

# Workers in the informal sector and contributory social insurance schemes—the case of Tanzania

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## The report by the Organisation for Economic Co-Operation and Development (OECD) entitled ‘Social Protection in East Africa: Harnessing the Future’ (OECD 2017),<sup>1</sup> recently produced by the European Union Social Protection Systems (EU-SPS) project, points to the low coverage rates of social protection in the informal sector in East Africa as one of seven great challenges that will need to be addressed in the next 50 years. For years now, many developing countries in sub-Saharan Africa have been poor and vulnerable, with high rates of informality in their labour markets: the majority of both rural populations involved in agriculture and the urban poor work in the informal sector. Public-sector social protection mechanisms have remained weak or even non-existent; therefore, the burden to protect the population from risks and social and economic shocks has been placed on the families and communities themselves—and mainly on women. This is the essence of traditional (and informal) social protection in sub-Saharan Africa, the perception of which has been used to justify the low resources allocated to this sector in government-led policies and programmes.

The informal economy is growing quickly, especially in regions such as sub-Saharan Africa, where the expansion of formal employment faces major challenges. As highlighted in the OECD report (ibid.), social insurance coverage for informal workers is still very low, a stylised fact that has a gender bias, as most of the people working in the informal sector are women.

Nevertheless, over the last decade, there have been increasing efforts to extend social insurance coverage beyond workers in the formal sector. Examples include the Mbao Pension for informal workers in Kenya, and social protection initiatives for workers in the informal and rural economy (SPIREWORK)—including one in Zambia, with the support of the International Labour Organization (ILO) and the Government of Finland, and a similar initiative also supported by the Government of Finland in Tanzania. Moreover, in the case of Tanzania, over the past five years all contributory pension schemes have been extended to cover informal workers through voluntary contributions. Despite these efforts, coverage levels in the informal sector remain very low. Why are workers in this sector not motivated to contribute to social insurance schemes?

In a recent study, Makene et al. (forthcoming) reveal that multiple factors hold back non-contributing workers, most of whom are in the informal sector, from joining contributory pension schemes in Tanzania, whereas the enrolment of formal workers is almost automatic upon employment. One of the factors is a lack of knowledge about the availability of voluntary contributory plans and the eligibility of informal workers for these schemes. In general, rural agricultural populations have low levels of education and limited access to information. Another factor is the lack of user-friendly processes for registration and pension payments—there is a lack of understanding among potential contributors about the required information for registration and

benefits and contribution levels over time, poor customer service, and the registration centres are not near the workers’ place of residence.

Some workers were discouraged by the poor quality of life they saw in retired people, some of whom were even more destitute and vulnerable to shocks than before they retired. For the majority, benefit levels were too low to lift them out of destitution. The final and most important factor was the high level of poverty, which seemed to increase with time for many. The study participants expressed difficulty in contributing regularly, given that they could not even ensure their own daily meals. Increasing numbers of contributors who are late in making payments continue to be a challenge for the schemes. In Tanzania, many workers, both formal and informal—particularly the youth—are in favour of being able to withdraw their contributions when in need. These views naturally conflict with the government policy.

Addressing informality in developing countries certainly goes well beyond designing social insurance products and registering contributors. Country-specific evidence should inform and determine appropriate interventions. Structural transformation and changes in individual behaviour are necessary, and effective communication and marketing strategies should be part of the process. This is crucial, given the history and culture which is strongly ingrained in the long-lasting tradition of (informal) social protection in sub-Saharan Africa. As an example, as much as governments and other stakeholders may realise (and fear) the risks in the continued exclusion of informal workers who also contribute massively to the economy, the victims of this exclusion may find it even riskier to invest their money and not be able to access it in times of need, especially when they may not be able to contribute regularly and, in some cases, end up losing pension eligibility. It takes an extra push for the workers in the informal sector to change their views and practices.

Countries in sub-Saharan Africa need sustainable and country-specific social protection financing mechanisms, with national governments assuming larger stakes and eventually bearing the full burden of contributions. Internal revenue generation and better taxation strategies are necessary. As citizens become able to see positive development outcomes as the direct result of paying taxes, they will be willing to pay further taxes, which will, in turn, be sustainably invested back in their communities. Social protection is a right of all workers, and it should be able to provide short- and long-term security to the entire population.

### References:

Makene, F., F. Myamba, P. Tibandebage, and C. Israel. Forthcoming. “Old Age Income Protection for Formal and Informal Employees in Tanzania: Members and Non-members’ Perspectives.”

OECD. 2017. *Social Protection in East Africa: Harnessing the Future*. Paris: OECD Publishing. <<http://dx.doi.org/10.1787/9789264274228-en>>. Accessed 8 August 2017.

### Note:

See a webinar about the OECD (2017) report and Flora Myamba’s comments at <<http://socialprotection.org/discover/publications/webinar-presentation-social-protection-east-africa-harnessing-future>>.