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South-South cooperation for extension of social protection to workers in the informal economy: The case of Kenya and Lao People's Democratic Republic[1]

Key points

- Despite the recent significant progress towards the achievement of Universal Social Protection, globally 3.8 billion people in 2023 still do not have access to social protection. In particular, workers in the informal economy, globally estimated at over 2 billion, often face various challenges in accessing social protection. The fulfilment of Universal Social Protection critically depends on how countries can effectively extend social protection to workers in informal employment.
- Both Kenya and Lao People's Democratic Republic (Lao PDR) have large and persistent informal economies, especially in rural areas. Both countries face common social protection challenges, including the weak contributory capacities of informal economy workers, and the insufficient capacities of the governments and social security institutions to enforce the compliance with tax and social security legislation.
- To address the challenges with informal economy, both Kenya and Lao PDR have developed national strategies for the extension of social protection coverage to workers in the informal economy.
- South-South Cooperation is a vital mechanism for promoting decent work, social justice and sustainable development. It serves as a vehicle to share knowledge, experiences and resources among developing countries, and facilitate policy and technical exchange in the areas of social protection, skills development and labour market policies.
- The ILO South-South cooperation project, funded by the People's Republic of China, aims at improving the capacity of key stakeholders of Kenya and Lao PDR to extend the social protection coverage and improve the administrative efficiency in line with the national social protection strategies of both countries.

Introduction

By 2023, the world had achieved a major milestone with over half of its population (52.4 per cent) covered by at least one social protection cash benefit. By region, the coverage rate was 53.6 per cent for Asia-Pacific, and 19.1 per cent for Africa (ILO 2024a).

Despite this significant progress, substantial gaps remain. Globally, 3.8 billion people are still unprotected against major life-cycle risks and contingencies, such as sickness, disability, maternity, unemployment or old age.

In particular, workers in the informal economy, globally estimated at over 2 billion in 2023, often face various challenges in accessing social protection (ILO 2024b).

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Informality is a key concern of the Decent Work Agenda and the 2030 Agenda for Sustainable Development. [2] The fulfilment of Universal Social Protection critically depends on how countries can effectively extend social protection to workers in informal employment. Addressing informality is also critical for inclusive economic growth and social equity as well as women's economic empowerment and gender equality.

This Brief presents ongoing efforts towards extending social protection coverage to workers in the informal economy in Kenya and Lao People's Democratic Republic (Lao PDR) through South-South Cooperation supported by the ILO and the People's Republic of China.

Informal economy in Africa and Asia

The informal economy is a complex phenomenon caused by a wide range of economic, social, institutional and cultural factors that vary from one country to another. In the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204), the term "informal economy" refers to *all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements*.[3]

In Africa, a large majority of the labour force is in the informal economy. Informal employment accounted for 83.1 per cent of total employment in 2024. The share of informal employment in Africa is highest among all regions. Women face higher levels of informality at 87.3 per cent, compared to 80 per cent for men. [4] Lack of clear employment relationship between informal economy workers and employers may undermine fundamental principles and rights at work, including social protection.

In Kenya, the informal workforce accounts for 84 per cent of total employment excluding the agricultural sector. In addition, an estimated 6.4 million households in Kenya are engaged in agricultural activities in informal settings. (Government of Kenya 2023).

In Asia and the Pacific, the ILO estimates that 1.3 billion workers were in informal employment, accounting for 66.0 per cent of workers in 2023. By sex, women's informality was 62.5 per cent, as opposed to 68.1 per cent for men (ILO 2024c).

In Lao PDR, 90.5 per cent of employment was informal in 2022, where women made up half of the informal sector workers. The share of informal employment is notably higher in rural areas (95 per cent), compared with urban areas (80 per cent).[5]

Challenges in extending social protection coverage to workers in the informal economy

Both Kenya and Lao PDR face common challenges in extending social protection coverage to workers in the informal economy, especially in rural areas.

In Kenya, only 24.3 per cent of micro, small and medium sized enterprises pay monthly social security and health insurance contributions to their workers, where micro enterprises accounted for the largest share of workers but were paying the lowest amount of contributions.

In Lao PDR, out of 3.8 million employed population, only 354,000 were insured members of the Lao Social Security Organization (LSSO). This includes most public sector workers and voluntary self-employed workers, especially in the agricultural sector. The majority of the Lao workforce is in informal employment and lacks basic social protection coverage.

The main barriers in extending social protection coverage to workers in the informal economy include: legal exclusion; costs and inadequate financing arrangements; complex and burdensome administrative procedures; a lack of enforcement and control; a lack of information, awareness and trust; as well a lack of coordination and representation and organisation (ILO 2021). Factors constraining social protection coverage among workers in the informal economy can be summarized as follows:

Low contributory capacity. In Kenya, the 2016 MSME survey shows that the average monthly wage for informally hired workers was KSh. 3,525, KSh. 4,975 and KSh. 2,082, in micro, small and medium enterprises, respectively. These average wages were below the 2015/2016 overall poverty

[2] The proportion of informal employment in total employment, by sector and sex, is included in the indicators to measure progress towards the Sustainable Development Goals, as SDG indicator 8.3.1.

[3] Source: ILO NORMLEX https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R204

[4] Source: ILOSTAT https://rshiny.ilo.org/dataexplorer35/?lang=en&id=SDG_0831_SEX_ECO_RT_A, accessed 4 December 2024.

[5] Source: ILOSTAT https://rshiny.ilo.org/dataexplorer35/?lang=en&id=SDG_0831_SEX_ECO_RT_A, accessed 26 November 2024.

lines per adult at KSh. 5,995 in core urban areas, and KSh. 3,252 in rural and peri-urban areas for micro and medium enterprises. Moreover, these average wages are less than half the minimum wage.[6]

In Lao PDR, national survey data indicate that more than half (52 per cent) of all employees are potentially able to contribute towards social security, although this differs across different economic sectors – for instance, the share of workers contributing to the LSSO was more than 75 per cent in education, industry and public administration, whereas it is less than 30 per cent in wholesale and retail trade, agriculture and domestic work. By gender, women face limited contributory capacity due to significant income inequality between men and women (ILO 2024d).

Administrative complexities: Another possible barrier to accessing social security is the administrative procedure required to become registered or claim benefits.

In Kenya, despite efforts by the government, many informal and rural economy workers still face a range of administrative barriers when trying to register. Many workers, especially older generations, have limited digital literacy to file online applications or claim benefits online. Others, in particular those living in remote rural areas such as nomadic populations in the Arid and Semi-Arid Land (ASAL) counties, suffer from the wide distances they have to travel to access the nearest access point. Persons with disabilities face additional barriers resulting from limited physical accessibility of service points. Moreover, some workers still lack an ID, which is a precondition to access any of the available social protection programmes (Government of Kenya 2023).

In Lao PDR, enterprises and prospective members of the voluntary scheme have to apply in person at either the LSSO headquarters located in Vientiane Capital or one of 18 provincial/capital LSSO offices located throughout the country. Informal workers indicate that two big concerns they have are: (i) their ability to complete forms and (ii) lack of identification and other documentation required to complete the registration process. Moreover, complaints are reported on the time between the claim and the actual payment of the maternity benefit, which usually takes one to two months (ILO 2024d).

Weak enforcement of compliance: In Kenya, lack of effective enforcement of applicable legal frameworks, such as the Employment Act 2007, the Work Injury Benefits Act 2007, the National Social Security Fund Act 2013, and the Social Health Insurance Act 2023, leads to a low level of compliance and is one of the reasons for the high share of informal employment in the country. This affects in particular, wage-employed workers engaged in enterprises operating informally (Government of Kenya 2023).

In Lao PDR, labour inspectors and other key informants reported that most registered enterprises do not comply with the payment of social security contributions required by the Law on Social Security (ILO 2024d).

Low levels of unionization. In Kenya, according to the 2016 MSME Survey, the levels of unionization in informal enterprises ranges from 0.5 per cent in micro enterprises, to 6.5 per cent for small enterprises, and to 3 per cent for medium enterprises. Also, the Kenya Integrated Household Budget Survey (KIHBS) of 2015/2016 shows that up to 99 per cent of informal workers covered in the survey were not members of any trade union. Low membership of informal economy workers in trade unions may be attributed to low levels of awareness and knowledge of the workers about trade unions and the focus of the trade unions in organizing and recruiting workers from the formal sector. The low level of unionization in the informal economy poses a huge challenge in ensuring the right to freedom of association, inclusive of other fundamental principles and rights at work as enshrined in Article 41 of Kenya's Constitution, labour laws and relevant ILO Conventions.

Low willingness to contribute: In Kenya, lack of trust in existing social protection schemes and the administering government is one important reason for the reluctance of workers in the informal and rural economy (and their employers) to join such schemes.

Information and awareness: In both Kenya and Lao PDR, lack of information and awareness about social protection remains one of the main factors that contribute to low registration and participation rates in existing schemes among workers in the informal and rural economy (Government of Kenya 2023; ILO 2024d).

[6] The 2020 statutory monthly minimum wage rates were KSh. 13,572.88 for cities, KSh. 12,522.72 for municipalities and KSh. 7,240.96 for other areas (KNBS, 2020).

Box 1. Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) on social protection

With regard to social protection, the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) calls for Member States to take the following actions:

(1) Ensure that an integrated policy framework to facilitate the transition to the formal economy is included in national development strategies;
(2) Progressively extend, in law and practice, to all workers in the informal economy, social security, maternity protection, decent working conditions and a minimum wage that takes into account the needs of workers considering factors such as the cost of living and the general level of wages in the country;
(3) Pay particular attention to the needs and circumstances of those in the informal economy and their families in building and maintaining national social protection floors within their social security system and facilitating the transition to the formal economy;
(4) Progressively extend the coverage of social insurance to those in the informal economy and, if necessary, adapt administrative procedures, benefits and contributions, taking into account their contributory capacity;
(5) Encourage the provision of and access to affordable quality childcare and other care services in order to promote gender equality in entrepreneurship and employment opportunities and to enable the transition to the formal economy;
(6) Reduce compliance costs by introducing simplified tax and contributions assessment and payment regimes and improve access to social security coverage with respect to the formalization of micro and small economic units.

Source: (ILO 2021).

National strategies for extending social protection

The ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) calls for Member States to progressively extend social security, maternity protection, decent working conditions and minimum wages to all workers in the informal economy (See Box 1).

In order to address the challenges with informal economy, both Kenya and Lao PDR have developed national strategies to extend the social protection coverage to workers in the informal economy.

National strategy to extend social protection coverage to workers in the informal and rural economy in Kenya

The national strategy developed by the Government of Kenya sets out the overarching policy and planning framework to extend social protection to workers in the informal and rural economy in an integrated and comprehensive approach shocks (Government of Kenya 2023).

The overall goal of the strategy is to adequately protect all workers in Kenya against major life-cycle risks and covariate. This goal is in conformity with the goals set by the national agenda, in particular the Vision 2030, the Bottom up Economic Transformation Agenda, the Kenya Social Protection Policy 2023 and the Draft Social protection Bill, as well as international agenda and standards, including the 2030 Agenda for Sustainable Development, the ILO Social Protection Floors Recommendation, 2012 (No. 202) and the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

The following strategic objectives have been set:

1) Extend coverage and ensure adequacy of social protection programmes that are inclusive for workers in the informal and rural economy;

2) Address major barriers faced by workers in the informal and rural economy when accessing social protection schemes.

To achieve these objectives, the Government of Kenya aims to strengthen the social protection system by:

- Expanding the comprehensiveness of the social protection system by addressing all specific risks and contingencies faced by the working-age population through dedicated schemes;
- Extending the coverage of existing and new schemes to workers not yet covered; and

- Ensuring adequacy of schemes available by increasing their benefit amounts and the quality of services.

The Government of Kenya and its strategic partners will strive towards removing the remaining barriers that currently impede access of informal and rural economy workers to social protection. Various factors will be addressed simultaneously and consequently a set of specific objectives will be pursued in order to:

- Overcome legal barriers that impede access to adequate social protection;
- Ensure effective coverage through compliance and enforcement measures;
- Improve information and awareness about social protection;
- Build trust in the Government and its institutions responsible for social protection;
- Reduce administrative and financial barriers; and
- Integrate and align measures to facilitate the transition from the informal to the formal economy.

National Social Protection Strategy of Lao People's Democratic Republic

The Government of Lao PDR adopted the National Social Protection Strategy (NSPS) in 2020, with the vision that "by 2030, Lao people will have access to basic social protection services, consisting of health insurance, social security and social welfare, in an equitable, adequate, effective and sustainable way" (Lao PDR 2020).

To ensure effective universal access to social protection services, and higher levels of protection for those more in need, the NSPS defines three goals.

Goal 1: Develop and strengthen the health insurance system by ensuring effective access to quality healthcare and allocating necessary financial resources to achieve the universal health coverage by 2025, through:

- Developing a legal framework for universal health coverage;
- Building institutional capacities of the National Health Insurance authority;
- Defining the minimum standards for healthcare facilities;
- Increasing access to healthcare services in rural areas; and,
- Ensure sufficient and timely government budget allocation to health.

Goal 2: Develop and strengthen the social security system by extending the coverage to all employees and self-employed workers in the formal sector and more workers in the informal sector, and improving the capacity of the National Social Security Fund to collect contributions and provide benefits, while ensuring its financial sustainability, through:

- Enforcing regular inspections at enterprises;
- Promoting the registration in the social security system;
- Conducting actuarial assessment to develop the financing and investment strategies;
- Improving the collection of social security contributions and the payment of benefits; and,
- Adapting the current scheme to the characteristics of workers in non-standard forms of employment.

To expand social security coverage to the informal sector, promotional activities for joining the social security system are planned by working with occupational groups.

Goal 3: Develop and strengthen the social welfare system to meet the needs of target groups, by

- Developing and scaling up benefits and services to vulnerable groups, including: children from poor families or in vulnerable situations, persons with disabilities and victims of unexploded ordnance, older adults and low-income and informal sector workers, and people affected by natural or man-made disasters; and
- Providing block grants to schools, scholarships to poor students and school meals to promote poverty reduction and human resource, social and economic development.

The National Social Protection Committee was established in 2021 to oversee and monitor the implementation of the Strategy. In the initial stage, the priority was given to consolidate the social protection structure and build the planning, monitoring and administration capacities at the central, provincial, district and village levels.

A mid-term review of the NSPS conducted 2023 recognizes the significant progress despite that the COVID-19 pandemic and economic challenges impacted the initial phase of implementation of the NSPS (ILO 2024e).

Recent key developments in social protection include:

1) Extension of the National Health Insurance scheme which covered 94.5 per cent of the population by law, including informal workers;
2) Improved and strengthened social security system, including mobile services to rural areas; and
3) Expansion of social welfare pilot programmes for the poor and vulnerable, such as school meals, child benefits, and emergency assistance and rehabilitation for disaster victims.

The review concludes that securing necessary and sustainable financing resources is crucial for the effective implementation of the NSPS.

> "As our country battles the economic recovery post-COVID, it is paramount that we strengthen our commitment to social protection. This event is crucial to advancing our strategy to stabilize our agrarian economy and protect vulnerable groups from the disparities of informal employment. It is our priority to ensure that no Lao citizen is left behind, especially during crises and hardships."
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> Inaugural Address by H.E. Dr Kikeo Khaykhamphithoune, Vice Prime Minister of Lao People's Democratic Republic at the National Symposium on Social Protection on 31 July 2024.[7]

Extending social protection coverage through South-South Cooperation

South-South cooperation, which refers to development cooperation between developing countries in the Global South, is a vital mechanism for promoting decent work, social justice, and sustainable development. South-South Cooperation serves as a vehicle to share knowledge, experiences and resources among developing countries, and facilitate policy and technical exchange in the areas of social protection, skills development, and labour market policies.

Asia and Africa have diverse experiences in the extension of social protection coverage, which provide the ground for cross-regional learning. Both regions will benefit from mutually learning best practices for the extension of coverage and exploring how these approaches can be adapted in their own context. More advanced developing countries can transfer their knowledge and experiences to the countries on the path of development, for instance with regard to the extension of social security through the use of digital technologies.

Since 2022 the ILO and the Ministry of Human Resources and Social Security of the People's Republic of China have signed partnership agreements on South-South Cooperation in employment and in social protection (ILO 2023). Within this partnership agreement, a development cooperation project aiming at extending social protection to workers in the informal economy in Lao PDR and Kenya has been launched in December 2023 (See Box 2).

▶ Box 2. Overview of the Development Cooperation Project in Lao PDR and Kenya[8]

The ILO Development Cooperation project "Extending Social Protection Coverage to Workers in the Informal Economy in Lao PDR and Kenya and Leveraging Digital Transformation through South-South Cooperation (GLO/23/17/CHN)" (from December 2023 to December 2026) supports South-South cooperation to improve the capacity of key stakeholders of Lao PDR and Kenya to extend the social protection coverage and improve the efficiency of the administration, through the sharing of relevant knowledge and experiences from good practices implemented in participating countries, thereby promoting cross-regional partnerships and collaboration between Asia and Africa.

The project launch

The project launch event was held in Nairobi on 24 October 2024, with high-level participants from Kenya, Lao PDR, the People's Republic of China, and the ILO.

Expected results

Development of more inclusive and sustainable social protection systems that contribute to the achievement of SDGs, social justice, and decent work for all.

Outcome 1 (Lao PDR component): Increased coverage and access to social protection for workers in the informal economy in Lao PDR through enhanced institutional capacity and operational effectiveness and

[7] https://www.ilo.org/resource/news/first-social-protection-symposium-kicks-new-era-lao-peoples-democratic

[8] https://www.social-protection.org/gimi/Contribution.action?id=956

efficiency at all levels by strengthening of policy design, administrative governance and digital transformation with support of South-South Cooperation.

Outcome 2 (Kenya component): Increased coverage and access to social protection for workers in the informal economy in Kenya through improved social protection delivery systems and services and South-South Cooperation.

Outcome 3 (South-South Cooperation component): Promotion of South-South Cooperation in extending Social Protection within the ASEAN countries and African countries.

Achievements as of end 2024

In Kenya:

- Implementation of the National Strategy on the extension of social protection to workers in the informal and rural economy started in select counties.
- Trainings on social protection extension to the informal economy workers and digitization conducted.
- Support to the NSSF to digitize their system has started.
- Business case for maternity income protection as a social insurance mechanism in preparation.

In Lao PDR:

- Technical assistance to improve and develop the LSSO digital system started.
- Review of existing systems on inspections and recommendations completed.
- Training of inspectors on the guidelines and standard operating procedures conducted.
- Selection of civil society workers to conduct preparatory visits to villages for LSSO's mobile office.

South-South cooperation component:

Peer learning activities between Lao PDR and Kenya through a series of exchange meetings which contributed to:

- Mutual learning of challenges, good practices and lessons learned in expanding social protection coverage to the informal economy and improving the administration through digital technologies.
- Creation of a knowledge base that will contribute to the development of policies to improve the social protection systems in each country and beyond.

The project is well aligned with Kenya's Strategy for the Extension of Social Protection Coverage to Workers in the Informal and Rural Economy, as well as Lao PDR's National Social Protection Strategy.

The collaboration between relevant tripartite partners shows commitment towards ensuring realization of expected results across the three outcomes. Achievements recorded over the first year indicate the potential of project effectiveness and activities planned for the next phase will to a greater extent make significant contributions towards extending social protection coverage in workers in the informal economy in the two countries. In the future implementation of the project, the following recommendations should be taken into consideration:

1) Raise awareness among informal workers on the existing social protection mechanisms considering current contexts in Lao PDR and Kenya;
2) Promote social protection strategies that ensure the human capital development throughout life-cycle;
3) Promote national dialogue on social protection policy;
4) Promote shock-responsive social protection to improve the economic resilience;
5) Extend the knowledge sharing with other South-South projects beyond this particular project;
6) Ensure close coordination for effective project implementations in Asia-Pacific and Africa.

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