Namibia

Windhoek

key figures
- Land area, thousands of km²: 824
- Population, thousands (2007): 2,074
- GDP per capita, USD at constant 2000 prices (2007): 2,246
- Life expectancy (2007): 52.9
- Illiteracy rate (2007): 13.4
Namibia has experienced a decade of moderate growth, averaging 4.2 per cent per year, thanks mainly to strong performance in diamond production and sound macroeconomic policies. However, the country is also characterised by a skewed income distribution and persistent poverty.

Real GDP (Gross Domestic Product) growth in 2007 is estimated at 3.8 per cent compared with 4.1 per cent in 2006 partly as a result of the poor performance of diamond and other mining activities. Economic growth is expected to accelerate to 4.4 per cent in 2008 as offshore diamond production increases and mineral production, such as that of uranium, expands. A forecast decline in diamond production in 2009 is mainly behind the expected drop of economic growth to 3.3 per cent.

Namibia is facing major challenges. These include ensuring employment-creating growth, strengthening competitiveness and a smooth process of land reform. In spite of economic growth exceeding 4 per cent a year on average over the past decade, the unemployment rate increased between 2000 and 2004. Namibia’s competitiveness is hampered by the lack of a skilled workforce and a poor work ethic. Although the country has allocated more resources as a proportion of GDP to education than most other African countries, the outcome is not good. Drop-out and repetition rates remain high and Namibian school students perform poorly in subjects such as English and mathematics compared with other

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![Figure 1 - Real GDP Growth and Per Capita GDP](source).](http://dx.doi.org/10.1787/316675370187)

Source: IMF and Bank of Namibia data; estimates (e) and projections (p) based on authors’ calculations.
countries in the region. The government has embarked on an Education and Training Sector Improvement Programme (ETSIP) to address these shortcomings. An unequal distribution of land to the advantage of a small minority of commercial farmers was inherited from the colonial era. Some 4,000 commercial farms share a similar proportion of the country as the traditionally managed communal farms (around 150,000 families). Thus the challenge facing Namibia is a redistribution of land without endangering agricultural output, total national production, foreign exchange earnings, and farm-workers’ employment and income.

**Recent Economic Developments**

In the past 10 years, average annual real GDP growth amounted to 4.2 per cent. The highest growth rate recorded was 6.7 per cent in 2002. Since 2004 real growth rates have moderated from 6.6 per cent in 2004 to 3.8 per cent (2007). Thanks to considerable terms of trade gains since 1996, real national income grew more rapidly than GDP.

The tertiary sector contributes more than 50 per cent to GDP, followed by primary and secondary industries. Within the primary sector mining and quarrying industries contribute around 13 per cent to GDP compared with 6 per cent and 4 per cent for agriculture and fisheries respectively. The single most important primary industry is diamond mining which contributes nearly 9 per cent to GDP. Commercial agriculture contributes about twice as much as communal (i.e. subsistence) agriculture to GDP.

The mining sector continues to benefit from strong and increasing world market prices and has attracted additional investment. New mining sites, especially uranium deposits, are being developed and the lifespan of existing mines is being extended while new lower-grade deposits are explored and exploited. The projected growth for the mining sector in 2007 was 1.7 per cent, mainly because of unforeseen shortfalls in diamond and uranium production. A growth of 9 per cent is anticipated for 2008, because of the expected increase in uranium and diamond production. Offshore diamond mining activities are due to grow.

Agriculture has also benefited from rising world market prices. Local horticultural production increased its market share over the years from 7 per cent to about 30 per cent, with some horticultural produce being exported to South Africa. However, the agricultural sector’s performance is heavily dependent on weather conditions. Livestock marketing increased considerably because of last season’s poor rainfalls (November 2006 to March 2007) which led farmers to reduce herd sizes. Livestock was either slaughtered locally or exported on-the-hoof to feedlots and abattoirs in South Africa. It is expected that farmers will rebuild their herds of cattle and other livestock in 2008. The general outlook for the agricultural sector is positive with growth expected to be 3.7 per cent in 2008 – up from 3.2 per cent in 2007. Prospects in the fishery sector remain bleak. At the beginning of 2007, output declined as a result of shrinking fish stocks. The government reacted by reducing the total allowable catch (TAC) for some of the most endangered (and economically most important) species, such as hake, and introduced a moratorium in October 2007 on hake catches. This further reduced the output of the fishery industry. Other factors contributing to the sector’s poor performance are the high price of oil, low market prices and unfavourable oceanic conditions. Growth of the sector was estimated at 1.5 per cent in 2007 and is expected to be similar in 2008.

Within the secondary sector manufacturing activities dominate, contributing 13.2 per cent to GDP. The sector comprises mainly the production of meat, fish, and beverages as well as copper and zinc processing. Construction contributes around 4 per cent to GDP, while electricity and water account for about 3 per cent. The sub-sector of meat processing benefited during 2007 from an increase in livestock sales. Local processing of minerals and other raw materials is on an upward trend because of increased production at the zinc refinery and copper smelter. Diamond cutting and polishing activities are expected to benefit from the newly formed Namibia Diamond Trading Company (a joint venture between De Beers and the government).
that will allow Namibian manufacturers to buy uncut diamonds directly in Namibia for the first time. It is estimated that about 14 per cent of rough diamonds will be made available to various local cutting and polishing factories.

Electricity generation increased because of supply limitations in South Africa and good rainfalls in Angola, benefiting Namibia’s hydro-power plant at the border with Angola. The construction sector continues to show strong growth mainly as a result of projects under way in the mining, transport and communications sectors. Chinese firms play an increasingly important role in this sector. Growth of 9.5 per cent is expected in 2008, up from 9.3 per cent in 2007. Growth in the mining sector, which is the largest consumer of electricity and water, is expected to lead to an increase in electricity and water production.

Within the tertiary sector, government services (about 19 per cent of GDP) played the most important role, although their share has declined since 1996 (22.7 per cent). Wholesale and retail trade ranked second with 12 per cent. Hotels and restaurants are an important part of the flourishing tourism industry. Namibia is identified by the World Travel and Tourism Council as the sixth fastest growing tourism industry in the world. According to the Tourism Satellite Accounts, tourism contributes about 17 per cent to GDP and employment. Initial data for 2007 show an
increase in tourist arrivals and bed occupancy rates, which bodes well for growth in the sector. Several tourism facilities are expected to be upgraded during 2008 to serve the higher value market segment.

The transport and storage sub-sectors have benefited from the growing business at Namibian ports (mainly Walvis Bay) and airports (chiefly Windhoek). The communication sector was revitalised by the arrival of a new competitor in the mobile phone market.

There have been major changes between 1998 and 2007 in the behaviour of the components of final demand (see Table 1.). Consumption as a percentage of GDP decreased from 88 per cent in 1999 to 74 per cent in 2006. Private consumption fell by 6 percentage points from 57 per cent to 51 per cent during the same period, while public consumption decreased from 30 per cent to 23 per cent. Gross Capital Formation increased from 23 per cent in 1999 to 27 per cent in 2006. Exports showed stronger growth during the period than imports, thereby reducing the deficit on goods and non-factor services from 10.8 per cent in 1999 to 0.3 per cent in 2006. Public and private investment are projected to grow strongly in 2008 and to contribute slightly more to growth than public and private consumption. However, consumption is expected to be a stronger driver of growth than investment in 2009.

**Macroeconomic Policy**

Namibia’s economic policy is based on the long-term Vision 2030, implemented through medium-term development plans. The Third National Development Plan covers the period 2007-2011. The reduction of poverty and income inequality; creation of private sector employment; promotion of Black Economic Empowerment (BEE); achieving sustained economic growth; and reduction of the spread of HIV/AIDS have been the main objectives of these development plans. In addition, ministries prepare medium-term plans to support their budget requests. These plans include output and outcome indicators that the ministries intend to achieve with the allocations.

**Fiscal Policy**

Namibia recorded its first budget surplus since independence in 1990 during the 2006/07 fiscal year, equivalent to 1.9 per cent of GDP. The fiscal year 2007/08 is expected to yield again a surplus of about 0.3 per cent of GDP. The budget surplus expected in 2007/08 is partly attributable to further increases in revenue from the Southern African Customs Union (SACU) Common Revenue Pool and improved domestic tax collection. The additional income is used to reduce debt as well as to increase expenditures.

The government’s three-year medium-term expenditure framework (MTEF) continues to address the challenges of poverty reduction and sustainable economic growth. In the 2007/08 budget the personal income tax threshold was raised from NAD 24 000 (Namibian dollars; in March 2008 USD 1 = NAD 7.84) to NAD 36 000. The deduction allowable for retirement contribution was increased from NAD 3 000 to NAD 4 000. This improves the ability of employees to cater for their pension needs and also provides an incentive for increased savings. The budget also makes additional funds available for a major expansion in the provision of grants and allowances for orphans and vulnerable children. An amount of NAD 450 million was made available to extend further the AIDS treatment programme in line with the government’s commitment to ensure that all Namibians in need of anti-retroviral treatment (ART) are able to receive it. Additional resources are also made available to improve education through ETSIP.

Deficits are projected to be 0.7 per cent and 1 per cent in 2008/09 and 2009/10 respectively, slightly lower than the deficits of 1.1 per cent of GDP for both years projected in the MTEF. The deterioration in the deficit from a small surplus in 2007/08 can be mainly attributed to the decline in SACU receipts following the expected phasing in of SACU free trade agreements with third parties in 2008. However, the effects of the free trade agreements might be limited as a result of robust growth in South Africa and hence growing imports to that country. The substantial dependence on revenue from international trade taxes (around
35 per cent of total revenue) poses fiscal challenges for the near future since free trade agreements as well as the Economic Partnership Agreement (EPA) with the EU are expected to result in a decline of revenue from this source. Total expenditure is forecast to decrease from 32 per cent in 2007/08 to 31.4 per cent of GDP in 2008/09 and to be about the same in 2009/10.

Prudent fiscal policies which resulted in budget surpluses for 2006/07 and 2007/08 (estimated) will enable the government to reduce public debt. The ratio of total public debt to GDP for 2007/08 is 24.8 per cent and is expected to decrease to 23.6 per cent in 2008/09 and 23.8 per cent in 2009/10, thus falling into line with the stated target of less than 25 per cent. Domestic debt accounted for more than 80 per cent of total debt in 2006. At the end of 2006 public foreign debt accounted for 18.7 per cent of total debt. The share increased to 25 per cent in 2007 and is expected to increase to 26 per cent in 2008 and 2009. The level of public debt is in line with the medium term expenditure framework.

**Monetary Policy**

Namibia is a member of the Common Monetary Area (CMA) together with South Africa, Lesotho and Swaziland. As in Lesotho and Swaziland, the Namibian dollar is pegged to the South African rand on a one-to-one basis. Each member of the CMA has its own central bank and maintains responsibilities normally performed by such institutions, such as regulating commercial banks and acting as a lender of last resort. There is a bilateral agreement with South Africa which requires Namibia to back its currency fully with foreign exchange reserves. This arrangement links Namibia to the inflation targeting framework of South Africa which covers a band of 3 per cent to 6 per cent. Hence monetary policy in the smaller CMA member countries is determined to a large extent by South Africa, limiting its use as policy tool.

Inflation in the Rand Area accelerated in the first half of 2007, triggering interest rate increases by the South African Reserve Bank in response. The repurchase rate was raised in four steps from 9 per cent at the beginning of 2007 to 11 per cent in December. The Bank of Namibia followed suit except for the last increase, resulting in a difference in the bank rate of 50 basis points between Namibia and South Africa. Subsequently, the prime lending rate in Namibia increased from 13.75 per cent in May to 15.25 per cent at the end of 2007. Commercial banks were criticised for increasing the prime rate in line with the South African repurchase rate increase, ignoring the softer stance of the Bank of Namibia in December 2007. Interest rates remained at the current level at the end of January 2008 because of declining private sector credit demand in Namibia but in spite of continuing inflationary pressure.
While inflation moderated slightly to 6.7 per cent in September from 6.8 per cent in August, international oil prices that reached USD 100 in the second half of 2007, as well as rising food prices, led to price increase of 7.1 per cent in December. Food prices rose by 13.6 per cent during that month, compared with the same month in 2006. Costs for the operation of transport equipment increased by 13 per cent, resulting in an inflation rate of 6.7 per cent for the year as a whole. It is expected that prices will increase at a slower pace during 2008 and 2009, namely by 6 per cent and 5.1 per cent respectively.

**External Position**

South Africa remains Namibia’s main trading partner. Namibia imports about 80 per cent of its products from or through South Africa, while about 30 per cent of Namibia’s exports are destined for South Africa. The EU is a major destination for Namibia’s products, in particular diamonds, beef and grapes. Angola ranks as the second most important export destination in Africa. Namibia has taken advantage of the US African Growth and Opportunity Act (AGOA) to attract investment in the textile industry in order to export the products to the US market.

Namibia is a member of the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). SACU concluded an agreement with the European Free Trade Association (EFTA) in 2006. Individual countries are currently in the process of ratifying the agreements but have not yet implemented it. The negotiations between SACU and the United States for a free trade agreement are stalled. The SADC Free Trade Area is supposed to be launched in 2008 but not all member countries are yet ready.

Namibia is a party to the SADC-EPA negotiations. The trade preference granted to the African, Caribbean and Pacific (ACP) group of states ended on 31 December 2007. SADC and the EU began negotiating an EPA in good time in order to conclude before the expiry date. However, towards the end of 2007 no agreement had been signed because of unresolved outstanding issues, such as infant industry protection and the demand of the EU that the most favoured nations tariffs automatically apply to EU products. There was grave concern that the Namibian economy would incur losses in 2008 if no agreement were reached before the end of 2007 because products such as beef, grapes and fish would not be competitive in the EU market without preferential access. At the last minute both parties signed an Interim EPA that allows duty-free and quota-free access of all Namibian products to any of the 27 EU member states from January 2008. On the other hand, Namibia is required to phase in reciprocal market access for EU products starting from the second half of 2008.

Namibia generated its first trade surplus of NAD 642 million, equivalent to 1.4 per cent of GDP (see Table 3), resulting in an increase of the current account as a percentage of GDP from 7 per cent in 2005 to 17 per cent in 2006. However, during the first half of 2007 imports grew more strongly than exports,

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<th>Table 3 - Current Account (percentage of GDP)</th>
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**Source:** Bank of Namibia data; estimates (e) and projections (p) based on authors’ calculations.

**StatLink:** [http://dx.doi.org/10.1787/323157711867](http://dx.doi.org/10.1787/323157711867)
resulting in a trade deficit of some NAD 550 million. The export performance was mainly influenced by a decline in diamond production.

The trade balance as a percentage of GDP is forecast to exhibit a deficit of 4 per cent and 6 per cent in the years 2008 and 2009 respectively. A lower net inflow of current transfers not fully offset by an increase in tourism earnings contributed to a current account surplus of 13.4 per cent in 2007, down from 16.6 per cent in 2006. The current account surplus is projected to fall further to 7 and 3.8 per cent of GDP in 2008 and 2009 respectively. The expected decline in the current account surplus for the next two years is due to a shrinking SACU common revenue pool because of trade liberalisation beginning in 2008.

International foreign exchange reserves increased significantly. This resulted in international reserve stock of more than NAD 6 billion, which represents 13.5 weeks of import cover. It therefore exceeds the international benchmark of 12 weeks import cover for the first time since independence, indicating a positive outlook for the Namibian economy.

Foreign direct investment (FDI) continues to play an important role in some of the most dynamic sectors (fishing, mining, manufacturing, construction, tourism, telecommunications and financial services) of the Namibian economy, not least by crowding in local investment. The mining sector was the main beneficiary of FDI. Nevertheless, the capital account recorded a higher deficit in 2007 compared with 2006, because of a significant outflow of portfolio investment and a slowdown in the inflow of direct investment. Although the deficit on the capital account was significant, it was offset by the large current account surplus. This resulted in the overall balance of payment surplus of more than NAD 2 billion in 2007.

The international investment position of Namibia improved in 2007, with net foreign assets exceeding

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**Figure 3 - Stock of Total External Debt (percentage of GDP) and Debt Service (percentage of exports of goods and services)**

![Graph showing the stock of total external debt and debt service](http://dx.doi.org/10.1787/320072575166)

**Source:** IMF.
NAD 25 billion. Foreign assets are dominated by private portfolio investment and the international reserves of the central bank. Portfolio investment from Namibia continues to be attracted by the investment opportunities in the South African capital market compared to a relatively underdeveloped capital market in Namibia.

The ratio of total external debt to GDP remained at about 25 per cent in 2007 and is expected to increase slightly to 26 per cent in 2008 (Figure 3). The ratio of debt service to exports is projected at about 3 per cent for 2007 and 2008 and hence lower than the 4.4 per cent in 2006. This level of debt is within manageable proportions.

Namibia is a lower middle income country; a status which does not facilitate access to concessionary finance. Support from donors has been declining; grants currently account for less than 1 per cent of total revenue and are expected to decline further in the coming years. Organisations that attract a significant amount of donor funding are those working in areas such as the HIV/AIDS pandemic. The decrease in donor aid to Namibia can be explained by the fact that the country has mastered the political transition and is stable. Many donors are reallocating their official development assistance to countries believed to be in greater need. However, the Namibian government is in the final stage of concluding an agreement with the Millennium Challenge Corporation to benefit from the Millennium Challenge Accounts.

Structural Issues

Recent Developments

Up to now, the government has pursued the policy of “willing seller – willing buyer” in order to redistribute land. This policy basically reflects the working of the market principle, but requires that farms have to be offered to the government first. However, because of the slow process of redistributing farm ownership, the government has embarked on expropriation of farms with compensation (likewise, constitutionally provided for), whereby the amount of compensation can finally be settled by an impartial arbitrator. According to the constitution, land reform must be designed to the advantage of the “formerly disadvantaged”.

The focus of reform efforts in the state-owned enterprises has been on improving operational efficiency, rather than privatisation. State-owned enterprises contribute about 5 per cent to both GDP and employment. However, many of these enterprises are notorious loss-makers, while it is not always clear what type of public good they provide to justify a continuing subsidy. Mobile Telecommunications Limited (MTC), the mobile phone company operator, has been partly privatised with large-scale private equity participation and more than NAD 1 billion invested.

In order to support small and medium-sized enterprises, the Development Bank of Namibia was given an additional NAD 29 million in the 2007/08 budget to strengthen the Special Development Fund, the main financial vehicle for the support of small and medium enterprises.

A sovereign guarantee in the amount of NAD 350 million was provided to the Agricultural Bank of Namibia to generate NAD 500 million in loans and strengthen its balance sheet. This is expected to facilitate the land reform programme through the Affirmative Action Loan Scheme. The government is currently reviewing this scheme in order to improve the outcomes of the land reform programme in terms of sustainability.

The country has a highly developed financial system. The banking sector is well capitalised and profitable. Non-banking financial institutions also have sound balance sheets. Most banks and non-bank financial institutions have significant equity participation from South African firms, a factor that facilitates access to South African capital markets. The assets of the financial system are about 170 per cent of GDP. There are four commercial banks, about 31 insurance companies, 500 pension funds, the Namibia Stock Exchange, asset management companies, specialised lending institutions, a number of micro-lending institutions, and unit trust management companies.
The government has encouraged the localisation of the operations of financial institutions in Namibia in various ways. For example, foreign banks and insurance companies are required to set up subsidiaries in Namibia in order to conduct business and must match at least 100 per cent of their liabilities with local assets.

Although the non-banking financial institutions sector is developed and mature, there are concerns that it is under-supervised. The Namibia Financial Supervisory Authority (NAMFISA) is responsible for the regulation and supervision of this sector, but has yet to develop full capacity to analyse and respond to the development in the sector.

The development of infrastructure, especially in the rural areas, is required for economic growth. Accordingly, the Development Fund was significantly increased from NAD 1.8 billion in 2006/07 to NAD 2.1 billion in 2007/08. Budget appropriations are expected to remain at NAD 1.9 billion in 2008/09 and 2009/10. A large part of the funds is allocated to the national rail and road networks.

Namibia has experienced periodic power shortages and this situation threatens to become worse as South Africa’s power utility Eskom is expected to continue reducing, and eventually to end, its export of electricity to Namibia and other Southern African countries because of increased demand at home. In 2007, the government invested an additional NAD 500 million in NamPower in order sufficiently to capitalise the utility for the proposed construction of a gas-fuelled power plant. This is in addition to the NAD 250 million invested in NamPower in 2006. A feasibility study is currently underway to look at the possibility of installing a fourth unit at the Ruacana Hydro-power Station to expand its power generation capacity. To promote energy efficiency and reduce the demand, NamPower has distributed some 800 000 energy saving bulbs since October 2007 to private households across the country. NamPower has announced that it will introduce load shedding in early 2008 in order to cope with peak demand. The electricity shortages can have a negative impact on economic growth and investment, in particular in mining activities.

Namibia has increased the proportion of people with access to safe drinking water and basic sanitation in both rural and urban areas (See AEO 2006/07). Access to piped water is available to 75 per cent of the population. The infrastructure programmes currently under way also include a desalination project aiming at supplying a new uranium mine with water.

Namibia has made advances in ensuring environmental sustainability. There is good progress in maintaining biological diversity in protected areas, but only slow progress in conservancies and freehold land. There is currently a rush by companies to mine uranium and it will be important to manage the attendant environmental risks.

**Technical and Vocational Skills Development**

At present, about 3 000 trainees are enrolled in 10 Vocational Training Centres (VTCs) and the six Community Skills Development Centres (COSDECs), and the number is steadily increasing. Annually, around 1 500 students enter the training facilities while around 250 graduate. However, this falls far short of accommodating the 16 000 annual Grade 10 school leavers who are supposed to benefit from these centres. Moreover, Grade 12 school leavers (some 31 000 per year) also try to apply for Vocational Education and Training (VET). Thus, only a minority of school leavers receive formal VET. The VTCs receive significantly more applications than they can accept. Around 30 per cent of VET students are female. Their fields of study mainly coincide with existing gender stereotypes. The community-owned and rural-based COSDECs can be regarded as specific attempts to provide skills and employment opportunities for disadvantaged groups and to relieve regional disparities. Some VTCs provide training places for physically challenged students.

In the Namibian educational system generally, as well as in VET specifically, student pass rates are on a downward trend and have become fairly low. In 2004 664 VET candidates (old level 4 and new level 3 graduates) were (externally) examined, but only 150 (23 per cent) passed the test. The low pass rates do not seem to be the result of ever-rising pass standards. Several studies have
concluded that the educational and VET systems fail to provide the necessary skills for several reasons. One is that the trainers often are not really experienced professionals. Between one third and two thirds of the VET trainers (varying across the VTCs) possess only one qualification, which is that they have successfully completed their own training in a VTC. Another reason refers to the bureaucratic over-centralisation which deprives the VTCs of almost any possibility of flexible and independent management and decision making. Moreover, although being highly centralised, the VET system lacks organisational clarity. The employers of skilled craftsmen are called upon to provide practical training to VET students, but do not (yet) contribute financially to the running of the VET system.

The Namibian labour market is characterised by a severe lack of skilled labour and wide-spread unemployment among semi-skilled or unskilled workers. A recent study has projected a continuing substantial deficit in the supply of a large range of professionally qualified workers: IT technicians, professional nurses, financial practitioners, technicians, semi-professionals, engineers, physicians and dentists.

In 2002, the VTCs offered around 20 different trades. Most students enrolled in (in descending order): carpentry/joinery/cabinet making; auto mechanics; bricklaying; plumbing; general electric; secretarial; and welding/fabrication. IT services and entrepreneurial training have recently been taken up by some VTCs. Training in the use of computers is not possible in all VTCs because of a lack of equipment. The range of trades offered by the COSDECs is more limited. They specifically take into account local (mainly rural) resources, possibilities and needs. Several trades are taught at VTCs and COSDECs alike. However, the latter also teach brick-making, bush furniture production, needlework, baking, leather tanning, leather products and solar cooking.

The VTCs mainly aim to enable their students to become employed in the formal labour market, while attention is currently shifting to include self-employment as well. The central idea of the COSDECs, by contrast, is to provide opportunities for self-employment in a local context. Some officially recognised (and publicly sponsored) VTCs are run by enterprises (e.g. diamond mining, auto motive repair) mainly for their own needs.

School-leavers who complete only primary, junior secondary or senior secondary education face a high likelihood of unemployment – the rates are 30, 40 and 20 per cent respectively. These figures drop to nearly zero for graduates of any type of post-secondary education. Unemployment rates are all lower than 1 per cent for holders of an “After Standard 10 Certificate” – e.g. VET, university degree, other post-graduate degree or teacher training.

The reportedly very low unemployment rates for post-secondary graduates stand in stark contrast, however, to the results of tracer studies performed by some VTCs about their former students. Five years after graduation, about 25 per cent of the respondents regard themselves as unemployed. An unemployment rate of 25 per cent is even slightly higher than the nationwide rate of about 22 per cent (on the strict definition of unemployment).

Tracer studies also raise doubts whether the VET meets the needs – in terms of specialisation and quality level – of the future employees and their employers. Although there is no systematic and quantitative evidence, there seem to be indications that there is a considerable mismatch.

Total educational spending is around 9 per cent of GDP and about 27 per cent of total government expenditures. During the past five years the figures have fluctuated but have not shown a clear trend. About 2 per cent of total government educational spending is on vocational training. Expenditures for tertiary education (including VET) showed an upward trend. Besides the government, there are foreign NGOs (including churches) and national private sources which fund VET on an investment or recurrent basis. Some of their vocational undertakings are supported financially by the government.

The annual costs to train a student in a VTC diverge largely. Earlier estimates produced an amount of
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NA D 23 000 and NAD 27 450 for 1995 and 1999 respectively. However, recently issued government figures “gross cost per trainee in a VTC” for 2004/05 amount to only around NAD 8 000. The costs per trainee differ widely across VTCs, up to a ratio of 1:4 between the cheapest and most expensive VTCs. In COSDECs, the costs per trainee reportedly average NAD 4 800.

At the end of the 1990s, public and government awareness of the weaknesses of the educational and VET system grew. The then ministry of higher education, training and employment creation conducted a comprehensive and critical analysis of the VET system in 1999. A presidential commission's report on the whole educational sector followed in 2000. However, the reform initiatives formulated at that time were not implemented. Instead, a systematic educational sector review was undertaken in 2003 with input from the World Bank, resulting in the implementation of the Education and Training Sector Improvement Programme (ETSIP). Momentum for reform has been supported by the formulation of the government’s “Vision 2030”.

In 2005, the three ministries responsible for VET were merged into one ministry of education followed by the transfer of VET programmes for the agricultural sector from the ministry for agriculture to the ministry of education. In the same year reforms of the curriculum and of the style of teaching began. VET was shortened from four to three years. Moreover, competency-based education and training (CBET) has been introduced step by step. Granting the VTCs more leeway for flexible management is under consideration. Likewise, preparations are under way to implement a levy on employers to help finance the VET system. The organisational set-up of the VET system is to be further streamlined by the creation of a National Training Authority (NTA). However, the relevant legislation is still pending approval by parliament.

ETSIP as a whole is a long-term undertaking. It is divided into three five-year phases. The first implementation phase (2006-11) is supported by direct budget support from the World Bank (“development policy loan”) in the amount of USD 15 million (divided into two equal tranches). Other donors (nine foreign governments and 17 Namibian enterprises) are expected to contribute a much larger amount, USD 324 million, of which 85 per cent consists of grants while the rest is in the form of soft loans. The costs of the first year of the first ETSIP phase amount to around USD 50 million. Thus, in principle, financing has been fully secured for the first six years of operation.

The main challenge is fully to implement the continuing reforms of the VET and educational system in order to absorb more school leavers and to improve the quality of learning.

Political Context

Namibia became independent in 1990 peacefully, after decades of a bloody war of liberation against South African apartheid rule. Since then, four parliamentary elections have been held with several competing political parties. The South West African Peoples Organization (SWAPO) won at first a plurality, and later an absolute majority, of seats in parliament.

At the SWAPO congress in November 2007 the founding president of Namibia, Dr. Sam Nujoma, retired from the presidency of the party, having already handed over the national presidency to his elected successor in 2005. That allowed current national President Hifikepunye Pohamba to become the president of SWAPO in an unopposed election. This eliminates the perception of two centres of power and has been welcomed by many as a positive political development. For the first time a woman was elected as secretary general of SWAPO, though the number of women in the political bureau actually decreased. The congress resulted in an infusion of about 30 per cent of a new generation of politicians into the central committee and the political bureau.

A new political party, the Rally for Democracy and Progress (RDP), was formed just weeks before the SWAPO congress by some former members of SWAPO. The new party aims to challenge the near monopoly
of political power of SWAPO, which currently enjoys a two-thirds majority in parliament. While the number of opposition parties has grown over the years, they occupy fewer seats now than before.

President Hifikepunye Pohamba has made fighting corruption a priority since succeeding Nujoma as president in March 2005 and quickly brought the anti-corruption commission into operation. Namibia has been cited by Transparency International as a country that is producing good results in the fight against corruption. The Transparency International corruption perception index shows that Namibia’s score increased from 4.1 in 2006 to 4.5 in 2007, a score that places Namibia among the top five best-governed countries in Africa.

Decentralisation is still in its infancy and fiscal decentralisation is a challenge. The country has not yet seen great results from the process. The education and the health sectors created institutions for decentralisation but decisions are still made at the central government level.

Social Context and Human Resources Development

Namibia has made progress towards meeting most of the Millennium Development Goals (MDGs). It is on track to meet some targets before the scheduled time, such as those relating to gender equality and environmental sustainability. The latest information concerning poverty is based on the National Household Income and Expenditure Survey of 2004. The results indicate that poverty levels have declined since 1994 from 38 per cent to 28 per cent in 2004. Poverty is defined by the food consumption ratio: people who spend more than 60 per cent of their expenditure on food are considered poor while people spending more than 80 per cent on food are considered severely poor. The proportion of severely poor households dropped from 9 per cent to 4 per cent during the same period. If Namibia continues with this progress, the country will halve poverty by the year 2015. Income distribution also improved, reflected in the reduction of the Gini coefficient from 0.7 to 0.6. However, Namibia remains one of the most unequal societies in the world.

In spite of this progress, there are concerns regarding the performance of the health and education sectors. Life expectancy is low because of the high incidence of HIV/AIDS, malaria and tuberculosis. The educational system has expanded rapidly, although its performance has not met expectations. Primary education often fails to provide students with the necessary skills to continue with secondary schooling or successfully to complete secondary education. This has spill-over effects to tertiary education. The government has acknowledged the challenges and embarked on ETSIP with financial support from international co-operation partners. Despite the fact that Namibia was ranked by the World Economic Forum in 2007 among the top seven out of 131 countries in terms of spending on education, educational attainment at primary, secondary and tertiary levels is low.

The government has made specific provisions for additional funding to fight HIV/AIDS, tuberculosis and malaria. An amount of NAD 450 million was allocated in the budget for 2007/08 to extend further the HIV/AIDS treatment programme and ensure that all Namibians in need of anti-retroviral treatment are able to receive it. The HIV/AIDS prevalence rate, measured by the Sentinel Survey, dropped in 2004 from 22 per cent to 19.7 per cent but increased marginally to 19.9 per cent in 2006. The next survey will be conducted during 2008.

The unemployment rate remains high. According to the Labour Force Survey of 2004 (the next survey will be conducted in 2008) about 21.9 per cent of the economically active population are unemployed (on the strict definition of unemployment). According to the broader definition, the unemployment rate is 36.5 per cent. Economic growth has not been sufficient to absorb all new entrants to the labour market. In an effort to improve the entrepreneurship and professional skills of previously (during the apartheid era) disadvantaged people the government pursues the policy of affirmative action and has established the Employment Equity Commission. Companies are required to submit annual
plans on how to increase the proportion of previously disadvantaged groups of society in management. In addition, the government has started work on a broad-based economic empowerment policy. However, the results of these programmes have not been satisfactory because they have benefited only a few people. The majority of unemployed Namibians are those without post-secondary education. The lack of skilled people combined with a poor work ethic and restrictive labour regulations have been identified by the *Global Competitiveness Report 2007* as the main impediments to competitiveness in Namibia.

A new labour law (Act 13 of 2007) came into force on 31 December 2007. It bans labour hire companies that provide companies with temporary labour, and provides generous leave to employees. Employees who work for five days a week are entitled to 24 working days leave and five days of compassionate leave per year. This makes Namibia one of the countries with the highest number of leave days in Southern Africa. Disputes are to be resolved through district labour courts through a system of reconciliation and arbitration. This is expected to speed up the dispute resolution process which is often lengthy and costly. There are concerns that the increase in the number of leave days may have a negative effect on productivity and competitiveness.