

Piloting social insurance for the informal sector in South Africa with special focus on women

Type of Contract: Consultancy Firm
Post-Level: Consultant
Duty Station: Home based
Contract Term: 60 working days
Language of the assignment: English

A. Background

A study conducted by the Department of Small Business Development (DSBD) and the United Nations Development Programme (UNDP) estimates that the informal sector contributes 8 per cent to GDP employs 27 per cent of the South African workforce,¹ yet the sector is characterized by low human capital, low productivity, limited access to basic services, limited financial inclusion, low earnings, and irregular, unpredictable income.

Despite these vulnerabilities, informal sector workers are not covered by social protection despite South Africa having a well-developed poverty-targeted social assistance and safety net programme, focusing on children, people 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 be eligible for social safety net benefits, and not well-off enough to be part of social insurance programs mandated for the formal sector.²

In 2003, South Africa adjusted its policies with the aim 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.³ “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.”⁴

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.”⁵ Furthermore, informal sector workers cannot access social security and insurance schemes because they are based on traditional models of workers in a stable employment

¹ 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](https://www.gov.za/speeches/small-business-development-and-united-nations-development-programme-launch-study-impact)

² 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>

³ Alfes 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

⁴ *ibid.*

⁵ Joint SDG Fund. 2020. “Joint Programme 2020 Annual Progress Report.” [Project Factsheet - PSP 2019 South Africa \(undp.org\)](https://undp.org/project-factsheet-psp-2019-south-africa)

relationship, with a regular wage and long-term contracts in the formal sector.⁶ 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 2019.⁷ Most informal workers who did not lose their jobs reported working fewer hours and/or earning less than before the pandemic.⁸ Informal workers typically operate in the most vulnerable segments of the labour 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 of formal-sector workers 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 moment 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.⁹

The growing gap between those with and without access to social insurance safety nets (such as unemployment insurance, pensions and healthcare), is one of the key contributing factors to the rise in poverty, inequality, lack of social mobility and economic insecurity in South Africa.¹⁰ These problems in turn have contributed to a rise in social discontent¹¹ and the July 2021 social unrest in KwaZulu Natal and Gauteng which shrank the economy by 1.5 per cent in the third quarter of 2021.¹²

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;¹³ 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.

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

⁶ 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>

⁷ 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>

⁸ *ibid.*

⁹ UNDP, (2021). Social insurance schemes for the informal sector in South Africa with a focus on women and youth in South Africa, UNDP, Pretoria.

¹⁰ <https://www.news24.com/citypress/business/poor-education-and-wealth-disparity-perpetuates-20220624>

¹¹ 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>

¹² <https://www.economist.com/international/2022/06/23/costly-food-and-energy-are-fostering-global-unrest?frsc=dg%7Ce>

¹³ 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>

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 cent¹⁴ 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’.¹⁵

Furthermore, social insurance schemes “create the possibility of both income and consumption smoothing for informal sector workers with uncertain and low incomes.”¹⁶ They also enable bundled products and services against a range of risk.¹⁷ 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.¹⁸

Against this background, UNDP intends to pilot a social insurance scheme for the informal sector in South Africa that considers distinct characteristics of these workers, such as irregular and relatively low earnings and need for easy access to funds. Informal sector workers would benefit from such a social insurance scheme that allows for short-term savings that could be withdrawn during times of unemployment, as well as a long-term savings account for better old age pension. To the extent that informal sector workers would contribute to the scheme, they would be covered by a new form of social insurance. Such a social insurance scheme could be complemented by financial or behavioural incentives to encourage savings.

The social insurance scheme would have the additional 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, Haba Haba and Mbao in Kenya, 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.¹⁹

B. Objective of the Assignment

The overall aim of the assignment is to pilot a social insurance scheme for the informal sector in South Africa based on best practices of the various social insurance schemes on the informal sector in other countries with specific focus women. The pilot social scheme will be designed so as cater for the diversity of the informal sector in South Africa. This pilot scheme will therefore be instrumental in providing a basis to inform and guide the Department of Social Development on plans towards development of innovations, capacities and systems for inclusive social security schemes for the uncovered population, including, stimulating discussions on options for increasing the fiscal space for the expansion of social security programmes.

¹⁴ 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 Algaiz, 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>

¹⁵ 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

¹⁶ 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.

¹⁷ *ibid.*

¹⁸ *op cit.*

¹⁹ 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>

C. Scope of Work

The consultancy firm is expected to undertake the following tasks:

- a) Based on existing information and evidence on needs and demand for social security, arising from discussions with key stakeholders and in line with the principles of feasibility, attractiveness and affordability, design and cost two or three options of benefit packages for the informal sector focusing on women;
- b) Based on good practices from international experience, provide advice on rules governing (i) registration, including aspects related to mandatory vs voluntary registration, individual vs household/group registration, windows of registration; (ii) payments, including period of contribution payment and contribution rates (iii) access to benefits (including waiting period and other conditions);
- c) In line with sectors that have a high degree of informality as informed by the current labour force survey, assess preference for benefit packages and associated rules, measure their willingness and capacity to pay and refine the benefit package accordingly;
- d) Determine needs for co-financing and possible financing sources and modalities, with the objective to ensure financial sustainability & broad coverage;
- e) Assess the current institutional and operational capacities of South Africa Social Security Agency (SASSA) in relation to its possible role of spearheading the extension of coverage amongst informal workers;
- f) Formulate recommendations to support efforts towards enhancing compliance amongst informal workers and associated policy implications;
- g) Assess opportunity and feasibility of establishing partnerships with various informal workers' organizations for the distribution of the product, and determine possible roles of partners and conditions of the partnership (incl. financing arrangements);
- h) Propose possible institutional and operational arrangements for the registration of informal workers, contribution collection, benefit claims, awareness raising, complains mechanisms and enforcement, keeping in mind the need for harmonization and reduction of administrative costs both from beneficiaries and service providers; and
- i) Explore the possibility of piloting the proposed social scheme with organisations such as WIEGO among others.

D. Expected Deliverables:

Under the guidance of the UNDP Economics Advisor, the consultancy firm will deliver the following deliverables:

- a) Inception report, including proposed methodology, expected timeline
- b) Draft report of the pilot of extending social insurance scheme to the informal sector
- c) Power point presentation of the preliminary findings and recommendations to key stakeholders and partners
- d) Undertake a stakeholders validation exercise
- e) Final report on the social insurance pilot
- f) Policy brief summarizing key elements of the social insurance scheme pilot

E. Duration of the work

The duration of the consultancy is 60 working days effective from the date of signing the contract.

F. Fees and Payments

UNDP terms and conditions shall apply to the payment of full fees of this assignment based on the consultant (s) background and experience. The payment schedule for the assignments will be as follows:

- 20% of the consultancy fee to be paid upon receipt and approval by the UNDP of Product (a)

- 50% upon receipt and approval by the UNDP of Products (b) and (d)
- 30% upon receipt and approval by UNDP of Products (e) to (f)

G. Duty station

The consultancy will be home based.

H. Required Skills and Experience of the Assignment

Education

- A minimum of a master's degree in actuarial studies, social protection, economics, international development, or other relevant fields, or equivalent in experience.
- Demonstrated knowledge (education, publications, etc.) of social insurance options for the informal sector is desirable.

Professional Experience

- At least 7 years of demonstrated experiences of relevant work on similar assignments
- Experience and knowledge of working on social security in the informal economy in developing countries.
- Good report writing and communication skills.
- Excellent command of English, both written and spoken.
- Experience and knowledge on institutional strengthening of strategic partners for social inclusion and capacity development strategies.
- Experience on policy development and capacity development.
- Demonstrated capacity to write clear and well-constructed reports, training manuals, process documents.
- Excellent communication, interpersonal and liaison skills with government, inter-governmental agencies, UN system and international and regional development partners, academic institutions, civil society organizations, and other relevant institutions, and
- Ability to conduct interviews with government and key stakeholders.
- Knowledge of the country context and consultancy firm having established offices in South Africa.

Language requirement:

- Fluency in English (written and spoken), and an ability to summarize and present information effectively.

Competencies:

- Demonstrating/safeguarding ethics and integrity, by modelling the UN/UNDP's values and ethical standards.
- Promotes the vision, mission, and strategic goals of UN/UNDP.
- Displays cultural, gender, religion, race, nationality and age sensitivity and adaptability.
- Demonstrate corporate knowledge and sound judgment.
- Self-development, initiative-taking.
- Acting as a team player and facilitating teamwork.
- Facilitating and encouraging open communication in the team, communicating effectively
- Creating synergies through self-control.
- Managing conflicts.
- Learning and sharing knowledge and encourage the learning of others. Promoting learning and knowledge management/sharing is the responsibility of each staff member.
- Informed and transparent decision making.

I. Evaluation Method and Criteria

The consultancy firm will be evaluated based on the following methodology;

Cumulative analysis

The award of the contract shall be made to the consultancy firm whose offer has been evaluated and determined as a) responsive/compliant/acceptable; and b) having received the highest score out of set of weighted technical criteria (70%) and financial criteria (30%). Financial score shall be computed as a ratio of the proposal being evaluated and the lowest priced qualified proposal received by UNDP for the assignment.

Only those applications which are responsive, compliant and accept in general condition will be evaluated;

For those who passing technical evaluation above, offers will be evaluated per the combined scoring method:

- Technical Evaluation (70%)
- Financial Evaluation (30%)

Technical Criteria for Evaluation (Maximum 100 points)

- Educational Qualifications (15 marks)
- Professional Qualifications and Certifications (15 marks)
- Proven and experience/satisfactorily implementation of similar assignment in the past (70 marks)

Only candidates obtaining a minimum of 70% of total 100 points in technical evaluation would be considered for Financial Evaluation