Informal Economy & Social Protection in Namibia

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By

Hilma Shindondola-Mote & Johanna Ohlsonn

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1. Introduction

Low levels of formal and productive employment are consequently accompanied by a higher number of people eking out a living in the informal economy. Many countries, including Namibia, operate social security systems that are designed to primarily cater for the needs of formally employed workers. A consequence from the rising informal employment is a declining coverage of social security and with high levels of unemployment, which is estimated at over 27% in Namibia, the majority of the Namibian working age group is excluded from the current structure of social security.

The formal social security system in Namibia depends on employees and employers to contribute on a monthly basis. As a result, the unemployed and the informally employed are not contributing or contribute irregularly. This means, they (the unemployed) also do not benefit or benefit minimally in the case of the informally employed. However, since one of the core responsibilities of every Government and caring State is to ensure adequate social protection for its citizens, we argue that the Government of Namibia needs to also include the informal sector in the social security programmes.

Reliable and up to date data on the informal economy in Namibia is scanty. Anecdotal evidence points to the fact that just like in many countries in Sub-Saharan Africa; the informal economy is growing and is increasingly becoming an important source of employment for many people. This is undermining a healthy development of the welfare system and creates challenging and unstable situations that problematize existing poverty reduction efforts. Categories that form and define the type of work in the informal economy include self-employment and work for wages. The latter is more commonly characterised by precarious labour relations and poor remuneration.

Due to several factors many of which are structural, the Namibian economy is unable to create sufficient formal sector jobs in the short term to accommodate the majority of the economically active population. Thus the Namibian job market is characterised by a relatively small formal sector alongside a growing informal economy. The contribution of the informal sector to Namibia’s GDP cannot be underestimated, but reliable statistics on the economic contribution of this sector are, as pointed out already, limited (Shindondola-Mote & Konjwang, 2011).
Research has repeatedly shown that the people working in the informal economy are much more vulnerable compared to people employed within the formal sector. A complementary finding is that the globalization and urbanization of the world has led to an undermining of the traditional extended family system, leading to even more vulnerable situations for a lot of people. This research includes several indicators for the need to also include informal workers in the social security system (Shindondola-Mote & Konjwang, 2011) These could be exemplified by the low percentage of employees having a written contract, and a limited possibility to have maternity leave and also the absence of pension savings (Budlender, 2011).

In order to start a discussion about the extension of the social protection system to the informal sector, a number of informal gaps need to be filled. For example, the size of the informal economy needs to be understood. How large is the informal sector and how many people work within the informal economy? It is also crucial to understand how many people work informally in the formal economy and how many people are eking out a living as informal economic operators. Answers to this will assist us in discovering trends such as if there has been an increase in certain types of informal work, if there has been a changing nature of the labour market and (informal) work, and how this look like and also if there is any trends that have been giving rise to informal employment.

In Namibia, the Social Security Act makes provision for coverage for only those in formal employment. This implies that the majority of workers remain uncovered as they operate in the informal sector. Evidently, this leaves a coverage gap which needs to be addressed if the ideals contained in the Social Protection Floor (“SPF”) of the International Labour Organisation (“ILO”) are to be achieved. It is thus advisable to design a suitable contributory scheme which would enable as many people as possible to be integrated into a system of social insurance contributions and benefits.
2. Definitions, nature and extent of informal economy

This section presents definitions of the crucial concepts for informal economy and what it means to be working informally. It also includes an indication of categories of those who work informally and in section 2.2 and 2.3 there is a presentation of the factors contributing to the growing informal economy in Namibia.

2.1 Definitions

Researcher Anthony Baah argues that there are several different definitions of the informal economy, partly dependent on what purpose and who is defining the sector. He states that “The Informal Economy has been defined in many ways. Most of these definitions are rather descriptive because of the difficulties involved in capturing all the dimensions of the informal economy in only one definition.” (Baah 2006). This contributes to the challenges that are faced by efforts trying to extend social security protection to the informal sector.

2.1.1 Informal economy

The definition of an informal economy that is being used in this project corresponds to ILO’s definition. This definition is referring to an informal economy as “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that – although they are operating within the formal reach of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs.” (ILO Resource guide on the informal economy)

2.1.2 Informal employment

Additionally, the definition of informal employment is “employees are considered to have informal jobs if, whether in law or practice, the employment relationship is not subject to standard labour legislation, income taxation, social protection or entitlement to the employment benefits specified in a national definition. This definition means that informal employment can be found in formal and informal sector enterprises, and in both public and
private sectors, as well as in households employing paid domestic workers” (Budlender, 2011).

This is further explained by Alter Chen in her report from 2012. She states that it is fruitful to break down the concept into smaller parts in order to handle this large and heterogeneous category. This is done as follows:

“Informal self-employment including:
- employers in informal enterprises
- own account workers in informal enterprises
- contributing family workers (in informal and formal enterprises)
- members of informal producers’ cooperatives (where these exist)

Informal wage employment: employees hired without social protection contributions by formal or informal enterprises or as paid domestic workers by households. Certain types of wage work are more likely than others to be informal. These include:
- employees of informal enterprises
- casual or day labourers
- temporary or part-time workers
- paid domestic workers
- contract workers
- unregistered or undeclared workers
- industrial outworkers (also called homeworkers)”

In Namibia, several small scale businesses could be defined as operators in the informal economy. For example, the people that are selling kapana (road-side barbequing) along the road, or the small stalls offering to slice meat, are all operators in the informal sector. Other examples are the multi-businesses that run a hairdresser, a restaurant and a bar in a stall rented from the municipality. It is clearly a wide range of operators and consequently also a variety of vulnerability among the operators. This makes the situation even more nuanced and also stresses the need for further research on this topic.
2.1.3: Nature of Labour force in Namibia

The definition used for the economically active population in Namibia is “all persons within the working age group of 15 years of age and above with the exception of the persons defined above as economically inactive.” The labour force is defined as “all persons who constitute the working age group population aged 15 years and above and are economically active. The labour force consists of both employed and unemployed persons.” Additionally, the definition of an employed person is “all persons within the economically active population or working age group who have worked for at least one hour over the reference period for pay (remuneration), profit or family gain”. An unemployed person is defined, in the strict sense as:

“… all persons within the economically active population or working age group who meet the following three criteria:

• being without work
• being available for work
• actively seeking work.

An unemployed person in the broad sense is defined as:

“All persons within the economically active population or working age group who meet the following two criteria, irrespective of whether or not they are actively seeking work:

• being without work
• being available for work.”

These are the standard definitions being used in the Namibia Labour Force Survey (Ministry of Labour and Social Welfare, 2009, and Namibian Statistics Agency, 2013). These definitions are central for how to interpret the figures from these reports, especially concerning if and how the workers in the informal sector are included.

Previous research has tried to explain the causes of the negative trend with an increasing number of people being without social security protection and a number of identified factors have been cited as contributing to Namibia’s growing informal economy. These include for example a jobless economic growth, unaccommodating macro-economic policies, and skills deficits and mismatch, as discussed in the following paragraphs (Shindondola-Mote & Konjwang, 2011). Researchers also argue that this development is largely a consequence of the neo-liberal policies that have been implemented on the African continent during the last 30 years (Kalusopa, Dicks, & Osei-Boateng (ed.) 2012).
2.2: High levels of unemployment

Unemployment has grown remarkably in Namibia during recent years. Using the strict definition of unemployment (being without work, available for work and seeking work) in accordance with the international statistical standards, joblessness increased from 20.2 percent in 2000 to 21.9 percent in 2004 and 37.6 percent in 2008, compared to an average unemployment rate of 7.6 percent for Sub-Saharan Africa for 2008. The rate of unemployment in Namibia according to the broad definition (being without work and available for work) stood at 51.2 percent in 2008, up from 33.8 percent in 2000 and 36.7 percent in 2004. This trend has changed remarkably and it was significantly lower in the report for 2012, the figure was now down to 27.4 percent. However, this lower figure is largely dependent on how unemployed is defined in Namibia. The 2012 Labour force survey defined someone as employed if you are at least 15 years of age and have done work for pay or family gain for at least 1 hour in the last 7 days (Namibia Statistics Agency 2013).

The Namibian National Development Plans have been projecting growth in employment over the years. However, the country has seen little or no growth in employment. This is in contrast to the increasing numbers in the economically active population thus creating an economic crisis in terms of massive joblessness. Unemployment is higher in rural areas (64.9 percent) than in urban areas (36.4 percent). The rate of unemployment (broad definition) was also higher amongst females at 58.4 percent compared to 43.5 percent for males in 2008 (Ministry of Labour and Social Welfare, 2009). This distribution is also visible in the report published in 2012 but the figures have changed and the unemployment rate amongst females is 31.8 percent and 22.9 amongst men (Namibia Statistics Agency, 2013. This change may also be dependent on the new measuring tools, as mentioned above.

The increasing numbers of unemployed people, including people losing jobs from the formal economy leads to the growth of the informal economy as people seek means of survival.

2.3 Low educational attainment and skills

Research has shown that low levels of academic achievement significantly reduce the chances of gaining decent formal employment. Statistics from the Namibia Labour Force Survey from 2008 confirm the connection between finding decent work and levels of education. The levels of unemployment using the broad definition for 2008 were 4, 4 percent for those with postgraduate degrees, 14, 3 percent for first degree holders, 41, 5 percent for those with senior secondary school, 57, 3 percent for those with junior secondary school and 53 percent for
those with no education. These figures changed drastically in the report from 2012, and the broadly defined unemployment for post-graduates was now on 1, 3 percent, 5, 4 percent for first degree holders, 23, 3 percent for those with senior secondary school, 32, 0 percent for those with junior secondary school and 11, 6 percent for those with no education. This differences are an effect of the new and more sophisticated measuring tools, even though is also indicates that the situation has improved significantly.

However, this simply implies that high levels of education go hand in hand with active participation in formal employment structures. Likewise, lack of education and skills reduces the chance for formal job opportunities in the labour market (Shindondola-Mote & Konjwang, 2011). This also suggests that in order to decrease the figures of unemployment in Namibia, investments in the educational system is crucial since people with education statistically have a significantly better chance to get an employment. These findings are also supported by ILO researchers (Budlender, 2011).

3. Social protection system (formal and informal)

This research aims to explore which the main characteristics of the social protection system (social assistance and social insurance) are and how it may differ from the formal system. For example, how do expenditures, coverage, and target populations (i.e. the broader social protection framework including also non-working age population) currently look like and how could it be improved? Further questions that will be posed are for example; are there specific strategies for promoting social protection in the informal economy? Are there any formal social protection policies/schemes/arrangements for the working age population who work informally (ex. types of unemployment insurance, pension saving schemes, non-contributory arrangements targeting the working age population)? If yes, what is their nature, and whom do they reach? These questions seems to be best answered by an extensive field study, however, there are also important theoretical debates regarding the informal economy. Some of these are summarised below.

It also seems crucial to find good examples of informal social protection schemes for the working age population who work informally. It is also important to explore potential linkages between the formal and informal schemes.

Marta Alter Chen (2012) summarises the historical debates over the nature and composition of the informal economies. She concludes that:
“Over the years, the debate on the large and heterogeneous informal economy has crystallized into four dominant schools of thought regarding its nature and composition, as follows:

- The **Dualist** school sees the informal sector of the economy as comprising marginal activities—distinct from and not related to the formal sector—that provide income for the poor and a safety net in times of crisis (Hart 1973; ILO 1972; Sethuraman 1976; Tokman 1978).

- The **Structuralist** school sees the informal economy as subordinated economic units (micro-enterprises) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms (Moser 1978; Castells and Portes 1989).

- The **Legalist** school sees the informal sector as comprised of “plucky” micro-entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal registration and who need property rights to convert their assets into legally recognized assets (de Soto 1989, 2000).

- The **Voluntarist** school also focuses on informal entrepreneurs who deliberately seek to avoid regulations and taxation but, unlike the legalist school, does not blame the cumbersome registration procedures.” (Alter Chen 2012).

In her report, Alter Chen also states that each school of thought subscribes to different causal theories when it comes to factors contributing to the growing informal economy in societies.

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<th>School of thought</th>
<th>Ideas:</th>
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<tr>
<td>The Dualists</td>
<td>Informal operators are excluded from modern economic opportunities due to imbalances between the growth rates of the population and of modern industrial employment, and a mismatch between people’s skills and the structure of modern economic opportunities.</td>
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<td>The Structuralists</td>
<td>The nature of capitalism/capitalist growth drives informality: specifically, the attempts by formal firms to reduce labour costs and increase competitiveness and the reaction of formal firms to the power of organized labour, state regulation of the economy (notably, taxes and social legislation); to global competition; and to the process of industrialization (notably, off-shore industries, subcontracting chains, and flexible specialization).</td>
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<td>The Legalists</td>
<td>A hostile legal system leads the self-employed to operate informally with their own informal extra-legal norms</td>
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<tr>
<td>The Voluntarists</td>
<td>Informal operators choose to operate informally—after weighing the costs</td>
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<th><strong>Voluntarists</strong></th>
<th>benefits of informality relative to formality</th>
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When it comes to potential linkages between the formal and the informal sectors, the by Alter Chen identified school of thoughts also have some important contributions. Alter Chen summarises them as follows:

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<td>The Dualists</td>
<td>informal units and activities have few (if any) linkages to the formal economy but, rather operate as a distinct separate sector of the economy and that the informal workforce—assumed to be largely self-employed—comprise the less advantaged sector of a dualistic or segmented labour market. Pay little attention to the links between informal enterprises and government regulations. Recommend that governments should create more jobs and provide credit and business development services to informal operators, as well as basic infrastructure and social services to their families.</td>
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<tr>
<td>The Structuralists</td>
<td>Informal and formal economies are intrinsically linked. Both informal enterprises and informal wage workers as subordinated to the interests of capitalist development, providing cheap goods and services. They argue that governments should address the unequal relationship between “big business” and subordinated producers and workers by regulating both commercial and employment relationships.</td>
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<td>The Legalists</td>
<td>Focus on informal enterprises and the formal regulatory environment to the relative neglect of informal wage workers and the formal economy per se. But they acknowledge that formal firms—what de Soto calls “mercantilist” interests—collude with government to set the bureaucratic “rules of the game” (de Soto 1989). Argue that governments should introduce simplified bureaucratic procedures to encourage informal enterprises to register and extend legal property rights for the assets held by informal operators in order to unleash their productive potential and convert their assets into real capital.</td>
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<tr>
<td>The Voluntarists</td>
<td>Pay relatively little attention to the economic linkages between informal enterprises and formal firms. However, they subscribe to the notion that informal enterprises create unfair competition for formal enterprises because they avoid formal regulations, taxes, and other costs of production. They argue that informal enterprises should be brought under the formal regulatory environment in order to increase the tax base and reduce the unfair competition to formal businesses.</td>
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(Alter Chen 2012)
These concrete summaries by Alter Chen are important for the potential extension of the social security to the informal economy since it provides different tools to tackle the process. She also presents another approach, where a common prejudice is that the production in the informal sector commonly is illegal or hidden/underground. This is however disproved by Alter Chen who argues that “any type of production unit (formal or informal) can engage in any type of production (illegal; legal underground; legal, not underground)” (Alter Chen 2012). She also defines illegal production and underground production in her report: “Illegal production refers to production activities which are forbidden by law or which become illegal when carried out by unauthorized producers; while underground production refers to production activities which are legal when performed in compliance with regulations, but which are deliberately concealed from authorities (United Nations Statistical Commission 1993). The empirical and policy question is what share and which components of the informal economy, especially in developing countries, are deliberately illegal or underground.” (Alter Chen 2012)

Alter Chen identifies four (4) goals where the final aim is to improve the situation for more people. The first goal is to create more jobs, and preferable formal jobs. The second goal is to register informal enterprises and regulate informal jobs, i.e. to formalise the informal economy. The third goal and also the most relevant goal for this paper, is to extend state protections to the informal workforce, especially with a particular focus on the working poor. The fourth goal is to increase the productivity of informal enterprises and the income of the informal workforce. This fourth goal is suggested to be implemented though a favorable policy environment, improved terms of trade, appropriate legal frameworks and with a protection against risks and uncertainties (Alter Chen 2012).
4. Regional examples, lessons learned and ways to reach informal workers

This section includes possible examples of how social protection can be extended to workers in the informal economy and the challenges related to this. This section of this research agenda needs to be extended and further explored in order to give a more appropriate picture of the regional patterns.

4.1 Regional examples and lessons learned

Researchers argue that the existent social security systems largely are a legacy from the colonial past and next to the identically systems across the Francophone and Anglophone divide there is also a clear reflection of the socio-economic development. Studies shows that the social support systems in countries such as Botswana and South Africa are much comprehensive compared to countries such as Ghana, Uganda, Kenya and Malawi (Dicks 2012; Kalusopa, Dicks, & Osei-Boateng (ed.) 2012). However, the general tendency in these systems shows that they are most often only benefitting people working in the formal sector.

The trend with a rising informal economy is visible in almost all countries in Sub-Saharan Africa and in general, more than 50 % of the overall working force is in self-employment and the majority of all new jobs are created in the informal sector. This is shown in a comprehensive research project finished last year, where eleven case studies were being presented and compared (Kalusopa, Dicks, & Osei-Boateng (ed.) 2012). However, this is only a first cut for this type of research focus and there are several research gaps that need to be filled. A unique in-depth case study on Namibia would be of great value, not only for stakeholders in Namibia but also in the region since it would offer insights that could lead to an improvement and a base for comparison. This could then also provide for a platform for future development.

Namibia does, together with Botswana and South Africa provide the most comprehensive social security protection scheme in the region (Kalusopa, Dicks, & Osei-Boateng (ed.) 2012). However, this is not to say that we cannot learn from others. In other countries, the social protection within the informal sector has been dealt with in different ways. For example, in 2007 Gabon launched a health insurance scheme, targeting both the formal and the informal sector operators.
A common problem has shown to be that the operators are not able or willing to pay a double fee, both for them and their employees, but Gabon’s solution seem to be successful. Another successful example was implemented in Tunisia, where they established a uniform system comprising a basic scheme and an operational complementary scheme (ISSA, 2008; Nyarko Otoo & Osei-Boateng, 2012).

In Ghana, attempts to extend pension to self-employed persons and people operation in the informal sector has been made. This was made through the SSNIT Pension scheme which established a subsidiary Informal Sector Fund in 2008. This was initiated in order to specifically target self-employed persons, with a specific focus on the informal sector. Another good example is Zambia, who also has reviewed its social security laws in order to make self-employed persons and operators in the informal sector eligible to contribute (Nyarko Otoo & Osei-Boateng, 2012).

These previous studies have identified challenges for the extension of the social security structures to the informal sector, for example that countries often face administrative difficulties and that the bureaucratic process makes the implementation arduous. Several countries schemes struggle to meet the standards for cost reduction and good record keeping, which are at the core of providing better services. This is present in the current situation where most often only formal workers are included and hence something that needs to be taken into consideration for extending the social security schemes for informal workers.

Another commonly used argument is the fact that the productivity levels within the informal sector often is seen as too low and that the incomes are too irregular. Next to this, for self-employed persons, the reality that they would pay “double” contribution (i.e. both employer and employee’s shares of contribution) does not make schemes attractive. These facts are commonly being used as arguments for the difficulties to include informal workers in contributory schemes (Nyarko Otoo & Osei-Boateng 2012). However, these arguments are not enough for not extending the social security protection to the informal sector but they are instead prevarications that need to be met on a constructive level, something the outcomes of this research project will contribute to.

Experiences from other countries show that it is very important to stress gender aspects of this issue, especially since previous research has shown that women are more exposed to the insecurity that follows the lacking social security protection within the informal sector. It is also important to pay attention to age aspects, particularly since the next big group of people
employed in informal economies is young persons. The proportion of females in informal employment is estimated at 57 percent in Ghana, 65 percent in Benin, 58 percent in Malawi and 53 percent in Namibia (Baah, 2007, (Kalusopa, Dicks, & Osei-Boateng (ed.) 2012).

When it comes to different ways to reach informal workers, more research is needed in order to be able to provide accurate advices. This is mainly due to the heterogeneity of the informal sector and even though some development countries have some lessons learned to provide, there is still a great need for better understanding the process. According to the ILO is it estimated “that only one in five people in the world has adequate social security coverage while half of the world’s population is without any social security protection at all. Lack of social security coverage is largely concentrated in the informal economy, where women are more likely to be working” (ILO 2004).

ILO provides several reports and provides support for projects with the aim to implement the extension of the security schemes to the informal sector. One country that has been working on this process in several years is Indonesia and it may be very valuable to look more closely into their process.
5. References


