Extending Social Protection Coverage to the Informal Economy: Challenges, Opportunities, and Policy Options

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Setting the Scene

- Current Pop. Estimate: 48m
- Labourforce estimate: 22.5m
- Workforce as at 2016: 15.9m
- Employment as at 2016:
  - Formal Sector: 2.6m
  - Informal Sector: 13.3m

47% of Kenyans live below poverty line with 19% being in hardcore poverty.
If we fail to respond.....
### Employment Stock: 2012 - 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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</thead>
<tbody>
<tr>
<td>Modern Sector</td>
<td>2,232.70</td>
<td>2,366.90</td>
<td>2,473.20</td>
<td>2,601.20</td>
<td>2,686.80</td>
</tr>
<tr>
<td>Informal Sector</td>
<td>10,528.50</td>
<td>11,150.10</td>
<td>11,846.00</td>
<td>12,562.4</td>
<td>13,309.70</td>
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<tr>
<td>Total</td>
<td>12,761.20</td>
<td>13,517.00</td>
<td>14,319.20</td>
<td>15,163.60</td>
<td>15,996.50</td>
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</tbody>
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![Bar chart showing employment stock from 2012 to 2016. The chart distinguishes between Modern Sector and Informal Sector.]
Kenya – Informal sector facts

83.1% of Kenya’s workforce is in the informal sector

Accounts for more than 65% of the GDP

Workers in the informal economy are poorly served by social protection
A question of definition: What exactly is the informal sector?

Love-hate relationships with formal SP agencies

Partnerships and continuity with the formal sector

Epitomizing the SMEs

What do we do? Is the informal sector a transitional sector?

Poverty alleviation and job creation: our dilemma
Informality:

- is an obstacle to sustainable and equitable economic growth

- is not a choice but rather a necessity
Social Protection Coverage – the 3C issues for the informal

Covering the uncovered

Covering more contingencies

Covering higher benefit levels
Characteristics of a good social security and or social health insurance system

Adequate

Robust

Affordable

Sustainable
Registered Active Members of the National Hospital Insurance Fund, 2012 - 2016

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<tbody>
<tr>
<td>Formal Sector</td>
<td>2,441,795</td>
<td>2,679,370</td>
<td>2,952,362</td>
<td>3,221,621</td>
<td>3,616,167</td>
</tr>
<tr>
<td>Informal</td>
<td>898,364</td>
<td>1,115,424</td>
<td>1,498,031</td>
<td>1,991,614</td>
<td>2,520,089</td>
</tr>
<tr>
<td>Total</td>
<td>3,340,159</td>
<td>3,794,794</td>
<td>4,450,393</td>
<td>5,213,235</td>
<td>6,136,256</td>
</tr>
</tbody>
</table>

- **Formal Sector**: Employment status with regular employment contracts
- **Informal**: Employment status without regular employment contracts
Registered Active Members of the National Social Security Fund: 2012 - 2017

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</thead>
<tbody>
<tr>
<td>Formal Sector</td>
<td>1,136,881</td>
<td>1,142,964</td>
<td>1,168,588</td>
<td>1,741,963</td>
<td>2,216,780</td>
<td>2,382,219</td>
</tr>
<tr>
<td>Informal</td>
<td>122,154</td>
<td>146,111</td>
<td>273,923</td>
<td>418,723</td>
<td>569,633</td>
<td>788,558</td>
</tr>
<tr>
<td>Total</td>
<td>1,259,035</td>
<td>1,289,075</td>
<td>1,442,511</td>
<td>2,160,686</td>
<td>2,786,413</td>
<td>3,170,777</td>
</tr>
</tbody>
</table>

![Graph showing the number of registered active members in the formal and informal sectors from 2012 to 2017. The graph displays three bars for each year, one for the formal sector (red), one for the informal sector (green), and one for the total (red). The y-axis represents the number of registered active members, ranging from 0 to 3,000,000. The x-axis represents the years 2012 to 2017. The formal sector has a steady increase, while the informal sector shows a significant growth from 2013 to 2017. The total number of registered active members also shows a steady increase over the years.](image-url)
With 100,000 members and Asset value of $13.5 is.......
Challenges to extension of coverage

- Employment arrangements
  - Low, unpredictable, irregular income/Low contributing capacity
  - Abundance of low demanding, low qualified workforce on the market

- Limited knowledge on Social Protection
  - No documentation on employment

- Weak workers organization, and isolation, Fragmentation
  - Limited trust in Government’s institutions
  - Cost of compliance
  - Financial constraints and business unpredictability

- Inadequate regulatory framework, design, financing and implementation of Social security systems
  - No subsidies to contributions
  - Design of Social security systems
  - Exclusion from legal framework
  - Weak enforcement

Limited demand from workers

Limited provision of SS coverage from employers

LOW SOCIAL SECURITY COVERAGE AMONG WORKERS IN THE INFORMAL ECONOMY
Challenges of the informal in accessing social protection:

- Low incomes
- Irregular Incomes
- No employer – to match contributions
- Payment outlets are not close-by;
- Lack of knowledge
- High poverty levels
- Quality of life of former members
- Adverse Selection
- Poor retention
Social Protection can be a tool for **Formalization**

Extend social security through formalization
Formalising informal workers in order to give them access to existing social security schemes (e.g. social insurance)

Extend social security independently of status
Extending coverage through non-contributory schemes and other approaches

Can contribute to formalization in the medium and long-term

- Convention 102, Social Security (Minimum standards)
- Recommendation 202 (2015) on Social Protection Floors
- Recommendation No. 204 (2015) concerning the Transition from the Informal to the Formal Economy
Strategies to provide Social Protection to the population of Kenya

Development of a generic model, (broad risk pooling) with tailored approaches to address diversity – Pillars of the strategy:

- **Benefit package adapted to priority needs:**
  - Progressive realization
  - Attractiveness
  - Focus on Incentives rather than enforcement

- **Alternative Financing options**
  - Financial accessibility, Equity, Universality, Solidarity
  - Innovation

- **Innovative delivery mechanisms**
  - Cost-efficency
  - Partnerships/aggregators/mobile money
  - Grievance mechanisms

- **Create incentives to formalization**
  - Focus on Incentives rather than enforcement
  - Higher Contr./ Higher Benefits

- **Social Dialogue**
  - Tripartite mechanisms
  - Consensus and synergies
  - Support to workers organization to strengthen the workers’ voice in the informal economy
Adapting contributory pensions to the informal sector

Flexible terms

Simplification

Tax relief

Financial education

Partnerships
“If you talk to a man in a language he understands, that goes to his head. If you talk to him in his language, that goes to his heart.”
Extension of social protection to the informal cannot be done without their participation!

We need to support and build the capacity of representative informal economy workers’ organizations.
Strategies: Stepping up the game

National Technical Working Group

- Revision of Legislative framework
  Provisions for coverage of informal sector

- National strategy on extension of coverage

- Analysis & Evaluation? Feasibility Assessments
  Rigorous M&E framework

- Linkages & Complementarities?

- Institutional factors?

- Support to Institutional/ Administrative Reform?

- Joint Implementation
  Construction – NSSF/NHIF

- Experimentation/innovation in scheme design
  Construction sector (casual workers); Domestic Workers (wage employed agriculture/fisheries sector (self employed)

- Provisions for coverage of informal sector
Informality is not a fate, but everyone must do its part

No ‘one size fits all’

The biggest space in the world is the space for improvement!
“Much easier to sell an answer than a question. Much more comforting to sit in delusion. We must, through God’s power and our own diligent effort, discipline ourselves in the things that really matter.”
THANK YOU FOR YOUR TIME