Comprehensive Social Protection System: Bridging Formal and Informal Sectors

Letlhokwa George MPEDI
Outline

1. General background
2. Informal and formal sectors: a general labour market perspective
3. Formal and informal social security
4. Concluding observations
1. General background
1.1 Poverty – some interesting figures

- **1.2 billion** people (22%) live on less than $1.25 a day.
- **2.7 billion** people (50%) live on less that $2.50 a day.
- **48.5%** of the sub-Saharan population live in poverty.
- **60%** of Africa’s unemployed are youth.

Failure to address these challenges could lead to, among others, **social** and **political** strife.
1.2 The vulnerable (who, what and why)

<table>
<thead>
<tr>
<th>Vulnerability</th>
<th>Who?</th>
<th>To what?</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The poor, informal workers, socially excluded</td>
<td>Economic shocks, health shocks</td>
<td>Limited capabilities</td>
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<td></td>
<td>Women, people with disabilities, migrants, minorities, children, the elderly, youth</td>
<td>Natural disasters, climate change, industrial hazards</td>
<td>Location, position, sensitive periods in the life cycle</td>
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<td></td>
<td>Whole communities, regions</td>
<td>Conflict, civil unrest</td>
<td>Low social cohesions, unresponsive institutions, poor governance</td>
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1.3 Social protection: A conceptual clarification

- United Nations (UN) Commission on Social Development:

  “Social protection embodies society’s responses to levels of either risk or deprivations…These include secure access to income, livelihood, employment, health and education services, nutrition and shelter.”

- It notes further that:

  “The ultimate purpose of social protection is to increase capabilities and opportunities and thereby, human development. While by its very nature social protection aims at providing at least minimum standards of well-being to people in dire circumstances enabling them to live with dignity, one should not overlook that social protection should not simply be seen as a residual policy function of assuring the welfare of the poorest – but as a foundation at a societal level for promoting social justice and social cohesion, developing human capabilities and promoting economic dynamisms and creativity.”
“Comprehensive social protection seeks to provide the basic means for all people living in the country to effectively participate and advance in social and economic life, and in turn to contribute to social and economic development. Comprehensive social protection is broader than the traditional concept of social security, and incorporates developmental strategies and programmes designed to ensure, collectively, at least a minimum acceptable living standard for all citizens. It embraces the traditional measures of social insurance, social assistance and social services, but goes beyond that to focus on causality through an integrated policy approach including many of the developmental initiatives undertaken by the State.”
2. Informal and formal sectors: A general labour market perspective
2.1 Concept of informal sector

- Variety of names in different parts of the world.
- Precise definition of concept somewhat illusive.

- Two broad definition identifiable:
  
  - **Broad definition**: “includes unreported income from the production of legal goods and services, either from monetary or barter transactions – and so includes all economic activities that would generally be taxable were they reported to the tax authorities.”
  
  - **Narrow definition**: “includes all market-based legal production of goods and services that are deliberately concealed from public authorities for the following reasons: to avoid payment of income, value added or other taxes, to avoid payment of social security contributions, to avoid having to meet certain legal [labour] market standards, such as minimum wages, maximum working hours, safety standards, etc., and to avoid complying with certain administrative procedures, such as completing statistical questionnaires or other administrative forms.”

- Initial thinking of international organisations (e.g. ILO) and some policy makers.
  
  - Informal sector work will wither away and die with modern, industrial growth.
2.2 Integrating the informal sector within the formal sector

- Informal sector is here to stay – ways and means have to explored to bridge the divide between informal and formal sectors.

- Some ILO instruments (e.g. The Job Creation in Small and Medium-Sized Enterprises Recommendation 189 of 1998) require:
  - progressive integration of the informal sector into the national economy; and
  - put measures in place that would facilitate the assimilation of the informal sector into the formal one.

- Measures that could assist in the formalization of the informal sector, include, the following:
  - fully enforcing legislation;
  - applying fundamental principles and rights at work; and
  - prioritizing policies to promote and create employment (ILO 2002).
3. Formal and informal social security
3.1 Formal social security interventions

3.1.1 Three key formal social security schemes

Social Assistance
"State provided basic minimum protection to relieve poverty, essentially subject to qualifying criteria on a non-contributory basis" (Taylor Committee (2002) 36)

Social Insurance
"Mandatory contributory system of one kind or another, or regulated private-sector provision, concerned with the spreading of income over the life cycle or the pooling of risks" (Taylor Committee (2002) 36).

Private Insurance
"Private insurance usually is voluntary and is based on a range of assumptions: that an individual premium (taking into account the particular context and circumstances of the individual) is paid for and related to the specific contingency; that the individual has an entitlement to benefits which have been specifically agreed on; that given the individualised nature of the transaction, redistribution is either absent or purely limited to those in the 'risk pool' to whom the contingency relates" (Olivier and Mpedi (2009) 9-10).
3.1.2 Three key social security schemes: Selected challenges

- **Social assistance**: Limited scope of coverage (personal and territorial field of application); inadequacy of benefits; administrative inertia; and institutional inefficiency (corruption and fraud; poor levels of service etc.)

- **Social insurance**: Limited scope of coverage (personal (employer-employee relationship) and territorial field of application; lack of compulsory affiliation; restricted family concept; limited notion of work; (in)adequacy and duration of benefits; lack of prevention and (re)-integration measures; and administrative problems (insolvency, corruption and fraud, and fragmented policy-making etc.)

- **Private insurance**: affordability (unreliable and irregular incomes), low contributory capacity, incompatible priority needs.
3.1.3 Options for extending social security to the informal sector

- Specially designed insurance schemes; social assistance (health, nutrition and education services); extension and reform of formal sector social insurance (e.g. taxi sector in South Africa); and innovative social security schemes.

- Innovative approaches found in other developing countries (e.g. India – Unorganised Workers' Social Security Act 33 of 2008 and Rwanda – about to extend social security to 70% of its working population by 2015)

- Micro-insurance: The state can act in three capacities.
  
  **Regulator**
  Set-up an appropriate regulatory framework for micro-insurance.

  **Provider**
  Build capacity in the micro-insurance sector (e.g. technical support (training), financial assistance (subsidy) etc).

  **Facilitator**
  Assist in the forging of linkages between the excluded and marginalised persons and well as their informal-survival strategies (e.g. burial societies) the State and private role players (e.g. financial and insurance institutions).
3.2 Informal social security mechanisms

3.2.1 Concept

- Self-organised and self-managed unofficial strategies used by individuals and communities to cope with social risks.
  - Kinship-based; and
  - Community based.

3.2.2 Challenges facing informal social security strategies

- Informal social security mechanisms are imperfect
  - Values that underpin the informal social security mechanisms are in some instances easily eroded by factors such urbanisation.
  - Informal social security strategies are susceptible to widespread calamities such as draught and floods.
  - Risks associated with the provision and administration of social security such as overexposure to risks, corruption and fraud are also present in informal social security
3.2.3 Bridging the gap between informal and formal social security interventions

- Strengthening kinship and community-based coping strategies
  - Will this lead to regression?
  - Can poverty be shared?

- Informal social security coping strategies must be acknowledged by governments as a part and parcel of a social security system.

- Integration and consideration of informal social security in social security reform endeavours and policy initiatives.

- There is a serious need for government intervention which should rest on three roles:
  - **Exercise its regulative function:** Regulate the informal social security system (e.g. set (uniform) norms and standards).
  - **Act as a provider:** Build capacity (e.g. technical support through training to impart skills such as bookkeeping)
  - **Serve as a facilitator:** Assist in the forging of linkages between the informal social security sector, the government and private role players (e.g. financial and insurance institutions).
4. Concluding observations
THANK YOU!