# Case study M: Extension of the contributory pension scheme to small-scale farmers in Zambia

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## 1 INTRODUCTION

Zambia embarked on an ambitious plan to extend the pension scheme to informal economy workers traditionally excluded from the scheme, including small-scale farmers. Estimates suggest that there are at least 1.5 million small-scale farms in Zambia, and that over 80 per cent of the rural population depends on agriculture-related activities (Central Statistical Office Zambia 2015). This case study presents and analyses the ongoing initiative to extend pension schemes to small-scale farmers in Zambia.

## 2 SOCIAL PROTECTION IN ZAMBIA

Zambia has no overarching legal framework to support comprehensive provision of social protection, including pensions. This situation is worsened by the lack of recognition of the economic, social and cultural rights in the constitution (Ministry of Community Development Mother and Child Health 2014). Consequently, citizens are not guaranteed social protection despite most being vulnerable to social and economic risks, as reports show that over 54 per cent of the population lives in poverty (Central Statistical Office Zambia 2018).

Despite the lack of a unified legal framework, existing laws support contributory social security. It is mandatory for all formally employed individuals (currently about 15 per cent of the labour force) to contribute to one of the three public schemes: (1) the Public Service Pension Fund, (2) the Local Authority Superannuation Fund; or (3) the National Pension Scheme. The National Pension Scheme Authority (NAPSA) is responsible for extending coverage to those in informal employment and it provides three principal benefits: retirement, invalidity and survivors (NAPSA 2019) and a funeral grant. Additionally, the Workers' Compensation Act, No. 10 of 1999 establishes the Workers Compensation Fund, administered by the Workers Compensation Fund Control Board. This institution provides for a wide range of benefits including life pension or lump-sum invalidity payments to workers with static or permanent injuries or diseases, widow's or widower's monthly pensions, child allowances, reimbursement of medical expenses incurred by employers on treatment and hospitalisation of injured or disabled workers (Phe Goursat and Pellerano 2016).

Challenges are multifold. While these institutions complement each other, pension systems suffer fragmentation and actuarial deficits (National Assembly 2010). Coordination is difficult as these institutions are supervised by different ministries. For example, the Ministry of Labour and Social Security, the Ministry of Local Government and Housing and the Cabinet Office supervise different pension institutions (National Assembly 2010). Additionally, pension schemes have a history of delaying the process of giving pension benefits, thereby creating mistrust among contributing members.

The traditional pension scheme excluded people in the informal economy due to inadequacies in the legal framework as well as atypical employment arrangements and income patterns. Pension schemes were structured around the employer–employee relationship, which is often fluid or non-existent for people in the informal economy. Additionally, it is reported that informal economy workers were excluded because they could not afford to pay, had poor knowledge on social security rights and requirements, low trust in government institutions as well as weak workers' representation. This was coupled with weak enforcement mechanisms, employers who shied the cost of compliance and financial constraints (Phe Goursat and Pellerano 2016). These challenges presented the need to rethink pension schemes to address the needs of people in the informal economy, including small-scale farmers, vulnerable to poverty and destitution in old age.

## 3 PENSION SCHEMES FOR INFORMAL ECONOMY WORKERS

### 3.1 Overview

Research, political will, policy and legal dialogue led to the enactment of Statutory Instrument No. 72 of 2019, allowing informal economy workers to enrol in pension schemes. The extension was also inspired by the African Union's Social Protection Plan for the Informal Economy and Rural Workers to promote social protection for excluded people of rural areas.[1] The informal economy workers' pension scheme for small-scale farmers began as a pilot in the Southern Province of Zambia.

The pension scheme for informal economy workers (based on SI 72/2019) has a low contribution rate as there is no employer contribution, it has a shorter vesting period of 10 years compared with 15 years for formal-sector employees and it introduces short-term benefits such as maternity protection, family funeral grants and access to credit/finance without implications on the contribution amount (Table M.1).

### 3.2 Coverage

Legally, the informal economy worker pension scheme covers domestic and shop workers, small-scale farmers, bus and taxi drivers, sawmill workers and the self-employed. The scheme targets 2 million workers in informal employment of which about 80 per cent is in agricultural, forestry and fishing activities (Central Statistical Office Zambia 2017). In Southern province, the scheme targets about 1000 small-scale dairy farmers in districts with infrastructure to support implementation.

[1] Within this framework, the pension extension to small-scale farmers was also initiated as the NAPSA ZAMBIA-FINLAND SPIREWORK project with the support of the National Institute for Health and Welfare of Finland, in collaboration with the International Labour Organization.

*Table M.1 Pension scheme for informal economy workers – Zambia*

| **Benefit Type** | **Contribution amount** | **Benefit amount** | **Rules and conditions** |
|---|---|---|---|
| Old Age, Survivors, Invalidity + Maternity + Family Funeral | K 42.7 (monthly) = USD 3<br>K 512.4 (yearly) = USD 34 | K 357.90 (monthly) = USD 24 | Old age/retirement<br>● 120 contributions or 10 years of contributions<br>● Retirement age of 60 or 65; early retirement paid within 5 years of retirement<br>● Minimum monthly pension is one-third of the minimum pension prescribed in the Act<br>● Lump-sum payment will be made to members who have not made more than 120 contributions at the time of retirement<br>For invalidity<br>● Permanent invalidity certified by medical board; member is under pensionable age<br>● Minimum of 60 contributions; 12 or more contributions should have been paid in the 36 months before contingency<br>For survivor's benefit<br>● Paid on the death of a pensioner or a member entitled to a pension<br>● A surviving spouse or child or registered dependant of the deceased may receive this pension<br>● Total benefit is shared among eligible beneficiaries<br>● Eligible children are below 18 years, and up to 25 years if they are in school |
| | | Maternity = K 395.7<br>(Monthly) = USD 26.4 | ● Member will have made at least 12 months of contributions in the previous 36 months<br>● 24 month 'buffer' period in-between pregnancies<br>● This benefit will be payable to a female contributing member<br>● Paid for 3.5 months at 50% of the monthly income applicable in a respective year |
| | | Family funeral = K 2147.60 = USD 143 (spouse and member)<br>K 1073.80 (child) = USD 71.6 | ● Paid on the death of principal member, registered spouse(s) and children of contributing member<br>● Maximum of 6 children under age of 18 and up to 25 for those in school<br>● Member contribution of at least 12 monthly contributions or equivalent of annual minimum contribution applicable in that year in the previous 36 months<br>● Payment of Survivor's benefit nullifies Family Funeral Grant |

| Benefit Type | Contribution amount | Benefit amount | Rules and conditions |
|---|---|---|---|
| Weather Index Insurance | K 50.00 = USD 3.3 | K 500 = USD = 33.3 | This benefit is provided in collaboration with an insurance company to cover conditions such as drought, dry spells and access rainfall |
| Access to credit | | | Membership to the scheme will be a prerequisite for informal economy workers to access this benefit |

*Sources:* Authors' own based on Statutory Instrument No. SI 72/2019 and NAPSA (2019).

### 3.3 Benefits

The current scheme's benefits include traditional contingencies such as survivor, old age and invalidity benefits and maternity protection with access to credit. The scheme is tagged to the Weather Index Insurance, as a short-term benefit, administrated by a private insurance company. Members pay for the Weather Index Insurance benefit separately. Details of the benefit package can be seen in Table M.1. Registered spouses and children/dependants can receive benefits.

The adequacy of the transfers can, however, be questioned. Table M.1 shows that a member contributing USD 3 monthly has a monthly pension of USD 24 after a vesting period of 10 years. Therefore, a pensioner would have access to USD 0.8 per day, below the poverty line of USD 1.90. This suggests benefits are inadequate to hedge people against old age poverty.

Including credit access is an advantage to the scheme as it can motivate registration (Phe Goursat and Pellerano 2016). Credit can supplement or reduce dependence on *chilimba*, a social group saving and lending arrangement which does not cover sudden needs because people have to wait for their turn to receive the money. To meet financial needs for emergency situations, people sell property or borrow from informal money lenders. Access to credit is therefore an important addition to pension schemes, as it hedges members against unexpected expenditure.

### 3.4 Financing

Member contributions are 5 per cent of basic earnings, unlike in the formal sector where members' contributions are 10 per cent (5 per cent employer and 5 per cent employee share) (NAPSA 2019). Excluding the employers' contribution share means that small-scale farmers needed a minimum monthly contribution of USD 3 as of 2019. This figure is adjusted annually based on national average earnings. However, most small-scale farmers have seasonal earnings. Small-scale dairy farmers have high milk sales during the rainy season and they earn more money than in the dry season. Innovatively, the NAPSA scheme takes these dynamics into account and allows farmers to contribute upfront – a farmer can make advance contributions up to the end of a given year. The system of contributing upfront might foster compliance among farmers. NAPSA's pension scheme does not have a state subsidy.

Another dimension to financing is the contribution medium. Small-scale farmers can pay through mobile money solutions and deductions from milk proceeds from Milk Collection Centers (MCC). Mobile phones and their financial services have spread across most parts of the country and are viewed as convenient, reliable and affordable. Most small-scale farmers have mobile phones or have a close relative with one. They receive some of their agricultural information through phones and use mobile money services. NAPSA allows members to contribute through such platforms. Also in Kenya the M-Pesa system is used to collect contributions for the Mbao pension plan and health insurance among informal economy workers (Kwena and Turner 2013; Phe Goursat and Pellerano 2016).

The option for deductions through MCCs is based on the existing practice where dairy farmers bring milk regularly to the MCC and receive their payments monthly. The amount paid is dependent on the quantity of milk supplied in a respective month. Thus, MCCs can deduct each enrolled farmer's monthly contribution to the pension scheme. If a farmer has not supplied any milk in a particular month, their contributions to NAPSA will be zero, but farmers can self-administer contributions in this case. The scheme does not have a penalty for members who default contributions.

### 3.5 Administration

Zambia has a mixture of private and public insurance schemes. However, administration coverage extension to small-scale farmers is government-led through NAPSA. NAPSA is a quasi-governmental institution that registers and collects contributions, processes benefits and manages related concerns. It relies on existing infrastructure, with an additional unit to lead the coverage extension, which may be more effective and less costly than owning infrastructure, as noted in India (Hu and Stewart 2009).

NAPSA entered into alliance with various institutions including informal economy workers' associations, dairy farmers' associations and the private sector to support coverage extension. Dairy farmers' associations facilitate collaboration activities with MCCs that raise awareness, collect contributions and handle basic grievances where NAPSA platforms are not present. Such alliances are relevant as they provide NAPSA with a continuous presence in rural communities and help to market the product, but they are not easy to maintain. NAPSA is also engaging financial institutions to be able to provide access to credit/finance as a short-term benefit.

## 4 CHALLENGES

1. *Inadequate human resources, infrastructure and equipment*. NAPSA has established a new unit with the sole aim of coordinating all activities related to extension of coverage. However, this unit is lean in staffing levels in relation to the target population of farmers across the country. In addition, some NAPSA regional offices and allied MCCs lack adequate human resources, infrastructure and equipment to support administrative activities for extension of coverage.
2. *Lack of social protection awareness*. NAPSA has taken various initiatives through radio shows, mobile phone messaging and meetings to raise awareness. However, most farmers do not know social protection is their right. Constant engagement is needed for awareness raising, in the local language and considering the socio-cultural milieu.
3. *Mistrust of institutions and delay in registration confirmation*. Some informal economy workers mistrust the state and private institutions, including NAPSA, based on their experience with services such as banking and Weather Index Insurance. The history of

pension schemes in Zambia is also characterised by some negative elements such as delays in making payouts and mismanagement of funds. In addition, informal economy workers who attempt to register experience delays in confirmation of their registration status. Therefore, this experience affects potential members' level of confidence in the scheme.

4. *Managing collaborations with private actors*. Absence of common interest may hinder collaboration with private actors. For example, financial institutions aim for profit generation, not social objectives. These institutions prefer high membership and high returns on engagements. Thus, small-scale farmers' schemes may not be their market priority. As a result, ensuring access to credit is a daunting task for NAPSA because of the quest for alliances with financial institutions to provide this service. At the same time, poor financial standing of potential financial institution partners is also a challenge as this could risk the pension scheme.
5. *Force majeure*. Acts of nature such as droughts and pandemics can impact negatively on the agricultural productivity of farmers. This in turn may affect their income, and consequently their contributions to the scheme.

## 5. CONCLUSION: POLICY IMPLICATIONS

In order to achieve coverage, the following needs to be considered:

1. *Seasonality of income as an opportunity*. Small-scale farmers' income is largely seasonal. Therefore, the design of contribution modalities should allow farmers to make advance contributions when they have income e.g. from the sale of farm produce.
2. *Registration Confirmation*. This should be prompt, so that a new member feels s/he belongs to the scheme. Quick enrolment reduces the time required to be away from work losing earnings (Winkler et al. 2017).
3. *Alliances and institutional readiness*. Alliances with informal economy associations and others are essential in extending coverage to small-scale farmers. This also suggests the need to build institutional readiness, including in situations where services such as access to credit and Weather Index Insurance are outsourced.
4. *Prompt processing* of *benefits*. The scheme should be prompt at processing benefits in order to build trust and creativity in the observability of results of contributing to the scheme. This should be the case for both retirement benefits and short-term benefits such as access to credit and Weather Index Insurance, which can be vital when faced with acts of nature such as droughts. If undertaken, prompt processing of benefits will help to build public trust and confidence in the pension scheme.

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