

# Extending Social Protection to Informal Economy Workers and MSEs in Ethiopia



April 2022



This project is funded by  
the European Union



International  
Labour  
Organization

unicef   
for every child

# Outline

Objective

Methods and challenges

Status of deliverables

Conceptual considerations

Statistics on the informal economy

Micro and small enterprises

Social protection landscape

Lessons and recommendations

# Objectives

- Understand the employment status and situation of workers and economic units in the informal economy, along a gender analysis.
- Identify possible barriers to social protection coverage and formalization (legal, administrative, financial barriers, information barriers etc.)
- Analyse the role of social protection in recovery actions, and lessons learnt from the COVID-19 crisis
- Identify policy options for the extension of coverage based on a review of international and national experiences

# Methods & Challenges

## Methods

- Comprehensive review of national and international literature
- Key informant interviews and/or written response to questions  
PSSA, POESSA, AA Chamber of Commerce, Bole Sub-city, MoLSA, EFPD
- Small scale survey (not representative) of informal workers in selected 'hot spots' in Addis Ababa

## Challenges

- Covid-19
- Limited connectivity of most stakeholders in this sector
- Limited well-organised and up to date secondary data that informs extension of social protection to informal workers

## Status of deliverables

Deliverables	Staus
<b>Output 1:</b> Inception Report	Delivered
<b>Output 2:</b> Profile of informal economy workers and their needs	Delivered
<b>Output 3:</b> Review of the existing social protection framework and programs	Delivered
<b>Output 4:</b> COVID19 and shock responsive social protection measures	Delivered
<b>Output 5:</b> Consolidated reports	Delivered
<b>Output 6:</b> Validation and knowledge dissemination	In process

## Conceptual considerations

Plethora of terminologies and definitions both in developed and developing countries.

The most common concepts used in developing countries like Ethiopia are include:

- ‘informal sector’, ‘illegal trade’, ‘grey economy’, ‘self-employed’, and ‘the black market’.

In the developed world, in addition to the above we find

- ‘shadow economy’, ‘nonstandard employment’, ‘underground economy’, ‘under the table’, ‘off the books’, ‘working for cash’, ‘precarious work’, and ‘moonlighting’.

**Informal workers deserve protection and decent work!**

## **Some examples of definitions**

**ILO:** ... all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements

**FDRE employment policy:** adopted the ILO definition but made it explicit that “all economic activities” does not cover illicit activities.

**AA City Administration:** ... [a form of trade] that is not governed by the formal trade regulations. The individual trades without a (i) business license (ii) permanent address or formal trading place.

The policy sets the tone for formalisation:

“.... [a form of trade] that is listed, given transitional permission or ID to trade in designated places, streets and partly at home, with small start up capital and without needing in-depth knowledge and skills” [about the business].

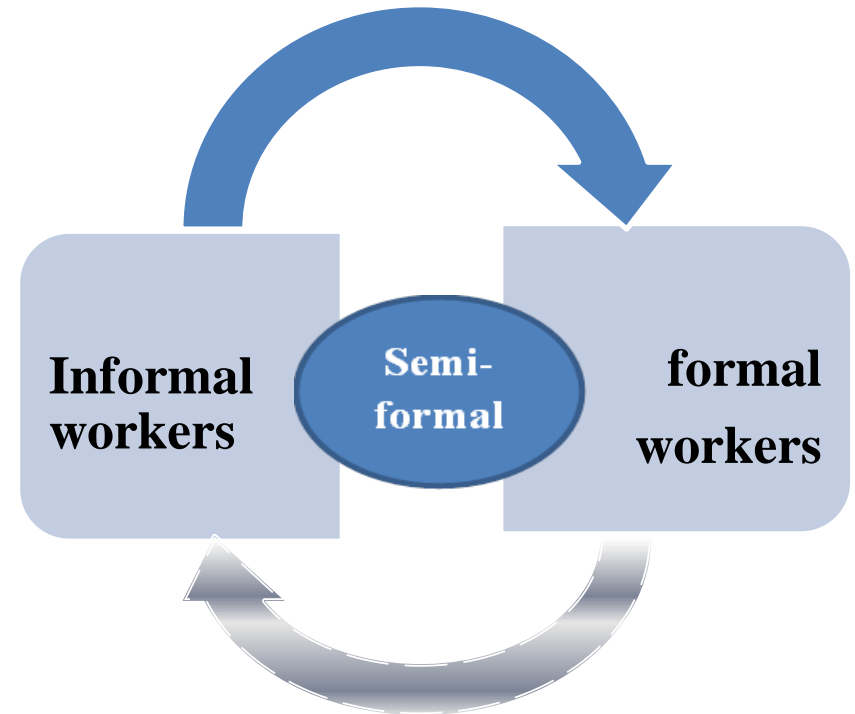
## The transition from informal to formal and back

More recent research indicate that the dichotomy between formal and informal is inadequate.

The practice also shows it is not rigid.

There is a tendency to move between the two forms of employment;

There is a scope for a 'semi-formal' category that meets some features of formal and informal (see Annex 2).



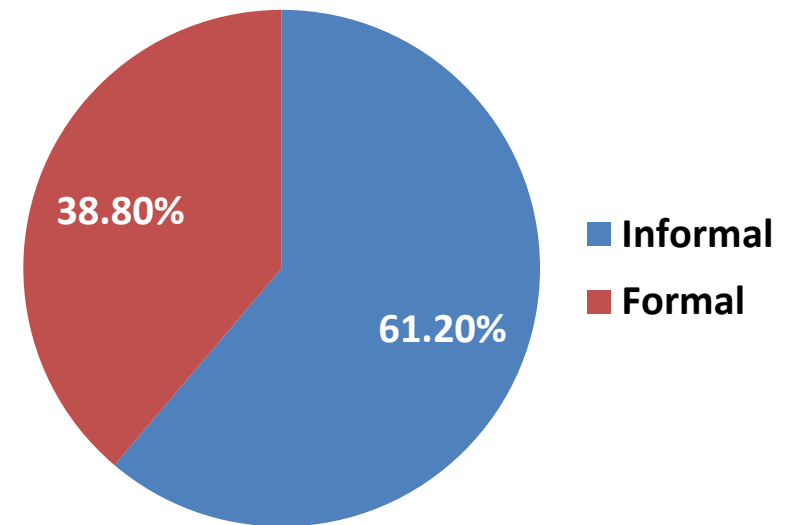


## Statistics on the Informal economy

C160 - Labour Statistics Convention, 1985 (No. 160) sets the standard on labour statistics.

Despite being one of the earliest countries to join the ILO in 1923, Ethiopia has not ratified this and many other conventions but it uses the standards to the extent possible.

**Global:** ILO (2020) estimates that there are 2 billion people working in the informal economy which is 6 out of 10 workers.



## Sub-Sahara Africa (SSA):

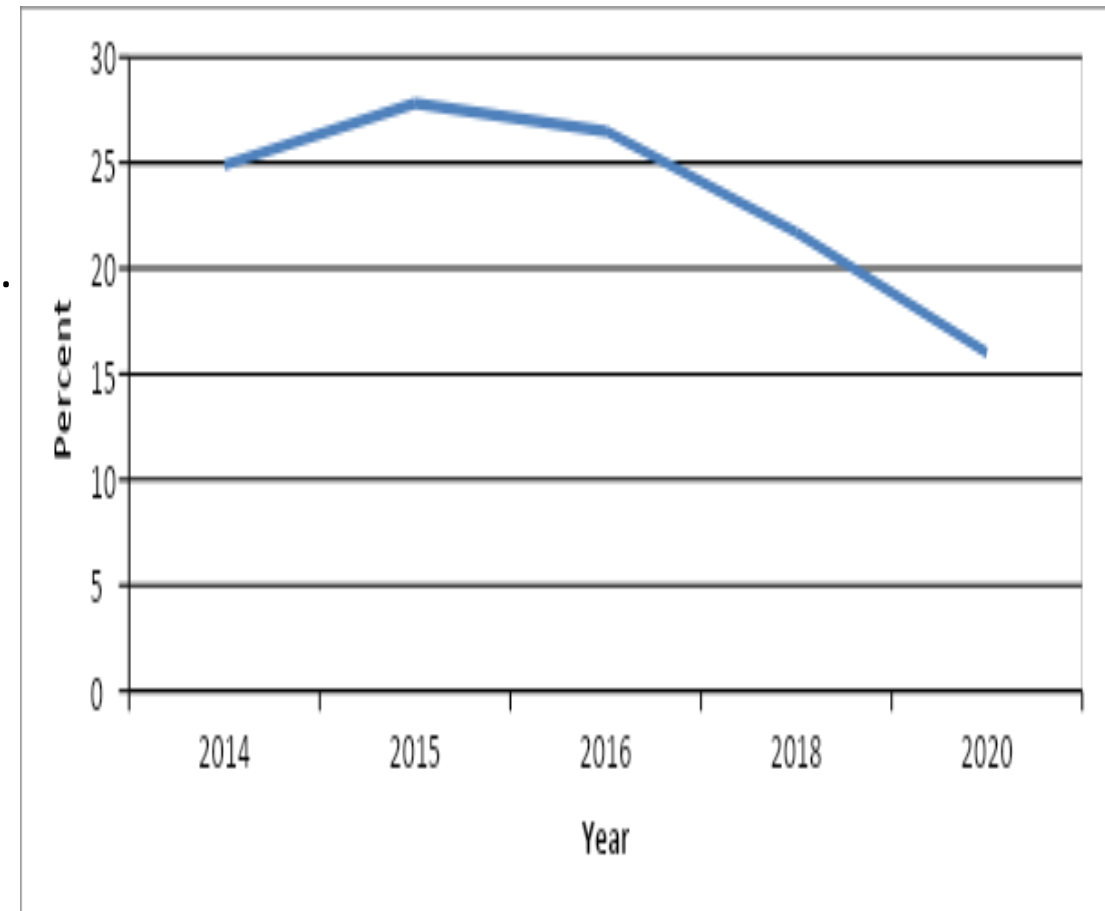
9 out of 10 workers are in the informal sector with considerable variations by country.

43% (Gabon), 98% (DR Congo), 88% (Ghana), 90% (Tanzania), **47% (Ethiopia)**, 95% (Mozambique), and 77% (in 46 SSA countries).

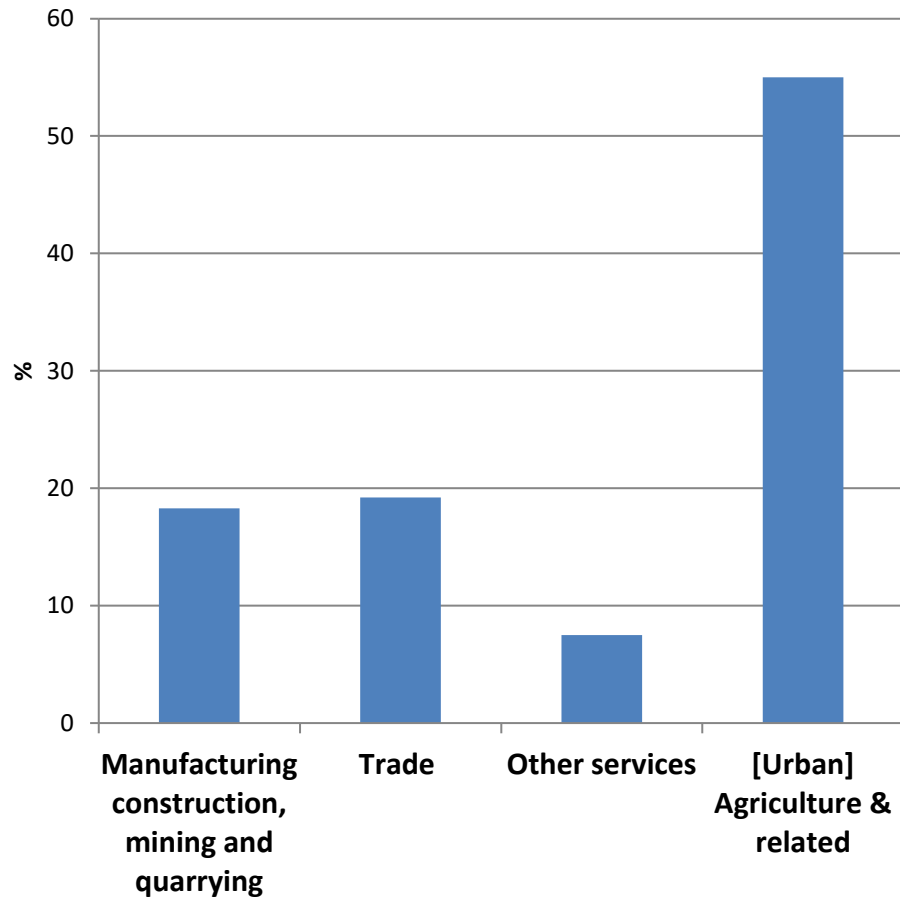
## Ethiopia

According to the CSA, the sector is declining: 18.2% (CSA, 2013); and 16% (CSA, 2020) (see Figure); Female 23%.

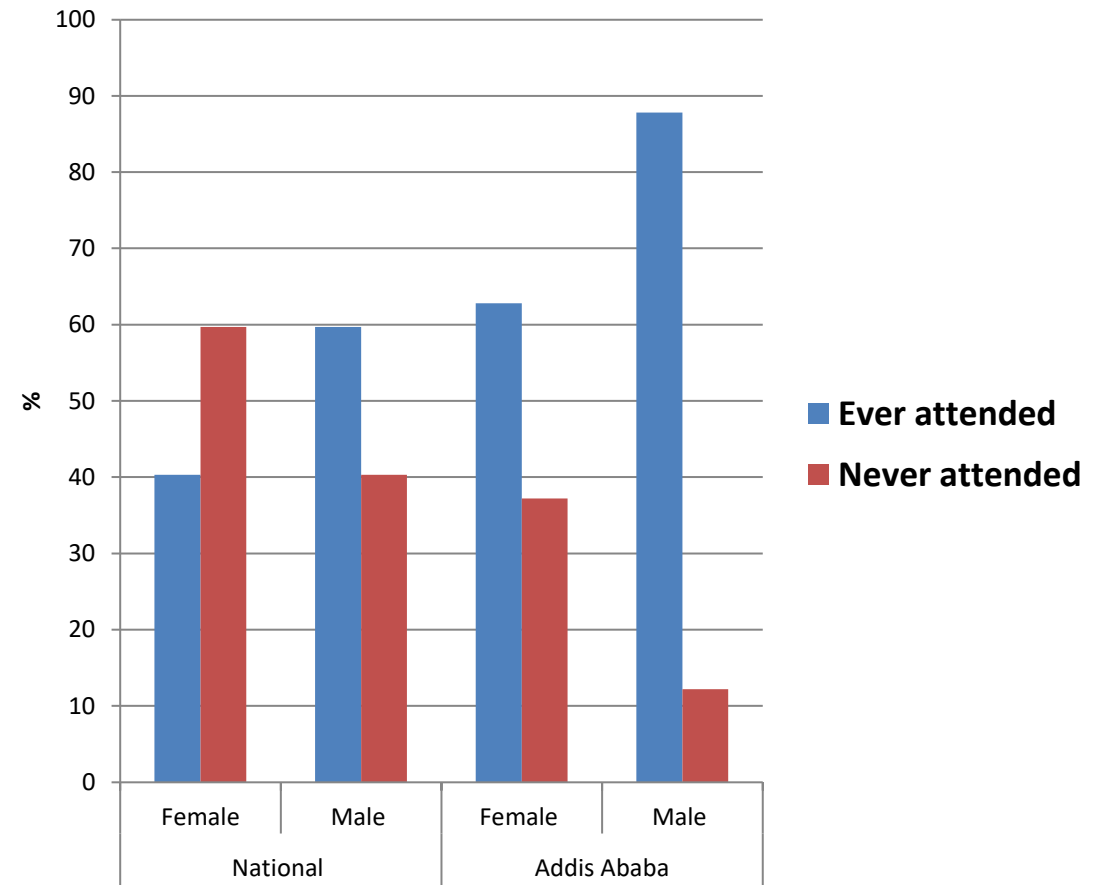
Amhara (21.5%; Benshangul Gumuz (20.1%), Oromia and SNNP (19.0%); Addis Ababa City Administration (6.6%).



## Area of work



## Education



## Profile based on limited survey

- Carried out a limited survey in purposely selected ‘hot spot’ areas of Addis Ababa.
- The survey is **not statistically** representative but the indicators are more diverse than the national survey and could inform policy makers and partners to extend social protection to informal workers. Highlights:
  - 137 informal workers in 13 ‘hot spots’ interviewed
  - In this survey there were slightly more male informal workers than female
  - Over 75% were between the 18-33 years of age
  - 65% were unmarried
  - 100% some level of education and over 60% primary
  - Two major categories of informal business: food and non-food

## Profile ...



- The vast majority (80%) have bank accounts but no experience in taking loans from either banks or saving groups
- Over 80% belong to *idir* and *iqub* and contribute anything between ETB20 to 350 per week and ETB20 to 600 per month.
- Links to other social protection programs is weak - Only 8% indicated benefiting from UPSNP. None reported benefiting from CBHI
- Potential number of contributors to social security is higher than current contributors to *idir* and *iqub*
- Over 65% of those interviewed expressed interest to pay up to Birr 100 to social security. Only 30% said they would continue contributing to *idir/iqub*
- 22% received some form of support from government and non-government. Land/work area is the most common support from government.

# Impact of Covid-19

## SSA – IDS/telephone survey

Most respondents in **Ethiopia**, Kenya, Malawi and Tanzania reported covid-19 did not affect their participation in farming; but it led to decrease in participation in **business or household enterprises.**

## National

- The food insecure was expected to double from 15m to 30m.
- Job loss was also expected to be high specially in the service sector followed by manufacturing and agriculture (see Table on the right).

Sector	3 months		6 months	
	Mild (%)	Severe (%)	Mild	Severe
Manufacturing & construction	-20	-37	-33	-61
Services	-36	-57	-56	-74
Agriculture	-5	-10	-7	-21

Source: Job Creation Commission (2020) and EEA 2020

## Impact on informal workers and how they responded

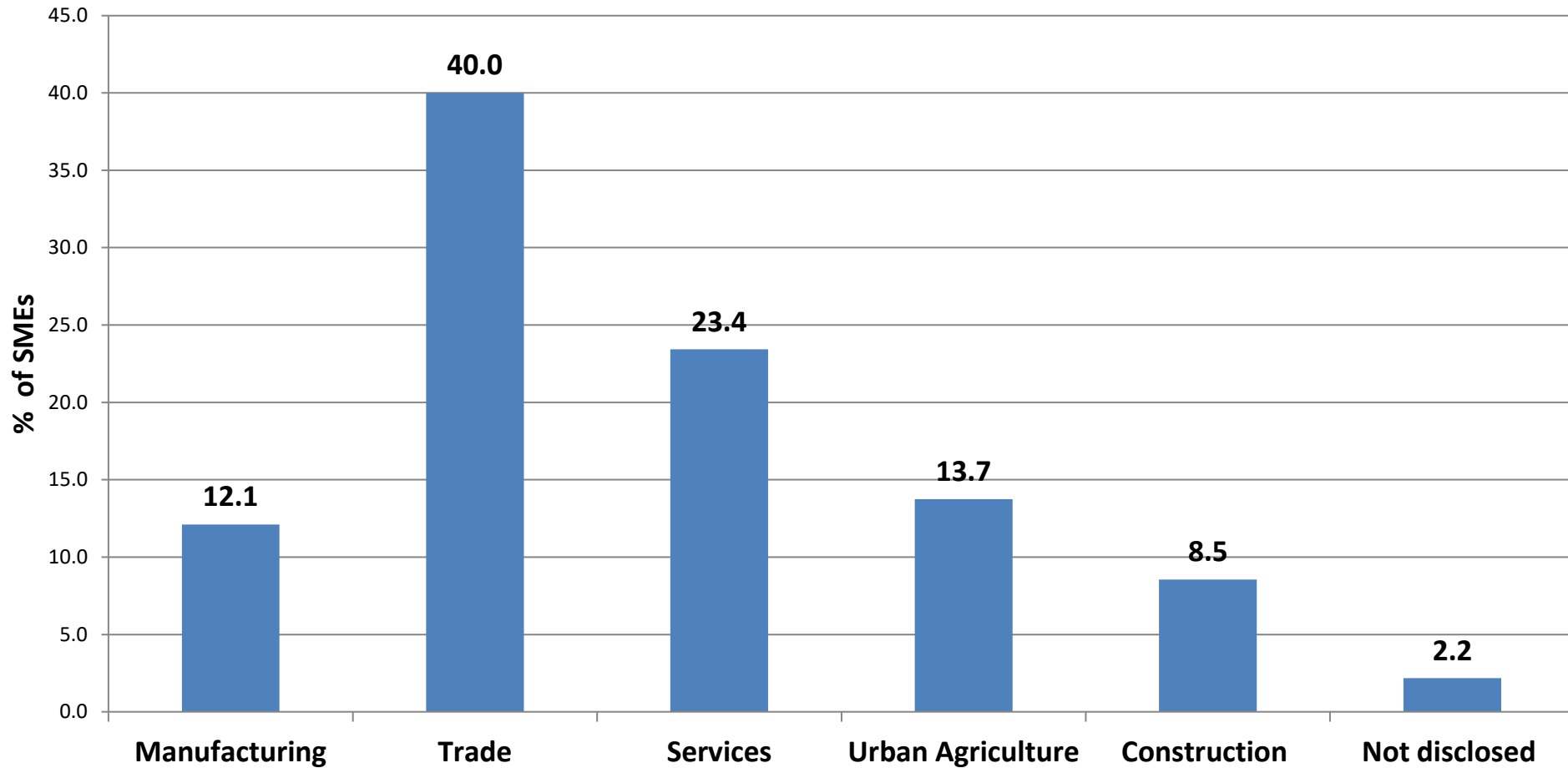
- The survey indicated that 43.8% of the respondents were affected by the pandemic: business slowed down mainly due to social distancing.
- Informal workers were short of solutions to the pandemic clearly showing the difficult circumstances they faced.
- However, very few reported going out of business. They struggled on!

## Micro and Small Enterprises

- MSEs are considered the ‘hanging fruit’ for extending social protection because they are organized and can be integrated into existing social security schemes relatively easily
- However, conflicting findings on their viability. Government reports (FIOC&FS Agency, 2012) high survival rates (75%). Independent sources (Independent sources (e.g. Ayele and Derseh, 2020) indicate up to 50% are terminated for various reasons:
  - lack of infrastructure (electricity, clean water, and workplace),
  - scares of resources or finance to expand the enterprise,
  - lack of marketing linkage or access,
  - lack of knowledge and poor access to technologies,
  - unfair tax request by the revenue office and weak support from the government enterprise office.
  - Lack of training and support on issues like financial reporting system, marketing, and sales promotion, customer relations for SMEs manager, and members



## Per cent of SME distribution by sector (n=338,697)



## Social Protection Landscape

**Overarching** social protection framework:

- ‘political space’, ‘policy space’, and ‘fiscal space’

### **Contributory schemes**

- **Public Social Security Scheme:** Proclamation N. 209/1963 (as amended by Proclamation No. 714/2011 and Proclamation No.907/2015).
- **Private Social Security Scheme:** Proclamation, no 715/2011 (as amended by 908/2015).
  - Both schemes are more or less in line with ILO C102
- **Community-based Health Insurance:** payee (30 m) and indigents (7 m); 77.9% compliance
- **Traditional Support Systems:** over 80% of Ethiopians belong to one or more groups

## Landscape ...

### **Non-contributory**

- Rural and Urban Safety net programs
- Emergency response
- School Feeding Program
- Urban food subsidies to minimize the impact of inflation and most recently the pandemic

### **Other provisions**

- Micro and Small Enterprises: strong policy and financial support
- Refugees and Returnees Program – most favorable policy environment

## Gender and disability

### General provisions

- Constitutional and legal rights ensured
- All executive organs required to ensure that women, children, elders and persons with disability benefit from programs and projects under their jurisdiction

### Examples

- The flagship safety net programs have direct support component where the most vulnerable benefit without work requirement
- Participation in MSE (see table on the right)
- Children of women informal workers benefit from school feeding programs

### Implementation challenges

- Do all executive organs have a unit that ensures the above provisions?

Year (EC)	Female MSE operators	Male MSE operators	Total MSE operators	Female %
2009	341716	627431	969147	35.3
2010	308030	504015	812045	37.9
2011	316771	294744	611515	51.8
<b>Total</b>	966517	1426190	2392707	40.4

# Lessons

## Targeting:

- CBHI specifically targets informal workers
- UPSNP serves as a bridge to informality then formality (MSE)
- Traditional groups are largely formed by informal workers

## Institutional arrangements and barriers

- Most of the programs are implemented by public institutions that are distant from informal workers except perhaps UPSNP (to some degree) and CBHI (to a greater degree)
- POESSA has the greatest potential for accommodating MSE in the **first instance** and informal workers in the **second instance**.

## Lessons ...

- Digital technology has considerable role to play in this process.
- All programs are sufficiently gender and disability sensitive. There is no systemic exclusion.
- However, lack of awareness of existing provisions can sometimes lead to discrimination

## Challenges

Lack of clarity/appreciation on the contribution of informal sector to the national economy

Misunderstanding of the **rationale** for formalization

Inadequate database on the informal economy

Fragmentation of institutions and service delivery

# Recommendations

## **1. *Revise/implement the social protection policy and strategy:***

- Among the 12 categories of vulnerable groups #11 refers to informal workers
- Designed to improve coordination among institutions and programs
- It is *transformative* and has the potential to lead a *universal, adequate* and *sustainable* social protection system.

## **2. *Make social protection a political agenda:*** informal workers and MSE operators have votes.

## **3. *Fiscal space:***

- *1 & 2 above should lead to better allocation of funds for social protection*
- *However, it should not be construed that **new funding** is always the solution*
- *Removing inefficiencies in financial management could go a long way to finance social protection*



## Recommendations ....

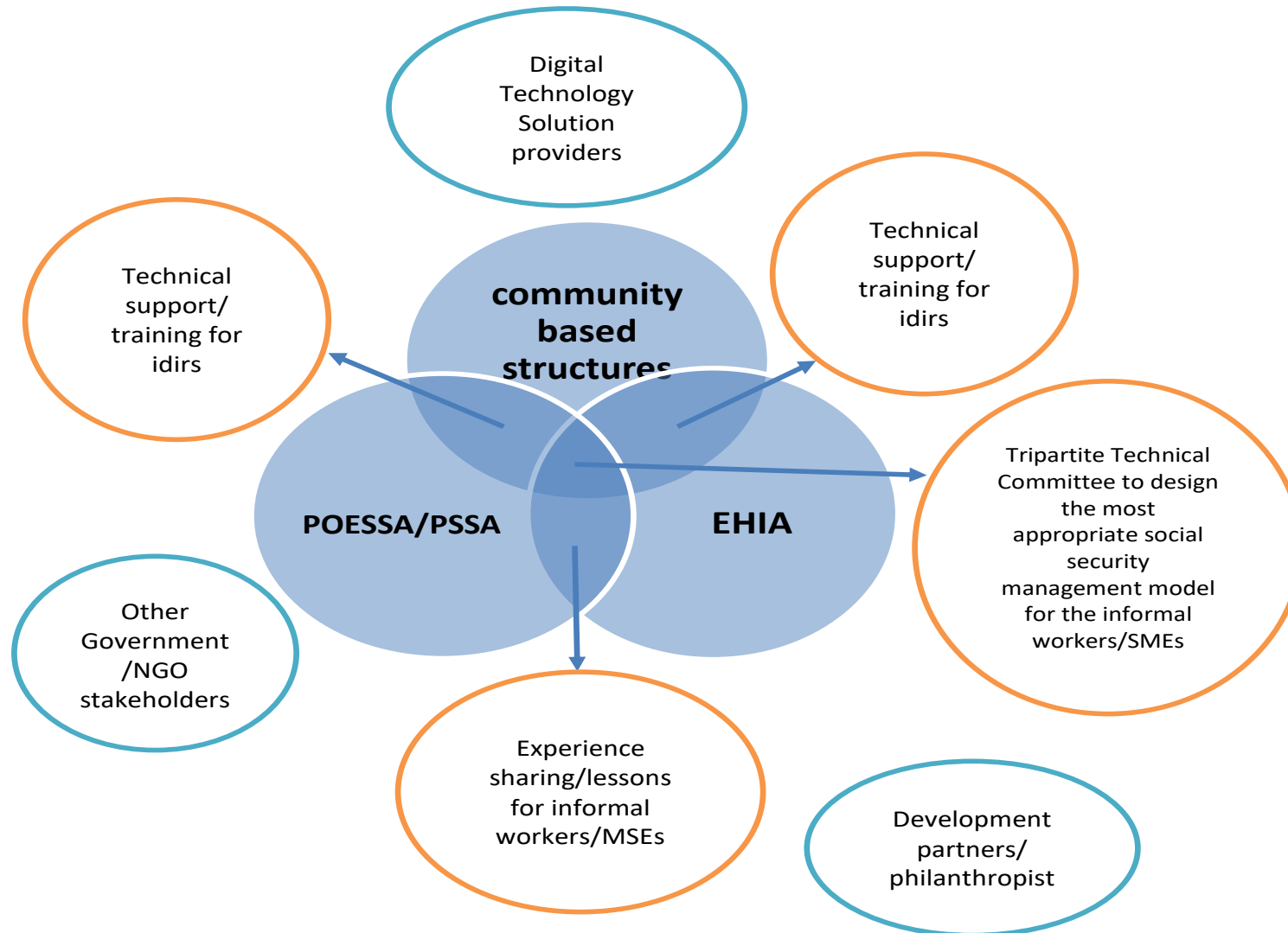
### 4. *Remove administrative barriers*

*It is not absolutely necessary to establish yet another agency to extend social protection to informal workers and MSEs.*

Make the existing ones **smart**. Consider the following:

- *Adapt the CBHI model: strong formal institution working with community structures*
- *Adapt the POESSA to accommodate informal workers and MSEs: POESSA is increasingly becoming adaptive using the window of opportunity in the current legal framework*
- *Modernize and strengthen community structures (e.g. idirs) to work with the formal structures (see figure next page)*
- *Technological solutions*
- *A combination of the above: they are not mutually exclusive*
- *A coordinating/governing body made up of CBHI, POESSA and community structures*

## A collaborative model



## Recommendations ...

All these options need further and **deeper** analysis.

Smart institutional arrangement is necessary but not sufficient.

Other important issues that need addressing include:

- 1) Formulating strategies
- 2) Awareness raising: remove the misconceptions/standardize definition
- 3) Legal framework: amendments to existing proclamations
- 4) Incentives: what is in it for us?
- 5) Contribution collection and financing mechanisms

**Thank you**

**[ateshome2015@gmail.com](mailto:ateshome2015@gmail.com)**

**+251 911177069**

## TITLE

- Text text Lorem ipsum dolor sit amet, consectetur adipiscing elit
- Lorem ipsum dolor sit amet, consectetur adipiscing elit, sed do eiusmod tempor incididunt ut labore et dolore magna aliqua
- Lorem ipsum dolor sit amet, consectetur adipiscing elit

