SOCIAL INSURANCE FOR FORMAL AND INFORMAL EMPLOYMENT

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Introduction

- Social insurance is a contributory form of social security that protects workers and their families against total or partial loss of income.
- This loss of income is as a result of exposure to risks, notably sickness, invalidity, maternity, unemployment, employment injury, old age and death.
- The protection is for involuntary loss of income.
The objective of social insurance is to replace income. However, this is hollow in the context of low incomes.

Income replacement is meant “to close the emerging income gap” (ILO, 2006:9).

Thus social insurance is designed to prevent poverty.

Social insurance has its tradition in the Bismarckian model of social security.
Social insurance for formal employment

- Coverage
  - Social insurance is oriented towards protecting workers in formal employment.
  - However, this orientation is problematic for Africa given that most workers operate outside the formal economy. And there is growing informalisation of employment.
  - In Zambia for instance, 89% of the economically active are employed in the informal economy.
Coverage cont’d

- The coverage of social security in sub-Saharan Africa is between 5 and 10 per cent.
- In SADC, the average coverage of social security is less than 10 per cent. In Tanzania for instance, coverage is about 3.6 per cent and only 2 per cent for women (Masabo, 2012).
- Women are therefore under represented in social insurance schemes given their under representation in formal employment.
Contributions and benefits

- Social insurance benefits are financed from the contributions of employees and their employers but according to Convention 102 employees should not contribute more than 50% of the total contributions.
- Social insurance schemes are largely funded on a pay as you go basis.
- Contributions and benefits can be earnings–related or flat-rate.
Contributions and benefits cont’d

- Social insurance schemes can be defined –benefit or defined-contribution schemes.
- Economic crisis can trigger a pension crisis in defined –benefit schemes.
- Benefits are provided in terms of the ILO Convention 102 and include unemployment benefit, employment injury benefit, sickness benefit, invalidity benefit, medical benefit, invalidity benefit, family benefit, survivors’ benefit and old age benefit,
Legal sources of social protection

- Legal sources of social protection are essential if the right to social security is to be realised.
- There are two major legal sources, namely social security legislation and the Constitution.
- Every social insurance scheme in SADC is underpinned by legislation that creates the framework for the provision of benefits, including enforcement.
Legal sources of social protection cont’d

- Enshrining the right to social security in the Constitution of the country makes it possible to hold the government accountable and thus enhance the realisation of the right to social security.
- Most of the SADC Member States do not have the right to social security enshrined in the Constitution. South Africa is an exception.
Principles underpinning social insurance

- Social insurance is underpinned by the principles of solidarity and risk sharing/risk pooling.
- The principle of solidarity suggests that some members of social insurance schemes have to pay more for others to benefit. For instance, in health insurance, those who are healthy pay the same contributions as those with health problems.
- In pension schemes, there is intergenerational solidarity whereby current pensions are financed from current contributions.
Principles underpinning social insurance

- Risk sharing suggests that risks are spread among members of the scheme and there is thus collective responsibility.
- Thus exposure to risk is a shared burden and not just the burden of an individual member of the scheme.
- According to Convention 102, benefits should be adequate. In SADC, this principle is undermined because of low wages.
Governance

- Social insurance schemes are administered by public or semi-public organisations. Given the requirement of ILO Convention 102 that the State should
- There should be a tripartite arrangement in the administration of schemes (employees, employers and government).
- The Board of Directors should have representation from the three stakeholder groups
Social insurance for those in informal employment

- The design of social insurance makes it difficult for workers in informal employment to participate in social insurance.
- Thus they experience social exclusion.
- There is a global agenda to extend social security to workers in informal employment.
- Social security institutions in SADC have provisions for extending social insurance to workers in informal employment.
Social insurance for workers in informal employment cont’d

- The major obstacle to extending social insurance to informal workers is the requirement that they pay double contributions.
- Given their unpredictable and generally low incomes, they find this requirement burdensome and it is thus a barrier to access.
- Another barrier is that social insurance schemes do not often reflect the priority needs of informal workers.
Social insurance for workers in informal employment cont’d

- Because of the barriers to access, informal workers have adopted self-help initiatives to protect themselves, notably micro-insurance.
- One of the most notable health insurance schemes in SADC is UMASIDA in Dar es Salaam, established with assistance from the ILO to enable low-income earners to access health care,
Conclusion

- Current approaches to social insurance reinforce the marginalisation of informal workers.
- There is need to design special schemes that take cognisance of the contributory capacity of informal workers, including their priority needs.
THE END

- Thank you