Namibia

key figures

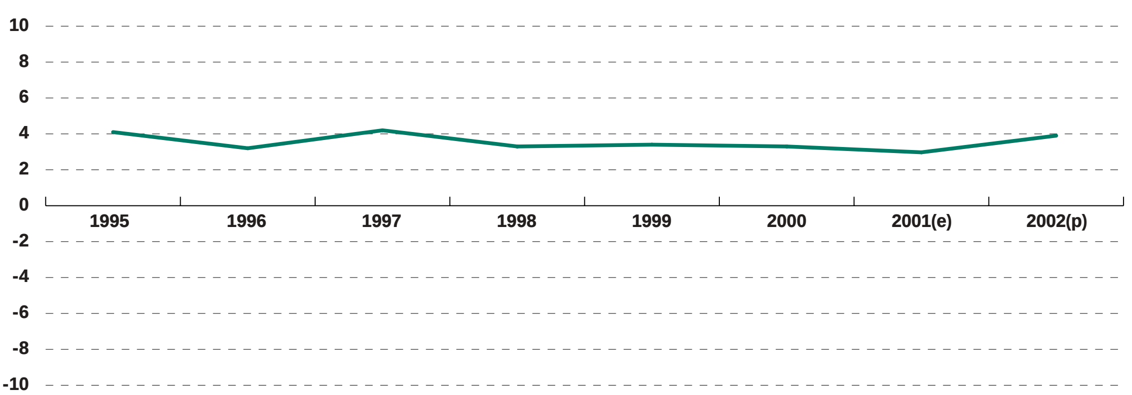
- Land area, thousands of km²: 823
- Population, thousands (2000): 1 757
- GDP per capita, $ (2000): 1 955
- Life expectancy (1995-2000): 45.1
- Illiteracy rate (2001): 17.3

Namibia

NAMIBIA, A MIDDLE INCOME COUNTRY with an income per capita of $1 955 and a total population of less than 2 million, is still an economy largely based on the exploitation of natural resources such as diamonds, agriculture and fishing. Since its independence in 1990, public policy has been struggling with the development of other economic activities. However, the pace of growth has remained stable at moderate levels — around 3.3 per cent a year — and is expected to stay the same in 2001 and 2002. So far, the main structural change has been the increase of state intervention in the economy with government services accounting for almost a quarter of gross domestic product. On the political side, land reform is increasingly gaining momentum, and black empowerment, although high on the government agenda, has given mixed results. Yet, Namibia is an uneven society with one of the highest levels of income inequality. With poverty delineated along functional groups and by urban-rural dualism, social cohesion is still a highly sensitive issue.

So far, the main structural change in Namibia has been the increase of state intervention in the economy

Figure 1 - Real GDP Growth



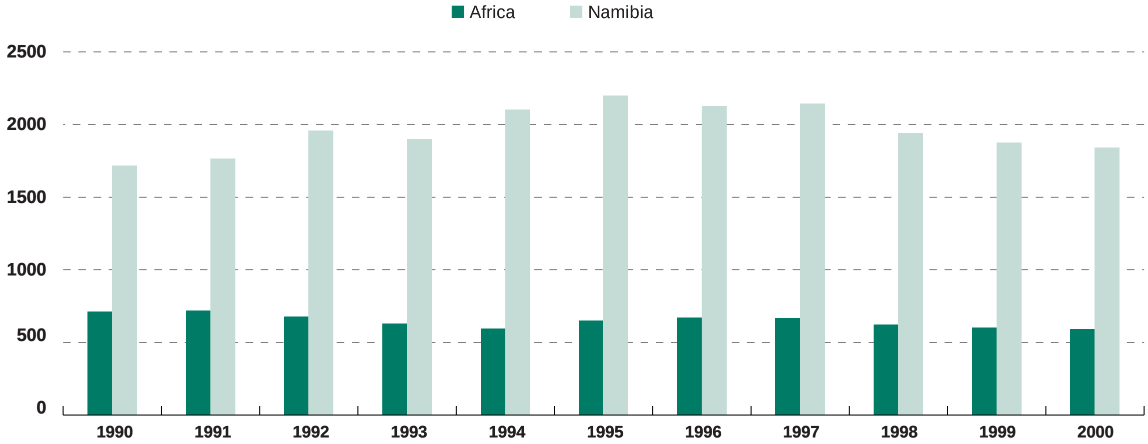
Source: Authors' estimates and predictions based on domestic authorities' data.

Recent Economic Developments

During the last six years (1995-2001) Namibia experienced an average growth rate of 3.5 per cent, 1.5 per cent below the target of public policy, but slightly above the rate of population growth resulting in an average increase of 0.3 per cent in real GDP per capita over the period. Real growth has been sustained by the developments of the export-oriented primary sectors (agriculture, fisheries and mining) and by the large non-tradable government sector. In 2000 output growth declined slightly from 3.4 per cent in 1999 to 3.3 per cent in 2000.

The mining sector is still the backbone of the economy accounting for 50 per cent of merchandise exports earnings. After a rapid expansion in 1999, diamond output, which represents the bulk of mining, dipped sharply during 2000. The sector has been transformed in the last years: the proportion of diamonds mined off-shore reached 57 per cent in 2000. The performance of the mining sector in 2000 was helped by the reopening of a copper mine that led to an increase of 10.3 per cent in value added from non-diamond mining. The outlook for the sector appears positive, since the opening of a major new zinc mine

Figure 2 - GDP Per Capita in Namibia and in Africa ($ current)



Source: Authors' estimates based on IMF and domestic authorities' data.

at the end of 2002 is likely to have an enormous impact on the country's economic growth.

After a two-year period of decline, the agriculture sector made a significant turnaround in 1999 and 2000 registering an average growth rate of 10.7 per cent. This good performance was largely the outcome of the recovery in livestock. However, sectoral performance remains volatile owing to climatic conditions. The fishing sector, after a poor year in 1999, grew by 13.3 per cent in 2000 with white fish performing especially well.

The role of the government in the economy has continuously expanded since independence in 1990: excluding parastatals — for which statistics are not available on an aggregated basis — government services in 2000 accounted for almost a fourth of GDP. In 2000 the sector grew by 4.2 per cent, much higher than the average for the last five years.

The manufacturing industry — a priority for government policy — has not increased significantly during the last five years, although in 2000 the sector's output increased by 4.5 per cent. Its contribution to growth is still unstable given that almost 80 per cent of the sector is engaged in food-related industries (food processing, fish processing and brewing). However, the good performance of the non-food processing sub-sector was largely the cause of the encouraging growth in 2000.

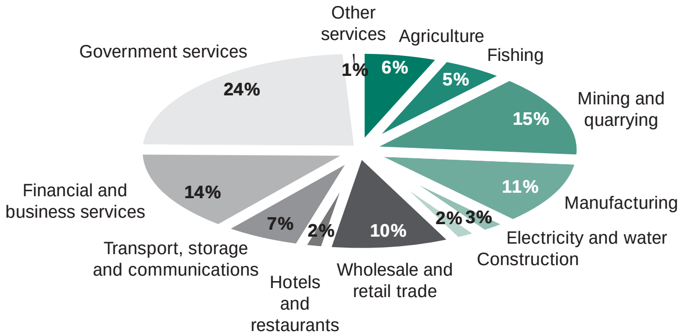
The structure of domestic demand is changing as a result of declining investment. Indeed, investment

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**21.2**	**25.1**	**22.8**	**18.1**	**18.1**	**18.5**
Public	5.5	4.7	4.6	3.3	3.3	3.3
Private	15.7	20.3	18.2	14.8	14.9	15.1
Consumption	**84.8**	**86.7**	**87.7**	**84.6**	**86.3**	**85.8**
Public	29.5	28.8	29.7	27.4	28.0	27.2
Private	55.3	57.9	58.0	57.2	58.3	58.6
External sector	**-6.0**	**-11.7**	**-10.5**	**-2.7**	**-4.4**	**-4.3**
Exports	48.4	44.7	45.3	50.0	46.8	43.3
Imports	-54.4	-56.4	-55.8	-52.7	-51.2	-47.5

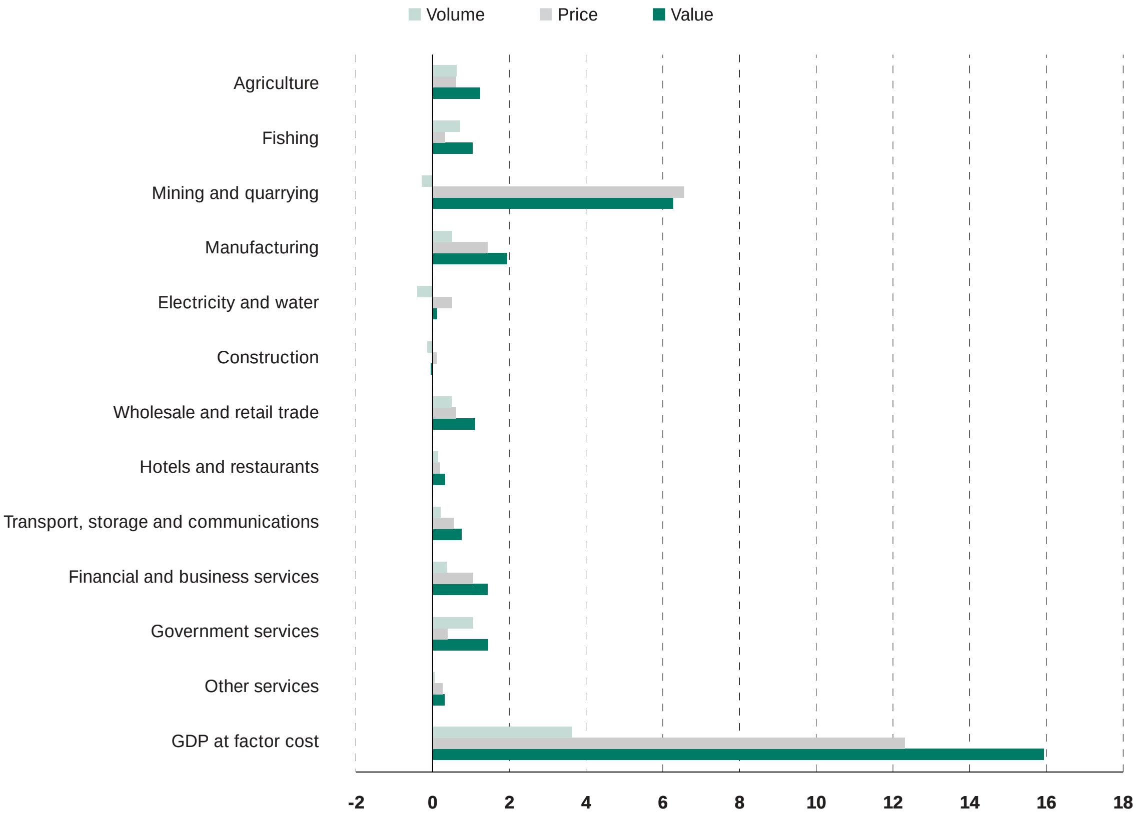
Source: Authors' estimates and predictions based on Central Bureau of Statistics data.

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on Central Bureau of Statistics data.

Figure 4 - Sectoral Contribution to GDP Growth, 2000



Source: Authors' estimates based on Central Bureau of Statistics data.

decreased by 12.4 per cent in 2000. The lack of a dynamic investment demand coupled with the lack of financial intermediaries capable of channelling savings from pension and life insurance funds toward investment projects are largely responsible for such trends. As a result, with investment lower than national savings, Namibia is experiencing capital outflows mainly directed to South Africa. Beside those developments, the share of public consumption in GDP is still very large accounting for 27.4 per cent of GDP, among the highest in the region and in developing countries. Similar trends are expected in 2001 and 2002 .

Macroeconomic Policy

Fiscal and Monetary Policies

Since 1995 Namibian economic policy has been conducted in terms of a medium-term framework derived from the first National Development Plan (NDP1) covering the period 1995/96 to 1999/2000. The main national development goals included a 5 per cent average annual real growth target, the creation of employment, the reduction of inequalities in income distribution and the tackling of poverty. The achievements have so far been disappointing. Economic growth has been consistently below target. Despite the absence of reliable and up-to-date data on employment trends, the widespread perception is that employment has stagnated during the last ten years. A government projection based on the 1997 Namibia Labour Survey puts employment growth at 2.5 per cent per year, equivalent to the growth in the economically active population. The government priorities of tackling poverty and reducing inequality were mainly pursued by allocating large proportions of government expenditure to health and education, with mixed results.

Table 2 - Public Finances[a] (percentage of GDP)

	1995/96	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Total revenue and grants[b]	**31.4**	**32.0**	**34.5**	**33.2**	**33.7**	**32.5**
Tax revenue	27.8	28.5	31.3	29.9	30.1	29.0
Total expenditure and net lending[b]	**35.0**	**35.9**	**37.7**	**36.8**		
Current expenditure	30.2	31.6	32.6	31.2		
Excluding interest	*29.1*	*29.1*	*30.2*	*28.9*	*29.5*	*28.7*
Wages and salaries	16.1	16.4	17.2	16.0	16.4	15.9
Interest on public debt	1.1	2.5	2.4	2.3		
Capital expenditure	4.9	4.3	5.1	5.5	5.5	5.6
Primary balance	**-2.5**	**-1.3**	**-0.8**	**-1.3**	**-1.4**	**-1.7**
Overall balance	**-3.7**	**-3.9**	**-3.2**	**-3.6**		

a. Fiscal year begins 1 April.
b. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' data.

Moreover, budgetary policy over the last years has shown a propensity to overspending: the provisional budget voted each year has been constantly revised in the light of higher than expected expenditure. The overall deficit is equal to 3.6 per cent for the budgetary year 2000/01 and has been on average 3.8 per cent for the 1995/96-1999/2000 period. The government has been struggling without success to reach fiscal balance mainly on account of the burden of the civil service on expenditure. In 1999, the situation worsened due to the government's decision to provide public sector jobs to 9 000 ex-combatants. There is no indication that the primary deficit will be reduced in the years to come. It is then predicted to remain around 1.2 per cent of GDP.

The constant revision of the budget at the end of the fiscal year suggests a lack of fiscal discipline. Indeed, weak budgetary expenditure controls can be considered as a major explanation for the upsurge in government expenditure during the last years. In 1997/98 —the latest year available — the Auditor-General's report declared an amount of unauthorised expenditures of nearly 1 per cent of GDP. Efforts have been made by national authorities to intensify fiscal controls: a computerised control system to control expenditure lines and ceilings on remuneration and travel allowances is now in place. Nevertheless, the lack of a unique decision centre for the allocation of budgetary resources has made those measures ineffectual. Moreover, the role of the Auditor General is to report on these issues to Parliament and he has little power to rectify this situation. On the revenue side the tax system has undergone continuous reform since independence which has brought about numerous improvements. A value added tax was introduced towards the end of

2000 but it is a little premature to judge how successful it has been. In his last budget speech the Minister of Finance announced his intention to conduct a comprehensive study on further tax reform.

Two other trends worthy of note are the rise in public spending on defence and the proliferation of parastatals. Defence spending as a proportion of GDP has risen significantly since the mid-1990s owing to the combination of three main factors: the implementation of the 1993 Defence White Paper, the employment of ex-fighters and the military intervention in the DRC. Relative to GDP, defence spending now stands towards the higher end of the international spectrum. The number of parastatals has risen as a result of the government's policy of commercialisation — turning what were government departments into SOEs. While the government has talked of its desire to privatise some of these entities, so far it has stopped short of action. Most parastatals remain publicly owned monopolies exposed neither to competition nor to price regulation.

As a consequence of the persistent budget deficit, the government continued to issue public domestic debt, which stood at a level of 23.5 per cent of GDP in the fiscal year 1999/2000. The annual rate of increase, 15 per cent in 1999, raises some concerns for the future: a rough estimate suggests that debt will be around 60 per cent of GDP in 2010 if it continues to increase at this pace. Nevertheless, due to the integration of Namibia into South Africa's monetary system, public debt is unlikely to crowd out private investment.

Monetary policy is characterised by a fixed exchange rate of the national currency — the Namibia dollar — with the South African rand. Therefore, monetary conditions and interest rate movements follow closely those in South Africa. The improved market conditions and the low level of inflation in South Africa during 1999 have led the South African monetary authorities to relax their policy throughout 1999 and 2000. To stimulate investment and economic growth the Bank of Namibia lowered the bank rate from 18.8 in December 1998 to 11.5 in December 1999. However, during 2000 the Bank of Namibia decided to keep interest rates stable in the wake of the pick-up of inflation.

Inflation increased in 2000 reaching 9.2 per cent, mainly owing to a rise of inflationary pressure from imported goods. The Namibian inflation rate remained significantly higher than those of its trading partners with potentially negative implications on the country's international competitiveness. It should however experience a significant slowdown in the years to come in line with a similar move in South Africa. It is then expected to reach 6.0 per cent in 2001 and 5.8 per cent in 2002.

External Position

Namibia is an open economy with trade accounting for more than 100 per cent of gross domestic product. Namibia's trade is closely linked to South Africa. The share of imports from South Africa has increased in the last years from 80 per cent in 1993 to 95 per cent in 1997. The share of exports to South Africa — accounting for 18 per cent of total exports in 1997 — is also remarkable. However, the main market for Namibian exports is the European Union, which accounted for 50 per cent of total exports in 1997.

The composition of exports — largely in raw materials — has not changed significantly in the last five years and Namibia is still highly vulnerable to external shocks such as terms of trade changes, external demand and climatic variations. Mineral products still represent the bulk of exports. Diamonds in particular accounted for 70 per cent of mineral exports and 35.7 per cent of total exports in 1999. However, the sector remains largely an enclave with few backward and forward linkages to other economic sectors. Manufactured products — mainly processed fish and meat preparations — are the second main category of exports.

The main aim of trade policy in Namibia has been the diversification of the export base through various investment packages. The key government policy was the establishment in 1995 of the EPZ programme with generous tax incentives to attract investors. However, the scheme has yet to fulfil its expectations. So far the assessment of the impact of this strategy has been mixed since only 18 firms have started operations creating less than 500 jobs. This may be about to change with the arrival of a major new manufacturing investment as the announcement of a new foreign investment in textiles confirms.

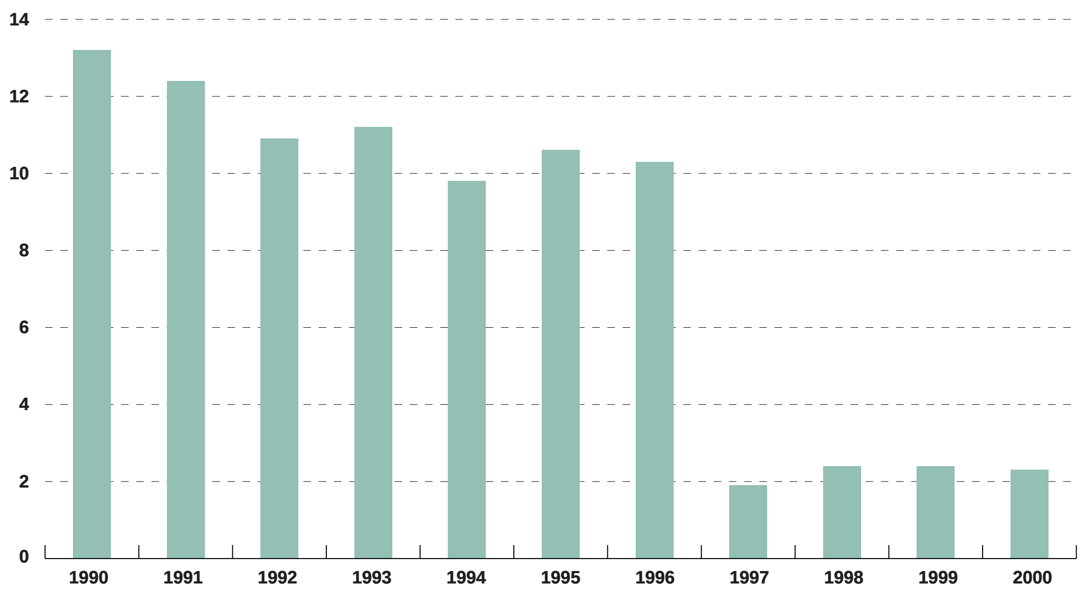
The structure of Namibia's current account in the last five years has been characterised by a negative trade balance coupled with sizeable transfers from the SACU revenue pool. However, in the last two years the trade balance deficit narrowed owing to an acceleration of exports, mainly primary commodities such as diamonds and beef. In the short run, the trade balance is expected to remain stable around –4 per cent of GDP. The increased exports in the diamond sector — equal to 35.4 per cent in 2000 — are the result of an increase of international prices, which outweighed the 7 per cent loss in real term of the sector. Agriculture exports benefited particularly from an increase of beef exports to the European Union. The other key-exporting sector — manufacturing — contributed to this higher path even if the expansion was at a lower pace. Among the manufactured products, fish-processing has displayed the highest growth. SACU receipts — 86 per cent (1999 data from Central Bureau of Statistics) of the current transfers — are the main contributors to the surplus of the current account and in 2000 increased by 28.4 per cent compared with an increase of 24.1 per

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-3.6	-8.2	-3.8	-4.1	-4.0	-3.8
Exports of goods (f.o.b.)	39.6	34.5	39.8	42.4	41.1	38.0
Imports of goods (f.o.b.)	-43.2	-42.6	-43.6	-46.4	-45.1	-41.9
Services balance	-6.7	-4.5	-3.9	-3.3		
Factor income	4.5	2.6	-0.5	-0.3		
Current transfers	11.4	12.5	11.8	13.3		
Current account balance	**5.6**	**2.4**	**3.6**	**5.7**		

Source: Authors' estimates and predictions based on Central Bureau of Statistics data.

Figure 5 - Stock of Total External Debt (percentage of GDP)



Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

cent in 1999. The planned revision of the SACU sharing formula for 2002 highlights the need to change the structure of the current account through an expansion of alternative sources of revenues. Moreover, further trade liberalisation in line with WTO obligations and the EU-South Africa agreement[1], together with the ratification of the SADC protocol, will have additional negative effects on SACU revenues.

The level of Namibia's external debt is low compared to other SSA or low middle income countries. In 1997 South Africa wrote off Namibia's external debt to South Africa slashing Namibia's stock of external debt to a mere 2 per cent of GDP. Although the external debt is still manageable and low compared with the GDP, its rate of increase contributes to the steady expansion of total public debt.

Structural Issues

The structure of Namibia's economy is still highly characterised by the legacy of colonial status of South Africa until the late 1980s. Indeed, Namibia displays developed basic and modern infrastructure with good transport and financial systems, while its economy is still characterised by an uneven distribution of resources. Mobilising the available resources for creating new activities that would improve income distribution proves to be difficult.

Namibian transport infrastructure is fairly developed and does not represent a bottleneck for economic expansion. A well-maintained road network has been further improved with the construction of two major highways, the Trans Caprivi and Trans Kalahari Highways. The Namibian Ports Authority (Namport) has initiated several large development projects to promote greater usage of Walvis Bay as a regional hub port. Upgrading of the port facilities has started and the Coast-2-Coast Spatial Development Initiative (SDI, see South Africa country note) — at an early stage — will generate regional co-operation between Maputo and Walvis Bay. The ability to stimulate new industrial activity through these infrastructure developments is however still uncertain.

The Namibian financial sector is fairly well developed compared with other sub-Saharan countries and it is closely linked to South Africa. The banking system started to grow in 1993, and registered an annual increase in total assets of 38 per cent between 1994 and 1996 following the steady opening of the South African economy in 1994. The Banking Institutions Act came into force in 1998 as the legal framework for the development of effective banking supervision. The Bank of Namibia has been given new powers in line with international banking and supervisory standards.

The Namibian Stock Exchange (NSX) has become the second largest stock exchange in sub-Saharan Africa in terms of market capitalisation after the Johannesburg Stock Exchange thanks to the many dual-listed companies on the exchange. Like the financial sector, the stock market is closely related to South Africa: South African stock represented 98 per cent of total capitalisation in 1999.

There is a widespread perception that the Namibian financial sector lacks institutions that can effectively lend to longer-term and higher risk projects. Publicly-owned development finance institutions are considered to have failed, partly because they are subject to political influence. Government is now reacting to this situation by creating a new institution — the Namibia Development Bank (NDB) — in place of existing Development Finance Institutions. At this stage there are some signs that government is learning from its previous experiences with development lending and the intention is to bring in majority non-government shareholders. The central problem remains to encourage the private sector to enter the market through the creation of innovative vehicles such as private equity and venture capital funds appropriate to Namibian requirements. Until this happens the government will

1. South Africa will eliminate tariffs for 86 per cent of EU imports to South Africa in the next 12 years, with about three-quarters within the next three years.

continue to try to play a role for which it will always be unsuited.

There are signs that the government's rather piecemeal approach to changing patterns of ownership and management in the Namibian economy in favour of the black majority is beginning to harden. Increasingly, the government is using its power to allocate rights of exploitation over natural resources, outsourcing and commercialisation to accelerate the process of black economic empowerment, with mixed results. Opinions are divided over how transparent and competitive these initiatives have been and whether they have been pursued in a way that does not discourage foreign investment or jeopardise longer-term growth. There is little doubt, however, that this process is set to continue although there is no sign at present that it will take place within a clear and explicit policy framework.

The need for land reform is mounting after the upheaval over the land issue in Zimbabwe and since agriculture employs nearly 50 per cent of the labour force. Land in Namibia is held 52 per cent under freehold title while the remaining 48 per cent is communally held. Land is unequally distributed since 4 300 farmers, mainly white, own the commercial land, compared with 140 000 families, almost half of the population, living in the communal areas. Nevertheless, it should be noted that the commercial land, located in the south and in the centre of the country, is mainly of poorer quality compared with communal land. The land reform debate is focused on resettlement on commercial land, and on the allocation of individual rights and the establishment of an effective administration in the communal areas. As a result of a market-based policy pursued by the government, redistribution of commercial land has evolved at a slow pace. By mid-2000 only 300 black farmers had been able to purchase commercial land, and the government had purchased 0.6 per cent of land. White farmers are seen by many as deliberately slowing the process of reform and demanding high prices for land bought by the government. Although the SWAPO secretary-general has warned white commercial farmers that the government's patience was running out, and pressure has arisen from subsistence farmers asking for an acceleration of land redistribution, it is unlikely that land disputes in Zimbabwe will spread into Namibia.

Political and Social Context

Namibia enjoys political stability and a multi-party system is in place**.** In the 1999 national elections the dominance of South West Africa Peoples' Organisation (SWAPO), which has been the ruling party since independence in 1990, was confirmed. SWAPO won 76 per cent of the vote and President Nujoma, leader of SWAPO, was re-elected for a third presidential term after the amendment of the Constitution allowed him to stand for a third electoral term. The fragmented opposition does not represent a serious threat to SWAPO. Moreover, a problem of government accountability could potentially arise since the number of cabinet ministers, all MPs, represents a majority in the Parliament itself.

Since August 1998 Namibia has been engaged in the military conflict in the DRC in support of the government, and by mid-1999 an estimated 2 000 Namibian troops had been sent to the DRC. The ongoing military involvement has given rise to international criticism, and on the domestic front a certain amount of criticism in the press and in Parliament. With the peace process now in motion, almost all Namibian troops have now returned according to official sources.

Namibia is characterised by one of the highest levels of income inequality in the world**.** According to the 1998 National Human Development Report, Namibia has a Gini index of 0.70 for 1993/94, the highest recorded anywhere. A two-tier dualistic society clearly reflects the social and economic inequalities. Poverty is delineated along functional groups and by the urban-rural dualism. Wages and salaries received by urban employees are almost two-and-a-half times those in rural areas, reflecting the stark urban-rural inequalities. Differences within functional groups are exemplified by commercial farmers with incomes eight times higher than those of subsistence farmers.

Namibia's development is hampered by a scarcity of skilled labour. Despite major efforts to increase the manufacturing base through various policies, skill shortages remain an issue in Namibia. Ten per cent of all positions are not occupied by people with the right skills or remain unfilled. In the medium to long term, efforts to increase educational attainment should continue to be a priority. Despite the high share of expenditure on education — at 27.5 per cent of total government expenditure in 1999 — the net enrolment ratio decrease from 91.5 per cent to 45.5 per cent between primary and secondary levels and efficiency remains limited. Indeed, several issues are hampering the efficiency of the educational system: as an inheritance of the pre-independence period the northern regions perform badly since teachers are not adequately trained, the pupil-teacher ratio is much higher compared with the central and southern regions, and the infrastructure in the north much less developed.

Since the first victim was identified in 1986, HIV/AIDS has become the most serious problem for Namibian society. Namibia has one of the highest rates of infection in the world with 19.5 per cent of adults (defined as 15-49 year-olds) carrying the disease, as reported in the 1999 UNAIDS Report. Moreover, in 1999 AIDS claimed the lives of 1 per cent of the population, becoming the principal cause of death. Life expectancy at birth declined from 61 years in 1991 to 45 years in 1998 and is projected to reach a low of 40 years by 2005. Aside from the human aspects, the economic and social costs of the epidemic are massive. Direct health expenditures on HIV/AIDS have risen from 1.8 per cent of government spending in 1996 to 2.5 per cent of GDP in 2000 accounting for 20 per cent of the health budget. Hospitalisation of infected people increased 20-fold between 1993 and 1999. According to a recent World Bank study, HIV/AIDS will reduce real GDP growth by 1.1 percentage point in the period 2002-2010 (from an average rate of growth of 4.1 per cent without HIV/AIDS to an average rate of growth of 3 per cent with HIV/AIDS).