



International  
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# EXTENSION OF SOCIAL PROTECTION TO WORKERS IN THE INFORMAL ECONOMY IN ZAMBIA

LESSONS LEARNT FROM FIELD RESEARCH ON DOMESTIC WORKERS,  
SMALL SCALE FARMERS AND CONSTRUCTION WORKERS

**ILO - Lusaka**

Marielle Phe Goursat

Luca Pellerano

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# Acronyms and Abbreviations

<b>COSTIGA</b>	Copperbelt Saw millers And Timber Growers Association
<b>CSO</b>	Central Statistical Office
<b>FDG</b>	Focus Group Discussions
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>GDP</b>	Gross Domestic Product
<b>ILO</b>	International Labour Organization
<b>IMF</b>	International Monetary Fund
<b>LASF</b>	Local Authority Superannuation Fund
<b>LFS</b>	Labour Force Survey
<b>MCDSW</b>	Ministry of Community Development and Social Welfare
<b>MLSS</b>	Ministry of Labour and Social Security
<b>MoH</b>	Ministry of Health
<b>MSMEs</b>	Micro, Small and Medium Enterprises
<b>NAPSA</b>	National Pension Scheme Authority
<b>NCC</b>	National Construction Council
<b>OSH</b>	Occupational Health and Safety
<b>P4H</b>	Development Partners' network for Universal Health Coverage
<b>PSPF</b>	Public Service Pension Fund
<b>SDG</b>	Sustainable Development Goals
<b>SHI</b>	Social Health Insurance
<b>SPF</b>	Social Protection Floors
<b>SS</b>	Social Security
<b>UN</b>	United Nations
<b>USD</b>	United States Dollars
<b>WCFCB</b>	Worker Compensation Fund Control Board
<b>ZAFFICO</b>	Zambia Forestry and Forest Industries Corporation
<b>ZNAS</b>	Zambia National Association of Saw millers
<b>ZMW</b>	Zambian Kwacha

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The authors are solely responsible for the content of the present working paper.

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Phe Goursat, M. and Pellerano, L. (2016) “Extension of social protection to workers in the informal economy in Zambia: lessons learnt from field research on domestic workers, small scale farmers and construction workers”, International Labour Organization, Lusaka.

## Executive Summary

Aiming at proposing strategic options to extend social protection to the informal economy workers in Zambia, the report summarizes the lessons learnt across four field research on domestic workers, small scale farmers, saw mill workers and construction workers conducted by the ILO in 2015.

Similarly to many developing countries, social security coverage among the informal economy workers and their dependents is extremely low in Zambia. Challenges to extend social security to the informal economy include atypical employment arrangements and income patterns; gaps in the legal framework; affordability on the workers side and cost of compliance and financial constraints on the employers side; poor knowledge on social security rights and requirements; low trust in Government's institutions; weak workers representation due to the absence of workers organizations and; weak enforcement mechanisms. Legal provisions on social security are in place but mostly cater for the formal economy.

The existing social security mechanisms have been developed on a "formal employment" model, with predictable monthly earnings, and a stable and clear employment relationship. The studies shed light on the wide diversity of employment arrangements and income patterns in the informal economy, that vary according to employment status– wage employees, self-employed, casual workers and household's employees – and across industries. The existing social security schemes features and mechanisms are therefore not adapted for the extension of coverage to the informally employed workers.

Specific mechanisms must be developed to progressively extend social security coverage to the informal workers. A universal, national, government led approach to delivering social security to informal economy workers is needed, as opposed to piecemeal, decentralized and fragmented solutions (e.g. micro-insurance, sector funds). Not only this allows for broader risk pooling, and solidarity mechanisms across the workforce and society – for example through cross-subsidization and tax financing - it also reinforces a right-based approach to social protection where the state is the ultimate guarantor of the social security system. A national model that can be adapted to different groups in the informal sector must be developed. As the diverse employment arrangements and income patterns may not be compatible with a single model, it is recommended to tailor approaches and design specific product features and develop specific processes for employment types (self-employed, casual workers, domestic workers, etc.), and where necessary by sector.

In tailoring strategies for the extension of coverage to the informal economy it is important not to introduce perverse incentives to formalization. This requires adopting a stair-case

approach to the development of a continuum of social security instruments, whereby to higher levels of contribution – and formalization - correspond better quality social security benefits (higher value, more comprehensive benefits), while ensuring basic social protection guarantees for all.

Finally, it is recommended to increase the short-term attractiveness of social security to workers in the informal economy, for example by creating integrated social insurance packages that combine short term and long term benefits. Ultimately, the extension of social security coverage to the informal economy also requires innovative financing modalities. Partial or full subsidization of social security contributions for specific groups of workers in the informal economy may come from a mix of general taxation and redistribution within contributors (cross subsidies). Decision on such measures and their funding must be informed by the informal economy's willingness and capacity to pay but also by the extent of cross-subsidization possible between the formal and informal economy and the fiscal space.

The five main recommendations emerging from the studies are the following:

- 1. Tailor approaches** - Existing social security schemes' features and processes are inadequate to extend social security to the informal economy. Specific parameters must be designed as regards contribution type and level, benefits, registration and contribution collection processes.
- 2. Adapt social security benefit package to the situation of workers in the informal economy** in such a way create positive incentives to register: this includes packaging social security benefits to motivate contributions, including mixing short and long term benefits.
- 3. Subsidize contributions** for the low-income workers or those with limited contributory capacity, including for the poorest in the informal economy through linkages with social assistance programmes.
- 4. Avoid creating perverse incentives to informality** - this requires providing for improvement in the quality of social security coverage through formalization (better quality benefits for higher contributions), while ensuring core social protection floors guaranteed for all.
- 5. Develop innovative delivery mechanism**, including one single shop delivery mechanism, mobile money, partnership with existing groups, and with a focus on making processes hassle-free, quick and cost-less.

# Introduction

## Objectives and methodology

This report sets out to provide a summary of the lessons learnt on social security provisions as well as challenges and opportunities to extend coverage to the informally employed and the self-employed workers in Zambia. More specifically, it summarizes the situation of informal workers as regards social security including legal provisions, coverage, knowledge and willingness to contribute to social insurance. It also provides information on the diversity of income patterns and employment arrangements of workers in the informal economy. Building on the lessons learnt, the report proposes a set of recommendations to support Social Security institutions and line Ministries in decision making to extend provision of social security benefits to the informal economy.

The report draws from four studies carried out in 2015, namely researches on strategies for the extension of Social Protection to (i) domestic workers (ii) small-scale farmers (iii) casual saw mill workers; (iv) assessment of social security risks and needs in the construction sector<sup>1</sup>. The four studies were carried-out in 2015 by the ILO in close collaboration with the National Pension Scheme Authority, the Worker Compensation Fund Control Board, the Ministry of Labor and Social Security and the Ministry of Health. All four studies used a mix of secondary data analysis and collection of primary data. Primary data were collected using focus group discussions (FDG) and in-depth interviews during field work. Focus group participants were randomly selected following pre-defined criteria and in purposively selected areas. The table below summarizes the sample size of each study. More details on studies' methodology can be found in the specific reports.

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<sup>1</sup>Phe-Goursat M, 2015, Strategies for extension of social protection coverage to the domestic workers in Zambia, Report commissioned by ILO office for Zambia, Malawi and Mozambique.

Phe-Goursat M, 2015, Practical options for the extension of social health protection to small scale farmers in Zambia, Report commissioned by ILO office for Zambia, Malawi and Mozambique.

Phe-Goursat M, 2015, Practical options for the extension of social protection to casual saw mill workers in Zambia, Report commissioned by ILO office for Zambia, Malawi and Mozambique.

Matandiko P. 2015, Social Security Risks and Needs assessment, ILO office for Zambia, Malawi and Mozambique.

Table 1. Summary of the studies' sample size

Study	# participants to FGDs	# participants to individual interview	# questionnaires administered
<b>Strategies for the extension of Social Protection to the informal economy</b>			
<b>Domestic workers</b>	20 FGDs 160 participants	10 with key informants	No questionnaires used
<b>Small Scale Farmers</b>	26 FGDs 218 participants	17 with key informants	No questionnaires used
<b>Casual Sawmill workers</b>	16 FGDs 96 participants	10 with key informants	66 to employers
<b>Assessment of social security risks and needs</b>			
<b>Small Scale Farmers</b>	6 FGDs 48 participants	50 with employers 37 with workers 10 with key informants	50 to employers 37 to workers

Although the sample size and study methodology does not allow to obtain statistically significant results at the national scale, the findings provide valuable representation of the situation of informal workers as regards social security in Zambia.

## Background

Zambia is one of the few fast growing economies in Africa resulting in the reclassification of the nation to a lower-middle income country in the year 2011. The Gross Domestic Product (GDP) per capita is estimated to be around USD 1,654 (IMF, 2014). For several years, Zambia has registered significant economic growth, averaging 7 percent growth in the Gross Domestic Product (GDP) over the past five years, and significant improvements in other key macro-economic indicators. However, the growth did not translate into a reduction of poverty. The poor make up for 60.5% of the population of Zambia, i.e. 7.9 million individuals. They live with less than USD 0.68 per day<sup>2</sup>. Inequality indexes are among the highest in the region (Gini index: 0.67). The rural population – often living in hard-to-reach areas - suffers from lack of infrastructure and provision of social services, with facilities being concentrated in urban areas. Since the beginning of 2015, the country is affected by a major energy and economic crisis. The energy crisis coincided with a downturn in world prices for copper (20 percent fall in 2015), a mineral the Zambian economy is over-dependent on. Consequences include the fall of the national currency the kwacha, which lost 50% of its value against the U.S. dollar in 2015, making it the worlds' worse performing currency for the year. Inflation in 2015 is estimated by the Zambia Central Statistical office to 21.1%. Zambia's economic growth rate has fallen to an estimated 3.4 per cent in 2015. The crisis affects Zambian citizens across the income distribution, with consequences of the on-going crisis reflecting in reduced purchasing power, job losses, MSMEs shutdowns, budget cuts to government provided social services.

<sup>1</sup> Food Poverty line corresponds to a caloric intake of 2,750 kcal per adult equivalent.  
Source: The World Bank, Using Social Safety Nets in Zambia, March 2013

Although statistics are not yet available, it is expected that the crisis have deepened inequities in the distribution of wealth. The existing social safety nets are not sufficiently developed to mitigate the impact of the crisis for the most vulnerable. The Zambian Social security schemes are not comprehensive enough (in terms of benefits offered and population coverage) to fully play their role of economic and social stabilizers and to sustain aggregate demand.

## Social Security: International Standards

The right to social security is a human right, set out in the Universal Declaration of Human Rights (articles 22 and 25) and the International Covenant on Economic, Social and Cultural Rights (articles 9 and 11). Social security *“along with promoting employment, [is] an economic and social necessity for development and progress, and [...] an important tool to prevent and reduce poverty, inequality, social exclusion and social insecurity, to promote equal opportunity and gender and racial equality, and to support the transition from informal to formal employment.”* *“Social security systems act as automatic social and economic stabilizers, help stimulate aggregate demand in times of crisis and beyond, and help support a transition to a more sustainable economy”*<sup>3</sup> therefore leading to sustainable long-term growth associated with social inclusion which helps overcome extreme poverty. The Social Protection Floors Recommendation, 2012 (No. 202) calls for the progressive implementation of comprehensive social protection systems, starting with the establishment of a basic set of social protection guarantees to all in need, that is a nationally-defined social protection floor. This floor should guarantee at least access to essential health care and basic income security throughout the life cycle, as a first step toward achievement of higher level of protection.<sup>4</sup>

The Social Security (Minimum Standards) Convention, 1952 (No. 102) is the flagship ILO Convention on Social Security as it is the only international instrument that establishes worldwide-agreed minimum standards for nine branches of social security. It defines the nine classical social security contingencies (medical care, sickness, old age, unemployment, employment injury, maternity, family, invalidity and survivors) and establishes a set of qualitative and quantitative minimum standards including: definition of the contingency, persons protected, type and level of benefit, length of the qualifying period, duration of benefit and waiting periods. This Convention provides a benchmark for the progressive extension of comprehensive social security systems.

The **Transition from the Informal to the Formal Economy** Recommendation, 2015 (No. 204) provides guidance on rights and social protection for the informal workers within the transition to the formal economy. It calls among other for the progressive extension of social security, maternity protection, decent working conditions and a minimum wage in law and

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<sup>3</sup>ILO, 2012, Social Protection Floors Recommendation (No. 202)

<sup>4</sup>For more on the strategy of the International Labour Organization in relation to Social Protection Floors see also ILO (2012b)



practice to all workers in the informal economy. It calls for the progressive extension of social insurance coverage to those in the informal economy, which may entail, if necessary, the adaptation of administrative procedures, benefits and contributions, taking into account their contributory capacity. It also highlights that the needs and circumstances of those in the informal economy and their families should be taken into account in building and maintaining national social protection floors within their social security system and facilitating the transition to the formal economy (paras 18-20).

Progress and outstanding challenges with the establishment of comprehensive social security systems worldwide are documented by the ILO in the annual World Social Protection Report (ILO, 2014). The provision of Social Security is an essential component of the ILO Decent Work agenda. The decent work agenda combines access to full and productive employment with guaranteed rights at work and social protection, which are established and implemented through social dialogue and in a gender equality perspective. Each elements characterizing decent work reinforce each other, and improvements in each dimension contribute to reduce decent work deficits. The implementation of the decent work agenda is all the more challenging that a large share of employment arrangements remains out of the scope of the legal and regulatory framework. The Decent Work in turn contributes towards the achievement of the Sustainable Development Goals (SDG1, SDG3, SDG8, SDG10) in the 2030 Agenda for sustainable development.

## Social Security in Zambia

Out of the nine branches defined by Convention 1952 (No. 102), the Zambia social security system has provision for five benefits (i.e. essential medical care old-age benefit; employment injury benefit; invalidity benefit and survivors' benefit). According to the Employment Act employers are responsible for the paid maternity leave, but no provision exists for collective financing and certain categories of workers (e.g. domestic workers) are excluded. Convention 102 is yet to be ratified by Zambia.

As in most developing countries, Zambian Social Security schemes were designed to address the need for protection of the working population in formal employment. The existing Social Security schemes' key features were developed based on formal employment relationship, established through a written contract and providing for regular and predictable income. It was assumed that the informal population will ultimately and automatically shrink following economic growth, and will then be covered by social security schemes. This did not happen: in Zambia, 88.6 percent of the employed population is informally employed and very few benefit from any form of social security.

The Government of the Republic of Zambia is implementing various programmes providing social safety nets to various vulnerable groups of population. There are good design and/

or implementation features in each program. A plurality of actors is involved in the delivery of social safety nets, from the Government to donors, NGOs and local community workers. The Social Cash Transfer programme has however reached significant coverage with 242,000 beneficiaries spread in 78 districts. However, all together these social safety net programs make a mix of independent and uncoordinated programs, characterized by very low coverage of the extreme poor and low evidence of targeting efficacy.<sup>5</sup>

The fragmentation as well as the limitation in terms of social security benefits and coverage call for the development of a comprehensive and harmonized national social security system. The Government of Zambia is moving in this direction with the development of a singular social protection legal framework through the drafting of a Social Protection Bill. The objectives of the draft bill include to establish a national social protection system which will provide for the introduction, coordination and regulation of mandatory and complementary contributory social security schemes, as well as non-contributory basic social protection. The unified legal framework is expected to contribute to reducing institutional fragmentation, to facilitate the standardization of delivery mechanisms and to improve effectiveness in the use of resources available for social protection. The draft bill also provides for gradual extension of social insurance schemes to categories of workers that are currently uncovered, by way of ensuring flexibility and adaptation in the design of social security schemes to the characteristics and needs of workers outside the formal economy.

## **Informal employment in Zambia**

In alignment with the ILO definition of informal employment, the Zambian Central Statistical Office<sup>6</sup> defines informal employment as comprising the following:

- a) *Own-account workers and employers who have their own informal sector enterprises, usually characterized by in-existence of registration with national authority, lack of contributions to social security scheme and lack of entitlement to annual paid and sick leave by workers.*
- b) *Contributing family workers, irrespective of whether they work in the formal or informal sector enterprises.*
- c) *Employees who have informal jobs, whether employed in the formal sector enterprises, informal sector enterprises, or as paid domestic workers by households. Employees are considered to have informal jobs if their employment relationship is not subject to standard labour legislation, taxation, social security or entitlement to certain employment benefits (advance notice dismissal, severance pay, paid annual leave, etc.) for reasons such as: non-declaration of the jobs or employees; casual jobs; employment by unregistered enterprises or by persons in households.*

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<sup>5</sup>The World Bank, How Pro-Poor and progressive is social spending in Zambia, April 2012

<sup>6</sup>Zambian Central Statistical Office, Labor force survey, 2014

d) *Members of informal producers' cooperatives; and Persons engaged in the own-account production of goods exclusively for own final use by their household, such as subsistence farming.*<sup>7</sup>

Informal employment is a job based concept, which covers informal workers working in both informal and formal enterprises. It comprises the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households<sup>8</sup>.

The following description of the informal economy in Zambia is based on the results of the Labor Force Survey 2014, unless otherwise indicated.

In Zambia, as in most developing countries, the informal economy is not marginal but rather the base of the total economy. It contributes for a significant share of the GDP. In 2014 out of the 5.85 million employed persons, for which self-employment account for a large share (41.4%)<sup>9</sup>, 88.6 percent were informally employed (5,229,599). The number of informally employed workers and its share in total employment are growing (+ 360,000 workers i.e + 7 percent compared to the Labor Force Survey 2012). A considerable number of workers remain outside regulated economic activities and protected employment relationships. Informal employment is generally associated with poor working conditions and poverty.

There are also large discrepancies between rural and urban areas (95.2 percent of rural workers are informally employed vs 81.1 percent in urban areas) and across provinces: in Eastern, Luapula, Northern and Western, informal employment makes for more than 95% of total employment while in Lusaka and Copperbelt, informal employment represent around 80% of total employment (respectively 80.6% and 82.8%). Almost a third (30.9%) of the informally employed workers are concentrated in these two provinces.

Women are overrepresented in the informal economy in all provinces, almost all age groups and many occupation groups. 94.6 percent of employed female are employed in the informal economy which compares to 83.4 percent of male. Women make for 55.5 percent of the total informal economy workers. Women earn less than men, which is also a major concern as a considerable proportion of households in rural areas is headed by women (26.8%<sup>10</sup>).

Informally employed workers are predominantly in the agriculture, forestry and fishery industry (53.8%), are household employees (19.5%) and trade, wholesale and retail distribution workers (12.6%). All together these three industries make up for 85.8 percent

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<sup>7</sup>The definition is conform to the ILO statistical definition adopted at the 17th International Conference of Labour Statisticians (ICLS).

<sup>8</sup>It is complementary to the narrower and formerly used concept of employment in the informal sector who refers to "all jobs in informal sector enterprises or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job. This latter concept is enterprise based and does not reflect the real extent of informal employment"

<sup>9</sup>In Sub Saharan Africa (excluding South Africa), self-employed make for 81% of the total informally employed workers. Chen M.A, 2007

<sup>10</sup>Source: Zambia Demographic and Health Survey, 2008

of the informally employed in Zambia. However informal workers are found in all industries, including public administration (0.1%).

The informal economy is not homogeneous but is rather characterized by a diversity of employment arrangements and income patterns. Informal workers may work on a casual or permanent basis, may have single or multiple employers, may be on fixed term or indefinite employment. Many informal workers are constrained by atypical forms of employment, where low, irregular and unpredictable income comes together with frequent and unpredictable periods of unemployment.

## The four studies

Acknowledging the need to develop new approaches and tailor social security schemes to the informal sector specificities, the ILO has undertaken sector specific studies in order to develop in-depth understanding on the industry characteristics and bottlenecks to extend social security to informal workers. The researches were carried-out in 2015 in close collaboration with the Ministry of Labor and Social Security, the Ministry of Health, the National Pension Scheme Authority and the Worker Compensation Fund. The researches focused on four industries, among those counting the highest concentration of informal workers: agriculture (small-scale farmers), forestry (saw mill workers) and household employees (domestic workers). The objectives of the researches were to: (i) develop deep understanding of employment arrangements and income partners, (ii) assess interests and sensitivity to Social Protection among workers and employers, (iii) identify bottlenecks for extension of social protection and (iv) propose new and innovative strategies for the extension of social protection. In addition, an assessment of Social Security Risks and Needs was also carried-out among MSMEs in the building construction sector. The study gathers evidence on the social security risks and needs among workers and employers in the sector and ascertain the impact these risks have on workers livelihood, working capacity and enterprise productivity.

This work was carried out thanks to the financial support of the Government of Finland (through the Zambia Green Jobs Programme), Irish Aid (through the Building National Floors of Social Protection in Southern Africa Programme) and GIZ (P4H support programme).

This report aims at providing a synthesis of the lessons that were learnt through the four strands of research conducted, with a view at orienting upcoming initiatives in the area of extension of social security to informal economy workers in Zambia and more generally in the region. The lessons learnt are compiled by themes. Part 1 provides an overview of income patterns and employment arrangements in the informal economy across the four sectors considered. Part 2 provides an analysis of current provision of social security benefits to informal economy workers. Part 3 discusses challenges and opportunities to

extend Social Security to the informal economy and provides a set of recommendations to orientate the way forward.

## Domestic Workers

The ILO Profile of domestic workers in Zambia 2013 reports a total number of 97,652 domestic workers country wide. Only fifty six percent is female. This is explained by the fact that domestic work is traditionally a man job in Zambia. Domestic workers make a young active workforce: women are mainly in the 25-29 age group while men are mainly in the 30-34 age group. Domestic workers are low educated: only two third have reached primary school. Although domestic workers are working in urban areas (67%) a significant share lives in rural areas (33%). Fifty eight percent live with their employers. Domestic workers work long day – ten hours on average, and working days are even longer for live-in domestic workers. The employment relationship is often difficult to establish. Domestic workers are often distant relatives who were living in rural areas and brought to the 'city' to "help" in the house in exchange of accommodation and food. They are in that case not recognized as an employee. A domestic workers association exist but its membership is still low, essentially limited by financial constraints. Mobilization of domestic workers is also made difficult by their limited social interactions: domestic workers work in isolation and have limited time to dedicate to workers movements.

## Small scale farmers

The agriculture, forestry and fishery industry employs 2,872,331 workers, which represents 55.2 percent of the total employed population in Zambia. The sector is predominantly rural (92%) and female (52%). Activities are concentrated in Eastern Province (19.9% of the total employed population in the agriculture, forestry and fishery industry), Luapula Province (12.3%), Southern Province (12.5%) and Northern Province (11.1%). The majority of workers are self-employed (53.8%) or unpaid family workers (41.6%). Only a minority are paid employees (4.5%). Ninety seven percent (representing 2,821,566) of agriculture, forestry and fishery industry workers are informally employed. Zambian farmers are usually classified into two categories based on the cultivated land size: small-scale (less than 20 ha) and large-scale (more than or equal to 20 ha). Most small-scale farmers are subsistence producers of staple foods with occasional surplus. Out of the estimated 1.5 million small scale farms, 70.3% are less than 2 ha large . The largest concentration of small scale farmers is found in Eastern, Southern, Central and Northern Provinces. Despite Zambia being a land abundant country, many small holders are land constrained. Fifty eight percent of small holders stated that there is no land unallocated in their villages. This is explained by the fact that settlements are concentrated in areas where infrastructure is available and that a significant share of land is occupied by water, national parks and Game Management Areas<sup>(i)</sup> Small-scale farmers' incomes are highly dependent to weather conditions, and are for the vast majority not protected by crop insurance. Small-scale farmers are often organized in cooperatives and/or sell their crops to out-grower schemes.

(i) Antony Chapoto & IAPRI Outreach Team, Facts about Zambia Agriculture Sector, Presentation at the Provincial Outreach Workshop, Luapula, December 5, 2014

## Casual Saw mill workers<sup>(i)</sup>

Saw mill workers are estimated to number around 10,000<sup>(ii)</sup>. Casual saw mill workers are almost exclusively male. The tasks saw mill workers are performing require significant physical strengths and female are therefore totally absent from this occupation, although they may occupy other functions at management level. For the same reason, the saw mill workers are relatively young (29 on average among the interviewed workers). Interviewed saw mill workers started in the industry when they were 24 year old on average and have been working in the sector for an average of 5 years. They have on average reached Grade 9 at school. Thirty two percent have graduated from Grade 12. Many workers turned to the saw milling industry for a lack of better paid job opportunities that their education level would normally entitle them to. Some of the interviewed workers stated this job was a temporary way to raise money for their family or to further their education to College. The average family size stands at 5.1, which is equal to the national average<sup>(iii)</sup>. None of the interviewed workers belong to a worker association.

(i)The socio demographic data presented here are sourced from the findings of the focus group discussions and interviews with key stakeholders carried out during the research.

(ii)Based on an estimates of 980 saw millers and an average of 10 to 12 workers per saw mill.

(iii)Central Statistical Office of Zambia, 2015, Zambia Health Demographic and Health Survey 2013-2014



# Income Patterns and Employment Arrangements of Informal Workers

## 1. Employment arrangements

Employment arrangements are diverse among the informally employed workers. **Self-employment** is the main form of employment in the informal economy. Indeed almost half of the informal workers are in the agriculture, forestry and fishery industry (47.1%, LFS 2014), where most enterprises are small scale or consisting of subsistence self-employed workers.

In other sectors such as construction or domestic work, workers are usually engaged in employment relationships that are often ambiguous and difficult to establish: domestic workers are often confounded with the situation of a relative “helping” the family; in the construction and the saw milling industry, situations of **multiple employment** is frequent. Associated with **temporary and casual work**, it makes the identification of the employer(s) challenging.

**Casual work** refers to a situation where a worker is employed when and if needed, with no particular expectation of continuing employment. As a matter of fact, casual work is often disguising a more stable employment relationship, and is sought as an avenue to circumvent labour standards - including on social security - that are associated with long term employment contracts. Casual work is a common practice in Zambia and widely used in the construction industry but also in the agriculture and domestic work. Workers depend on work available on the market and their capacities to sell their skills, exposing to high job insecurity.

In the informal economy, written contract are rare. **Oral contract** is the norm and usually limited to basic agreement on tasks to perform, remuneration and working hours.

## 2. Income Patterns

The LFS 2014 reports high earning discrepancies between workers in the formal economy, who earn an average monthly earning of K3,009 (USD 315<sup>11</sup>), compared to K1,214 (USD 127) earned by workers (paid employees) in the informal sector. Income levels and patterns also varies significantly across industries, depending on legal provision – for example minimum wage regulation - and employers’ will. For most informal workers, earnings are **low and unpredictable**.

- Domestic workers’ legal monthly minimum wage is fixed at ZMW 420 (USD 44) (plus 120

for transport allowance if applicable, USD 15.5). Although a minimum wage is fixed by law, domestic worker's income level depends on agreement with their employers. Two third of domestic workers are unpaid and most are exposed to overnight dismissal without compensation.

- Small scale farmers' earnings depend on many factors, including access to inputs and weather conditions and are subject to market's price fluctuations. Based on information collected for these studies, their monthly income are estimated to ZMW 850 (USD 89)<sup>12</sup>.
- Casual saw mill workers' income depends on the volume of work they manage to get from saw millers. Their earnings are mostly computed based on the number of pieces of wood cut/loaded/transported, and therefore dependent on the workload available on the market. Based on information collected for these studies, their monthly income varies from ZMW 600 to 800 (USD 63 to 84).

Earnings in the informal sector are also very often characterized by seasonality of income. Although some informal workers are paid on a monthly basis (i.e. domestic workers), this is not a common feature. Small scale farmers get most of their annual income once a year at the harvest season (July to September); casual saw mill workers income patterns are more complex and depends on employers' preference. They are paid either daily, weekly or monthly or when the work is completed.

The table below summarizes the researched groups' employment arrangement and income patterns.

	 Employed	 Self-employed	 Mixed, Casual work essentially
<b>Employment arrangements</b>	Employed	Self-employed	Mixed, Casual work essentially
<b>Estimated average salary (per month)</b>	ZMW 494	ZMW 856	ZMW 600-800
<b>Periodicity of payment</b>	Monthly	Annually	Daily, Weekly, Monthly
<b>Job insecurity</b>	High	Low	High
<b>Unpredictability of income</b>	Yes	Yes	Yes
<b>Seasonality of income</b>	No	Yes	Yes

Table 1. Summary of the studies' sample size

<sup>11</sup> Converted to US dollars at the exchange rate applicable on the 28th of April, 2016)

<sup>12</sup> Estimates per month, based on average annual earnings

# Social Security for Informal Workers In Zambia

## 1. Legal framework

In Zambia the **Old-Age pension system** is essentially build on two pillars: all individuals employed in the formal sector must contribute to one of the three public schemes namely the Public Service Pension Fund (PSPF), the Local Authority Superannuation Fund (LASF) and the National Pension Scheme (NPS) managed by the National Pension Scheme Authority (NAPSA)<sup>13</sup>. Complementary pension is possible through voluntary contributions to private insurance funds. The NPS is established by the National Pension Scheme Act No.40 of 1996. NAPSA provides **old-age pension, invalidity pension, funeral grants and survivors' benefits**.

Registration with the NPS is mandatory to all regularly employed persons working in the private sector, quasi government and parastatal organizations, the civil service as well as to the local authorities' employees that joined after the 1<sup>st</sup> of February 2000. Although informal workers are not explicitly mentioned in the National Pension Scheme Act, they are also not explicitly excluded from coverage to NAPSA. However, there are no references to self-employment in the various pieces of legislation concerning social security and in the Employment Act. Piece workers are explicitly excluded from the definition of an employee in the Employment Act.

Pensions are paid at the retirement age attainment (60 years old) or early retirement (55 year old) and upon payment of contributions for a period of 180 months. The replacement rate stands at 40 percent of the average earnings computed over the contribution period. Only workers whose monthly income is less than ZMW 15<sup>14</sup> are exempted, which would not exclude most informal workers. A contribution rate of 10 percent applies, equally shared between employer and worker.

The Workers' Compensation Act, No. 10 of 1999 establishes the **Workers Compensation Fund (WCF)**, which is administered by the Workers Compensation Fund Control Board (WCFCB). Applicable assessment rates are prescribed by the Minister of Labor and Social Security. The assessment rates vary from 2.24% in the banking, finances and insurance industry to 14.47% in the mining and quarrying industries. The WCF provides for a wide range of benefits including life pension or lump sum **invalidity** payment to workers with static or permanent injuries or diseases, **widow's or widower's monthly pension, child allowances, reimbursement of medical expenses** incurred by employers on treatment and hospitalization of injured or disabled workers. The injured workers receive periodical

<sup>13</sup> The draft Social Protection Bill proposed a revision which include the introduction of a three tiers system : a mandatory tier for all through NAPSA, a mandatory occupational tier, and a voluntary complementary tier.

<sup>14</sup> 1.3 USD at the exchange rate of the 4th of January

payments, in case of hospitalization or incapacity to work. Funeral grant is provided to survivors of the deceased member, in case of occupation related death. Non cash benefits include rehabilitation, medical aid and vocational training. The employer is liable for registration and contribution payment on behalf of all his employees, be they permanent or casual workers. There are no explicit provision for the self-employed. The WCFCB applies a blanket coverage system, through which the employer declares the total number of full-time equivalent employees he will be hiring over the coming year and assess the annual payroll amount the contribution rate will be applied on. Workers' names are not provided.

Provision of **medical benefits** is currently provided through four main channels in Zambia. Access to primary health care services is free for all citizens of Zambia – funded through Government's revenue - but constrained by geographic barriers and limited quality of health care services. Primary health care in the private sector as well as secondary and tertiary health care at both public and private health providers are either paid out-of-pocket, through private health insurance or paid by the employer. Regarding the latter, the Employment Act states that employers may agree to provide medical care, medicine and transport to a medical institution during the illness of an employee, under a collective agreement or contract of employment or the general conditions of service<sup>15</sup>. Taken together, these mechanisms do not provide a sufficient degree of health protection to the population.

In order to improve timely access to required health services without financial hardship and to improve the quality of health care at all levels, the Government of Zambia is proposing to introduce a mandatory and contributory **Social Health Insurance scheme** within the social security framework. The scheme would be funded through collective financing. The collected contributions are meant to be complementary to the other existing sources of funding such as the Ministry of finances' budgetary allocations to the health sector. Representative of workers and employers are expected to participate to the administration of the scheme. The SHI scheme would provide access to a comprehensive benefit package of preventive, curative and rehabilitative services at primary, secondary and tertiary levels – free of charge at the point of service. The part of the Social Protection Bill on Social Health Insurance Bill has been drafted and significant progress have been made on the preparation of the scheme. Implementation is expected following enactment of the Bill in a phased approach with initial coverage of formal workers and vulnerable households and their dependents and progressive extension to workers in the informal economy.

The Employment Act established that twelve weeks **paid maternity leave** are provided for women who have been working for two years for the same employer. The benefits are however not funded through collective financing and pooled funding, but by the employer alone. Employer liability for paid maternity leave represents a heavy financial burden that most SMEs cannot afford. This may lead to gender discrimination, unlawful dismissal for pregnancy and unpaid maternity leave. Self-employed workers are not covered. Domestic

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<sup>15</sup> Employment Act, article 43 (1)

workers are entitled to 120 days of maternity leave but without pay (article 10 (5) of the SI No3 of 2011). As part of the process leading to ratification of ILO Maternity Protection Convention, 2000 (No. 183), discussions between Government and Social Partners are ongoing on the possible shift to a social insurance model with shared contributions between employers and workers.

**Paid sick leave** (to a maximum of 26 days within any period of twelve months) are provided to wages workers, including casual workers, in the Employment Act. The payment of sick leaves is the employer's liability only, and are not funded through pool fund with co-contributions. Domestic workers are granted paid sick leaves, for a period not exceeding one month (article 9(1) of the SI No3 of 2011). Again self-employed are not covered.

Up to now, there are **no legal provisions concerning family, sickness and unemployment benefits** in Zambia.

There is a lack of explicit legal provisions regarding the informal workers and particularly the self-employed in the Zambian legislation. There are no provisions excluding these categories of workers but also no specific measures - in term of contributions payment for instance - that would take into account their specific situation.

## 2. Coverage of social security benefits

One of the parameters that define informal workers is the absence of contributions - and therefore entitlements - to Social Security benefits. Social Security coverage is therefore by definition generally low among informal workers. In Zambia, despite legal provisions, very few workers do benefit from NAPSA and WCF coverage.

This is confirmed by the findings of the four studies.

- The vast majority of small scale farmers do not benefit from any form of social security. Being self-employed, they have – by definition – no employer to share contributions with, which makes compliance with Social Security schemes costly (as they would have to cover the full cost of contribution). Most small scale farmers live in rural and sometimes remotes areas - too far away from any social security offices - have a low education level and are not reached by standard awareness campaigns on social security rights.
- Some rare domestic workers are registered with NAPSA (3% according to the data collected for this study) and almost none with the Worker Compensation Fund. Domestic workers are usually not covered by the pension scheme as the pension scheme mechanism targets employees in the formal sector and does not take into account the specificities of the household as employers. Similar procedures and processes for contributions applicable to commercial entities are required, which does not encourage

domestic workers' employers to register their employees. NAPSA also faces challenges in conducting inspections in private households classified as employers. In addition, the frequent change of employment makes tracing of employer difficult for the fund, especially to know which employer has employed a domestic worker at a particular moment.

- Despite the obligation to register workers to NAPSA and WCF to be authorized to purchase woods from the Zambia Forestry and Forest Industries Corporation (Zaffico), very few saw millers and their employees are contributing towards the schemes. When they do, under reporting on number of staff is the norm. The saw millers who are organized in association (Costiga and ZNAS) are however particularly sensitive to the need to provide social security to their workers and are slowly registering their employees: almost 10 percent of saw millers are contributing to Workers Compensation Fund for their employees – a mix of permanent and casual workers - according to the data collected for this study. Some are in the process of registering with NAPSA. About a third of casual saw mill workers also declared to be helped by their employers to meet the cost of health expenditures in case of illnesses– be they occupational related or not.

The table below summarizes selected coverage rates of the researched groups, per benefit and per occupation.

			
<b>NAPSA</b>	3%	0%	N/A
<b>WCF</b>	0.6%	0%	9%
<b>Payment of health expenditures</b>	16% are helped by the employer	Meet health expenditures costs on their own	35% helped by the employers

Table 2. Selected contingency rates for the researched groups, per benefit and per occupation

### 3. Coping strategies

In order to address vulnerabilities and to cushion the impact of social and economy shocks, informal workers employ different coping strategies. These strategies includes mobilization of money, generation of extra income, as well as dependency and care avoidance. The coping strategies employed indicate the extent of vulnerabilities and social risks among the informal workers.

- **Mobilizing extra money**

**Borrowing from family and friends** is a common strategy to mobilize extra funding required to meet unexpected expenditures related to injury or diseases. The amount mobilized is

often limited by the relatives and friends own financial constraints. In case of health shocks, borrowing small amount of money from various sources often lead to delayed treatments. High repayment interests rate may also apply, which may expose the individuals to more vulnerability or leading to impoverishment.

Another strategy implies getting **loans** from their employers. Loans are usually given in form of salary advances to be recovered from individual salaries. When workers already struggle to make ends meet, salary's advance further reduce their income and negatively affects the individuals' abilities to save or meet basic needs.

Although figures are not available, a common practice is to save or borrow money using rotating credit schemes. Also called *chilimbos*, these **traditional group savings** are social arrangements where individuals form groups for the purpose of saving money and lending each other in order to meet future needs. Small groups of individuals agree to contribute a certain amount of money at agreed intervals. All group members benefit from contributions on a regular or rotational basis. The money collected from all group members at a particular time is given to one member in line to receive the group contribution. The funds collected may be not enough to address the needs of members. Resource pooling is usually among members of low income; their contributions to the group fund are minimal and mostly very low. These arrangements are also not sustainable at a large scale because they are susceptible to lack of compliance, commitment and trust among members.

- **Generating extra resources**

When borrowing money is not an option, workers attempt to boost their income base by engaging into **piece work or working overtime**. In the construction sector which is by nature physical working overtime subjects individuals to more health and physical stress that can end up impairing the productivity of the workers in the long term. Workers also sometimes engage into **petty business activities**. These activities are operated on micro-levels. The gains generated are most of the time minimal and the profits realized rarely gets invested in business growth.

- **Dependency and care avoidance**

In the absence of old-age pension, working up to a very advanced age is the norm. When work cannot be continued for physical reasons – old age or invalidity - basic needs of retirees are traditionally met by the **family members**.

Another frequent coping mechanism in case of incapacity to meet the costs of health expenditures is to **delay seeking care** or to simply **avoid care**. When money cannot be found to pay for medicines, transport costs or diagnosis tests, many have no choice but to stay home and wait for their conditions to improve. In some instances, the absence of paid medical leaves leads injured workers to **continue working despite their physical**

**conditions.** This is particularly the case when workers fear being dismissed or having their salary deducted from the days or hours missed from work. These behaviours rather translate into worsened health conditions, which would ultimately cost much more to treat, lead to lower productivity and higher income losses, and sometimes death.

## 4. Knowledge on Social Security benefits

Most informal workers are not aware of their rights, have rarely heard about NAPSA and WCF and have no idea about the benefits they are entitled to. Lack of awareness is one of the major factors contributing to very low social security registration. Having little knowledge or wrong information on social protection creates misunderstandings that can potentially discourage registration with such institutions.

So far, communication campaigns on Social Security have not explicitly targeted informal workers. This is one of the factors explaining that knowledge on social security is limited among employers and almost non-existent among workers in the informal economy.

- For instance, the majority of employers of domestic workers are familiar with the existence of NAPSA but had never heard of Worker Compensation Fund. Most do not know that they are liable to register their workers, and that their workers are entitled to social security benefits.
- Moreover, most workers are not aware that they are entitled to claim reimbursement of medical expenditures related to work disease or injury to the WCFCB, in the case their employer did not register them with the WCFCB. In such case, the WCFCB will reimburse the worker for the incurred expenses and pursue the employer for reimbursement.
- Employers of casual saw mill workers – especially those who are members of one of the two employer associations, COSTIGA and ZNAS - have been sensitized to the need to extend social security to their workers by the UN Green Jobs programme. Saw millers recognize and understand workers' overall need for social protection and are committed to extend social protection to their workers – be they working on a permanent or on a casual basis.
- As reported in the social security risks and needs assessment, the vast majority (79.8 percent) of building construction enterprises indicated that their workers do not receive sensitization on social security.

However, when explained, social security benefits generate deep interests and enthusiasm. All interviewed workers expressed interest towards the benefits the Pension scheme, Worker Compensation Fund and the Social Health Insurance scheme would procure.

## 5. Willingness to contribute to Social Security

The four studies' findings show a strong interest in social security benefits amongst informal

workers. Once explained about NAPSA benefits and modalities, almost all interviewed domestic workers, small scale farmers and casual saw mill workers stated that contributing to NAPSA is crucial for them to be able to meet their basic needs when old and to reduce dependency on family relatives. The quasi totality expressed their wish to register and to have their employer to share the financial burden of the contribution. Domestic workers and saw mill workers also expressed willingness to be covered by the WCF, and were all the more motivated that this is an employer's liability. Specifically on Social Health Insurance, the vast majority of interviewed farmers stated that the introduction of the Social Health Insurance will be a "welcome move". They expect their financial contributions to participate in the improvement of the quality of health services, and specifically to increase drugs availability and to reduce waiting time.

Respectively 98 percent, 88 percent and 86 percent of interviewed domestic workers, small-scale farmers and casual saw mill workers stated they would be willing to contribute the hypothetical proposed amount of contribution towards social security. The amount was computed based on the average income in their respective industry and applicable contribution rates. Domestic workers and small-scale farmers' willingness to pay was based on contribution toward Social Health Insurance only (2.5% for domestic worker with the assumption that employer would pay the equivalent amount; 5% for small-scale farmers as they are self-employed and have by definition no employer to co-share the contribution with). Casual workers were asked if they would be willing to contribute 7.5% of their earnings which include contribution to Social Health Insurance (2.5%) and Pension (5%).

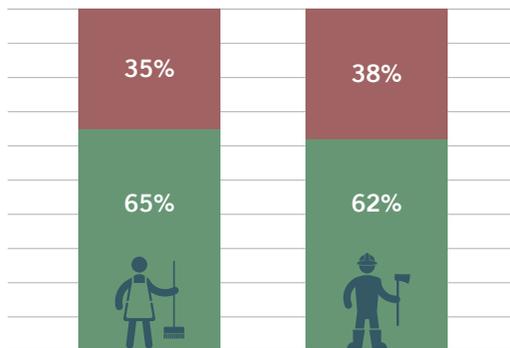


Graph 1. Willingness to contribute to selected social security schemes among domestic workers, small scale farmers and saw mill workers

Employer's willingness to contribute to Social security appears to vary significantly across industries.

- Two saw millers associations have been actively engaged with the ILO through the UN Green Jobs Program to identify strategies to extend social protection and to facilitate awareness and registration campaigns with NAPSA and WCF. Sixty two percent of their member employers stated they are willing to contribute to NAPSA, WCF and SHI in the future. The perceived benefits include predictability of expenses (WCF, SHI) and positive impact in terms of productivity. Employers are however challenged by the financial costs of compliance, unpredictable business cycles, high staff income patterns, staff turn-over and the casual aspect of employment. They also fear mismanagement of the social security funds and expressed concerns on the capacity of the Government to effectively provide pensions and workers compensation benefits and to increase the quality of services provided at public facilities.
- Most domestic workers' employers do not appreciate the need of increasing the labour costs through contributions to social security when the labour force is so widely available and demanding so little. Domestic workers are seen as cheap labour and are often not valued as "real" workers. Adding to this is the high domestic workers' turnover, which does not allow employers to build a lasting employment relationship. However, some domestic workers' employers tend to see contributions to WCF as beneficial as it would take the financial burden off their shoulders, should an occupational accident happen. When asked if they would be willing to pay due contributions to NAPSA (5%), WCF (3.72%) and SHI (2.5%), 65 percent of employers answered positively<sup>16</sup>.

Despite lack of recognition of social security entitlements and challenges associated to compliance, 65 percent of employers of domestic workers and 62 percent of saw milling enterprises stated they will be ready to contribute to WCF and NAPSA for their workers<sup>17</sup>.



Graph 2. Willingness to contribute to select social security schemes among employers of domestic workers and casual saw mill workers.

<sup>16</sup>The corresponding amount was computed based on the declared salary of their workers and legal contribution rates

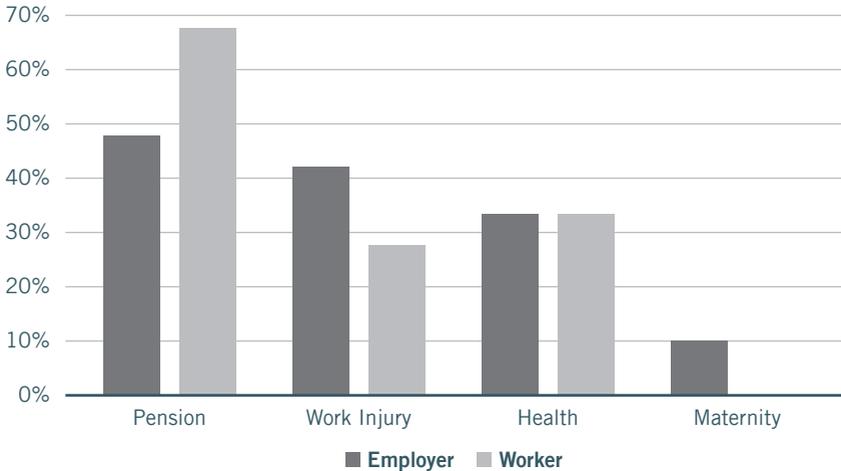
<sup>17</sup>Amount to be contributed where computed based on average salary and the following contributions rates : 5% to Pension, legal amount for WCF and 2.5% to SHI

Although interests for Social security is high among workers and employers, their willingness to contribute is conditioned and motivated by several factors. These include the following:

- Guarantee that benefits will be actually delivered, on a timely manner and without administrative hassle;
- Improvement of the quality of health care (SHI);
- Cost-less, accessible and simple registration and payment mechanisms;
- Easy process for employers to interrupt contribution for a worker who has stopped working.
- Trust in Government's good governance and cost-efficient administration of social security funds;

These translates the personal beliefs and the knowledge workers and employers have on social security institutions. Failures to guarantee access to benefits and/or to put in place the required systems would entail into very marginal progression in coverage.

As part of the Risks and Needs Assessment study, construction workers and employers were also asked to rank social security benefits in order of relative importance<sup>18</sup>. Amongst workers pension received highest attention (68.6%), followed by health (34.3%) and work injury protection (28.6%). Results varied slightly among employers: 49.3 percent of employer stated that they would like their employees to be covered against old-age, 42.3 percent against work injury, 33.8 percent for health and 9.9 percent for maternity benefits.



Graph 3. Social Security benefits preferences among workers and employers in the construction sector.

<sup>18</sup> Results must be carefully interpreted, as the results may have been biased by the core purpose of the study – focusing on pension and work injury – and little knowledge surveyors had on maternity and social health insurance benefits.

A very large share of workers indicated that they wanted the scheme to provide a retirement pension. This could be attributed to the fact that workers lack benefits that can sustain their livelihoods after leaving employment. Because workers fail to save during their productive life, having access to pension benefits was viewed as providing income security during old age.

Work injury is a major risk faced by workers due to the nature of work in the construction sector and the low levels of safety measures put in place among MSMEs coupled with low awareness on occupation health and safety risks. The high incidence of accidents at the work place also make MSMEs financially vulnerable as medical treatments pose high costs to businesses.

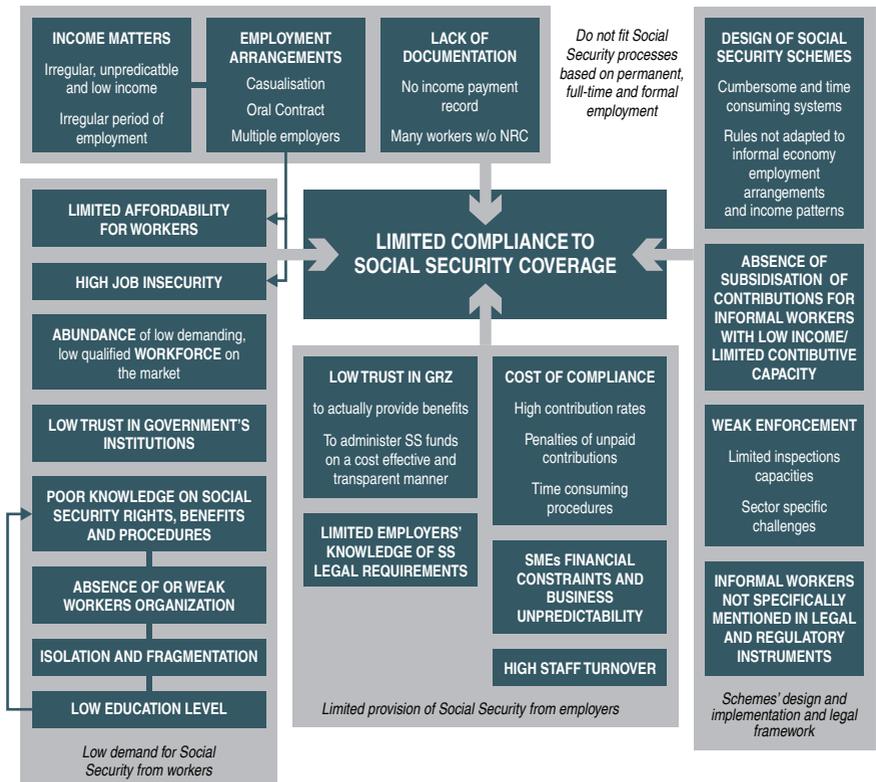
Sickness was identified as one of the risks faced by workers and household members. Respondents indicated that their families do not have access to quality health services because it is difficult to access quality medical facilities when they are needed. In time of sickness respondents said they resort to self-diagnosis and treatment because using professional health services is expensive. Out of pocket health expenditures at household level are said to be a drain on their income that is already inadequate to meet household needs. Provision of health insurance would allow workers to benefit from quality health services despite having low incomes.



# Challenges and Opportunities to Extend Social Protection To The Informal Economy

## 1. Challenges to extend social protection to the informal economy

The graph below provides an overview of the main challenges that limit extension of social security coverage in the informal economy in Zambia. It focuses on why there is a low demand for social security from workers, what limit provision of social security benefits from the employers' side as well as on employment arrangements and income patterns. The graph does not pretend to be exhaustive and it is advised to refer to each study's report to have a comprehensive view of industry's specific challenges.



Graph 4. Main challenges to the extension of Social protection to the informal economy in Zambia

## 1.1. Inadequate income and atypical employment arrangements

**Limited and irregular income.** Income of informally employed workers and self-employed are generally *low, irregular and unpredictable*. Often, workers face *periods of unemployment*, due to the absence of job opportunities or over-night dismissal. In most cases, their incomes are just sufficient to cater for essential and basic needs. Associated with *job insecurity*, it makes continuous social security contributions difficult. For the majority, the existing level of social security contributions rates are *not affordable, and particularly for self-employed*. The absence of a regular income stream challenges the payment of regular contributions payment to social security schemes.

**Complex informal work relations vs. linear social security design.** The social security processes were designed for employees on a monthly payroll and with a stable and clearly established relationship. However, employment arrangements are characterized by the *absence of formal contract*, preponderance of *piece work, multiple employers* in some sectors or *ambiguous employment relationship*, which are difficult to establish. Additionally, most workers *lack official registration papers* which could help relevant authorities target them for coverage, as well as pay slip or income records. The high turn-over of casual workers make new registration cumbersome. As a consequence, current social security schemes in Zambia, particularly pensions, are mainly addressing coverage for those in formal employment. Atypical employment arrangements and income patterns are not suitable with the established social security rules.

## 1.2. Low awareness and demand for social security from workers

**Lack of awareness.** Workers in the informal economy are of lower education groups, which often implies that their *awareness and knowledge* of pension and other social security benefits is limited. This is further aggravated by the *lack of Social Security communication campaigns* specifically targeting informal workers.

**Abundance of low-qualified and little-demanding workforce.** Would they be aware of their social security rights, most *wage* employees would not dare asking their employers to contribute to social security schemes. In Zambia, there is abundance of low-qualified workforce. Because competition is scarce, workers do not negotiate their working conditions and usually take jobs as they come, be the conditions below the legal requirements.

**Lack of representation and protection.** The *absence of strong workers unions* does not help *wage employees* to voice their rights and defend their interests. The vast majority of workers are not protected by collective bargaining agreements. In some specific sectors, such as domestic work, employees work in isolation due to the inherent nature of the work (at employers' home, without co-workers) and have little free time available for building social networks or participating to workers movements – which could help them accessing information on their rights or defend their interests.

**Lack of attractiveness of long-term social security benefits.** Contributions to Social Security compete with priority needs such as food, accommodation and school fees. When households' budgets are severely constrained, putting money aside for long-term benefits is not attractive and/or not possible for many workers.

### 1.3. Low compliance with social security obligations amongst employers

**Labour cost.** Although it is hard to get statistics, many formal enterprises deliberately choose to maintain informal employment relationships, in the interest of flexible and specialized production, and to reduce labour cost to generate higher profit and/to remain competitive. This is the case of saw millers who choose to have a multitude of part-time and/or casual workers instead of fewer full-time formal workers. Some employers may deliberately choose informal relationship to avoid formal obligations. In that case, the worker is unwillingly suffering the negative effects of informal employment while the employer enjoy the financial benefits of informality.

**Affordability.** For MSMES, often financially constrained because of *businesses' unpredictability* in a currently uncertain economic environment, the current social security rates are considered too high.

**Lack of information on social security liabilities.** Some sectors such as the construction industry have put in place specific social security registration conditions for obtaining registration with authorities and for participating to bidding for public work. Therefore, not all employers are ignorant of their liabilities regarding social security. However, self-employed or MSMES are not fully aware of their duties and, in the absence of control, tend to not register their workers.

### 1.4. Supply side factors

**Inadequate access to social security offices.** In addition to the fact that the requirement of monthly pension payment is **inadequate to the atypical income patterns of most informal workers**, there are not enough pay points in the country to make contribution payment cost-less and rapid. NAPSA and WCFCB offices are located in main cities but have a too little number of branches to serve the population located in remote areas. In Lusaka, the cost of transport to the social security institutions offices acts as a major deterrent for the payment of contribution. The process is also **time-consuming** for workers and employers who cannot afford to be away from work every month to pay their contributions to the social security schemes.

**Low trust in the government and social security schemes.** In addition to the challenges of lack of information, limited affordability, inadequate processes and geographic access, there is a general suspicion from employers and workers concerning the capacity of the Government and Social Security institutions to deliver benefits and administer social security

funds on a cost-effective manner. Employers and workers therefore associate registration with social security with costs rather than benefits. This significantly discourages employers and workers to comply with social security liabilities.

**Weak enforcements mechanisms.** MoLSS, NAPSA and WCF have limited inspection capacity to control the registration of employees and to ensure that all workers have been accounted for. Inspections can be cumbersome for employers due to the large number of institutions carrying-out inspections: local city council, NCC (OSH), MLSS, NAPSA, WCF are all mandated to inspect premises. Employers reported that inspections are partially done or with overlaps due to the lack of coordination between agencies. In the specific case of domestic workers, controls by social security inspectors are prevented by the fact that household is a private place, which premises cannot be accessed by inspectors.

### 1.5. Legal framework

Although informal workers are not explicitly excluded from social security legal provisions, there aren't any specific legislation addressing the informal economy and the self-employed's needs. Casual workers are excluded from the definition of workers in the Employment Act. The delay in the drafting of a comprehensive Social Protection Bill is slowing down progress on implementing social health protection and pension reforms.

## 2. Opportunities to extend social protection to the informal economy

Opportunities to extend social security to the informal sector include the following:

### 2.1. Legal and regulatory provisions

There is a **political will to establish a single social protection authority** to provide comprehensive social protection benefits to the whole population, including long-term pensions, workers compensation and social health insurance. The drafting of the Social Protection Bill is at an advanced stage and the document reflects this policy vision, making a number of provision for the establishment of an integrated social security benefit package and tailoring of package design to specific needs of informal economy workers.

**Social Health Insurance** is included in main strategy and policy documents and progress on the preparation of the scheme are substantial.

### **Reforms and willingness to extend social protection to the informal economy workers.**

The extension of social security to the informal economy is one of the key objectives of the current social security reforms. A technical working group comprising key stakeholders was assigned to devise strategies and modalities to cover informal economy workers. Social Security institutions such as NAPSA and WCF have gained valuable practical experience with the implementation of strategies for the extension of coverage in the construction

sector (as part of the ZGJP) and are showing high-level commitment to broaden the scope of such initiatives to other sectors (fisheries, agriculture).

**Oral and written contracts have the same value in the Zambian labour law.** Employers are therefore liable to register and contribute towards social security for all their workers, have they been engaged with a written contract or not.

In some industries, conditions related to **compliance with social security apply to obtain a license**, an authorization to operate or for bidding for public works. It sets the ground for ensuring better compliance with social security requirements. There is also opening to discussing innovative solutions for the financing of social security to informal workers, for example by means of establishing a levy on contract value in the construction sector.

## 2.2. Interests and willingness to contribute

**The interest in social protection benefits**, including pension, work injury protection and SHI benefits is strong from both employers and employees. Employers and employees are willing to learn about social protection legal requirements and procedures. When explained, understanding of social security principles and benefits is good. Employers specifically understood the possible positive impact of short-term social security benefits – such as Social health protection – on the productivity of their employees. The predictability of contributions payment towards SHI and WCFCB – as opposed to the unpredictability of paying for health expenditures to health care providers when disease or accident occur – is particularly appreciated by employers.

**The willingness to contribute is also high** from both employers and workers, as long as benefits are guarantees and payments are made easy.

**Workers are very sensitive to the value of Social security benefits**, once the latter have been explained to them. The contributive aspect appears not to be a deterrent in itself provided the amount of contribution remains affordable and as long as social security institutions do deliver the promised benefits. **Employers are willing to learn** about Social protection legal requirements and procedures and willing to consider complying with social security liabilities.

## 2.3. Opportunities for cost effective registration and contribution collection process

**Existing partnerships.** Public institutions in charge of the provision of social protection benefits, Ministries involved in social protection and employers and workers organizations are very keen on working together to identify common policy options and raise awareness on social protection. NAPSA and WCFCB have already implemented joint sensitization and registration campaigns successfully in the construction sector. Both institutions are open to innovative strategies that would allow for efficiency gains and promotion of social security.

**Opportunities to establish partnership with strong and well organized groups that can function as aggregators exist.** For instance, out growers schemes in the agriculture sector, or associations of employers in the construction industry have large membership bases and have the structures in place to help Social security schemes enrol and collect contributions from employers and workers. They set a sound ground for a cost effective roll-out of social security coverage to the informal sector. Where similar arrangements have been established (PhilHealth in the Philippines, NPS-Lite in India) aggregators are usually paid a commission and additional bonuses to incentive the aggregator to enrol an increasing number of informal workers.<sup>19</sup>

**Mobile money** is penetrating the market very fast and is now seen as a reliable and affordable solution for social security contributions and benefits payment by both workers and employers. An educated middle class is also emerging, which makes e-platform for registration and contribution collection a promising option. Successful examples exist: The Kenya National Hospital Insurance Fund (NHIF) is using M-Pesa to collect premium contributions from workers in the informal economy. In Mali, the governing agency for the mutuelles, l'Union Technique de la Mutualité Malienne (UTM), is working in partnership with Orange-Mali to collect premium payments from informal sector populations through mobile money.

**Extending worker compensation fund coverage to casual workers is made possible by the “blanket coverage” system.** The blanket coverage enables to deal with staff turn-over while the assessment integrates the aspect of income fluctuations. Providing occupational disease and injury protection to workers depends essentially on the employers' good will to report the accurate number of workers and fairly estimated payroll. There is no risk of over-payment of contributions, as this would be compensated the following year by deducting the payable contributions by the amount overpaid in the previous year. In addition, an injured employee who was not registered with the WCFCB at the time of a work related accident is entitled to claim reimbursement of incurred health expenditures to the WCFCB. The WCFCB will then be responsible to pursue the employer for reimbursement.

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<sup>19</sup> Newitt K., Usher A. and McLeish, S. 2014 Extending Social Protection to Vulnerable Workers in the Building Industry: an Assessment of Social Security Risks and Needs In the Construction Sector, Report commissioned by ILO-Lusaka.

# Recommendations Based on Lessons Learnt

## 1. Considerations for policy decisions making

The two main lessons of the four studies are that: (i) existing social security schemes are not adapted to the informal economy (ii) income patterns and employment arrangements are eminently diverse according to employment status – wage employee, self-employed, casual workers and household's employee – and across industries. As they stand now, the existing social security mechanisms are therefore not adapted for the extension of coverage to the informally employed workers. It is therefore necessary to adapt protection mechanisms to the situation of informal workers, either through the adaptation of existing mechanisms or the introduction of new ones.

- **Introduce a national social security approach for workers in the informal economy, where needed tailored to the specificities of different employment arrangements and sectors**

Specific mechanisms must be designed to progressively extend social security benefits to the workers in the informal economy. A universal, national, government led approach to delivering social security to informal economy workers is needed, as opposed to piecemeal, decentralized and fragmented solutions (e.g. micro-insurance, sector funds). Not only this allows for broader risk pooling, and solidarity mechanisms across the workforce and society – for example through cross-subsidization and tax financing -, it also reinforces a right-based approach to social protection where the state is the ultimate guarantor of the social security system. A national approach that can be adapted to different groups in the informal economy must be developed, when employment arrangements and income patterns are not compatible with the existing social security schemes. A tailored approach may need to take into account specificities by sector or employment arrangements (self-employed, wage employed, casual workers, domestic workers, etc.)

- **Maintain effective incentives to formalization**

It is of course recommended to encourage formalization of work wherever possible. A critical issue is not to create disincentives for formalization. This requires adopting a stair-case approach to the development of a continuum of social security instruments, whereby to higher levels of contribution – and formalization - correspond better quality social security benefits (higher value, more comprehensive benefits). A lower/subsidized contribution should come with lower levels of benefits to ensure there are still incentives to formalize and acquire full benefits, as far as a core floor of benefits is guaranteed universally.

- **Combine contributory and non-contributory instruments to fill the coverage gap**

Extension of social assistance to the poor working in the informal economy must be a complementary strategy to ensure that at least the poor and vulnerable have access to a

basic social protection floor.

The following recommendations are based on the lessons learnt through the four studies. They are general and applicable to all industries where informal employment exists. Additional industry specific recommendations are provided in the specific studies report.

## 2. Benefit Package

- **Propose a unique social security benefits package**

It is recommended to give consideration to a unique package of social security benefits. This would be made accessible upon payment of a unique contribution including pension benefits, worker injury protection and social health insurance. The application of a single contribution resulting from the combination of NAPSA, WCF and SHI benefits would ease the collection of contributions for both collectors and payers. In Zambia a unified social protection contribution could lay the ground for the implementation of a more comprehensive tax system targeting independent workers with limited revenue in the informal economy. This may take the form of a combination of income tax and social security contributions, as the Monotax model in Uruguay and other Latin American countries.

- **Mix Long-term and Short-Term benefits**

Provided the amount of contribution remains affordable, combining short-term and long-term benefits would make the social security package more attractive and more likely to motivate registration with social security schemes. Maternity protection, through cash benefits, health insurance and other short term benefits (e.g. access to finance) can be particularly important to motivate registration.

- **Introduce flexibility in the use of pension contributions**

For many resource-constrained households with immediate needs, contributing to a pension scheme is financially challenging. Priority usually goes to immediate expenditures and not to contributing for benefits which will be received in the long-term only. Enabling households to partly withdraw contributions in case of emergency could participate in building household's confidence that their savings are not "misplaced" but could on the contrary be mobilized in case of needs.

- **Guarantee portability of benefits**

Given the inner nature of most jobs in the informal economy, high turn-over and labour mobility across industries are common to many informally employed workers. The portability of benefits – geographic and across industries – is essential to guarantee continuity in coverage.

### 3. Operationalization

- **Apply simplified contribution rates**

One of the key challenge associated to the payment of contribution to social security from the informal economy is the difficulty to assess informal economy households' income. Although it is technically feasible, it can be done only at a very high cost and with little guarantee that results will be reliable. The application of a percentage on earned income is therefore not feasible and it is recommended to apply a separate system.

- For self-employed – such as the small scale farmers who make the largest share of the informal economy - it is recommended to apply a flat rate based on the household size or the number of earners in the household.
- For casual workers, characterized by high turn-over, piece work as a norm and for which the employment relationship difficult to establish, the feasibility of applying a levy on the total value of a project (construction, wood allocations etc.) should be further explored.
- Other contribution feature may be developed for other specific employment status.

- **Adjust frequency and time of payment to income patterns**

It is recommended to adjust the time and periodicity of contribution payment to the industry specificities.

- As far as possible, move away from monthly payment -costly and time-consuming to administer, and leading to high drop-out rates, **to adapt the frequency to earnings schedules and reduce transactional costs.**
- When appropriate (domestic workers paid on monthly basis) allow for monthly contributions with strong incentives for annual contributions (discount for advanced payment for instance) and encourage and support savings

The time of contribution collection must be chosen in accordance with the periodicity of income. For instance, small scale farmers should be asked to pay their annual contributions at the harvest season. Those on monthly payroll should be able to pay at month's end.

- **Develop innovative registration and contribution collection mechanisms**

To extend social security coverage to informal workers, it is suggested to prioritize the **development of partnership with large groups** - such as out-grower schemes in the agriculture sector. This would allow to piggy-back on aggregators' existing membership, systems and networks to register and collect contributions from a significant number of workers on a cost-effective manner.

On the provision side, the development of a single window approach is a cost effective way of bringing social security benefits close to the community. It is recommended to explore this as a complementary strategy for registration and contribution collection. A **single window social security offices** is a one-stop shop placed close to the community to serve as implementation and coordination mechanism for cost efficient contribution collection and

delivery of social protection benefits. The objective is to extend social protection and provision of adequate benefits, improve coordination between social protection institutions and line ministries to foster efficiencies in delivering social services by reducing inefficiencies and duplication. It can also empower local authorities and communities, therefore contributing to the decentralization process. Such an approach is successfully implemented in Indonesia, India, Brazil, Cambodia, Chile, South Africa, and Pakistan. Single window social security offices usually offer an array of services including dissemination of information on existing programmes, provision of support in registering for the schemes, contributions collection, delivery of social protection ID cards, facilitation of access to benefits in cash or in kind, and provision of assistance in the appeals process. In Zambia, single window social security offices could provide such services to the benefit of NAPSA, WCFCB, MoH/SHI and MCDSW/Social Cash Transfer programme and progressively extend to other social protection or social assistance benefits. The existing close collaboration between these institutions lays a favourable ground for its implementation.

While **mobile money** cannot and should not be the only way of collection contributions and benefit payment, it must be considered for those it may remain the most convenient and lowest cost solution. It may also be considered to channel money from an aggregator. E-platforms are a promising tool for rapidly and safely collecting social security contributions. In Zambia mobile network operators are progressively extending their coverage to the whole country. The population is more and more turning to mobile money for sending and receiving payments. It especially enables greater access to basic financial services for unbanked populations, typically poor and informal economy workers in hard to reach areas. The three operators, seeking to build customer loyalty in a highly competitive environment, expressed deep interest in partnering with the Government for the development of such a solution for the Social Health Insurance scheme, which could be easily extended to the other social protection branches (Goursat, 2014). NAPSA has started developing a platform for mobile payments and contributions collection for pension benefits.

- **Raise awareness on Social security rights and benefits.**

It is advised to conduct national awareness campaigns on social security. Campaigns should be designed to reach those in rural areas with little access to information and workers at their work place. The national campaign must use a mix of media to maximize chances of reaching rural households in the informal economy. It is recommended to implement education programme targeting specific market segments – rather than investing only on mass awareness through Medias. Messages or talk shows broadcasted through local radios should be an element of the campaign, but it should not be limited to these.

For workers in rural areas, it is recommended to build on the trust and leadership of local leaders to spread information of social security benefits through village meetings, using testimonial marketing. Local leaders should be empowered through specific capacity

building and provision of basic communication materials. Awareness meetings coupled with registration should also be conducted at the workplace.

- **Strengthen quality and adopt a quality assurance approach**

Ways of motivating enrolment – rather than sanctioning contribution avoidance – must be designed specifically to address population's expectations and needs. Increasing the quality of the benefits and social security services is part of these strategies to motivate enrolment.

- Targeted beneficiaries' trust in social security schemes is crucial. It is common thinking in Zambia that receiving old-age pensions is not guaranteed or is obtained only once overcoming tremendous administrative barriers. It is also common understanding that pay-outs of occupational injury benefits are difficult to receive. It is therefore required to investigate the reality of these complaints, by the development of effective grievance and complaints management systems, to identify bottlenecks for benefits payment if proven true in order to carry-out the necessary reforms.
- Improvement of the quality of health care - and specifically long waiting time and unavailability of drugs - must begin shortly after the launch of the SHI scheme. It may however not be sufficient, especially if primary health care remain free of charge for those not contributing, as they will be enjoying improved quality of care up to the district level, without making financial contribution to the scheme. Mechanisms to be explored include specific benefits for the contributing members at the point of service, such as fast track at the facilities and incentives to increase village coverage – for instance in form of goods or services which would benefit to the entire village as long as a certain coverage rate is reached

- **Develop the legal and regulatory framework.**

It is recommended for line Ministries to commit the required resources to the finalization of the Social Protection Bill to meet the target of introducing the Bill in Parliament by May 2016. Then, relevant pieces of legislation will have to be amended to address the issue of **recognition and protection** for workers and employers in the informal economy, in line with the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up and the core labour standards.

## 4. Financing

- **Consider subsidizing access to social security for the low-income workers**

In light of the social returns to extending social protection coverage to a larger share of the population, and in order to provide effective incentives for enrolment, it is advised to consider applying subsidized contribution rate for selected categories of low-income workers. For instance the establishment of a special contributory category for households employing domestic workers should be given consideration in recognition of the specificity of the household as economic unit not generating revenue by the employment of the

domestic worker. Self-employed either working on own account or owning a small enterprise should also benefit from specific measures. Matching Government contributions could be considered as an incentive mechanisms, that has proven to be effective in several countries.

Subsidization may be coming from a mix of general taxation and redistribution within contributors (cross subsidies from high-income to low-income workers). Decision on such measures and their funding must be informed by thorough studies: the amount of contribution must be informed by the informal economy's willingness and capacity to contribute, actuarial analysis and the analysis of fiscal space for Government's subsidies.

- **Differentiate benefits**

The existence of a different contribution regimes – may introduce the risk of encouraging informality if this is also not accompanied by differences in the benefit package. Higher contribution levels should be associated with more comprehensive benefits and better quality coverage. The formulation of a stair-case in social protection benefits and corresponding contribution should be given careful consideration, to avoid fostering inequities, and with a view at ensuring social protection floor guarantees for all.

- **Engage with Ministry of Finance to consider alternative sources of funding**

Depending on the choices made by the Government in terms of benefits and subsidies, the extension of social protection to the informal economy can represent a share of the budget that is not negligible. A few options for the Ministry of Finances include greater public saving through expenditure rationalization, re-prioritization or generation of additional financial resources. Alternative sources of domestic funding is likely to be necessary to extend social protection to the informal economy. In Vietnam, Thailand and Indonesia, social health insurance benefits are partially funded by earmarked sin taxes. In Laos, full subsidies for the poor in Health Equity Fund and partial subsidies for the non-poor informal workers enrolled in the Community Based Health Insurance scheme are entirely funded by earmarked taxes on domestic hydro-electrical production. Evidence on the cost-effectiveness and economic impact of the proposed benefits, as well as short and long-term cost implications, must be made available to budget holders and policy makers. They must be reassured about the efficiency of delivery mechanisms and the fact that social security institutions can administrate benefits efficiently.

## Conclusion

The formalization of the economy is coming to the fore of international attention with the adoption of ILO Recommendations No. 204 *“Transition from the Informal to the Formal Economy”* in June 2015. Through the recommendation, the General Conference of the International Labour Organization recognizes that the high incidence of the informal economy constitutes a *“major challenge for the rights of workers, including the fundamental principles and rights at work, and for social protection, decent working conditions, inclusive development and the rule of law, and has a negative impact on the development of sustainable enterprises, public revenues and governments’ scope of action, particularly with regard to economic, social and environmental policies, the soundness of institutions and fair competition in national and international markets”*

In line with the recommendations, integrated policy framework for the transition should address the establishment of social protection floors, and the extension of social security coverage. Efforts to expand social protection must indeed be coordinated within coherent and integrated strategies to reduce and prevent informality, and designed and implemented through national tripartite action.

Extension of social protection to the informal economy should be guided by a nationally formulated Social protection strategy. Employers and workers organizations as well as civil society organizations of the formal and informal economy should be consulted while developing, implementing and evaluating policies and programmes of relevance to the extension of social protection to the informal economy. Broad consultations would enable to take into consideration the diversity of characteristics and needs of workers in different employment status but also those of vulnerable groups in the design of social protection strategy and schemes. Among others, the the Vulnerable Poor and the Disabled Persons with disabilities often have to overcome a combination of intricate barriers to access social protection benefits, which barriers could be addressed by specific institutional and financing arrangements. A combination of approaches complementing each other is therefore necessary to reach a significant proportion of the informal economy. National strategy should be inclusive of protection, prevention and promotion measures to ultimately contribute to the graduation of low-capacity households from high vulnerability to shocks and high levels of poverty to increased resilience, increased ownership of productive assets and subsequent improved livelihoods.

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## **Contact information**

### **Luca Pellerano**

Technical Advisor on Social Security  
International Labour Organization (ILO)  
pellerano@ilo.org

### **Marielle Phe Goursat**

Social Health Protection Expert  
United Nations Joint Programme on Social Protection  
International Labour Organization (ILO)  
goursat@ilo.org

**[www.social-protection.org](http://www.social-protection.org)**

**[www.ilo.org/lusaka](http://www.ilo.org/lusaka)**

