



Social Security Coverage for the Informal Economy: African Experience for Cambodia

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Cambodia aims to upgrade its living standard to an upper-middle income level in 2030 and to a high-income level in 2050. This development vision equates to better living standards and well-being for Cambodians. Among those qualities, resilience is important for the population to adopt and adapt to shocks and risks. However, Cambodia is home to an informal economy that shares 93.1 percent of total employment.¹ Impacts on informal workers are evident in the COVID-19 pandemic. During the pandemic, one in five informal workers was unemployed in January 2021 which accounts for 18 percent of 1,400 respondents in a survey. On basic needs and food insecurity, 63 percent of respondents reported the inability to meet basic needs, and 80 percent mentioned food expenditure reduction.² Informal workers are easily vulnerable to risks because this sector has not been formalized; therefore, they are not fully entitled to social protection benefits.

Formalizing the informal economy is extremely challenging for Cambodia; however, alternative policy options could be observed through African countries' approaches to extending social security coverage for the informal economy.

The first challenge for Cambodia to formalize the informal economy is its heterogeneous nature. In terms of types, they vary across occupations from self-employed to household workers. In terms of sectors, they involve in agriculture, the service industry, garment manufacturing, other manufacturing, construction, and others.³

¹ Florence, Bonnet, Leung Vicky, and Chacaltana Juan. 2018. "Women and Men in the Informal Economy: A Statistical Picture." International Labour Office, Geneva. International Labour Organization, Accessed March 25, 2023. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_626831.pdf.

² Dany, Vinh. July 14, 2021. "Counting the Cost of COVID-19 to Cambodia's Informal Workers." UNDP Cambodia. Accessed March 25, 2023. [https://www.undp.org/cambodia/blog/counting-cost-covid-19-cambodias-informal-workers#:~:text=By%20January%202021%2C%20a%20year,to%20October%202020%20\(14%25\)](https://www.undp.org/cambodia/blog/counting-cost-covid-19-cambodias-informal-workers#:~:text=By%20January%202021%2C%20a%20year,to%20October%202020%20(14%25)).

³ Nathalie, Both, Evans Martin, Thewissen Stefan, and Lopez R. Betina. July 16, 2018. "PRACTICAL OPTIONS FOR THE EXTENSION OF SOCIAL PROTECTION TO WORKERS IN THE INFORMAL ECONOMY IN CAMBODIA." ILO | Social Protection Platform. ILO and NSSF, Accessed March 15, 2023. <https://www.social-protection.org/gimi/RessourcePDF.action;jsessionid=5YwEKqN6AZpXSgmRZrRcn3Ao8UZw-rG-EQukdeTRYIVfs3Ft56o!-1064472180?id=57403>.

The second challenge is identification. Cambodia has limited accurate and comprehensive data to understand the various characteristics of informal workers. Loopholes are constantly existing in Cambodia's two major national surveys. Labor Force Survey (LFS), which collects data on employment and wages, is conducted less regularly. The implication is the missing gaps in changes of those two variables. As for Cambodia Socio-Economic Survey (CSES), it has limited information about the income and living standard of self-employed and household workers.⁴

The third challenge is the lack of awareness of social security benefits among Cambodians, especially informal workers. Based on the Oxfam Research Report, only 39.2 percent and 35.2 percent of male and female respondents (informal workers) know about the National Social Security Fund (NSSF). In specific NSSF schemes, only 37.8 percent of respondents reported as "Somewhat knowledgeable" about the benefits of NSSF membership.⁵

However, progress and consideration of the government to extend social security have grown throughout the years. In National Social Protection Policy Framework (2016-2025), there is a mention that the informal sector will be formalized in the future. Extending accessibility to Social Security including pension and health insurance are also mentioned.⁶ On November 2019, the Law on Social Security Schemes, which was promulgated by Royal Kram No. NS/RKAM/1119/018, specifies the coverage of persons in the public sector, under the provision of Labor Law and the self-employed. The coverage progressed from 2008 when Social Security only covered the private sector.⁷ For future goals of Social Security on Pensions, both formal and informal sectors will be covered through mandatory and voluntary pension schemes.⁸ On December 2022, an Inter-ministerial team under the Economic and Financial Policy Committee (EFPC), which is coordinated by the Ministry of Economy and Finance (MEF), was formed with the objective to support and uplift the registration of the informal economy.⁹

Alongside the policy framework formulation to extend social security for the informal economy, African countries' practices related to the matter would provide relevant inputs for Cambodia. Due to economic structure, sub-Saharan African (SSA) countries share common similarities with Cambodia. Most countries have large agricultural sector which enables self-employment. In other sectors, certain occupation types include household workers, craftsmen, and street vendors, in which all are parts of the informal economy. On the different side, Cambodia is a lower middle-

⁴ Ibid

⁵ Tapas, Dash R. 2022. "CONTRIBUTORY CAPACITY OF INFORMAL ECONOMY WORKERS TO National Social Security Fund." Oxfam Cambodia, Accessed March 15,2023 . https://oi-files-cng-v2-prod.s3.eu-west-2.amazonaws.com/cambodia.oxfam.org/s3fs-public/file_attachments/Contributory%20Capacity%20of%20Informal%20Economy%20Workers%20to%20NSSF_En_0.pdf.

⁶ "NATIONAL SOCIAL PROTECTION POLICY FRAMEWORK 2016-2025." March 24, 2017. ADB. COUNCIL OF MINISTERS, Accessed March 15,2023. <https://www.adb.org/sites/default/files/linked-documents/cam-53308-001-tar-ld-02.pdf>.

⁷ "SOCIAL SECURITY SCHEME ON PENSION." 2022. NSPC. GENERAL SECRETARIAT FOR THE NATIONAL SOCIAL PROTECTION COUNCIL, Accessed March 15,2023. https://nspc.gov.kh/Images/Pension%20SPiC%20Update%20Vol.4_2022_10_21_11_03_44.pdf.

⁸ Ibid

⁹ "Formalization and Extension of Social Security Coverage." February 13, 2023. NSPC Cambodia Facebook Page. NSPC, Accessed March 9, 2023. <https://www.facebook.com/CAMNSPC/videos/3401710343406582/>.

income country while 6 of SSA countries have low-income status.¹⁰ Above all the similarities and differences, one interesting characteristic of SSA countries is the noticeable growth of social safety net programs from 7 in 2001–09 to 14 in 2010–15.

Another important characteristic is that despite a large number of the population living below the national poverty line, certain countries have a large coverage of social safety net for the citizens. For example, in South Africa 57 percent of people live below the poverty line while 78 percent of the total population is covered by social safety net programs.¹¹ This makes African countries' social security practices more relevant to Cambodia's context.

Based on Sub-Saharan African countries, the informal economy is encouraged and supported to be self-sufficient from the political economy standpoint. This is a long-term vision in which informal workers are intended to be provided with services that improve their productivity and self-sufficiency through economic inclusion. From the case studies of Sub-Saharan African countries, extending coverage of social security for the informal economy requires an investment in social assistance for them too. Self-sufficiency could be promoted using Economic Inclusion Programs that include skills training, coaching, market links, access to financial services, and other common transfers. This means social assistance co-exists with social security to make the informal economy more inclusive and self-sufficient. As evidence, 53 percent of the population in 75 SSA and South Asia are beneficiaries of such Economic Inclusion Programs. Such programs have been evident to provide positive impacts on income, revenue, savings, and consumption.¹²

Saving is considered crucial in the economy for both formal and informal sectors. In addition to the informal workers' nature and vulnerability to risks, they are not protected in the economy because of the unregulated labor laws and limited access to social protection instruments. Due to these constraints, saving is more needed for the informal sector as it prepares and protects the workers from both expected and unexpected economic risks.¹³ In the context of Cambodia and its dominant informal sector, saving is even more needed during economic shock to lessen the socioeconomic impacts such as employment and income change. However, saving is not the general coping strategy to COVID-19 among Cambodian households. The two dominant coping strategies are taking out loans, and selling goods and assets. The report on the COVID-19 Socio-economic Impact Assessment recommended that households should be informed more about the

¹⁰ Franziska, Ohnsorge, and Yu Shu. 2021. "The Long Shadow of Informality: Challenges and Policies." World Bank. World Bank Group, Accessed March 9, 2023. <https://thedocs.worldbank.org/en/doc/37511318c092e6fd4ca3c60f0af0bea3-0350012021/related/Informal-economy-full-report.pdf>.

¹¹ Melis, Guven, Jain Himanshi, and Joubert Clement. 2021. "Social Protection for the Informal Economy : Operational Lessons for Developing Countries in Africa and Beyond (English)." World Bank. World Bank Group, Accessed March 9, 2023. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/946341635913066829/social-protection-for-the-informal-economy-operational-lessons-for-developing-countries-in-africa-and-beyond>.

¹² Ibid.

¹³ KARVER, JONATHAN, ANA M. M. BOUDET, and JACLYN LEFKOWITZ. March 1, 2022. "Planning for the Future: Behavioral Insights to Help Informal Workers Save." WORLD BANK BLOGS. WORLD BANK ORG, Accessed April 25, 2023. <https://blogs.worldbank.org/african/planning-future-behavioral-insights-help-informal-workers-save>.

long-term impacts of debts and loans especially to those who do not possess more assets.¹⁴ In addition to the report, the Oxfam survey provides interesting findings on Cambodian informal workers' perspectives on savings. Regarding their plans to meet long-term needs including sickness, injury, and disability, savings is chosen as an option by 53.8 percent followed by borrowing money at 38.6 percent and selling assets at 23.6 percent.¹⁵ Thus, informal workers who are vulnerable to risks also acknowledge that saving is one of the options to cope with risks associated with long-term needs. These prove that saving is needed to keep informal workers stay afloat in normal and difficult times.

The practicality and operationalization of saving schemes can be observed through AfriWith the same vision to promote self-sufficiency and reliance in the long run, saving schemes are introduced and practiced among SSA countries. However, they are tailored specifically for the “Missed Middle” urban informal workers who are too well-off to be eligible for certain social assistance programs and too vulnerable to be included in social security. In existing practices, saving schemes are designed to be flexible for payment contribution and withdrawal by using digital technologies to reduce traveling burdens. Mbaao Mbaao and Haba Haba saving schemes are equipped with mobile payment in Kenya. The amount and frequency of the payment are designed to be flexible for contributors. In Rwanda, such schemes also exist. Ejo Heza Long-Term Saving Schemes enable voluntary contributions for Rwandans and residing foreigners to be a part of the schemes. Registration and collection of contributions are facilitated using digital technology as well.¹⁶

On further design and operationalization emphasis, savings are divided into short-term and long-term types. Short-term savings are accumulated to meet future needs including unemployment, housing, healthcare, and education. Long-term savings are collected to meet needs in old age. The amount of contribution and frequency of payment reflects the real affordability of contributors. On withdrawal settings, there are two models that could be considered. One is a defined benefit element in which contributors are guaranteed a solid benefit once they meet certain criteria. The contribution amount and schedules are set by the operators of the schemes. Another is a defined contribution element in which contributors could only withdraw the savings at the end of a certain phase with a certain amount deposited. In this, contributors are free to identify the amount of saving on their own.¹⁷

Based on lessons learned from African countries, Cambodia should consider studying the Economic Inclusion Programs, part of Social Assistance, that is tailored specifically to reskill and upskill the occupations of informal workers based on the sectors they are in. The program should equip informal workers with skills relevant to the current and future labor force. Another front that Cambodia should consider is the possibility of introducing and applying Saving Schemes for informal workers. As practiced in Africa, the schemes are designed to be flexible for informal

¹⁴ UNICEF, and World Food Programme. July 1, 2021. "COVID-19 SOCIO-ECONOMIC IMPACT ASSESSMENT." UNICEF, Accessed April 25, 2023. <https://www.unicef.org/cambodia/media/5471/file/COVID-19%20Socio-Economic%20Impact%20Assessment.pdf>.

¹⁵ Dash, “CONTRIBUTORY CAPACITY OF INFORMAL ECONOMY WORKERS TO NATIONAL SOCIAL SECURITY FUND,” 50.

¹⁶ Melis, Himanshi and Jean, “Social Protection for the Informal Economy : Operational Lessons for Developing Countries in Africa and Beyond (English),”.

¹⁷ Ibid.

workers to pay and withdraw their contributions. One of the major successes that save the cost, flexibility, and mobility of the operation is applying digital technology to facilitate the saving and withdrawing processes. Saving Schemes' structure including contribution and withdrawal amount and time, and facilitation of local authorities and communities should be studied in detail. However, back to the fundamental issue, Cambodia needs to understand the insight of informal workers' characteristics better in order to tailor Social Assistance and Social Security that enhance the well-being and resilience of informal workers against risks.

These existing approaches and mechanisms from SSA countries could be alternative inputs for Cambodia to consider on how to extend its social security to the informal economy. Due to dominated number of informal workers in Cambodia's labor force, formalizing them will require a long time and a great number of resources. Better social assistance and saving schemes in the case of SSA countries emphasize long-term goals to build self-reliance and self-sufficiency which reflect and align with the 2030 and 2050 development goals. Thinking ahead for long-term benefits, which is a formalization, is important. Making the plan more practical by using digital technology to accommodate the processes is even more important. Therefore, digital technology should be used to facilitate certain operational activities to enable smooth reform since the Cambodian government intended for social security to be affordable, efficient, and sustainable. Lastly, a resilient informal economy means a resilient Cambodia economy.

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