricultural and non-agricultural; urban self-employment in manufacturing, trade and services; and various forms of informal wage employment (including day labourers in construction and agriculture, industrial outworkers, and more)” (Chen 2008: 19).
- Informal economy (1): The 15th International Conference for Labour Statistics in 1993 adopted a definition of the informal economy based on characteristics of the enterprise rather than of the worker, specifically on the non-registration of workers and enterprises, and on the small size of enterprises in terms of people employed (Devey et al. 2006: 305).
- Informal economy (2): “Broadly defined, the informal economy includes the self-employed in informal enterprises (i.e. small and unregulated) as well as the wage employed in informal jobs (i.e. unregulated and unprotected) in both urban and rural areas” (Chen 2008: 19).
- Informal sector (1): “In principle, informal sector workers are employed in (micro-) enterprises that have the following characteristics (ILO, 1994): the owner is personally liable for gains and
losses (the enterprise is unincorporated); there is an absence of full and written accounts; the enterprise has less than 10 employees at a time. Workers outside the formal sector are generally employed in small, often family-based enterprises. ... Our definition of the informal sector also covers workers affected by the informalisation of labour relations with their employers, which often means the absence of written labour contracts. Such informality does not only affect wage earners and other groups such as homeworkers in the informal sector, but also casual workers who work – directly or indirectly – for so-called formal sector enterprises” (van Ginneken 1999: 6).

- **Informal sector**: The informal sector is “unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated” (Castells and Portes 1989: 12). Examples of regulations are registration, tax, social security arrangements, and health and safety rules (Devey et al. 2006: 310). “Informal sector businesses involve the non-registration of employees in the sense that there is no employee-employer contract committing the employer to pay the applicable taxes and social security contributions on behalf of the employee making the employment relationship subject to labour laws” (Smit and Mpedi 2010: 7).

- **Part-time employment**: “Part-time employees work less than 35 hours per week. The terms ‘temporary’ and ‘casual’ are often used interchangeably and describe work with a fixed end date” (Leibbrandt et al. 2010: 14).

- **Self-employment**: “The concepts of self-employment and informality are not necessarily mutually exclusive. A worker who is self-employed has created his own employment opportunity and is not accountable to an employer. An informal worker works for a company or entity that is not registered. An informal worker could be self-employed and someone working for themselves could be operating informally” (Leibbrandt et al. 2010: 15).

- **Unemployment**: “The broad definition includes as unemployed all those who would like to work (regardless of whether they actively sought work) ... the official definition of unemployment (also referred to as the narrow definition) only considers as unemployed those who have actively searched for work in the last four weeks and are able to accept a job within the next week” (Leibbrandt et al. 2010: 9).

- **Long-term unemployment**: “being unemployed for longer than a year” (Leibbrandt et al 2010: 12).

**Social insurance mechanisms in South Africa**

- **Compensation Funds**: “provide medical care and income benefits to workers who are injured at work or who develop occupational diseases. These are statutory funds with mandatory membership and contributions, but they are effectively restricted to the formal economy.” (NPC 2011: 330).

- **Road Accident Fund**: “provides compensation for the loss of earnings, loss of support, general damages, and medical and funeral costs for the victims of road accidents caused by the negligent or wrongful driving of another motorist. Membership is mandatory for all vehicle owners.” (NPC 2011: 330).

- **Unemployment Insurance Fund**: “provides short-term unemployment insurance. It pays benefits in the event of unemployment, illness, maternity, adoption and death. Benefits are only paid in the period immediately after the loss of employment, with a maximum benefit length of 238
days. All formal-sector workers and their employers must each contribute a levy of 1 percent of the employee’s salary (up to a certain income threshold...) to the fund. Credits are accrued at the rate of one day of benefits per six days worked. The social insurance mechanism is effectively limited to the formal sector and the 1 million domestic workers employed by private households” (NPC 2011: 330).

- **Rotating Savings and Credit Associations (ROSCAs):** “ROSCAs function by taking monthly deposits from each member of a group and then giving the whole monthly sum to one member of the group. The recipient of the monthly sum is based on a predetermined rotation, ensuring each participant will eventually receive a large payout” (Invested Development 2012).

- **Accumulated Savings and Credit Associations (ASCA):** “ASCA requires group members to make regular contributions. Instead of rotating payouts, the ASCA group fund is used to make loans that are paid back with interest. Loans are made either to group members or trusted third parties. After a certain period of time (often six months to a year) the group fund and its proceeds from interest are paid back to the original members” (Invested Development 2012).

- **Stokvel:** “a type of credit union in which a group of people enter into an agreement to contribute a fixed amount of money for to a common pool weekly, fortnightly or monthly” (Lukhele 1990).

- **Masingcwabisane:** “an informal burial society in which members contribute a set sum of money at a set time” (Modise, Dodd and Lund 2011: 14).
1. **Introduction**

1.1. **Problem statement**

Although South Africa has a well-developed and extensive social protection system, there are large and significant gaps. Non-contributory social assistance is oriented towards economically inactive vulnerable groups such as poor children (Child Support Grant), older persons (Older Persons Grant) and persons with disability (Disability Grant). Contributory social insurance (e.g. the Unemployment Insurance Fund) is accessible mainly to working-age adults who are formally employed. The National Development Plan (NDP) notes that very little social protection is available to people working in the informal sector. One objective identified in the social protection section (chapter 11) of the ‘Vision for 2030’ is to rectify this under-coverage by extending social insurance to informal workers (NPC 2011).

Given this context, this issue paper has the following objectives:

- to problematise the exclusion of informal sector workers and low-paid formal sector workers from formal systems of social protection in South Africa;
- to provide information on the implications of exclusion of informal workers from formal systems of social protection for the national development agenda;
- to explore options for extending social protection to informal workers in South Africa, based on interviews with key stakeholders as well as lessons learned elsewhere.

1.2. **Methodology**

Two approaches to data collection were adopted in order to draft this issue paper: a desk review of relevant literature, and key informant interviews with relevant stakeholders and observers. The desk review included both international academic literature on the challenge of incorporating informal workers into formal social security systems around the world, and relevant South African publications and grey literature on labour markets, poverty and social protection.

Interviews were conducted by the authors with the following individuals:

- **Luis Frota** Social protection specialist at the Decent Work Team of specialists for Southern and Eastern Africa, International Labour Organisation (ILO), Pretoria
- **Fidelis Hove** Consultant, Oxford Policy Management (OPM), Pretoria
- **Selwyn Jehoma** Managing Director, Economic Policy Research Institute (EPRI), Pretoria; former Deputy Director-General, Department of Social Development (DSD), Pretoria
- **Pieter le Roux** former Director, Institute for Social Development, University of Western Cape
- **Murray Leibbrandt** Director, Southern Africa Labour and Development Research Unit (SALDRU); Professor, School of Economics, University of Cape Town
- **Francie Lund** Director, Social Protection Programme, WIEGO; Associate Professor, School of Built Environment and Development Studies, University of KwaZulu-Natal
- **Ian Macun** Director of Collective Bargaining, Department of Labour, Pretoria
- **Colette Solomon** Director, Women on Farms Project, Stellenbosch.
1.3. Context and principles

South Africa has a developmental approach to social protection, in keeping with its developmental approach to eradicating poverty and reducing inequality, in pursuit of both social equity and economic growth. Five functions of social protection are identified in the National Development Plan:

- **Protective**: measures to save lives and reduce deprivation
- **Preventive**: safety nets and insurance mechanisms that help people avoid falling deeper into poverty, and reduce vulnerability to natural disasters and livelihood shocks
- **Promotive**: measures to enhance the capabilities of individuals, communities and institutions to participate in economic activity
- **Transformative**: measures to address social inequities and promote social justice
- **Developmental**: measures that promote local economic development and enable poor people to access economic and social opportunities (NPC 2011: 327-328).

In its review of social security in South Africa, the NDP (NPC 2011) states that the South African social security system has to solve problems which originate in the political and economic systems of the past, and that the only effective solution to these problems would be through the extension of work opportunities to all South Africans who are able to work. However, it also recognises that the creation of enough opportunities is unlikely in the immediate term, and that compensatory measures need to be adopted in the interim. This is in addition to the social welfare measures which will always be needed for targeted vulnerable groups (NPC 2011: 348), for reasons of equity and social solidarity.

The context within which social insurance for informal workers should be studied is therefore closely interwoven with South Africa’s complex and unique political and economic history. Through the skewed exploitation of the economy in the name of imperialism and **apartheid**, certain structural problems were created which endure to the present. When the economy grew strongly in the middle of the 20th century, largely due to extensive gold reserves, this was not accompanied by sufficient job creation. Now that the mining sector is shrinking, a large section of the South African population is unemployed and not part of the modern economy (Gelb 2004; Nattrass and Seekings 2010; Seekings and Nattrass 2005; Terreblanche 2002). This is confirmed by a definitive study undertaken by Adato, Carter and May (2006), which found that about 43% of the KIDS\(^3\) survey population of 1998 was caught in a poverty trap, from which few were able to escape. Those households which did escape were better able to increase their assets, often by having one or more household members in secure, formal employment. Those who had sunk deeper into poverty had often experienced productive losses related to the labour market, such as the death of a wage-earner. Households experiencing chronic poverty were most often supported by informal work, done by one or more household members (Adato, Carter and May 2006: 239).

Current statistics show that this scenario has not changed. When Stats SA adjusted its three poverty lines according to the CPI, it emerged that 21.7% of the population lives under the food poverty line

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\(^3\) Kwa-Zulu-Natal Income Dynamics Study.
of R335, while 37% lives under the LBPL (Lower Based Poverty Line) of R501, which is R335 for food and R175 for non-food. If the non-food component is adjusted to R444, the UBPL (Upper Based Poverty Line) is R779 per person, and 53.8% of the South African population falls under that threshold (Stats SA 2015a: 16-19).

If we further pursue the statistics on informal employment in South Africa, the sector amounts to almost 2.5 million workers (Stats SA 2015b). If agricultural and household workers are added the total comes to just under 4.5 million workers, compared to almost 11 million formally employed workers. This means that about 40% of all workers, including domestic and agricultural workers, are informal. If the latter two categories are excluded, informal workers form 22% of the South African workforce. Despite absorbing about 40% of the labour force, the informal economy contributes only 7-12% of GDP in South Africa (Altman 2008: 15).

Table 1 also indicates that there are about 2.4 million “discouraged job seekers”, many of whom can be assumed to play a role in the informal economy. Furthermore, it is probably safe to assume that some of the 5.5 million formally unemployed people also undertake some informal work. In reality the numbers might therefore be higher than those provided by the Quarterly Labour Force Surveys.

Table 1. Key labour market indicators (Oct-Dec 2014)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Thousands</th>
</tr>
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<tbody>
<tr>
<td>Population aged 15–64 years</td>
<td>35,643</td>
</tr>
<tr>
<td>Labour force</td>
<td>20,228</td>
</tr>
<tr>
<td>Employed</td>
<td>15,320</td>
</tr>
<tr>
<td>Formal sector (non-agricultural)</td>
<td>10,911</td>
</tr>
<tr>
<td>Informal sector (non-agricultural)</td>
<td>2,448</td>
</tr>
<tr>
<td>Agriculture</td>
<td>742</td>
</tr>
<tr>
<td>Private households</td>
<td>1,219</td>
</tr>
<tr>
<td>Unemployed</td>
<td>4,909</td>
</tr>
<tr>
<td>Not economically active</td>
<td>15,415</td>
</tr>
<tr>
<td>Discouraged job-seekers</td>
<td>2,403</td>
</tr>
<tr>
<td>Other (not economically active)</td>
<td>13,012</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>24.3%</td>
</tr>
<tr>
<td>Employment/population ratio (absorption rate)</td>
<td>43.0%</td>
</tr>
<tr>
<td>Labour force participation rate</td>
<td>56.8%</td>
</tr>
</tbody>
</table>

Source: Stats SA 2015b
Note: Due to rounding, numbers do not necessarily add up to totals.

The NDP indicates that there are three kinds of informal workers in South Africa: those who work in the formal sector, but without contracts, those who work in the informal sector, also without contracts, and those who work for themselves (NPC 2011: 378). There is also an increase in casual workers in South Africa. Many informal workers are employed through temporary employment agencies and labour brokers, and as the identity of employers is often obscured, workers do not have sufficient legal protection in these cases.

One of the important recommendations the NDP makes is that South Africa’s social security system should provide a comprehensive social security floor, which protects citizens throughout their lives. This system should focus on those most at risk, on which the NDP is in agreement with the second
principle of justice, formulated by the political philosopher John Rawls (1999: 266). On the other hand, social protection also needs to be inclusive and be accessible to everyone who needs it, when they need it. Not everyone needs social assistance, but everyone needs some form of insurance and everyone needs access to essential services. A comprehensive social protection system should ensure universal and equitable coverage – income security, food security, and access to services for all.

One clear gap in the current social security system in South Africa is the social protection of informal workers, for whom no safety net exists, until such time as they qualify for the old age grant. This is the issue which is taken up here, and which will be explored with the NDP principles for social policy for South Africa in mind:

- It should alleviate poverty
- It should contribute to self-reliant sustainable development
- It should encourage a culture of saving
- It should create mechanisms which will activate market opportunities
- It should protect the vulnerable
- It should prevent the deepening of poverty
- It should enhance individual capabilities, or opportunities for individuals to select valued choices, according to Sen (1999)
- It should be transformative, in dealing with redistribution and inequity
- It should be developmental and generative, in creating new social and economic opportunities, and thus new structures.

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4 Rawls' first principle is that each person should have equal access to equal basic liberties. As this is not possible, the second principle qualifies how justice should be organized, namely that the arrangement should be to the greatest benefit of the disadvantaged.
2. Social protection mapping and gaps analysis

Social protection has two distinct functions – social assistance and social insurance – and can also describe free or subsidised access to social services. Social assistance refers to redistributive transfers to poorer individuals, while social insurance describes contributions to risk-pooling arrangements. Van den Heever (2012) draws a distinction between vertical redistribution (rich to poor) and horizontal redistribution (present to future), which corresponds more or less to social assistance and social insurance, respectively. For vertical redistribution the key issues are affordability, coverage and benefit levels, while for horizontal redistribution the key issues are institutional arrangements – public and private insurance mechanisms and their regulation – but coverage is also a major challenge.

There is a common misconception that social protection programmes are an expensive drain on fiscal resources and that their impacts are limited to welfarist safety nets. However, a growing evidence base from many countries across Africa, Asia and Latin America confirms that social protection has significant positive economic effects, through income and employment multipliers. (ILO 2010). Cash transfers, in particular, are spent on goods and services which creates demand and stimulates local production, trade and employment. Cash transfers are also invested in livelihoods – micro-enterprises, farming, productive assets – and even in job-seeking behaviour (e.g. transport costs). In a very real sense, therefore, social protection is an investment in economic growth and, by subsidising access to education and healthcare services, in the productivity of poor and vulnerable people (DFID 2011).

2.1. South Africa’s social protection system

In South Africa, social assistance is delivered through eight social grants, covering child support, older persons, disability, foster care, care dependency, grant-in-aid, social relief of distress, and war veterans. Social insurance is delivered through the Unemployment Insurance Fund, Compensation Funds, and the Road Accident Fund. Private insurance can be accessed through voluntary contributions to medical aid schemes and retirement funds (Figure 1).

**Figure 1. Social protection system in South Africa**

Source: Woolard and Leibbrandt 2010: 3
South Africa’s approach to social protection also includes pro-poor access to essential social services. The NDP notes that water and electricity are now provided free of charge for poor households, housing is subsidised for the poor and free for the poorest, education is fee-free in poor communities, and health care is free for pregnant women and children under six years of age (NPC 2011: 326).

Both before and after South Africa’s democratic transition in 1994, a socio-economic development trajectory was followed that prioritised economic growth and benefited one sector of the population – those who work in the ‘modern’, global economy – while excluding all other population sectors – those who are unemployed, under-employed, self-employed or employed in the informal sector. The former group has access to adequate levels of social protection, in the forms of public and private insurance. However, the latter group has limited access to insurance against life-cycle contingencies or employment-related risks, and is dependent on support from their relatives and communities, or social assistance from the state and non-state providers. Although state-provided social assistance is relatively extensive and generous, it provides only partial and inadequate compensation for the failure of South Africa’s economic and social strategies to generate pro-poor and inclusive growth.

Much has been achieved in terms of social protection in South Africa, especially in delivering social assistance to non-working vulnerable groups (see Table 2). However, some significant gaps remain. One of the most important gaps is the delivery of social insurance to informally employed adults.

Table 2. Social protection mapping in South Africa

<table>
<thead>
<tr>
<th>Life-cycle stage</th>
<th>Social assistance</th>
<th>Social insurance</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-working age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>♦ Infants</td>
<td>Child Support Grant (CSG).</td>
<td></td>
<td>Health: Free post-natal services in government health care system.</td>
</tr>
<tr>
<td></td>
<td>Foster Care Grant (FCG).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>♦ Pre-school children</td>
<td>Child Support Grant</td>
<td></td>
<td>Education: Subsidised pre-school care.</td>
</tr>
<tr>
<td></td>
<td>Foster Care Grant.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>♦ School-age children</td>
<td>Child Support Grant.</td>
<td></td>
<td>Education: No-fee schools in low income areas.</td>
</tr>
<tr>
<td></td>
<td>Foster Care Grant.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Children with disability can receive a disability grant, but their carers must apply. They cannot then receive the CSG.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>♦ Youth</td>
<td></td>
<td></td>
<td>Employment: Youth wage subsidy (Employment Tax Incentive (ETI)).</td>
</tr>
<tr>
<td>Working-age adults</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>♦ Formally employed</td>
<td></td>
<td>Social security: Unemployment insurance, death and funeral cover (under UIF).</td>
<td></td>
</tr>
<tr>
<td>♦ Informally</td>
<td>Social relief from DSD in</td>
<td>Informal: Stokwels; saving</td>
<td></td>
</tr>
</tbody>
</table>

6
<table>
<thead>
<tr>
<th>Life-cycle stage</th>
<th>Social assistance</th>
<th>Social insurance</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>employed</td>
<td>case of emergency.</td>
<td>clubs.</td>
<td></td>
</tr>
<tr>
<td><strong>Non-working adults</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>♦ Pregnant/lactating women</td>
<td></td>
<td></td>
<td>Health: Free services in government system.</td>
</tr>
<tr>
<td>♦ Chronically ill</td>
<td>Disability grant.</td>
<td></td>
<td>Health: Free services in government system.</td>
</tr>
<tr>
<td>♦ Persons with disability</td>
<td>Disability grant.</td>
<td></td>
<td>Health: Free services in government system.</td>
</tr>
<tr>
<td>♦ Older persons</td>
<td>Older Person’s Grant (state old-age pension).</td>
<td>Pension and Provident funds for retirement benefits.</td>
<td>Health: Free services in government system.</td>
</tr>
<tr>
<td><strong>All ages (not age-specific)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>♦ Indigents</td>
<td>(people who cannot afford basic goods or services – food, housing, water, energy, health care, sanitation).</td>
<td></td>
<td>Housing: Free to all with monthly income &lt;R3,500. Water: Free to 85.5% of indigent households. Electricity: free to 58% of indigent households.</td>
</tr>
<tr>
<td>♦ People Living with HIV and AIDS (PLWHA)</td>
<td></td>
<td></td>
<td>Health: Free ARV drugs and services to HIV/AIDS patients in government health service, starting with worst affected.</td>
</tr>
<tr>
<td>♦ Private individuals</td>
<td></td>
<td>Health insurance through a number of private medical aid schemes, which typically offer a package with life, hospital, funeral, legal &amp; property insurance. This package can also be security for a loan.</td>
<td>Health: National Health Insurance (NHI) scheme</td>
</tr>
</tbody>
</table>

Sources: Black Sash 2015; Madonsela 2010

2.2. Social assistance for working-age people in South Africa

The disability grant is the only one of South Africa’s eight social grants that is explicitly targeted at adults – South African citizens, permanent residents or refugees – of working age (18-59 years). The number of people receiving the disability grant expanded rapidly in the late 1990s, possibly because
of awareness raising campaigns and simplified application procedures, and also because it is given to HIV-positive people who are too sick to work. It is aimed at the economically active age cohort, and is designed to provide support for people who cannot work because of disability or chronic disease, and whose joint income (together with their spouse) falls below a means test, who therefore cannot support themselves. If their disability is irreversible, according to a medical assessment, the applicant will be entitled to a permanent disability grant, whereas if the disabling injury or disease is temporary they would receive the disability grant only until their condition improves (SASSA 2015).

It is important to note that working age adults, including informal workers, also benefit directly and indirectly from social grants targeted at other vulnerable family members. Contradicting the popular perception that grants encourage laziness and dependency, a study by the Economic Policy Research Institute (EPRI) found evidence that households receiving the Child Support Grant or other social assistance allocate some of this money to costs associated with working or looking for work, such as transport and child-care. Grant-receiving households reported higher labour market participation rates and more success in finding employment than other poor households, which is beneficial to both the family and the economy (Samson et al. 2004).

2.3. Social insurance in South Africa

“The social insurance prong of South Africa’s social security system is far smaller than the social assistance prong” (Woolard and Leibbrandt 2010: 2). For instance, payments made on social grants each year exceed payments made by the Unemployment Insurance Fund (UIF) by more than 10 times, confirming that South Africa’s social protection system is skewed towards social assistance rather than social insurance. In this section we review the three major social insurance mechanisms for which the government is responsible: the Compensation Fund, the Road Accident Fund, and the (UIF).

Under the terms of the Compensation for Occupational Injuries and Diseases Act (COIDA), the Compensation Fund provides insurance in cases of occupational accidents or diseases, including payment of benefits to relatives of victims of accidents at work. As a Public Entity of the Department of Transport, the Road Accident Fund (RAF) pays compensation for loss of earnings and other damage to victims of road accidents caused by negligent driving.

However, the most relevant fund in terms of employment-related social insurance is the UIF. This fund operates mostly in the formal sector, where all workers and their employers must pay 1% of salary as a levy to the UIF. These workers can then claim benefits in cases of unemployment (up to 238 days), protracted illness, maternity leave or the adoption of a child. The UIF also pays a death benefit to dependents if a worker dies while employed. In 2009 “approximately 8 million workers (and their employers) contributed to the Fund but only 10 percent of the 4.1 million unemployed received any unemployment benefits” (Woolard and Leibbrandt 2010: 4). Two explanations for this low coverage are: (1) more than half of the unemployed have never worked in a job where they made contributions to the UIF; (2) many of those who have contributed to the UIF have been unemployed for longer than a year, so are no longer eligible for payments. The UIF provides inadequate protection to unemployed South Africans.
3. Informal workers

3.1. Defining informal workers

The ‘informal sector’ has a number of definitions, linked mainly to the nature of unregistered and unregulated enterprises. ‘Informal workers’ is a broader concept that includes people working for themselves – not for any organised enterprise – as well as people working without contracts or on short-term contracts with no social security contributions or benefits, either in or for both formal and informal enterprises. The term ‘informal economy’ appears to have been coined by Keith Hart in 1970, to describe what he had seen in Ghana – a lively sector where formal and informal activities co-existed and overlapped, where people took initiatives to achieve what they wanted in spite of constraining bureaucratic arrangements, and where formally employed people often owned and managed many informal businesses. It was not a clear-cut definition, as it was not a clear-cut situation (Hart 2013). Altman (2008) maintains that it took thirty years for this definition to be incorporated into policy debates about labour markets and socio-economic development.

There are many approaches to defining informal workers.

1. The ILO definition relates to all workers who are employed without a Standard Employment Relationship (SER), meaning they have no written and legally binding contract that entitles them to employment protections and labour rights, including contributory social insurance.

2. A Ministry of Trade approach focuses on the size of enterprises, for example any business that employs less than 20 workers is exempt from contributing to social insurance, which also means that people who work for or run small businesses or micro-enterprises are not covered by contributory social security.

3. Another category of informal workers is self-employed individuals, which includes smallholder farmers, petty traders, informal service providers (e.g. hairdressers) and specialist artisans, musicians, car guards and others who work for their own account, possibly even beggars.

4. A broader definition would include workers who work, directly or indirectly, for formal enterprises but with no contract, or on part-time or short-term contracts – e.g. seasonal farm workers, or supermarket cashiers – so that their employers evade making contributions to social insurance.

5. The broadest definition of all would include all working-age adults who are able to work but cannot find a job, and scrabble for a living doing various micro-income-generating activities.

In this paper we use the definition proposed by Chen which reflects an expanded concept, formulated by the ILO, The Delhi Group, and WIEGO. They sought to include the whole of informality as it is found in transitional and developing economies, and as it reflects the reality of the working poor. The definition was endorsed by the ILO (2002).

“Broadly defined, the informal economy includes the self-employed in informal enterprises (i.e. small and unregulated) as well as the wage employed in informal jobs (i.e. unregulated and unprotected) in both urban and rural areas. So defined, informal labour markets encompass rural self-employment, both agricultural and non-agricultural; urban self-employment in
manufacturing, trade and services; and various forms of informal wage employment (including day labourers in construction and agriculture, industrial outworkers, and more)” (Chen 2008: 19).

In reality it might prove very difficult to define a cut-off point between the informally employed and the unemployed, especially in relation to people who engage in micro-income-generating activities. For this reason it might be advisable to enable people to define themselves, and to allow them to buy into social insurance at a level which they select accordingly to their needs and capacities.

3.2. Perspectives on informality

There appear to be two broad views on the informal economy. One is that the informal sector is “the less-advantaged, residual sector of a dualistic or segmented labour market” (González de la Rocha and Latapi 2008: 37). People work in the informal sector because they cannot get jobs in the formal sector, and so they are trapped in low-paid, unpredictable and insecure employment, with none of the benefits and security of a ‘proper’ job. An alternative view is that the informal economy is preferred by some because it is unregulated and untaxed (or tax can be evaded), informal employers do not pay to register their businesses, do not make social security contributions for their employees, and so on. The dilemma is formulated by Cook (2008) as “the persistent puzzle of informality”:

“how to think about informalisation of employment ... is it evidence of a better functioning, more competitive labour market? Or is it instead the emergence of something dysfunctional or pathological? ... In some parts of the literature it is presented as evidence of greater competition, economic dynamism and the job of job creation; in which case, how much ‘informal’ (flexible, unregulated and unprotected) employment is acceptable? Alternatively it is presented (particularly by policymakers) as something undesirable, to be regulated and formalised” (Cook 2008: 55).

The reality is probably mixed – the informal economy is occupied by people who were ‘pushed’ into it and others who were ‘pulled’ into it by choice. In Mexico, the increase in informal employment has been attributed to three interrelated trends (González de la Rocha and Latapi 2008: 43):

(1) “stagnation in formal employment” – as manufacturing and services contracted in the 1980s, workers were pushed out and forced to find informal work;
(2) self-employment increased “because its relative attraction increased as formal wages declined”;
(3) “firms informalised their working conditions” and there was a rise in precarious employment).

These trends have contributed to a rise in labour market rigidities and social stratification in Mexico. It is increasingly difficult for individuals employed in the informal economy to ‘graduate’ into formal employment or to reach higher economic quintiles and social strata. The rise in informality is also associated with a rise in child labour, since children of informal workers can easily contribute to their parents’ work and these households are mostly living in poverty.

Flexibility is needed when thinking about definitions. Devey et al. (2006: 313) caution that the formal and informal economies are on a continuum, rather than discrete categories. In South Africa, some informal workers are employees, but the majority are own-account workers. Many have more than
one form of employment, and they often change jobs. A small number of Devey et al.’s sample of informal workers had formal contracts, and only 11.8% had employers who contributed to a pension or retirement fund. Only 8.4% were members of a trade union. These categories are not exclusive to informal workers – there is a degree of overlap with formal workers, and workers often move in and out of both categories. Also, sectors such as mining increasingly use informal workers for some work, such as office cleaning, catering and ground maintenance, as well as for some core functions such as mining. This happens through labour brokers, which gives the worker less direct negotiating power. In the retail sector at the turn of the century, casual and contracted labour constituted 60% of total labour (Kenny 2000: 3). The same trend is found in manufacturing. Valodia (2008) also found a considerable amount of ‘churning’ or movement between formal and informal workers in South Africa, confirming the notion raised by Hart (2013) that these are not necessarily discrete sectors in the real world.

Nonetheless, pejorative views of the informal economy as being inferior to the formal sector persist. Chen (2007) developed a useful table to illustrate the “old and new views of the informal economy” (Table 3).

**Table 3. Old and new views of the informal economy**

<table>
<thead>
<tr>
<th>‘Old’ views</th>
<th>‘New’ views</th>
</tr>
</thead>
<tbody>
<tr>
<td>The informal sector is the traditional economy that will wither away and die with modern, industrial growth.</td>
<td>The informal economy is ‘here to stay’ and expanding with modern industrial growth.</td>
</tr>
<tr>
<td>It is only marginally productive. It is a major provider of employment, goods and services for lower-income groups.</td>
<td>It contributes a significant share of GDP.</td>
</tr>
<tr>
<td>It exists separately from the formal economy.</td>
<td>It is linked to the formal economy – it produces for, trades with, distributes for and provides services to the formal economy.</td>
</tr>
<tr>
<td>It represents a reserve pool of surplus labour.</td>
<td>Much of the recent rise in informal employment is due to the decline in formal employment or to the informalisation of previously formal employment relationships.</td>
</tr>
<tr>
<td>It is comprised mostly of street traders and very small-scale producers.</td>
<td>It is made up of a wide range of informal occupations – both ‘resilient old forms’ such as casual day labour in construction and agriculture as well as ‘emerging new ones’ such as temporary and part-time jobs plus homework for high-tech industries.</td>
</tr>
<tr>
<td>Most of those who work in the sector are entrepreneurs who run illegal and unregistered enterprises in order to avoid regulation and taxation.</td>
<td>It is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation; and most informal wage workers would welcome more stable jobs and</td>
</tr>
</tbody>
</table>

Source: Chen 2007: 5.

It is therefore clear that two groups need to be considered in the field of social insurance for informal workers: the person who chooses informal work because they prefer greater freedom and flexibility, and the person who is excluded from the formal labour market because of structural
factors. We keep this double focus in mind throughout this paper, and we also keep the continuum between categories in mind, as suggested by Hart (2013), Valodia (2008), and Devey et al. (2006).

With reference to those informal workers who are not able to find employment in the formal market, Banerjee and Duflo (2011) write that risk is a central and ongoing factor in the lives of the working poor. If shocks and stresses occur, they can be disastrous. The poor cope with economic stresses by working more (which is not always possible); diversifying their economic activities (which often results in a loss of expertise in one field); migration (temporary, cyclical or permanent); conservative choices (e.g. not buying new seeds); and using family relationships creatively (e.g. allowing children to work, arranging advantageous marriages) (see also Morduch 1991). Jacoby and Skoufias (1997) add that another form of insurance is that the poor often eat less or take their children out of school, although Banerjee and Duflo (2011) maintain that eating less is often the last strategy of choice. Landless households, who are not able to sell land or borrow in a crisis such as drought, often have higher mortality for girls than boys during such times of crisis (Rose 1999). They would also not seek medical treatment in such times of crisis, for themselves or their children (Banerjee and Duflo 2006).

3.3. Informal workers in South Africa

Wages are lower in the informal sector than in the formal economy (Cohen and Moodley 2012: 328). Nonetheless, the informal economy in South Africa is likely to persist, and to expand. “Once this fact is acknowledged, all new policies or changes to existing policy frameworks must be seen to take note of the informal economy. If not, labour law and social protection may become completely irrelevant to the majority of people in South Africa and the region” (Smit and Mpedi 2008: 8).

Two demographic cohorts in South Africa’s labour force are especially vulnerable – women and youth – as are certain livelihood groups such as farm workers, who are examined here as a case study.

3.3.1. Women

Decent work objectives are negatively affected by gender inequality in South Africa, despite the fact that female labour force participation increased from 38% in 1995 to 48.5% in 2012 (Cohen and Moodley 2012: 322). Women remain concentrated in typically ‘female’ professions, such as nursing, teaching and social work, often in lower job categories than men. There are also far fewer women in management positions than men. Women face the triple burden of work, family responsibilities and community involvement. They earn less than men and face discrimination when they fall pregnant while employed. Women are often found in low paid jobs, many in the informal sector. These factors have contributed to the “feminisation of poverty” in South Africa (Cohen and Moodley 2012: 323).

Women are over-represented among self-employed informal workers and low-paid contract workers, and they also head many small, medium and microenterprises (SMMES). However, “incomes earned in the informal economy are lower than those earned in formal employment. … and women who work informally are more likely to earn lower incomes than men who work informally” (Lund 2008: 2). Smit and Mpedi (2010: 27) argue for targeted programmes to convince female informal employers and employees to register their SMMES in order to integrate or link them
up with the formal economy, which would also facilitate their access to formal social insurance schemes.

3.3.2. Youth

Youth unemployment is very high in South Africa. The unemployment rate amongst the youth (15-35 years) is 36.1%, which is more than double the adult unemployment rate of 15.6%, according to the South African Labour Force Survey of June 2014. The labour force absorption rate for youth is also about half that of adults: 30.8% as opposed to 57.8%. Because of their inability to access formal employment, workers under the age of 20 have higher participation rates in the informal sector (Leibbrandt et al. 2010: 18). For young women the situation is even worse than for young men, as 34.5% of young women are neither studying nor working, compared to 29.9% of young men (Republic of South Africa 2015: 7). Unemployed youth effectively fall outside the social protection system, leading to economic problems (poverty, dependence on social grants received by relatives) and social problems (such as drug abuse, gangsterism and criminality).

3.3.3. Farm workers

Farm workers are employed in the formal sector on commercial farms, but their access to social protection depends on whether they are employed as permanent workers or as seasonal workers. Permanent workers are protected by laws such as the Basic Conditions of Employment Act (BCEA), which means they have formal contracts with their employer who makes deductions and payments into the UIF. They also earn a minimum wage under the ‘Sectoral Determination: Farm Worker Sector’, which provides a kind of income protection that is not enjoyed by informal workers. But despite being adjusted regularly, the Sectoral Determination minimum wage is set below the means test threshold even for fully employed farmworkers, so households with eligible members could be claiming social grants like the CSG and OPG to supplement their wages, all year round.

Seasonal farm workers should be covered by the same legal protections, but their contracts are more flexible and tenuous. Although they are entitled to written contracts with the same rights to UIF deductions, overtime payments and so on, they are often treated more like casual workers, depending on how employers choose to interpret their status, so they do not realise these entitlements. Unlike permanent workers, many of whom are members of trade unions, most seasonal workers are unorganised and most are women who work mainly during the peak farming season. Until the recent labour legislation amendments many seasonal workers worked permanently on temporary contracts, but as of January 2015 anyone who works for longer than 3 continuous months should be considered a permanent worker and should have the same entitlements as full-time permanent workers. But there are loopholes – e.g. it only applies when there are more than 10 workers, and seasonal workers have been identified as a specific category for which farmers could apply for exemption.

3.4. Explaining informality in South Africa

The nature and scale of the informal economy in South Africa is specific to the country’s unique social, economic and political history. Although the informal economy displays similarities to that in other African countries, the deliberate bifurcation of the education system under apartheid, and restricted access to creative business and career opportunities during this period, have shaped this sector in specific and particularly harmful ways. An associated problem is the fact that skills level are
low in the South African economy, and employers in several skilled sectors find it difficult to fill certain positions. Employers also blame inflexible labour legislation, such as the strict procedures for hiring and firing workers and the need to adhere to bargaining council agreements, for their preference for casual and part-time labour rather than contracting permanent employees.

There was a sharp rise in casual and part-time work between 1993 and 2008 (see Figure 2), from under 15% to over 30% of total employment. This period coincides with the implementation of progressive labour legislation that strengthened the rights and bargaining power of workers vis-à-vis employers, notably the Labour Relations Act (LRA) of 1995, the Basic Conditions of Employment Act (BCEA) of 1997, the Employment Equity Act of 1998 and the Skills Development Act of 1998. This appears to support the popular view that stronger pro-worker legislation, along with more powerful trade unions, had the unintended consequence of pushing more people into casual and part-time labour, and thus into unprotected labour settings. This effect occurred particularly amongst African workers, where the share of part-time employment more than doubled (Leibbrandt et al. 2010: 14-16).

Figure 2. Share of part-time and casual employment in total employment, 1993–2008

Nonetheless, the informal sector is smaller than might be expected for a country of South Africa’s size, especially given the dynamism of the economy and the persistently high levels of unemployment. This could be explained by barriers to self-employment and the establishment or expansion of SMMEs, notably limited access to start-up and working capital, lack of business experience and financial literacy, and a risky environment with high rates of crime.
4. Policy options for extending social protection to informal workers

Table 4 disaggregates working age adults in South Africa into 5 cohorts:\(^5\)

1. “not working and not earning – cannot work”: includes chronically ill or severely disabled
2. “not working and not earning – can work”: unemployed job-seekers
3. “working but not earning enough”: low-income workers in the informal or formal sector
4. “working and earning enough – not organised”: employed either formally or informally, and not living in poverty, but not unionised
5. “working and earning enough – organised”: employed either formally or informally, not living in poverty, and unionised.

Crudely, these 5 cohorts are ranked from poorest to richest, or from those needing most to least public support.

<table>
<thead>
<tr>
<th>Working-age adults</th>
<th>Social assistance</th>
<th>Social insurance</th>
<th>Labour market</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. <strong>Organised non-poor workers</strong>: working and earning enough – organised</td>
<td>• Spaza shops</td>
<td>• Mandatory social security contributions</td>
<td>• Monitor and enforce labour laws</td>
</tr>
<tr>
<td></td>
<td>• Social grants (co-residents)</td>
<td>• Special social security fund (PA, footballers)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Income support</td>
<td>• Extend UIF (domestic, taxi, farm workers)</td>
<td></td>
</tr>
<tr>
<td>4. <strong>Unorganised non-poor workers</strong>: working and earning enough – not organised</td>
<td></td>
<td>• Mandatory social security contributions</td>
<td>• Monitor and enforce labour laws</td>
</tr>
<tr>
<td>3. <strong>Low-income workers</strong>: working but not earning enough</td>
<td>• Spaza shops</td>
<td>• Government subsidy</td>
<td>• Monitor and enforce labour laws</td>
</tr>
<tr>
<td></td>
<td>• Social grants (co-residents)</td>
<td>• Voluntary savings (Mbao Pension Plan)</td>
<td>• Graduate informal workers to formal</td>
</tr>
<tr>
<td></td>
<td>• Income support</td>
<td>• Self-insurance (stokvels, burial book)</td>
<td>• Organise workers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Micro-insurance</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Voluntary contributions</td>
<td></td>
</tr>
<tr>
<td>2. <strong>Unemployed</strong>: not working and not earning – can work</td>
<td>• Social grants (co-residents)</td>
<td>• Extend UIF (&gt;6 months)</td>
<td>• Lower access barriers</td>
</tr>
<tr>
<td></td>
<td>• Income support</td>
<td></td>
<td>• Wage subsidy (ETI)</td>
</tr>
<tr>
<td>1. <strong>Cannot work</strong>: not working and not earning – cannot work</td>
<td>• Social grants (disability grant)</td>
<td></td>
<td>• Skills training and learnerships</td>
</tr>
</tbody>
</table>

\(^5\) Note that this is not a standard classification; it was devised by the authors to organise the interventions discussed in this paper into a logical structure.
Also in Table 4, social protection interventions are subdivided into social assistance, social insurance, and labour market activation, which is how this chapter is structured.

Policy options for extending social protection to informal workers face a number of dilemmas that require decisions to be made between alternatives that sometimes appear to contradict each other. These policy trade-offs relate to the type of provision, as well as to mechanisms and providers:

- Social assistance or social insurance?
- Mandatory or voluntary contributions?
- Government-regulated or self-regulated?
- Public (state) or private (commercial) provision?
- Subsidised or commercial rates?

The proposals and options discussed below do not take a firm position on any of these polarities, instead arguing that a mix of interventions and modalities is appropriate for a comprehensive social protection system that meets the needs of South Africa’s diverse working-age population.

4.1. Social assistance

South Africa’s social grants are biased towards non-working-age cohorts (pre- and post-working age) and those with limited labour capacity (persons with disability). Informal workers and low-income formal sector workers are not covered by formal social insurance schemes, and they typically cannot afford private insurance. Many low-income adults do benefit indirectly from social grants, if they are co-resident with a child or older person who qualifies for the CSG or Older Persons Grant. Informal workers can receive the OPG themselves when they reach 60 years of age, if their income falls below the means test threshold, which provides them with some income security in later life.

A number of gaps exist in South Africa’s social assistance safety net that are exacerbated by the limited social insurance available to low-income informal workers. Some social security benefits could be provided in the form of expanded social assistance for low-income individuals and families. These include family support and survivor benefits. In terms of family support, the Child Support Grant does not provide support to the caregiver. Van den Heever (2012: 22) proposes closing this gap by providing “income support for mothers and caregivers earning up to the tax threshold; crèche support, in the form of a subsidy or in-kind services, for all individuals and families earning up to the tax threshold”. A proposal currently under consideration by DSD is to add a caregiver grant to each CSG household. In terms of survivor benefits, no social assistance is available following the death of a breadwinner, and private insurance policies are too expensive for low-income families. Van den Heever (2012: 20) argues that social assistance should be offered as a form of income protection for families (survivors benefits) falling below the means test threshold when they face the loss of a breadwinner.

There is resistance from some quarters to providing social assistance to the working-age population, because of an ideological view that people who can work should work to support themselves and their families, and should not be dependent on ‘handouts’ from the state – instead of collecting social grants, people who are working should instead be contributing to social insurance mechanisms. A stronger objection to social assistance for working-age people is that it might discourage them from working or looking for work. This ‘dependency syndrome’ or ‘welfare trap’
argument requires maximising incentives to work by denying social assistance to adults with labour capacity, or minimising payments to them and applying punitive measures to encourage them to look for work.

These arguments fail to recognise or address two pragmatic issues: first, that many working-age people who want to work cannot find jobs and are therefore involuntarily dependent on some form of assistance; second, that many working-age people are working but are earning below subsistence incomes. For the latter group their incomes are sometimes ‘topped up’ indirectly, through means tested social assistance that is not intended for them but is targeted at their co-resident children (the Child Support Grant) or elderly parents (the Older Persons Grant). More generally, a rights-based approach to social protection (as is guaranteed in South Africa’s Constitution) implies that: “Coverage offered through social security must, where appropriate, also be mirrored by social assistance for people unable to afford social contributory schemes” (van den Heever 2012: 14).

4.2. Social insurance

Currently, social insurance in South Africa is biased towards formally employed workers. Several options could be considered for extending social insurance to informal and low-income workers, covering a range of contingencies and delivering a range of benefits. Some approaches imply moving towards an integrated social security system, while other options require making special provision for categories of workers whose circumstances exclude them from existing institutional arrangements. There are advantages and disadvantages to both approaches, and strong views on either side.

4.2.1. Contingencies and benefits

The Social Security (Minimum Standards) Convention, no. 102 (ILO 1952) specifies nine contingencies for which social protection is needed: loss of income due to unemployment, illness, maternity, invalidity, workplace injury, death of a breadwinner or old age; as well as access to health care, and family responsibilities. Each of these is associated with specific social protection instruments – pensions, workers’ compensation, survivor benefit, and so on. An important question is which of these contingencies should be prioritised, in a social protection system for informal workers that is likely to move in phases (progressive realisation) towards comprehensive coverage.

Formal sector workers are typically preoccupied with their unemployment insurance and pensions. On the other hand, according to the ILO: “the principal social security priorities for informal sector workers are as follows: improving the effectiveness of health-care expenditure; death, survivor and disability benefit; smoothing out expenditure on basic education; maternity and childcare benefits” (van Ginneken 1999: 10). Pensions and unemployment insurance are less urgent priorities because retirement is in the distant future, and working lives do not divide neatly into periods of well-paid employment and unpaid unemployment. In South Africa, informal workers have shown an interest in protection against the costs of funerals, good quality health care and education for their children.

Income earners above the tax threshold could pay mandatory contributions into a social security fund that would cover several of the workplace contingencies and life-cycle risks identified under ILO Convention no. 102 of 1952. These would include: invalidity and survivor benefits, which are currently covered – but partially and inadequately – by the Compensation for Occupational Injuries.
Extending social protection to informal workers in South Africa

and Diseases Act (COIDA) and the Road Accident Fund (RAF), as well as workers’ compensation. As Smit and Mpedi (2010: 27) point out: “In South Africa the unemployment insurance system has successfully extended its scope to ‘informal’ workers, namely domestic workers. In principle there is no reason why, for example, workers’ compensation could not follow suit.”

Any employee, including domestic workers and farm workers, who works for at least 24 hours a month, is required to contribute to the UIF. These employees must pay 1% of their income up to a ceiling level of income (set at R14,872 a month in 2013) which is matched by a 1% contribution from their employers (du Preez 2013). Interestingly, when informal street traders in Durban (not covered by the UIF) were asked if they were willing to contribute to a voluntary pension fund, many asserted that they would, but asked if they could make a claim on the fund if their business failed or they became unemployed before reaching retirement age: “this sentiment showed the importance and need of some sort of unemployment benefit that informal workers could access” (Modise, Dodd and Lund 2011: 18, emphasis added). An example of extending coverage of existing arrangements is the inclusion of three categories of informal workers – but not street traders – in the UIF (see Box 1).

Box 1. Extension of UIF to domestic, farm and taxi industry workers

<table>
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<th>Source: Malherbe 2013</th>
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South Africa has a dualistic health system, with a free but means tested lower quality public health service alongside a high quality private health service that is accessed through expensive voluntary medical aid schemes. This system channels poor people towards public health care and richer people towards private health care. Street traders interviewed in Durban expressed a desire to access private health care, because their work is often hazardous and exposes them to health risks, but they cannot afford to lose time and income queuing at public health facilities for treatment that is often ineffective. For this reason, they gave high priority to medical benefits or health insurance as a component of any contributory retirement scheme (Modise, Dodd and Lund 2011: 17). Moreover, WIEGO (Women in Informal Employment: Globalising and Organising) point out that informal workers work in riskier places (streets, private homes, waste dumps, etc.) than formal workers, exposing them to greater risks of illness and disability. In this context, the National Health Insurance (NHI) scheme could offer an alternative solution.

Although the Older Persons Grant offers access to an old age pension to all men and women over 60 living in poverty, the payment level is too low to offer income security in later life, and the means

test is set below the income tax threshold, leaving large numbers of low-income people unprotected. Informal and self-employed workers, long-term unemployed people and low-income formal sector workers all fall in the cracks between the non-contributory social pension and earnings-related private or public pension plans such as the Government Employees Pension Fund (GEPF). Van den Heever (2012: 19) argues for the “introduction of a mandatory earnings-related contributory public scheme for all income earners with minimum benefit and preservation requirements to an income ceiling consistent with the average income earner. The minimum benefit scheme should provide income replacement equivalent to 40% of career average earnings. This scheme should offer benefits to persons below the tax threshold and be supported by a contribution subsidy (for this purpose)”.

4.2.2. Mandatory contributions

Many of the social insurance functions described above could be rationalised and harmonised under a unified National Social Security Fund (NSSF), which would be financed by mandatory contributions from all workers earning above an income threshold, as has been proposed by the National Treasury. The NSSF would be run as a pay-as-you-go ‘defined benefit’ scheme, with every registered worker paying 12% of their income into the fund.

The NSSF proposal is aligned with efforts by governments around the world to extend or adapt existing social insurance schemes, in order to accommodate workers who are excluded because they are self-employed, they are employed in the informal economy, or they are employed in the formal economy but without a formal contract. Some successes have been recorded with making contributions to social insurance schemes compulsory for informal and casual workers. Examples include the achievement of universal registration for the Republic of Korea’s health insurance scheme, and the registration of 400,000 home-based workers in India for the Employees’ Provident Fund, following the issuing of ID cards (van Ginneken 1999: 14).

There are obvious challenges with registration and collection of contributions from informal workers, which require creative administration arrangements and incentives to encourage compliance by both workers and employers. In Brazil, for example, “employers of domestic workers qualify for tax deductions as a measure to encourage them to pay their domestic workers at least the minimum wage, to register their domestic workers with the National Social Security Institute and to make regular social security contribution payments” (Malherbe 2013: 139).

Flexibility is crucial to the success of extending mandatory social insurance to informal workers. Some suggestions as to how this could be achieved in practice are suggested by the ILO.

“Some of the efforts to extend the coverage of social insurance are also dedicated to adapting benefits, contributions and operations to the characteristics of informal economy workers. This may include giving beneficiaries a choice whether to affiliate to all branches, according to their needs and contributory capacity; more flexible contribution payments to take into account income fluctuations or seasonal revenues (in agriculture for example); introducing specific mechanisms to determine contribution levels for employees and self-employed workers where real incomes are difficult to assess (capitation or lump-sum payment based on size of economic activity, etc.); reducing the costs of registration; and offering small-scale contributors “simplified schemes” in terms of both registration and compliance with tax obligations” (ILO 2009: 43).
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The need to adapt mandatory social insurance schemes to the specific circumstances of low-income informal workers is evidence in the cases of street traders in Durban (see Box 2) and farm workers in the Western Cape (see Box 3).

**Box 2. Case study: Street traders**

Informal street traders interviewed in Durban expressed their willingness and ability to contribute to a hypothetical new contributory retirement savings mechanism, which would include a disability and a death benefit. However, they displayed a strong distrust of formal financial institutions (it is difficult to open a savings account and bank charges are high), of informal financial institutions (which are perceived as less reliable), and of local government (since municipal authorities often harass street traders).

If they were required to pay a mandatory monthly contribution into the retirement mechanism, the traders argued for flexibility – a low minimum amount (R60-R100) with an option to pay in more in good months, and a ‘grace period’ if they were unable to make a payment in a bad month. They also preferred a voluntary scheme to a mandatory scheme, given the unpredictability of their earnings, with incentives to participate in the form of a matching contribution or subsidy from the government.

One interviewee proposed that their contributions to the retirement mechanism should be deducted from the fees they already pay to the government for permits to trade. Some women traders whose children receive the Child Support Grant requested their contributions to be deducted from the CSG in months when they were unemployed or their incomes were too low. Adding the retirement contribution to the cost of trading permits is one way of ensuring compliance and high contribution rates, but making deductions from social grants intended for children is inappropriate. Nonetheless, both ideas “suggest that informal workers are not myopic with regards to their financial situations and in this particular instance, would actively choose to sacrifice present consumption for future savings”.

Source: Modise, Dodd and Lund 2011: 7-16

**Box 3. Case study: Farm workers**

Seasonal and casualised farmworkers have an urgent unmet need for social protection during periods of unemployment, which can extend to 6-8 months each year. Casualisation and eviction of permanent farm workers also means that more people are out of work for longer periods during the off-season. A means tested government grant for able-bodied people between 18 and 59 would be ideal for individuals when they are unemployed.

Following the farmworkers’ strike of December 2012 to January 2013, 73,000 farmworkers lost their jobs in one quarter of 2014, so these people now have no form of income and no social security to fall back on. Many might have had access to UIF but many did not, and even if they got UIF it only provides support for 6 months. A safety net or a reformed UIF that pays benefits for longer than 6 months is urgently needed.

In terms of making voluntary or mandatory contributions to social security funds, farmworkers are already financially over-stretched and this would probably be unaffordable. Most farmworkers are highly indebted – not for clothes or cellphone airtime but literally for food, they buy on tick, they lay-by school clothes – so their spending patterns indicate that they are already living on the edge. Many belong to ‘gooi-gooi’ groups (rotating savings clubs) and make tiny savings into the group as self-insurance against urgent future cash needs. But this does not mean they have money to spare. Often they literally go hungry and live on bread and tea in the days before they get paid.

There should be exemptions from contributions for very low-paid seasonal farmworkers. Even a 50% matching arrangement with the government would not work. If the poorest can only afford R20 a month and the government pays R20 that comes to R40/month, which is a trivial amount. Another option could be a sliding scale, where the government pays a higher proportion for the lowest paid. For example, if
the workers’ contribution is set at 1% of monthly income and the target is for each worker to save R100/month, then the sectoral determination for farmworkers is currently R2,600/month so 1% is R26 and the government must pay R74 to reach the R100/month target. Correspondingly, a higher-paid worker who earns R8,000 will pay R80 and gets only R20 top-up from the government.

Source: Interview with Colette Solomon, Women on Farms Project

4.2.3. Voluntary contributions

The extension of social insurance coverage can be done on either a mandatory or a voluntary basis. Two models of income support in retirement for informal workers have been proposed. One is to expand existing mandatory social insurance arrangements to make them more inclusive of currently excluded workers. The other is to establish dedicated provident funds or similar mechanisms with voluntary membership for specific groups such as domestic workers, farm workers, professional footballers and performing artists (actors, musicians, and so on). The latter group made specific representations to the Department of Arts and Culture, requesting government support for the establishment of a social security fund which would be financed with contributions from members. This proposal was supported by COSATU and the Department of Social Development.

One concern about provident funds is that they allow the worker to withdraw the entire accumulated balance as a lump-sum on retirement, which might provide less income security in old age than a pension fund which pays a guaranteed monthly pension until death. Establishing a dedicated fund outside of the mandatory social security system also has other disadvantages. For one thing, if it is voluntary for workers it is also voluntary for employers, who would have no legal obligation to make contributions into the fund. This would leave many employees responsible for paying both their own and their employers’ contributions, which would be unaffordable for the majority. Alternatively, they would pay only their own contributions as employees, which would substantially reduce the benefits they receive when they make claims on the fund.

Another consideration is that all the management and administration costs of the fund would need to be paid for out of members’ contributions, which could be expensive and would reduce the benefits paid out. It has been suggested that government should bear the costs of running such funds, as their contribution to this pillar of the social protection system. A more fundamental concern is that this proposal marginalises informal workers by detaching their social protection provision from the mainstream system, but at the same time privileging selected groups while neglecting the majority of informal workers, who would remain excluded.

In 2011, the Department of Social Development prepared a proposal for creating a voluntary social security scheme for self-employed workers. Key features of the proposed voluntary scheme included:

- flexible contributions based on a minimum payment not percentage of income
- flexible rather than fixed frequency of contributions
- a contribution subsidy from the government to incentivise participation
- multiple options for collecting contributions (direct deposits into bank accounts, mobile or telephone banking, levy on goods purchased by traders from wholesalers, or levy on goods and services (e.g. a percentage of musicians’ CD sales or actors’ royalties))
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4.2.4. Voluntary savings

Unusually among middle-/upper-income countries, South Africa has no mandatory social insurance scheme. According to the Deputy Minister of Finance, savings in South Africa are “disturbingly low”, and many South Africans do not make adequate provision for contingencies such as retirement (Jonas 2014: 2). To strengthen savings in South Africa, the government introduced the RSA Retail Savings Bonds in 2004. By 2014 more than R9 billion had been saved in these bonds, and a ‘Top-Up Bond’ was announced, designed to “attract younger and smaller savers” (Jonas 2014: 6).

In the 2012 Budget Review the National Treasury introduced the idea of non-retirement tax-free savings accounts, though it is unclear how accessible these financial instruments will be to low-income people. The Association for Savings and Investment South Africa (ASISA) also plays a significant role behind the scenes. Their core mandate is to increase savings in the country, which is laudable but, according to one interviewee, “they conflate the savings debate with the social protection debate”, which is misguided.

A voluntary savings scheme has been introduced in Kenya that could be adapted to the South African context. About 80% of the Kenyan labour force works in the informal economy, and social security covers less than 15% of the population. The Mbao Pension Plan offers a savings scheme that is open to all, but is designed to meet the needs of informal workers who have no social security coverage and limited access to financial services. The Mbao Pension Plan is implemented by several private sector providers in Kenya, under the auspices of the national pension regulator, the Retirement Benefits Authority. Participants can make deposits into their account through their cellphone at any time. The use of cellphones as a delivery mechanism also seems appropriate for South Africa, where “cellphone subscriptions are more than twice as numerous as bank accounts” (Kwena and Turner 2013: 83).

One innovation that might be considered to incentivise participation in such a scheme in South Africa is a subsidy from the government in the form of a matching contribution. This is not offered in Kenya, partly because the Mbao Pension Plan already has a high take-up rate and partly because access is not restricted to low-income people, so this subsidy from government could be captured by the non-poor. However, in China, India and Thailand, the government does make matching contributions for voluntary government social security programmes such as China’s National Rural Pension System, which is open to farmers and rural workers who do not pay income tax. This expenditure is “justified because the government would otherwise be incurring tax expenditure through lost tax revenue if these workers had benefited from a tax preference. … A subsidy for participants would need to be structured so that it only went to low-income participants not benefiting from a tax subsidy because they did not pay taxes” (Kwena and Turner 2013: 90, 95).

4.2.5. Formalise informal social security mechanisms

According to Smit and Mpedi (2010: 27), “the integration or interlinking and strengthening of informal social security measures (stokvels or rotating savings and credit clubs) common among informal economy workers in developing countries are of paramount importance”. In fact, informal
risk-pooling mechanisms and self-insurance schemes have been popular in South Africa for a long time. The Deputy Finance Minister said in 2014 that there are an estimated 800,000 stokvels, burial societies and credit associations in South Africa, with a total value of between R25 and R44 billion (Jonas 2014). These societies are based on trust and social capital, and also play a social cohesion role (Irving 2005). Savings groups largely take the form of either ‘rotating savings and credit associations’ (ROSCAs) like the stokvels, or ‘accumulated savings and credit associations’ (ASCA) (Invested Development 2012). One example of an ASCA is the South African Homeless People’s Federation: “SAHPF targets the bottom 20% of the income distribution in South Africa, people typically earning less than $4/day in the informal sector. Its members commit to participate in savings groups and other community activities. ... SAHPF counts over 100,000 members organised through daily savings groups” (Ashoka 2005).

Closely related to the ILO’s social security provision for survivor benefits is insurance against funeral costs, which can be onerous in cultures where providing a decent burial and hosting a lavish funeral is an unavoidable social obligation. Many low-income South Africans have a ‘dood genootskap boekie’ (burial book), which they take out with institutions like AVBOB, a mutual assurance society that specialises in funeral insurance, with more than 1.3 million policy-holders in 2015. Keeping up with their burial book payments is taken very seriously by most people who have them, even the poorest.

Other poor people rely on informal burial societies, known as masingcwabisane in KwaZulu-Natal, but informal workers interviewed in Durban complained that these societies are unreliable, charge extortionate rates and pay out too little money. They expressed an interest in a retirement savings plan linked to a funeral benefit, as “this type of funeral benefit would allow them to stop contributing to masingcwabisane schemes” (Modise, Dodd and Lund, 2011: 17). In this case, instead of drawing on informal mechanisms for inspiration in designing formal risk-pooling schemes, it seems that people would prefer to be incorporated into formal social insurance mechanisms.

The government has been exploring for some time the feasibility of adapting or formalising aspects of such informal social security mechanisms. In reality, however, informal insurance is generally less effective than formal social insurance, partly because poverty limits the volumes of funds that can be mobilised and partly because covariate risks undermine the responsiveness of these schemes to shocks and contingencies. “Moreover, informal social networks are often not well-diversified. They tend to spread risk over households who live nearby and have similar incomes and occupations” (Banerjee and Duflo 2006: 16).

4.3. Labour market activation

According to the National Development Plan: “Employment creation is the most effective form of social protection” (NPC 2011: 327). Since low-income working-age adults have the potential to be self-reliant through employment, it follows that investments in raising the returns to their labour should be a central component of any comprehensive and developmental social protection strategy. The World Bank’s ‘Social Protection and Labor Strategy’ makes the importance of strengthening these linkages from social protection to livelihood promotion explicit. 

“Social protection and labor programs directly improve resilience by helping people insure against drops in well-being from different types of shocks, and equity by reducing poverty and destitution and promoting equality of opportunity. But these policies also promote opportunity by building human capital, assets, and access to jobs and by freeing families to make productive investments because of their greater sense of security” (World Bank 2012: xi).

One set of options is around supporting some people to move out of informal employment. Informal workers who prefer this route should be assisted to ‘graduate’ into formal employment, where they will access employment-related social security, possibly via learnerships or ‘semi-formal’ employment on public works programmes such as the EPWP. For informal workers who cannot or do not want to ‘graduate’, those whose incomes in the informal economy remain too low should be entitled to receive social assistance (Figure 3).

Figure 3. ‘Graduation’ into formal employment

Informal employment → Social assistance

Semi-formal employment → Public works programmes

Formal employment → Social insurance (employment-related)

‘Graduation’ from unemployment or informal employment into formal employment through active labour market policies and investment in education and skills programmes is only possible if the labour market has the capacity to absorb job-seekers. In this regard, Van den Heever (2015) identifies two conflicting views about the drivers of unemployment and poverty in South Africa. The ‘narrow growth view’ attributes structural unemployment and associated poverty to a heavily skewed distribution of capabilities and labour market rigidities – over-protection of workers and excessive wage settlements. The solutions are to invest in the human capital of low-skilled workers and to make labour markets more ‘flexible’, by lowering the costs of labour and reducing workers’ job security, to incentivise the absorption of low-skilled ‘surplus labour’.

The ‘narrow growth view’ asserts that high levels of poverty, inequality and structural unemployment are functional to economic growth, and perhaps even necessary for a transitional period of a country’s development. An ‘alternative view’ is that levels of inequality and unemployment are excessive and that South African workers have less protection than comparable countries. According to this view, excessive remuneration and accumulation by the top income earners is driving unemployment and poverty, and interventions are urgently needed to address income inequality directly (van den Heever 2014). Two implications of the alternative view are that relatively high levels of investment in social protection are both affordable and necessary, and that workers need and deserve more protection in the labour market, rather than less.
An intermediate view can be identified that sees merit in both arguments, and proposes interventions on both sides. “The view that people working in the informal economy are “unemployable in formal economy” is partly true and partly false. However, the migration between the two economies is made easier where workers can show that they have attended skills-building programmes or that they have worked casually in the formal economy” (Smit and Mpedi 2010: 27).

With this in mind, the third National Skills Development Strategy (NSDS III) aims to expand access to further education, training and skills development opportunities in South Africa, for both social objectives (to “achieve the fundamental transformation of inequities linked to class, race, gender, age and disability in our society”) and economic objectives (to “address the challenges – of skills shortages and mismatches – we face as a country and improve productivity in the economy”) (DHET 2010: 3). This focus on links to labour markets is aligned with current thinking on social protection globally, which recognises the potential for an expanded social protection agenda to contribute simultaneously to social justice, poverty reduction and economic growth.

Finally, it is important to recognise that other countries, notably Brazil, have followed a more balanced economic growth trajectory which successfully combined pro-poor investments in human capital with social protection programmes that enabled the poor to find pathways into formal employment. These linkages between economic and social policies have not occurred in South Africa, where the two sets of policies remain disarticulated. “The key difference between the Latin American and the South African experiences seems to be that social grants and improved levels of education accompanied and contributed towards strong employment creation in Latin America whereas this employment creation has not happened in South Africa” (Leibbrandt and Levinsohn 2011: 21).

4.3.1. Youth wage subsidy

A youth wage subsidy called the Employment Tax Incentive (ETI) was introduced in January 2014. The intention is to facilitate entry into the formal labour market for unemployed youth, by offering employers a tax deduction on the wages they pay to these employees, which effectively reduces the cost of hiring inexperienced young workers. This is a labour demand-side intervention, in contrast to supply-side interventions that invest in workers’ skills – such as Second Chance, Further Education and Training (FET) schools, and Sector Education and Training Authority (SETA) programmes. Other demand-side interventions include the Expanded Public Works Programme (EPWP), which creates temporary work opportunities rather than sustainable employment, and Learnership Agreements, which subsidise firms to provide on-the-job training to recruits who were previously unemployed. Unfortunately, the data suggest that these interventions have made little difference to the aggregate unemployment problem, or to youth unemployment rates in South Africa.

The ETI has been criticised for being inefficient, based on evidence from other countries that firms would either hire young workers without such financial incentives, or will release these workers after the subsidy expires. COSATU also raised strong concerns that workers hired under the ETI, simply to reduce labour costs for firms, would result in experienced workers being retrenched. Moreover, the ETI can only be taken up by firms registered for Pay As You Earn (PAYE) taxes, which automatically excludes the informal sector and formal sector firms that pay wages too low to be liable for PAYE. A preliminary evaluation found that “the ETI did not have any statistically significant and positive effects on youth employment probabilities. ... What our results imply is that any
decrease in tax revenues that arise from the ETI are effectively accruing to firms which, collectively, would have employed most of these youth even in the absence of the ETI” (Ranchhod and Finn 2014: 1).

4.3.2. Expanded definition of ‘employee’

There are legal barriers to social protection for informal economy workers in South Africa. This is evident from the legal framework of most social insurance schemes and labour laws, which restrict access or participation to those workers who fit the legal definition of key terms such as ‘employee’ and ‘contributor’. Self-employed persons and informal economy workers are generally excluded, even from voluntary participation. The legal definition of ‘employee’ in South African labour legislation and social security laws is too narrow.

The Labour Relations Act (LRA) and the Basic Conditions of Employment Act (BCEA) do make provision for a broader definition of employees. For instance, the ‘sectoral determination’ approach under the BCEA brought the taxi sector into the UIF through ‘Sectoral Determination 11: Taxi Sector 2005’. “Sectoral determinations are undoubtedly a practical means by which social insurance can be extended to excluded and marginalised persons who eke out a living in the informal economy” (Smit and Mpedi 2010: 25). More broadly, labour legislation aimed at improving working conditions, such as the BCEA and the Employment Equity Act, puts the obligation on employers to contribute resources to improve the wellbeing of low-paid workers, rather than relying on public transfers. The state’s role is primarily as a regulator – e.g. labour inspectors should monitor and enforce compliance.

4.3.3. Strengthen civil society involvement

Although some sub-sectors within the informal economy have been mobilised and organised, most informal workers have no structures working on their behalf, leaving them with no voice to advocate for their social security rights. However, there are some positive cases of civil society involvement that can potentially be built upon.

In 2007, the NGO Women on Farms Project (WFP) signed a Memorandum of Understanding with the Department of Justice and Constitutional Development, authorising WFP’s Social Security programme to operate ‘Social Security Information Points’ at several Magistrate’s Courts in the Western Cape. The aim was to provide women farmworkers with information, advice and support regarding their social security entitlements, in a context where casualisation of agricultural labour leaves many workers with an income for only 4-6 months of the year. It is not uncommon for the primary source of income in casual farmworker households to switch from agricultural wages during the farming season to social grants for the rest of the year, but many farmworkers are not aware of their rights to claim these grants. Through their Information Points, WFP assisted hundreds of families to apply for and receive the Child Support Grant, Older Persons Grant, Disability Grant and Foster Care Grant (WFP 2009).

A case can also be made for organising workers in the informal economy, either by establishing sector-specific trade unions or by incorporating them into the membership of existing trade unions. “The exclusion and marginalisation of informal economy workers from social security, particularly social insurance, is aggravated by the fact that there is limited trade union involvement in the informal economy. ... Greater trade union involvement, it is submitted, has a strong...
potential of providing informal economy workers with a voice to garner support for their inclusion under various social protection measures” (Smit and Mpedi 2010: 28).

4.4. Creating synergies between social protection and the labour market

A roundtable event hosted by the Wits School of Governance on 29 January 2015, as part of a series of debates focused on implementing the National Development Plan, explored the potential for creating synergies between social protection, the labour market and the economy in South Africa. Much of the discussion was relevant to the issues addressed by this paper. The Minister of Labour opened the debate by reaffirming the government’s commitment to social protection, as reflected in the South African constitution and the Freedom Charter, and emphasising that “employment is the best form of social protection”. The representative from UNDP highlighted the urgency of extending coverage of social protection to the informal sector, if South Africa is to achieve its development goals.

Other speakers referred to the potential for social protection to improve both social and economic outcomes in South Africa. Well-designed and effectively implemented, social protection can reduce socioeconomic inequalities and put an effective safety net in place against extreme poverty. Social protection can also create jobs, especially if linkages with labour markets are promoted, and can raise labour productivity, if linkages to education and health services are strengthened. However, social protection is generally better at addressing the symptoms of poverty than its causes, which include unemployment and underemployment.

There was some debate about whether labour market inflexibility is making South Africa’s economy uncompetitive and constraining job creation, leaving many working adults with no alternative but to seek work in the informal sector. Is South Africa’s comprehensive social grants system essentially a response to unemployment-driven poverty, caused by structural problems in the labour market? For example, while the positive impacts of social grants are uncontested, the fact that the number of Child Support Grant (CSG) recipients continues to increase steadily suggests that children living in poverty are also increasing, due to the inability of their parents and carers to secure adequately remunerated employment. Failures in the education system and the inability of the labour market to absorb new entrants are driving the growing numbers of South Africans who are dependent on social grants.

Policy options going forward were discussed under three headings: social grants, social insurance, and labour market activation. Social grants are essential – even if there was full employment, South Africa would still need social assistance for non-working poor children (CSG), older persons (OPG) and persons with disability (Disability Grant) – but they do not provide a comprehensive safety net.

Concerns were raised about dependency and the ‘welfare trap’. In Europe, for instance, relatively generous unemployment benefits have created disincentives to work. Similarly, is South Africa’s CSG so generous that it is driving rising teenage pregnancies, as is often claimed? The evidence suggests not, but government fears about dependency probably explain its reluctance to introduce a universal Basic Income Grant (BIG) or social grants for the working age poor. However, the fact that

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The debate was chaired by Stephen Devereux, one of the authors of this paper. This section draws on the summary of proceedings (Pillay 2015).
social grants are means tested can create a trade-off between getting a job and losing eligibility to grants.

It was noted that there is no social assistance for the active population of working age (18-59 years old), instead solutions for this group are sought in creating temporary jobs through the Expanded Public Works Programme (EPWP) and in subsidising employment through the youth wage subsidy and the job wage subsidy. These interventions were seen as especially important for unemployed youth. But the EPWP is just a programme and is not integrated into a system or to labour activation strategies. A more sustainable option might be a youth employment programme, where graduates who cannot find employment get placements for 18 months to 2 years to acquire experience and opportunities for employment. A more business-friendly would also be helpful: in Rwanda, for instance, a business can be registered in 6 hours, whereas in South Africa this process can take several months.

Creating successful synergies between social and economic policies would include empowering unemployed and informally employed people to secure employment that would move them above the poverty line and make them ineligible for social grants, such that the number of grant recipients would fall instead of rise in future years.

5. Conclusion

Social protection is a right for all citizens and residents of South Africa, but that right is not being fully realised for substantial sections of the population, especially low-income working-age adults working in the informal economy. This concluding section reviews some of the challenges in reaching this cohort, and offers some recommendations for discussion by stakeholders.

5.1. Challenges to extending social protection to informal workers

Social protection coverage is low in many countries, especially where there is a large informal sector. Several reasons have been identified for the difficulty of extending social security or social insurance to working-age people outside formal employment. Drawing on van Ginneken (1999: 8) these include:

1. the high administrative costs and personnel requirements of registering informal workers, verifying incomes and regular collecting contributions;
2. the need for informal workers to pay sizeable regular contributions out of their low and often erratic incomes, for a purpose that does not meet their priority needs;
3. workers’ perception that benefits are low and will only be realised in the future, if ever, which reduces their incentive to participate in voluntary schemes and raises incentives to evade mandatory schemes;
4. workers’ lack of trust in the statutory institutions that manage social security funds, especially in contexts where public administrative capacities are weak and fiduciary risks are high.
5.1.1. **Demand-side: Low and erratic incomes**

Focus group discussions with street traders in Durban confirmed that informal workers are sceptical about paying a percentage of their income as regular contributions into a social security fund, partly because their incomes are too low, irregular and inconsistent, and partly because they fear that revealing their income would expose them to the possibility of being taxed (“I wouldn’t completely disclose my actual income because I don’t want that to go to SARS” [South African Revenue Service]). These traders are not opposed to contributing to a social security fund, provided it is designed in line with their circumstances and needs. Specifically, they expressed their willingness to make variable rather than fixed payments, depending on their income and spending priorities each month, but they insisted that the amount to be paid should not be calculated as a percentage of their monthly income (Modise, Dodd and Lund 2011: 14).

Overcoming the challenge of low and erratic incomes requires administrative flexibility and financial incentives, such as matching contributions from the government. “Self-employed workers are usually unwilling, and frequently unable, to pay the combined worker and employer contribution. As might be expected, schemes for self-employed workers are more successful when the government is willing to subsidise part of the premium” (ILO 2009: 42).

5.1.2. **Supply-side: Fiscal affordability, political acceptability and institutional fragmentation**

Non-contributory forms of social protection always face questions of political acceptability and fiscal affordability, since they are financed mainly by taxing better-off households for redistribution to poorer households. Social grants receive more scrutiny than social insurance for this reason, also because better-off taxpayers simultaneously contribute to and benefit from social insurance schemes.

Institutional coordination is needed to deliver social protection to all of South Africa’s citizens and residents. But social protection is currently managed and delivered by a wide array of government ministries and public entities. For example, social grants are managed by the Department of Social Development (DSD) and administered by the South African Social Security Agency (SASSA). The Road Accident Fund (RAF) is administered as a public entity under the Department of Transport. The Department of Labour oversees the Unemployment Insurance Fund and the Compensation Fund. The Department of Health has recently introduced the National Health Insurance (NHI) scheme. There is scope for rationalising and improving coordination of the existing social protection system, which might also facilitate efficient extension of social protection to groups that are currently falling through the gaps in the safety net, notably low-income working-age adults who are not formally employed.

5.2. **Recommendations for consideration**

Addressing the social security coverage gap requires a suite of interventions. People with no income and no means of support require social assistance (vertical redistribution – transfers from richer to poorer). People who are working and can afford to pay contributions should cover their own social insurance needs (horizontal redistribution – saving against future needs). Those in between, including informal workers and low-paid formal workers, should be covered by a mix of social insurance and social assistance. For example, government could match or subsidise social insurance contributions made by low-income workers, on a sliding scale.
In order to extend social protection to informal workers, we propose the following set of specific options for consideration. These are a mix of mandatory social insurance, voluntary social insurance, incentivised private insurance, and extended social grants. The solution proposed for different categories depends on each worker’s income level and their relationship to the labour market.

1. **Informal workers with contracts – mandatory social insurance**: UIF membership and benefits should be extended to informal workers with contracts (which is probably not a large number). Contributions to the UIF should be mandatory for both employers and employees.

2. **Higher-income self-employed workers – incentivised private insurance**: Self-employed workers in higher-income categories can purchase market-based insurance products, on a voluntary basis. Incentives might be provided by the government to promote the uptake of private insurance, and also to encourage people to save for their retirement.

3. **Lower-income informal workers – incentivised savings**: Informal workers would be offered the option of opening a savings account that would serve a self-insurance function and would be subsidised by contributions from the government. The idea – which is broadly based on the Mbao scheme in Kenya (Kwene and Turner 2013) – would work as follows.
   - A savings account is opened, into which the account-holder must deposit a regular amount – say, at least R20 and at most R100 each month. For convenience, deposits could be made through telephone banking.
   - Once a certain level of savings is reached, withdrawals could be made from this account against urgent health or education costs, funeral expenses, or to assist the household through a crisis. These risk management or consumption smoothing purposes would be the only withdrawals permitted, and they would need to be monitored to prevent abuse.
   - Upon retirement, the government would top-up the accumulated balance in the account by a certain predetermined percentage, perhaps 25% or 33%.
   - A more flexible model would allow account-holders to pay in variable amounts as and when they can afford to make deposits, and to withdraw any amount at any time for any purpose, with no monitoring of how the account is managed. The government could incentivise savings by offering a higher interest rate than that offered by commercial banks. (A top-up on retirement would not work, as account-holders could distort the system by depositing large sums of money collected from friends and relatives at the last minute.)

4. **Low-income workers and unemployed**: The poorest working-age adults should receive income support in the form of a means tested social grant, linked to employment opportunities if possible, such as skills training or temporary work on the Expanded Public Works Programme (EPWP).

Importantly, this is not a ‘one size fits all’ approach, but applies different solutions to different groups. Implementing these ideas has the advantage of providing social security to the most vulnerable working-age groups, without depriving them of incentives or the need to work. It encourages workers to contribute to their own social insurance if they can, which makes the system fiscally affordable, but does not exclude those who cannot afford to make contributions or savings.
Finally, these suggestions are in line with the principles of social policy in South Africa, as discussed in the NDP and in section 1.3 of this report. If informal workers in South Africa, and especially the poorest cohort in this sector, could be motivated and supported to attempt income-generating activities which would enable them to save against a range of livelihood risks, it would support Government’s drive to activate market opportunities for the poor. This should be supported by the already existing skills development programmes, by entrepreneurial support, by advice offices, and by research on creative and innovative support systems for these economic activities. This will contribute to several NDP goals, namely the creation of a culture of saving, to self-reliance and dignity, and could assist in the alleviation of extreme poverty, over a period.

Furthermore, the NDP supports the development of capabilities and the creation of opportunities as a development mechanism in South Africa. The proposed programme could incentivise informal workers by giving them a set of choices on which assets they want to increase, and how they want to use those assets to support key livelihood choices. As discussed in section 1.3, Adato et al (2006) see the development of assets by the poor as the way to break the South African poverty trap. If these proposals are successful, they could engage the agency of workers in the informal sector, many of whom currently live under the breadline, and could contribute to the process of inclusive human development in South Africa.

5.3. Next steps

This report was presented and discussed at a Roundtable Discussion event in Pretoria in October 2015. It was agreed that a pilot project should be implemented that tests options for extending social protection to a specific category of informal workers. Lessons learned from the pilot will build the evidence base for scaling up and extending social protection to other informal workers.

Candidate groups for the pilot project include:

- **Agricultural workers**: especially evicted farmworkers who have lost their permanent contracts, their homes on farms, and their access to formal or farm-based social protection.
- **Informal miners**: note that these are not necessarily illegal miners.
- **Informal traders**: this is one of the broadest categories of informal workers, so further analysis would be needed to select any particular group.
- **Lone mothers**: are over-represented throughout the informal sector and are especially vulnerable to exclusion from social protection, despite urgent needs for social assistance and social security.
- **Tourism sector**: low-paid workers in the tourism sector sometimes have formal contracts but rarely have access to formal social protection or social security.
- **Union-based groups**: in the context of growing informalisation, there is some union-based activity in relation to protecting benefits such as pensions for informalised or casualised workers.
- **Waste pickers**: individuals who work with their trolleys on the streets collecting recyclable waste from rubbish bins.

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Criteria for selecting the category of informal workers should include the nature of the risks they face, their low or erratic incomes, the type of social protection they need, and the administrative feasibility of serving these needs in a pilot project. The pilot project should be carefully designed, including clear research questions, a pre-assessment of needs, a targeting mechanism, and a rigorous monitoring and evaluation system. The social protection modality selected must bear in mind the potential for scaling up and transferring this initiative to other categories of workers.

Finally, a decision was taken to establish a working group to take this agenda forward, which should draw representatives from government, civil society, international agencies and beneficiary groups.
References


