

POLICY BRIEF



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Developing Social Insurance Schemes for the Informal Sector in South Africa¹

Summary

As part of its contribution to the United Nations Sustainable Development Goals Fund (UN SDG Fund) Joint Programme - *an integrated and universal social protection system linked to developmental welfare services in South Africa*, with UN Women, United Nations Children's Fund (UNICEF), Office of the United Nations High Commissioner for Human Rights (OHCHR) and the International Labour Organization (ILO), the United Nations Development Programme (UNDP) commissioned a study on *social insurance schemes for the informal sector in South Africa with a focus on women and youth*. Social insurance in South Africa is largely available to working-age adults who are formally employed, leaving informal sector workers with low coverage rates. The study was conducted to inform the design of social insurance schemes for the informal sector.

The study recommended establishing contributory social insurance schemes for the informal sector workers in South Africa that offer benefits to be paid out as once-off support, which should be piloted or launched with a specific and smaller target group, region or industry association.

The policy brief recommends the design of social insurance schemes for the informal sector in South Africa that considers distinct characteristics of informal sector workers such as irregular and relatively low earnings and the need for easy access to funds. Informal sector workers would benefit from social insurance schemes that allow for short-term savings that could be withdrawn during periods of unemployment, as well as a long-term savings plans for better old age pension. Such social insurance schemes could be complemented by financial or behavioural incentives to encourage savings. The social insurance scheme would have an added benefit of increasing financial inclusion among informal sector workers and instilling a culture of savings.

1. Introduction

A study conducted by the Department of Small Business Development (DSBD) and UNDP South Africa estimates that the informal sector contributes 8 per cent to the country's GDP and employs 27 per

¹ This policy brief is an output of the Strategic Policy and Research Unit (SPRU) in the UNDP South Country Office. The Unit focuses on upstream policy interventions in the areas of human development, pro-poor policy analysis, Agenda 2030 for Sustainable Development. It also supports the national and county governments in the design and implementation of evidence based national development plans, provincial development plans, integrated development plans and other relevant policy instruments. The views expressed in this policy brief are those of the SPRU, and do not represent the views of UNDP, the United Nations or any of its affiliate organizations

cent of the South African workforce,² yet the sector is characterized by low human capital and productivity, limited access to basic services, financial exclusion, low earnings, and irregular and unpredictable income.

Despite these vulnerabilities, informal sector workers do not access social protection despite South Africa having a well-developed poverty-targeted social assistance and safety net programme, focusing on children, people living with disabilities, and the elderly. The social grants and benefits provided through the social protection system exclude informal sector workers and are referred to as the “missing middle” as they are “not poor” enough to qualify for social safety net benefits and not well-off enough to partake in social insurance programmes mandated for the formal sector.³

In 2003, South Africa adjusted its policies aiming to include workers without formal work contracts into an insurance scheme, the Unemployment Insurance Fund (UIF), making it compulsory for employers of domestic workers, who are largely informal, to pay a contribution.⁴ “From 2003 to 2008 the Fund registered more than 633,000 domestic workers, and more than 556,000 domestic employers have collected R395 million. By 2008 over 324,000 temporarily unemployed workers had received social security payments, the vast majority being women.”⁵

However, informal sector workers, in particular women, still face a social protection gap. The “provision of income security for those between the ages of 18 and 59 years” was described as the “glaring social protection gap.”⁶ Furthermore, informal sector workers cannot access social security and insurance schemes because they are based on traditional models of workers in a stable employment relationship, with a regular wage and long-term contracts in the formal sector.⁷ They also tend to have lower contributory capacities and are often unable to regularly contribute the same amounts as their incomes can vary over time. In the case of own-account (self-employed) informal sector workers, the burden is even more difficult to bear as they are also responsible for paying employers’ contributions.

The COVID-19 pandemic has exacerbated the economic and social insecurity for informal sector workers in South Africa. Statistics South Africa (Stats SA) data suggest that during the strict COVID-19 lockdown in the second quarter of 2020 there was a 29 per cent drop in informal employment compared to 8 per cent decline in formal employment relative to the same period in 2019.⁸ Most informal workers who did not lose their jobs reported working fewer hours and/or earning less than before the pandemic.⁹ Informal workers typically operate in the most vulnerable segments of the labour

² Department of Small Business Development and United Nations Development Programme (UNDP) launch study on impact of COVID-19 on Micro and Informal Businesses in South Africa. (28 September 2021). [Media article]. South African Government www.gov.za. <https://www.gov.za/speeches/small-business-development-and-united-nations-development-programme-launch-study-impact>

³ Gulen, M., et al., (2020). “Social insurance for the informal sector can be a lifeline for millions in Africa,” Available at <https://blogs.worldbank.org/african/social-insurance-informal-sector-can-be-lifeline-millions-africa>

⁴ Alfars L., Ismail G. and Valdivia, M. 2020. “Informal Workers and the Social Protection Response to COVID-19: Who got relief? How? And did it make a difference?” Available at www.wiego.org/sites/default/files/publications/file/PI2English_0.pdf

⁵ *ibid.*

⁶ Joint SDG Fund. 2020. “Joint Programme 2020 Annual Progress Report.” [Project Factsheet - PSP 2019 South Africa \(undp.org\)](https://www.undp.org/projects/factsheet-psp-2019-south-africa)

⁷ ILO, (2021). Extending Social Security to Workers in the Informal Economy: Lessons from International Experience, Available at <https://www.social-protection.org/gimi/RessourcePDF.action?id=55728>

⁸ Skinner, et al., 2021. “Informal Work in South Africa and COVID-19: Gendered Impacts and Priority Interventions,” WIEGO Policy Brief No 22, Available at <https://www.wiego.org/publications/informal-work-south-africa-and-covid-19-gendered-impacts-and-priority-interventions>

⁹ *ibid.*

market (not covered by labour legislation and minimum wages), relying on daily earnings to survive and, as such, their prospects for recovery are far less certain than those formally employed who can afford membership to contributory insurance schemes and access employment benefits such as unemployment or health insurance. In addition, most informal workers support households that are below or near the poverty line.

The scope of the COVID-19 pandemic socio-economic crisis in South Africa provides a unique opportunity to develop flexible contributory and non-contributory insurance schemes that provide social safety nets to informal and self-employed workers. The social insurance schemes that offer benefits to be paid out as once-off support could be piloted or launched with a specific and smaller target group, region or industry association as recommended by a UNDP (2021) study on social insurance schemes for the informal sector in South Africa, with a focus on women and youth.¹⁰

The policy brief recommends the design of social insurance schemes for the informal sector in South Africa that consider distinct characteristics of informal workers such as irregular and relatively low earnings and the need for easy access to funds. Informal sector workers would benefit from social insurance schemes that allow for short-term savings that could be withdrawn during periods of unemployment, as well as a long-term savings plans for better old age pension. Such social insurance schemes could be complemented by financial or behavioural incentives to encourage savings. The social insurance schemes would have an added benefit of increasing financial inclusion among informal sector workers and instilling a culture of savings. Reflecting this need for broader coverage, some countries in Africa have launched such social insurance schemes. For example, Kenya established the Haba Haba and Mbao scheme, Ejo Heza LTSS ('long-term saving scheme') in Rwanda, Micro Pension Plan in Nigeria, and Extension of Coverage for the Informal Sector (ECIS) Project in Zambia.¹¹

2. The case for expanding social insurance to the informal sector in South Africa

The growing gap between those with and without access to social insurance safety nets (such as unemployment insurance, pension and healthcare), is a one of the key contributing factors in the rising poverty, inequality, lack of social mobility and economic insecurity in South Africa.¹² These problems in turn have contributed to a rise in social discontent¹³ and the July 2021 social unrest in KwaZulu-Natal and Gauteng which shank the economy by 1.5 per cent in the third quarter of 2021.¹⁴

Expanding social insurance to the informal sector workers increases productivity and reliance to shocks of the sector. Although there are several reasons for informal labour's low productivity such as low wages, lack of training, a high proportion of labour to capital, and inefficiency;¹⁵ as informal workers make up 27 per cent of the South African workforce, improving the productivity of such workers could have a significant impact on economic growth, employment, inequality and poverty.

¹⁰ UNDP, (2021). Social insurance schemes for the informal sector in South Africa with a focus on women and youth in South Africa, UNDP, Pretoria.

¹¹ Gulen, M., *et al.*, (2020). "Social insurance for the informal sector can be a lifeline for millions in Africa," Available at <https://blogs.worldbank.org/africacan/social-insurance-informal-sector-can-be-lifeline-millions-africa>

¹² <https://www.news24.com/citypress/business/poor-education-and-wealth-disparity-perpetuates-20220624>

¹³ Khambule, I., Nomdo, A. and Siswana, B., (2018). The Social Costs of Violent and Destructive Service-delivery Protests in South Africa, Available at: <http://www.hsrc.ac.za/en/review/hsrc-review-dec-2018/service-delivery-protests>

¹⁴ <https://www.economist.com/international/2022/06/23/costly-food-and-energy-are-fostering-global-unrest?frsc=dq%7Ce>

¹⁵ Surdej, A., (2017). "Excessive informal sector: a drag on productivity," Available at <https://oecd-developmentmatters.org/2017/08/30/excessive-informal-sector-a-drag-on-productivity>

Of course, the policy responses required to improve informal sector productivity are varied, and include training programmes, expanded access to credit, and infrastructure investment. Social insurance of the type proposed in this policy brief is one of those tools, although it is not the only prescription. While social insurance for informal workers is unlikely to close the productivity gap completely across all channels (in two studies, productivity in the informal sector was estimated to be 30–35 per cent¹⁶ lower than in the formal sector), access to even partial health and unemployment insurance can help avoid economic shocks that disrupt productivity. As noted by the ILO (2007), accelerating 'the productivity growth of low-productivity workers at the bottom end of the wage/income spectrum is one of the best ways to accelerate average economy-wide productivity growth, while at the same time counteracting increasing inequality'.¹⁷

Furthermore, social insurance schemes "create the possibility of both income and consumption smoothing for informal sector workers with uncertain and low incomes."¹⁸ They also enable bundled products and services against a range of risk.¹⁹ In addition, social insurance schemes can be adjusted specifically to women's need by prioritizing issues related to gender, as well as sexual and reproductive health.²⁰

3. Conclusion and policy implications

As part of its contribution to the UN SDG Fund Joint Programme - an integrated and universal social protection system linked to developmental welfare services in South Africa, with UN Women, UNICEF, OHCHR and ILO, UNDP commissioned a study on social insurance schemes for the informal sector in South Africa, with a focus on women and youth in South Africa.²¹ The study found that there are few social insurance providers for the informal sector because commercial insurers have limited interest and incentive to design insurance products for the sector beyond funeral policies, which are highly successful. The study recommended establishing contributory social insurance schemes for the informal sector workers that offer benefits to be paid out as once-off support, which should be piloted or launched with a specific and smaller target group, region or industry association.

Some countries are already moving in this direction. The extension of the pension programme for rural and informal workers in China is one example. Currently 360 million rural and urban informal workers are contributing to the programme, and some 150 million older people are receiving payments.²² Elsewhere, Colombia, Costa Rica, India and Thailand have similar options for informal sector

¹⁶ Perry, G. E., Maloney, W. F., Arias, O. S., Fajnzylber, P., Mason, A. D. and Saavedra-Chanduvi, J. (2007). Informality: Exit and Exclusion, Available at <https://openknowledge.worldbank.org/handle/10986/6730> and Antón, A., Hernández, F. and Levy Algazi, S. (2013). The End of Informality in Mexico? Fiscal Reform for Universal Social Insurance, Available at

<https://publications.iadb.org/en/publication/10827/end-informality-mexico-fiscal-reform-universal-social-insurance>

¹⁷ ILO (2007). "Sustaining productivity and competitiveness on a foundation of decent work," in 'Summary Proceedings: Asian Employment Forum: Growth, Employment and Decent Work, Available at , https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/meetingdocument/wcms_099198.pdf

¹⁸ Lund, F., and Srinivas, S. 2000. "Learning experience: from A gendered approach to social protection for workers in the informal economy" Available at www.wiego.org/sites/default/files/publications/files/Lund-Srinivas-Learning-Experience.pdf.

¹⁹ *ibid.*

²⁰ *op cit.*

²¹ UNDP, (2021). Social insurance schemes for the informal sector in South Africa with a focus on women and youth in South Africa, UNDP, Pretoria.

²² World Bank, (2019). World Development Report 2019: The Changing Nature of Work, Available at <https://www.worldbank.org/en/publication/wdr2019>

employees. Other examples include micro-pension accounts in Kenya, Ejo Heza LTSS in Rwanda and the ECIS project in Zambia.²³

²³ Guven, M., Jain, H., and Joubert, C., (2021). Social Protection for the Informal Economy: Operation Lessons for Developing Countries in Africa and Beyond, Available at <https://openknowledge.worldbank.org/bitstream/handle/10986/36584/Social-Protection-for-the-Informal-Economy-Operational-Lessons-for-Developing-Countries-in-Africa-and-Beyond.pdf?sequence=1&isAllowed=y>