# **ESS** Extension of Social Security

## Namibia's Universal Pension Scheme: Trends and challenges

Eckard Schleberger

ESS Paper Nº 6

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## **Acronyms**

ATM Automated Teller Machine

CMA Common Monetary Area

GIPF Government Institutions Pension Fund

HDI Human Development Index

MHSS Ministry of Health and Social Services

Minister of Health and Social Services

MUN Mine Workers Union of Namibia

N\$ Namibian Dollar (Currency)

NHIES National Household Income and Expenditure Survey

NAPWU Namibia Public Workers Union

NDP National Development Plan

NPC National Planning Commission

NPS National Pension Scheme

NUNW National Union of Namibian Workers

OAP Old-age pension

OPM Office of the Prime Minister

SAR South African Rand (Currency)

SSC Social Security Commission

UNDP United Nations Development Programme

UPM United Cash Pay Master

SIPE Social Integration Programme for Ex-Combatants

V

## **Summary**

Social security pension schemes are continuing to evolve in Namibia in the post-independence era both as regards their structure and their administration. Namibia inherited various social security schemes that were established during the period of South African rule – in particular, a non-contributory social pension for persons over age 60 and a workers compensation scheme relating to the consequences of work-related accidents and disease.

The National Pension Scheme (NPS) – otherwise known as the Universal Pension Scheme – is a social pension, which provides a flat-rate benefit, is non-contributory and non-taxable and payable regardless of other income, for rich and poor alike. The scheme provides for cash assistance in respect of old age, disability, child maintenance and foster-parent care. This report focuses on the old-age aspect of it.

The Government continued to reform the contributory social security pension schemes. The Basic State Grant Bill (Act of 2000) was promulgated by Parliament in 2001. It will repeal the National Pensions Act of 1992 and will provide the legal mechanism for all grant-based transfer programmes (including non-contributory old-age pensions), to be combined. In addition, it has been decided to introduce a simple means-tested approach, which will exclude non-poor pensioners from the scope of the scheme.

The Social Security Commission, which was established in 1995 under the Social Security Act of 1994, is progressively establishing a national social insurance system. A contributory scheme providing sickness, maternity benefit and funeral grant is already operational. It is anticipated that a national pension scheme based on social insurance principles will commence in 2002, and would operate in parallel with the State Grant Programme.

#### 1. Introduction

Namibia inherited a social security system based on that applicable in South Africa, but independence provided the opportunity to modify that system and to introduce reforms which took account of international experience and national characteristics. The Social Security Act (Act 34 of 1994) established a new social security scheme based on social insurance principles. It was decided that priority would be given in this scheme to providing benefit in respect of loss of income as a consequence of sickness and maternity, and for a grant to be paid to the closest relative on the death of an insured person. The scheme started in 1996 on the understanding that it would be supplemented later by both a pension scheme and a health insurance scheme.

A national social insurance pension scheme has not yet been introduced although various steps have been taken in preparation based on the provisions in Act 34. In addition, financial assistance is provided in the form of a non-contributory social pension for those over age 60 as an important component of Namibia's national safety net intended to prevent the most needy from falling further into poverty and deprivation.

At present only about 6 per cent of the population is over 60 years of age (105,000). Only 120,000 out of some 500,000 economically active Namibians are covered by formal contributory pension schemes, such as the Government Institutions Pension Fund (GIPF) and about 400 private pension funds in existence. The non-contributory National Pensions Scheme, which is non-taxable and was established in 1992 by the National Pensions Act provides currently N\$200 (equivalent of US\$25) to 96,767<sup>1</sup> pensioners, in the old-age category. The other contributory schemes provide taxable pensions for some 15,000 retirees, generally on very generous terms.

Due to the effects of social and economic exclusion during the Apartheid era, elderly people in Namibia remain extremely vulnerable. Contribution schemes were available for only a few, most notably in the formal employment sector, which was small in size. Before independence most people had to make a living through subsistence farming, informal employment, self-employment and household work, or as farm labourers. Workers in these categories were not covered. They constituted a much larger percentage of the workforce, a pattern that persists in the post-independence era.

The level of economic development, however, has been sufficiently encouraging to continue with the social pension. However, some debate has arisen regarding the level of coverage and entitlement, as well as the level of social protection resources available to finance the scheme.

#### 2. National socio-economic context

At first glance, Namibia appears to be doing relatively well when compared with other sub-Saharan countries. Since independence from colonial South African rule in 1990, the country has been blessed with political stability brought about mainly by a policy of national

<sup>&</sup>lt;sup>1</sup> Number in March 2001.

reconciliation, and a firm commitment to constitutional and democratic governance. Namibia inherited a well-functioning physical infrastructure – which has since been maintained and expanded; a strong support for market development; a sound economic policy; and a reasonably organized public administration, although segregated along Apartheid structures. From 1996, the per capita income of its 1.7 million people amounted to US\$2.080 and real growth rate has averaged around 4 per cent annually since independence.

However, these initial impressions are misleading. Namibia is among the most dualistic countries in the world, both economically and geographically. It is for this reason that the Government remains committed to broad based and equitable development policies and strategies, allocating over 40 per cent of its annual budget to social services (education and health care, including social safety nets).

Namibia is endowed with some rich natural resources, such as diamonds and other mining products, fish reserves, fertile agricultural land and outstanding tourist attractions. This has lead to a relatively high per-capita income that classifies Namibia as a low middle-income country. However, the statistical average figure covers contrasting wealth and poverty, which is highlighted by the Gini-coefficient.<sup>2</sup> The UNDP Human Development Report of 1998 indicated a Gini-coefficient of 0.67 for Namibia, which is the highest value recorded worldwide. This unequal distribution is corroborated by the findings of the NHIES.<sup>3</sup> According to the survey, 10 per cent of households (5.3 per cent of the population) with the highest economic levels, i.e. the highest per-capita income, consume about 44 per cent of total private consumption. The remaining 90 per cent of households (94.7 per cent of the population) consume about 56 per cent. Furthermore, the richest 10 per cent of society receive 65 per cent of total income.

Poverty has different dimensions, the most common of which is based on consumption. The NPC classifies a household as being 'relatively poor' if it devotes over 60 per cent of its expenditure to food. In those that are 'extremely poor,' household expenditure exceeds 80 per cent. In 1994, using this definition, 47 per cent of Namibian households were relatively poor and 13 per cent were extremely poor according to the NHIES. However, since consumption alone does not determine the quality of life, other dimensions such as health, education, and interaction with society may be used to measure the extent to which people suffer from poverty. In 1998, 12 per cent of children were found to be underweight and 29 per cent of people did not reach the age of 40. These are indications of being 'health-poor'. Furthermore, 19 per cent of adults (age 15 years and over) were illiterate, otherwise known as 'educationpoor'. In addition, 28 per cent of the population had to walk more than one hour to get to the nearest shop or use public transport, and 29 per cent had no access to a radio. These are indications of being 'participation-poor.' These dimensions of poverty are often inter-linked in that households suffering from one dimension often suffer from another – for instance, ill health and unemployment are usually found together. As yet poverty lines have not been set in Namibia.

The dimensions of poverty vary according to region. Residents of the Caprivi have the shortest life expectancy in the country, being 39.8 years in comparison to the national average

<sup>&</sup>lt;sup>2</sup> The coefficient measures the income inequality within a society, where a value of zero indicates absolute equality and a value of one absolute inequality.

<sup>&</sup>lt;sup>3</sup> National Household Income and Expenditure Survey of 1993/1994 (the latest survey).

of 52.4 years. Adult illiteracy rates are lowest in Omaheke (64 per cent) and Kunene (64.3 per cent), with the national average at 81 per cent. School enrolment rates are lowest in Omaheke (71.1 per cent) and Otjozondjupa (71.4 per cent) in comparison to the national average of 85 per cent. Omusati, Ohangwena and Kavango have the worst access to water supply, with 68.3, 61 and 46.8 per cent of households respectively having no access to water. Finally, despite having the best health services, Khomas has the highest proportion of underweight children (18.5 per cent).<sup>4</sup>

Eighty five per cent of consumption-poor households are located in rural areas, and make their living from subsistence farming primarily in the northern and northeastern communal areas. However, pockets of poverty are also found in the southern regions, where income inequality is higher than in other regions. The gap in average rural and urban incomes and living standards gives a strong incentive for rural-urban migration, as evidenced by the growth of informal settlements in semi-urban areas of almost all the urban centres in the country. Furthermore, poverty is concentrated among groups, which have historically been disadvantaged. Huge income disparities exist between language groups. The per-capita income in households with a German mother tongue is N\$27,878, in comparison to N\$1,416 for Oshiwambo speaking persons. Moreover, households headed by females are more prone to poverty than those headed by men. Cultural and social conditions in Namibian society maintain women's unequal status, especially in terms of their entitlement to resources and access to decision-making.

Along with subsistence farmers, farm and domestic workers live in poverty. Furthermore, the elderly and people with disabilities, young women and men, and recent migrants into marginalized urban areas are disproportionately affected by poverty. Thus, many poor households rely on the social pension as an important source of income.

Although the causes of poverty are complex, some major factors can be identified. Economic growth averaged at 3.8 per cent per annum since independence, which is substantially higher than the pre-independence decade. However, population growth (estimated to be between 2.2 and 3.1 per cent) has levelled out the growth of the economy resulting in almost stagnant per-capita growth and rising unemployment. According to the National Labour Force Survey of 1997, unemployment in the strictest sense<sup>5</sup> is 19.5 per cent; while the broader figure (including those who are not actively looking for work) is 34.5 per cent, slightly higher than forecast by the NHIES. Access to productive assets also determines the vulnerability of households. There are 4,076 farmers owning 6,403 commercial farms with an average farm size of more than 5,884 hectares occupying 44 percent of Namibia's total surface, but communal land however constitutes only 41 per cent. This land is often of a lesser quality or poorly developed, but supports about 95 per cent of the nation's farming population. Located predominantly in the north and the northeastern part of the country, the core of poverty exists in this sub-sector. Moreover, the lack of access to credit and technical and managerial services has made the expansion of self-employment more difficult.

Efforts have been made to undertake a 'Living Condition Survey' to assess the poverty situation since 1994. However, the analysis of data from this survey is still under process,

<sup>&</sup>lt;sup>4</sup> Figures based on UNDP, Namibia Human Development Report 1999.

<sup>&</sup>lt;sup>5</sup> Excluding those, who are not actively looking for work.

which requires the use of information that is mainly based on the 1993/94 data. In the absence of current data on poverty, the Human Development Index (HDI), which measures the combined indicators of life expectancy, adult literacy, school enrolment and per-capita income, has shown that all but one region experienced a decline in the level of human development over the period 1996 to 1999. This can be chiefly attributed to insufficient GDP growth rates (2.5 per cent over this period) and the impact of HIV/AIDS on life expectancy that has dropped to 43 years.

One of the greatest health challenges to the Namibian population is the pandemic of HIV/AIDS, which has an infection rate of more than 20 percent nation-wide. Not only is the current rate of HIV infection alarming, with its consequent demand on the health system that occurs with the onset of AIDS, but there is also a huge social cost that all Namibians must bear. This comes from the loss of productivity, as large sections of the working population are removed from the workforce through sickness and death. The increasing number of children who are orphaned and left to the care of their extended family and the support of the state must also be taken into account

## 3. The National Pensions System

National Pensions for the purpose of this report refer to non-contributory schemes as grant based transfers within the social safety net of Namibia. These schemes are presently under review and a number of important developments are taking place. The challenges and proposals for immediate and long-term reform are discussed in more detail in Chapter 6.

## 3.1. Evolution of the old-age pension scheme

Old-age pension schemes were inherited from the colonial South African regime at the time of independence in 1990, based on a number of laws, as shown in the following table:

Table 1. Evolution of the National Pension Scheme (NPS)<sup>6</sup>

		Post-Independence			
Acts	German War Veterans' Pensions Ordinance of 1965	Social Pensions Act of 1973	Second Pension Laws Amendment Act of 1974	Social Pensions Amendment Ordinance of 1988 (Legislative Assembly of Whites)	National Pensions Act of 1992
Repeal	Whole Act in 1992	Whole Act in 1992	Section 15 in 1992	Whole Act in 1992	Repealed in 2001 by Basic State Grants Act, 2000

'National Pensions' in terms of the National Pensions Act of 1992<sup>7</sup> means any (non-contributory) basic state pension and includes pensions for the aged, the blind, and disability

<sup>&</sup>lt;sup>6</sup> Table by author.

pensions. It also includes an attendant's allowance payable to or on behalf of a pensioner who is in such a physical or mental condition that he or she needs to be cared for. However, no person may receive more than one social pension at any given time.

In 2000, a bill was drafted to repeal the National Pensions Act of 1992, to provide a uniform system for the provision of Basic State Grants to aged and disabled persons and qualifying children, and to provide for the suspension, cancellation and administration of basic state grants. The bill has not yet been tabled in Parliament but has received high priority for promulgation within the year 2001. The *Basic State Grant Act of 2000*<sup>8</sup> will combine all state grants into one scheme, including:

- non-contributory old-age pensions,
- > child maintenance and protection grants,
- > all disability grants,
- > foster parent grants, and
- > pensions for war veterans.

In addition to the bill, the MHSS has drafted a Government Notice providing for regulations related to Basic State Grants under the proposed Act of 2000 in terms of the proposed Section 15 (Regulations) of that bill.<sup>9</sup>

#### 3.2. Entitlement and coverage

At present, everybody who is a Namibian citizen residing in Namibia (who is not outside the country for a period of more than six months) and is above the age of sixty years, is entitled to the old-age pension. This entitlement is regardless of any assets, income and/or other pensions from defined contribution schemes. Essentially, every pensioner is entitled to the same amount, rich and poor alike.

Over the years there has been a debate whether the old-age pension scheme should be universal or not. Section 16 (Regulations) of the National Pensions Act of 1992 makes provision for limitations to entitlement in three subsections, namely:

➤ (1)(c)"The requirements or conditions, in addition to those specified in this Act, to be complied with by any person in order to be entitled to a national pension, and also the circumstances under which any person shall not be so entitled.

<sup>&</sup>lt;sup>7</sup> Republic of Namibia. 1992. Government Gazette, 16 April 1992. National Pensions Act of 1992. Office of the Prime Minister. Windhoek, Namibia.

<sup>&</sup>lt;sup>8</sup> Republic of Namibia. 2000. Bill. Introduced by the Minister of Health and Social Services. Basic State Grants Act of 2000. Windhoek, Namibia.

<sup>&</sup>lt;sup>9</sup> Republic of Namibia. 2000. Government Notice: Ministry of Health and Social Services. Regulations relating to Basic State Grants: Basic State Grants Act of 2000. Windhoek, Namibia.

- > (1)(f) The income and assets of any applicant to be taken into account in determining any national pension including the value of any assets alienated in any manner within a stated period immediately before application for such a pension."
- Subsection (3) of the same section provides for regulations to be made to enable different pensions to be paid to different categories of old persons according to their income and other assets. The next subsection (4) allows for such regulations to be made with retrospective effect.

The following table shows a breakdown of these allowances and indicates the numbers of beneficiaries and grant amounts.

Table 2. Beneficiaries and pension amounts of the NPS<sup>10</sup>

Allowance Type	Number of recipients	Amount in N\$ per beneficiary
Old-age	96 767	200
Disability	11 055	200
Maintenance grant 1 child	1 632	200
Maintenance grant 2 children	987	300
Maintenance grant 3 children	801	400
Foster parent 1 child	279	200
Foster parent 2 children	145	300
Foster parent 3 children	95	400
Foster parent 4 children	20	500
Foster parent 5 children	4	600
Foster parent 6 children	3	700
Foster parent 7 children	1	800

Since the promulgation of the Act no such regulation has been drafted or gazetted. The reasons for this are that the provision may require an amendment to the Constitution (which prevents discriminatory practices) and because raising the necessary consensus for its implementation has proved to be difficult. However, the question of entitlement is being

<sup>&</sup>lt;sup>10</sup> Table by author based on figures provided by the OPM for March 2001.

seriously considered within the reform process of the NPS, through the introduction of the Basic Grant Scheme (see Chapter 6: Reform).

At present, four types of main categories exist for national pensions: Old-age grants, Disability grants, Child maintenance grants and Foster parent grants.

Coverage in the old-age category can be described as excellent. Since the introduction of an out-of-source cash payment system in 1996, coverage countrywide is above 95 per cent.<sup>11</sup>

#### 3.3. Adequacy and adjustments

The question of 'inadequate pensions' has been repeatedly raised by the opposition in parliament most recently in March 2001. The Minister responded as follows:

«I just want to inform my colleague to be careful with using the word inadequate, for people may define adequate pension in a different manner, which may warrant major concerns, and raise the question of affordability. If my colleague could remember, and I want the house to bear with me to explain today and clear once and for all the issue of inadequacy of the pension money. Prior to independence, the group specific grants were paid in terms of the Social Pensions Act, Act 37 of 1973. This system was characterised by extreme inequalities, where advantaged groups received N\$382 per month, compared to as little as N\$55 per month to the disadvantaged. In 1992, the National Pensions Act, (Act 10 of 1992) was promulgated by Government notice No. 46. Through the introduction of this Act, the Government brought about harmony and alleviated all forms of discrimination and put all beneficiaries as equals. In 1994 the rates were equalised to N\$135 per month for all Namibians of 60 years and older. This implies a 145 per cent increase in just four years. In April 1996 the amount was again increased to N\$160, which represents a 19 per cent increase in just two years. In the year 2000, the amounts were again increased from N\$160 to N\$200, which is another 12.5 per cent increase. On average, the Government effected an increment of about 263 per cent over a period of 10 vears.»<sup>12</sup>

The social pension scheme in pre-independence times differentiated beneficiary levels according to the Apartheid classification of population groups and its perceived 'worth' of them in society. Therefore, the scheme was designed on a sliding scale with the highest level being for so called 'Whites' (SAR382<sup>13</sup>) and the lowest at SAR55 for so called 'Bushmen' and others that could not be classified into any of the other population groups.

After independence in 1994, the scheme was equalized under the National Pensions Act of 1992 at N\$135 for aged persons, and allowances were adjusted twice in the following years as indicated in Table 3.

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<sup>&</sup>lt;sup>11</sup> As compared with coverage in other categories, such as Child Maintenance and Foster parent grants, the latter may have a coverage of only 10 per cent. This is because awareness in this category is extremely low. There is a general perception amongst the population that pensions refer only to the old-age category, as this has evolved over a long period of time. (See Table 1.)

<sup>&</sup>lt;sup>12</sup> Response of the Honourable Minister to the National Assembly, March 2001.

<sup>&</sup>lt;sup>13</sup> SAR – South African Rand is on par with the N\$ (Namibian Dollar) in the CMA.

Table 3. Allowances after independence to the present (1994-2001)<sup>14</sup>

Equalization year 1994 (National Pensions Act)	Amount in 1994 (N\$)	Amount in 1996 (N\$)	Amount in 2000 (N\$)
(reasonal resistance rect)	135	160	200

The main challenge for the equalization of all old-age pensions, (regardless from which population group the beneficiary came) was a major challenge for two reasons:

- ➤ the universal amount of SAR382 was perceived as being exorbitant and unaffordable by the Government;
- it was difficult to justify a lowering of the amount of the pension grant as this was not in line with overall government policy which was to keep payments within the public sector and otherwise at the level formerly enjoyed by the advantaged group of 'Whites'.

However, the pension entitlement was eventually equalized for everybody at N\$135 in 1994.

In 1996, under the same legislation, pensions were raised to N\$160 as the Namibian Dollar was on par with the South African Rand within the Common Monetary Area (CMA). In 2000, the grant amount was raised to N\$200. At present, the scheme functions under the Act of 1992 with the amount of N\$200 paid to each beneficiary, per month.

As defined-benefit schemes typically provide annuitized benefits with indexation based on increases in prices or earnings, (a basis not used in Namibia), the following table illustrates a 'trend' based on the inflation rate in the country over the past 10 years.

Comparing the trend of adjustments of the old pension scheme to the present one, it can be shown that 'fair' adjustments have been made. The basis however, is the lower category of pensions paid during the pre-independence period. If the present amount of N\$ 200 is brought in line with the inflation rate during the past ten years, the pension should have been about N\$60 in 1990. This compares with the lowest pension then paid of 55Rand. If however, the highest amount paid in 1990 is taken (pension amount for 'Whites'), the pension in line with inflation should now stand at N\$1.013.

<sup>&</sup>lt;sup>14</sup> Table by author.

Table 4. Pension adjustments compared to inflation from 1990 - 2001<sup>15</sup>

Year	Inflation rate	R350 inflated	N\$135 inflated	N\$160 inflated	N\$200 inflated	N\$200 deflated
2001		1013.05	243.72	236.96	218.50	200.00
2000	9.25	927.27	223.09	216.89	200.00	181.50
1999	8.59	853.92	205.44	199.74		165.91
1998	6.19	804.15	193.46	188.09		155.64
1997	8.85	738.76	177.73	172.80		141.87
1996	8.00	684.04	164.57	160.00		130.52
1995	10.06	621.52	149.53			117.39
1994	10.76	561.14	135.00			104.76
1993	8.54	516.99				95.81
1992	17.87	438.61				78.69
1991	11.83	392.21				69.38
1990	12.06	350.00				61.01

In addition, it has to be stated that salary increases have generally been above the rate of inflation, as can be seen from the following indication of salary adjustments:

- ➤ the 1995 salary agreement of the Mineworkers Union of Namibia (MUN) and Rossing Uranium Ltd.: 10 per cent across the board (75 per cent of this for some employees);
- ➤ the 1996 salary agreement of the Mineworkers Union of Namibia (MUN) and Rossing Uranium Ltd.: 9 per cent across the board, plus 24 per cent one-time bonus and rental allowances;
- ➤ the 1997 and 1998 salary agreement of MUN and Rossing Uranium Ltd.: 11 per cent for 1997 and 10 per cent for 1998; adjusted by income group (120 per cent for lowest, 60 per cent for highest);
- ➤ the 1998 Namwater and MUN salary agreement (1997/98): 8 per cent across the board;
- ➤ the Municipality of Otjiwarongo and Namibia Public Workers Union (NAPWU): 18, 15 and 12 per cent, respectively, for the lowest, medium and highest income groups;

<sup>&</sup>lt;sup>15</sup> Table by author.

➤ Nampost and NAPWU 1998/99: 9.25 per cent for lower, and 8.25 per cent for higher income groups.

Low-income pensioners<sup>16</sup> believe that the pension should be N\$500 per month as is paid to war veterans of Namibia's liberation struggle, and the NDP 2 has also put forward the same proposal.<sup>17</sup>

War veterans under the SIPE scheme are presently paid a pension allowance of N\$500. The grant amounts in the other categories should be adjusted as the need arises on the basis of the grant amounts paid at present.

## 4. Financing

The NPS was financed in the past and continues to be funded entirely through government budget allocations raised from general taxes. Together with grant-based transfer programmes the ratio of these expenditures to GDP stand at approximately 2.6 per cent. The Government is determined that this ratio should not increase. The most important formal transfer is to the OAP with just under 2 per cent of GDP.

Total spending for national pensions has grown rapidly in the past few years, but a similar expansion is unlikely in the future given the expected budgetary allocation of a proposed 10 per cent annual nominal increase.

The Minister is quoted as saying that «Government has done its part and kept its end of the bargain as was promised at the attainment of independence. The Act also clearly stipulates that the Minister may subject to the provision of the Act, in consultation with the Minister of Finance, and out of monies appropriated by law for such a purpose, pay such entitlements to the beneficiaries.» The Minister further states that «...we are all benefiting from the same resource and we are all cognisant of the fact that this resource is getting smaller by the day».

In March 2001, the entire pensions fund stood at N\$292,118,948 of which N\$232,240,800 is devoted to old-age benefit (96,767 recipients). Monthly allocation to the OAP is N\$19,353,400.

However, reaching the target group has proved costly and ineffective and requires higher taxes for any level of target redistribution to be achieved. If Namibia's safety net to protect the vulnerable is to be sustained, its financing needs must be made consistent with the aggregate availability of public resources. The challenge is to contain the cost of the pension scheme without hurting the poor. The programme (being presently universal) includes most non-poor individuals especially in urban areas. In order that the social pension programme contributes to the reduction of poverty and inequality, the Government sees it as highly desirable to include all the eligible poor pensioners but exclude many of the non-poor from the purview of the scheme (see Chapter 6).

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<sup>&</sup>lt;sup>16</sup> Indicative survey undertaken by the author.

<sup>&</sup>lt;sup>17</sup> NDP 2. Unpublished draft. National Planning Commission. March 2001. Windhoek, Namibia.

<sup>&</sup>lt;sup>18</sup> Response of the Honourable Minister to the National Assembly in March, 2001.

## 5. Administration and service provision

In government, the key to an effective NPS relies on good governance. At present, the public social safety net in Namibia is excessively complex. Administratively, the burden of disability, family grants and social pensions is substantial, as the programmes are administered separately from one another. Adding to the administrative complexity is a variety of other social grant programmes – including rent submissions programmes and subsidies to privately run homes for the elderly, and people living with the disabled. This situation will change in the future with the promulgation of the Basic State Grants Act of 2000 under which the MHSS will be the authority with overall responsibility.

The administrative design of the NPS has evolved over many years and involved a process of consultation and decision-making, an annual review of the institutional arrangements, and the managerial and administrative functions relating to the implementation and supervision of the scheme. Most importantly, government effectively addressed the design of administrative procedures, the potential problem of high cost and losses and the quality of services. The governance of the scheme has received increasing attention in recent years as part of a growing awareness that schemes are only as effective as they are administered.

#### 5.1. Institutional arrangements

There are several players/institutions involved in administering the NPS.

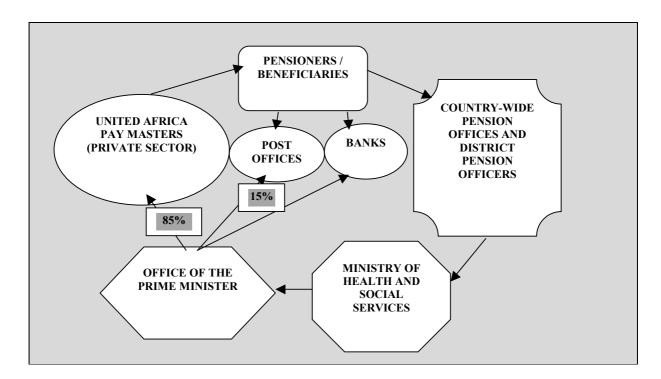
After promulgation of the National Pensions Act in 1992 and with equalization of the pension amounts, the MHSS was given the overall responsibility with the OPM of running the database.

The overall responsibility for the scheme lies with the MHSS. Every district or area determined by the Minister has an officer in the public service appointed as *District Pension Officer*. They have the responsibility for receiving, registering, investigating and submitting with a report applications for national pensions to the Permanent Secretary of the MHSS.

This information on eligibility (after approval) is passed on to the OPM for inclusion in a central database.

The beneficiary determines in the application how he or she would like to receive the pension – either paid by United Cash Pay Masters (UPM), collected at a designated post office or paid into an account at a commercial bank. Most pensioners receive their money at designated cash pay points in cash (85 per cent), whereas 15 per cent choose the option of a post office or a bank. Until the outsourcing of the payment to the private sector in 1996, the MHSS was responsible for all payments, including payments by cheque. Cheque payments have since been discontinued.

Figure 1. National pension administrative cycle<sup>19</sup>



The OPM maintains a central database and issues, through the Ministry of Finance, monthly beneficiary lists per region for cash payments or transfers to banks and post offices. The transfers for cash payments are placed into an account of the UPM seven days in advance of payment to beneficiaries.

In 1996, the cash payments were outsourced by the MHSS to the private sector and Cash Paymaster Services was commissioned to carry out the cash payments. In 2000, the service was awarded to the company, United Africa Pay Masters (UPM), a subsidiary of United Africa Group, after winning an open tender. UPM introduced a totally new system that can best be described as a "mobile bank", using ATM machines for the payouts. Every pensioner is issued with an electronic identification card with PIN number and fingerprint identification, which is read as verification of identification by the ATM machine. Mobile teams of six are designated to areas where cash pay points are set up by the MHSS.

#### 5.2. Quality of service

With the transfer of payouts to the private sector, the quality of service has greatly improved. Whilst pensioners were exposed to considerable delays in payment when payments were made by the MHSS, they now enjoy an efficient service. The location of pay points was decided upon in close consultation with the community and traditional leaders in rural areas. Remote rural areas, in particular, suffered in the past from poor service provision. The MHSS, in co-operation with UPM and the communities, have set up permanent structures at pay points in some remote areas for the convenience of pensioners who have to travel longer distances to reach them. The members of the teams have received training to provide

<sup>&</sup>lt;sup>19</sup> Figure by author.

assistance to pensioners, from information to first aid. In addition, UPM has drafted a service charter that defines the minimum standard of service, which includes having less than 10 km distance to travel to pay points and reduced waiting times with five claims being processed every minute. UPM is constantly updating its service and conducts surveys amongst the pensioner community. Plans exist to establish fixed ATM points in certain areas to give pensioners flexibility in withdrawing their pensions and additional pay points will be set up to further reduce the travelling distance. An on-line application system for new pensioners will also be introduced. To make the MHSS aware of the problems faced by pensioners, a query form has been developed by UPM. Queries are received at pay points, processed by UPM head office and brought to the attention of the MHSS. The media – and in particular, broadcasting in vernacular languages – plays an important part in informing pensioners and creating greater awareness of the system to the general public.

There are however, some challenges that still remain.

The concept of electronic ID cards is new for many people in rural and informal urban areas. Cards get lost or are damaged during storage times. Identification and production of new cards can cause delays of one month in payments. A replacement fee of N\$10 is charged for a card that costs UPM N\$25 to replace.

Newly eligible pensioners complain about delays in the processing of their pension claims and there exists a considerable backlog in registration and payments. After processing it can take up to three months for the information to be passed on to UPM. Presently, there are approximately 5 per cent of eligible pensioners on the waiting list.

Until very recently, security provided an exceptional challenge in cash payments. Each team usually carries about N\$250,000 each month. UPM operates its own security company and each team has security guards. However, on several occasions the vehicles were exposed to armed robbery. The situation was particularly volatile in the northwestern parts of Namibia, the Kavango and Caprivi regions, where attacks by Angolan UNITA rebels were common. UPM was compelled to use army escorts of the Namibia Defence Force in these regions. For this service, UPM provides the vehicles and fuel. These measures drove up the cost of the UPM service considerably (see below).

Another problem has been experienced with the appointment of intermediaries, who may collect the pension on behalf of pensioners. Intermediaries must be approved by the MHSS and are issued with their own identification cards by UPM, but are not able to collect payments at post offices.

#### 5.3. Cost and finance controls

Overhead costs for the NPS are comparatively high. Administrative costs and salaries absorbed almost 15 per cent of the budget allocated to social pensions when the system was outsourced in 1996. This is because after transfer to the private sector, no downsizing of the public sector has occurred. As a result, the total cost has increased while the number of cash distribution points has actually declined. Substantial reduction of administration costs would only occur with the establishment of public offices for the administration of the programme.

Overall, it has been found that the cash payout system is more efficient in terms of control than payments through the post office (only the more wealthy pensioners have access to bank

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accounts to which the pension can be transferred). At post offices relatives of the pensioner may collect the pension if they are in possession of the national ID card of the pensioner. It was common for pensions to be collected by grandchildren up to ten years after a pensioner was actually deceased.

With the outsourcing of the pension payouts to UPM, the cost for cash payments has increased to N\$1.7 million per month, which constitutes 9 per cent of the total pension amount (without the governmental administrative cost).

#### 5.4. Monitoring of entitlement

District Pension Officers conduct regular (at least yearly) inquiries into matters relating to national pensions. For the purpose of any inquiry the District Pension Officer may subpoena witnesses to give evidence, request the production of any documents or records, and administer an oath or an affirmation. Pensioners may also be required to appear before the District Pension Officer. Government offices, such as those registering birth/deaths and deeds/companies, are required to furnish any information requested. Any person contravening the provisions of the Act is liable to a fine of N\$2000 and/or imprisonment for six months. The pension entitlement ends when a pensioner is deceased. A death certificate issued by the Government is passed on to the relevant office of the MHSS.

Other reasons for not continuing payment are when a pension has not been collected for a continuous period of six months, or when a pensioner has left the country or entered a correctional institution.

The UPM is increasingly requested to participate in the monitoring of entitlements and pass this information on to the MHSS.

## 6. Impact and challenges for reform

In the absence of a basis for entitlement measured in terms of poverty lines or other criteria, it is very difficult for the Government to respond to the rationale for coverage and pension amounts, and in particular for pension adjustments. Therefore, it is not possible to make any reliable statement about the effectiveness of the universal scheme and its impact on poverty and income security. Without wage distribution data it is difficult to establish economy-wide average wages and minimum-income security. The SSC estimates income security to be about N\$350 per month (per household). Others argue that income security differs greatly between rural and urban areas, where access to land, housing and basic services – such as water and sanitation – is more expensive.

The Secretary of the governing SWAPO Party Elders' Council states<sup>20</sup> that old-age pensioners are generally content with the amount of N\$200 paid per month and in particular with the three increases over the past seven years. This sentiment however did not emerge from the indicative survey conducted amongst the poorer sections of old-age pensioners, particularly in the urban areas, where family networks are less effective than in rural areas. He is of the opinion that elderly persons in rural areas are increasingly faced with the burden of

<sup>&</sup>lt;sup>20</sup> In an interview conducted by the author in March 2001.

having to look after children born out of wedlock, when the parents of such children move to urban areas in search of employment. They often have no cash income other than the social state grants, and have to utilize this money for school fees/uniforms and other necessary expenditures. They are thus left with very little to meet their own essential expenses.

The old-age pension has another important dimension in addition to providing income security, namely that of contributing to the improved social status of elderly persons. Even though many of them do not have any cash other than their pension, it gives them the ability to contribute to the income security of their children and relatives in times of need. This is particularly true in the informal settlement areas of towns and cities where unemployment is estimated to be around 70 per cent of the population. One or two elderly persons in a household can provide an essential social safety net for the entire household. Thus, old-age pensioners are kept in the families and are looked after.

Namibia faces a number of challenges in reforming and providing for a comprehensive, affordable and sustainable pension system. At present, only about 6 per cent of the population is over 60. The World Bank<sup>21</sup> estimates that this ratio is expected to grow to about 21 per cent over the next few decades. Consequently, the old-age dependency ratio<sup>22</sup> is expected to rise from about 11 to 36 per cent. Existing pension arrangements are not well suited to meet the challenges of an ageing population. The Government is currently addressing these challenges by considering a process of policy formulation, which would take into account the full range of social protection needs, and balances those needs against national resources. Their aim is to create a balance in national policy, between public and social security schemes and individual and private provision, which ensures widespread coverage and achieves the desired level of income redistribution.

In future, the main focus of the Namibian Government with regard to social pensions will be on redistribution. The Government intends to restructure the pension scheme to guarantee adequate retirement income for retirees who were unemployed or underemployed, in low-paid employment while working, or whose accrual of pension benefits was reduced because they were temporarily out of work for reasons such as sickness, unemployment or family responsibilities. Redistribution between generations is also seen as desirable in order to share the benefits of economic growth and to provide adequate pensions to people who had low lifetime incomes due to a depression, war or social injustice, such as addressing the effects of the Apartheid system before independence.

With the establishment of the Social Security Commission in 1995, the question arises whether the assistance has to be universal, and financed from general taxes rather than social security contributions. Namibia has to balance this consideration with the size of its informal sector, the size and diversity of its tax base, and the ability to increase its social security contributions to cover as many people as possible (especially the elderly), and to increase the level of compliance in social security schemes.

<sup>&</sup>lt;sup>21</sup> Namibia's Emerging Pension System: Evaluation, Challenges and Options; World Bank report to the MHSS and SSC – Draft, 17 March 1999.

<sup>&</sup>lt;sup>22</sup> The number of individuals aged 60 and over divided by the number of individuals in the age group 15 to 60 expressed as a percentage.

'National Pensions' in a contributory scheme will be introduced by the SSC as provided for in the proposed Social Security Act of 1999. The proposed plan envisages a PAYG system where a contributor could retire with 15 years of contributions after having reached the age of 60. The plan intends to redistribute income by replacing a larger share of poorer worker's wages with those of better off workers. The scheme will cater for three categories of benefits: Retirement, Disability and Survivors.

Two immediate issues that emerge from these considerations are the introduction of a means-tested approach, and the integration of the flat-rated universal pension into the proposed national pension system by the SSC. Whilst the latter appears to be a long-term option with the national pension system of the SSC still to be established, the means-tested approach becomes an immediate possibility with the imminent promulgation of the Basic State Grant Act.

In this process of restructuring social retirement benefits, consideration will need to be given to the entitlement conditions under which benefits are paid, and the factors that determine the level of benefits. When the proposed Basic State Grant Act of 2000 becomes law this is bound to happen. In order to address pensioner poverty and make it more targeted and effective, a means-tested approach should be introduced.

Means-tested plans have a stronger poverty alleviation impact in that they incur lower cost and allow larger benefit payments for the same expenditure. Moreover, they ensure that resources are targeted to those who have no other source of income.

The Poverty Reduction Strategy for Namibia recommends 'to maintain fiscal sustainability while ensuring that the elderly poor are covered, adopt indicator based criteria (such as ownership of a vehicle, or a single-family home, all income tax assesses, contributors to social security, etc.) to exclude the clearly non-poor individuals from eligibility to the social pension programme.'<sup>23</sup>

The Government, having acted on the above strategic recommendation, is in the process of designing a simple 'means test.' The procedures for income and asset testing will involve a sworn affidavit by all applicants. This will simplify procedures, whilst ensuring that those most in need will get the financial support they are entitled to.

In addition to the general requirements of the proposed Act (that the claimant should be an aged person at the time of application for a grant, ordinarily resident in Namibia, and a Namibian citizen), the following regulations will be introduced under which the claimant must:<sup>24</sup>

- be unable to support himself or herself or to contribute towards his or her maintenance;
- be without a spouse who can support him or her;
- > not already be in receipt of a grant or any other form of assistance;

<sup>&</sup>lt;sup>23</sup> Republic of Namibia. Poverty Reduction Strategy for Namibia, Cabinet Decision 34th/01.12.98/002, page 20.

<sup>&</sup>lt;sup>24</sup> Draft regulations relating to Basic State Grants: Basic State Grant Bill, 2000: Section 2.

#### > meets the requirements of the means test.

The means test will require that an aged person by way of affidavit affirms his or her means, and if the means are above the maximum published by the Minister, will not be entitled to a grant.

The Minister will publish details of the means-test procedure in the Gazette. The test is likely to include movable and immovable assets, including livestock such as cattle. Discussions with old-age pensioners and organizations representing the interest of old-age pensioners revealed that the introduction of the means-tested approach is a contentious issue. In particular, it is felt that cattle should not be regarded as an asset, because they are not regarded as collateral when applying for loans from financial institutions but are seen as a status rather than as income security.

A final decision has not yet been taken. The Basic State Grant Scheme builds on the provisions of the existing NPS and tries to maximize the importance of universal pensions. Firstly, a universal flat-rate benefit has the advantage of being extremely simple both to administer and to understand. This is important for Namibia, where many pensioners are illiterate and not accustomed to complicated administrative procedures to apply for pensions and comply with payment provisions. Secondly, it avoids the potential problem of adverse disincentive and stigma that is often associated with a means-tested programme under which, by restricting the role of redistribution to that of "helping the poorest", may divide the poor from the rest.

However, better targeting and improvements in income distribution in the future would free resources to increase the social pension and keep costs of a redistributive scheme at around 2 per cent of nominal GDP. It is estimated that roughly 50 per cent of the population above the age of 60 (retirement age) would qualify for the social pension (Subbarao 1998),<sup>25</sup> on the basis of a means test. Furthermore, the social pension is fixed at 20 per cent of the average wage, which the World Bank sets at about N\$3,000 per month. This would mean that the old-age social pension could amount to N\$600 per month (provided that the means test is implemented).

The social pension could thus form the first tier of a two-tier pension system that would ensure that all Namibians are entitled to at least a basic social pension on attaining age 60. This social pension would be financed from taxes and the pension would be payable either on a means-tested or a universal basis. In addition, those who are insurable under the proposed National Social Insurance Scheme being prepared by the SSC would contribute towards a second-tier pension based on the duration of insurable employment, average earnings and contributions paid.

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<sup>&</sup>lt;sup>25</sup> Subarrao, K., 1998. Namibia's social safety net: Issues and Options for Reform. Washington, DC.

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