

# Deepening Integration in SADC

Macroeconomic Policies and their Impact

*Namibia on track to meet SADC targets*

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## Executive Summary

Regional integration is often regarded as a key for accelerated and sustainable economic growth. Southern Africa is home to the oldest existing customs union, SACU, as well as a larger economic grouping that has its origins in the anti apartheid struggle, SADC. Both organisations have seen substantial changes over the past 15 years. SACU eventually agreed upon a new agreement that allowed for more influence for the smaller economies in the customs union. Since the demise of apartheid, SADC has strengthened its focus on economic development, and adopted a Regional Indicative Strategic Development Plan (RISDP) to outline its social and economic policies and priorities. Sound macroeconomic policies are a key requirement in achieving the objectives and deepening regional integration. A Memorandum of Understanding (MoU) on Macroeconomic Convergence was adopted in 2001. The Ministers of Finance and Investment also agreed at the time on a set of indicators to monitor macroeconomic convergence, although the usefulness of some of the indicators remains in dispute. Timeframes were set for when these targets should be achieved.

Namibia's macroeconomic framework is guided by medium- and long-term plans. The third National Development Plan (NDP3) is currently being designed, that will cover the next five-year period. These medium-term plans are established to support Namibia's long-term development objectives as outlined in VISION 2030. The medium- as well as the long-term development plan is a reflection of Namibia's major challenges resulting from her past of colonial oppression and racial segregation. The four main objectives in all the development plans since independence in 1990 remained unchanged, namely: reduction of poverty, reduction of income inequality, creation of employment and sustainable economic growth. However, other regional and international initiatives have not yet been fully incorporated into Namibia's development plans, such as the Millennium Development Goals, NEPAD and SADC's Regional Indicative Strategic Development Plan. The challenge for the design of NDP3 lies in preparing the groundwork for achieving VISION 2030 and in incorporating regional initiatives.

Overall, the Namibian government has created a conducive environment for the private sector to thrive. Thus, the private sector is regarded as the main player while government will intervene in sectors that the private sector hesitates to tackle. Various incentive schemes have been implemented to attract investment; however no analysis of the costs and benefits of these schemes has yet been undertaken.

The framework has resulted in the growing diversification of the Namibian economy, although it is still reliant on the mining and agricultural sectors for inputs into the manufacturing sector. New economic developments have contributed to stronger growth. However, Namibia has still some way to go in achieving the SADC target of an annual growth rate of 7%.

## **Monetary policy**

Namibia's monetary policy is determined by her membership of the Common Monetary Area. This arrangement has benefited Namibia in at least two ways: There are no exchange rate fluctuations between Namibia and South Africa, Namibia's main trading partner. Secondly, since South Africa's economy is larger and more diversified, any event affecting a particular sector has less impact on the economy as a whole, and hence on the exchange rate, than it would be in a small and less diversified economy such as Namibia's. As a result it provides a higher degree of credibility and predictability to foreign investors. However, the arrangement limits Namibia's sovereignty in setting its own monetary policy. Hence, interest rates are set in line with decisions at the South African Reserve Bank, which pursues an inflation-targeting monetary policy. This policy stance contributed to a substantial drop in inflation, to below 5% over the past two years. In this respect Namibia is well within SADC targets for 2008 and 2012.

Namibia is an exception to most developing countries in that it is a net exporter of capital. The gross saving rate is above the targets set for 2008 and 2012, mainly owing to contractual savings. Significant funds in the form of institutional pension funds, life insurance funds and so on are invested in South Africa, which has given rise to concerns in Government about the capital outflow. In order to reduce the outflow, Government has introduced a requirement for pension funds and insurance companies to invest 35% of their portfolio in the domestic market. However, since the absorption capacity of the local market is somewhat limited, there is a risk that this could result in dubious investments that could turn sour.

## **Fiscal policy**

Namibia's membership of the CMA and of SACU restricts its monetary and trade policy design. Fiscal policy remains the major domestic tool with which to influence macroeconomic developments. Government aims to sustain macroeconomic stability, and to contribute to economic growth and employment creation through its fiscal policy stance. It has set ambitious targets for its deficit, debt and expenditure ratios.

A Medium-Term Expenditure Framework was implemented in 2000 in order to provide a realistic resource framework. The MTEF is complemented by the Performance Effectiveness and Management Programme and most recently by Medium-Term Plans. The Medium-Term Plans reflect the shift of focus from inputs – resource allocation to ministries – to outputs. Each ministry has identified indicators to monitor the achievement of specific targets that would justify the allocation of funds.

Though Namibia's public debts have increased consistently since independence, they are still well below critical benchmarks. Government is attempting to reduce public debt to below 30% of GDP, and is aiming for 25% in the medium term. The budget deficit is expected to be below the SADC targets for 2008 and 2012. A slight budget surplus is anticipated for the fiscal year 2006/07 mainly because of higher-

than-expected revenue from the SACU pool. Foreign debts account for less than 5% of GDP and are therefore well below the SADC target. Finally, government sustains a surplus with the Central Bank, which is only allowed in specific circumstances to provide a credit line to government.

However, there are some risks that could jeopardise the achievement of the SADC targets. Namibia's HIV/AIDS programmes are mainly financed by foreign development partners. If this support is terminated a substantial re-allocation of resources will be needed to continue with the programmes or to increase the deficit in the short term to stretch the necessary adjustments over a longer period.

### **Trade policy**

Namibia is a member of the oldest existing customs union – the Southern Africa Customs Union. It receives about 30% of its revenue from the Common Revenue Pool. Its membership reduces the use of trade policy, in particular of customs tariffs, to support its industrialisation. However, with the ratification of the new SACU agreement more democratic structures are in place that could increase the influence of the smaller member countries in setting tariffs. Through SACU, Namibia is involved in a number of Free Trade Agreements and negotiations with other economic groupings or individual countries, such as the USA. Namibia sources most of its imports from and through South Africa and sells most of its exports in Europe and South Africa. SADC member countries play a negligible role in Namibia's trade statistics, with the exception of Angola in recent years.

Despite the strong export orientation of the Namibian economy, the import cover of foreign reserves is well below the SADC target for 2008, namely three months. This is indicative of its import dependency for most consumer and producer products. On the other hand, its current account balance is in positive territory owing to transfers from the SACU pool.

Overall, Namibia is well on track to achieve most of the SADC targets. However it is most likely to miss the targets for economic growth and for foreign reserves. However, despite the low economic growth compared to domestic and regional targets, the incidence of income poverty and income inequality have dropped, according to preliminary data from the 2003/04 Household Income and Expenditure Survey, in spite of unemployment having increased. A thorough analysis of these divergent trends is necessary to draw adequate policy conclusions.

### **Impact analysis**

The government has placed high priority on the social sectors, education and health, and has achieved substantial improvements in the output of these sectors since independence. However, key challenges remain, particularly in the education sector concerning drop-out rates, repetition and pass rates, as well as general levels of knowledge. Despite tight fiscal targets – that are home-grown rather than necessitated by SADC convergence criteria – allocations to social sectors have not been cut. Quite to the contrary, Namibia has just launched an Education and

Training Sector Improvement Programme in order to address the shortcomings. As highlighted, Namibia is set to achieve most of the SADC targets and hence is not under pressure to adjust its macroeconomic policy framework. However, stronger employment-creating growth is needed to address the prevailing societal imbalances.

As the SWOT analysis in this study reveals, Namibia could benefit from stronger regional integration because of her strengths, which include political stability and a well-developed infrastructure. However, weaknesses in the form of skills' gaps that impact negatively on the capacity of institutions to operate efficiently do need to be addressed. If ignored, this could become a threat to further development, particularly when reinforced by the impacts of the HIV/AIDS endemic.

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## List of abbreviations

ACP	African, Caribbean, Pacific countries
AGOA	African Growth and Opportunity Act
ASL	Additional Sales Levy
ASYCUDA	Automated System for Customs Data
BLNS	Botswana, Lesotho, Namibia and Swaziland
BoN	Bank of Namibia
CET	Common External Tariff
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CRP	Common Revenue Pool
DRC	Democratic Republic of Congo
EFTA	European Free Trade Association
EPZ	Export Processing Zone
EU	European Union
Euro	European Currency
FTA	Free Trade Area
GDP	Gross Domestic Product
GST	General Sales Tax
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
IMF	International Monetary Fund
LNS	Lesotho, Namibia, Swaziland
MDG	Millennium Development Goals
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
MTP	Medium-Term Plans
NAD	Namibia Dollar
NDP	National Development Plan
NTB	Non tariff barrier
PEMP	Performance Effectiveness and Management Programme
RISDP	Regional Indicative Strategic Development Plan
SACU	Southern African Customs Union

SADC	Southern African Development Community
SADCC	Southern African Development Co-operation Conference
SARS	South Africa Revenue Services
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium-sized Enterprise
SPS	Sanitary and Phyto-Sanitary
TB	Tuberculosis
TDCA	Trade and Development Cooperation Agreement
UNDP	United Nations Development Plan
USA	United States of America
USD	US Dollar
VAT	Value Added Tax
WTO	World Trade Organisation

## 1. Introduction

Regional integration is often regarded as a key for accelerated and sustainable economic growth. Southern Africa is home to the oldest existing customs union, SACU, and a larger economic grouping that has its origins in the anti apartheid struggle, SADC. Despite much criticism based on the distribution of benefits derived from the customs union, SACU continues to exist and has recently adopted a new, more democratic agreement, following the demise of apartheid. The end of the apartheid era also heralded changes for SADC. It developed from the previous SADCC, and now focuses more on economic development. SADC adopted a Regional Indicative Strategic Development Plan (RISDP) in order to outline the social and economic policies and priorities. Sound macroeconomic policies are a key requirement in achieving the objectives and deepening regional integration. A Memorandum of Understanding (MoU) on Macroeconomic Convergence was adopted in 2001. The Ministers of Finance and Investment also agreed at the time on a set of indicators to monitor macroeconomic convergence (see Table A 22), although the usefulness of some of the indicators remains in dispute. Timeframes were set for when these targets should be achieved.

The Friedrich Ebert Foundation in Botswana in close consultation with the SADC Secretariat has initiated country studies for almost all SADC member countries, including Madagascar which joined SADC in August 2005. The aim is to take stock of the status of the policy frameworks in each of the participating countries. The Terms of Reference cover the following broad areas: (a) the basic macroeconomic policy framework, especially fiscal and monetary policies; (b) the trade policy framework; (c) the labour market policy framework; and (d) the social impacts of the various policy frameworks that aim to achieve macroeconomic convergence and deepening SADC integration.

This study forms part of the project and aims to highlight the country-specific policy issues and their impacts. The study is based on available data from domestic sources, such as the Central Bureau of Statistics, the Ministry of Finance and the Bank of Namibia. In general, domestic data is regarded as fairly reliable, although survey results are often released after a considerable period of time has elapsed. The statistics are also in line with international standards such as the System of National Accounts 1993, and thus comply with RISDP recommendations.

The study makes also use of relevant, mainly local, literature. In addition, key stakeholders have been interviewed in an attempt to gain clarification on specific policy issues (see list in the appendix).

The report is structured in the following way. The next chapter describes the macroeconomic policy framework and refers to the main development plans that outline Namibia's development objectives. A brief description of macroeconomic developments since independence in 1990 is provided. Chapters 3 and 4 focus on monetary and fiscal policies and analyse the trends of specific indicators in each

chapter. The following two chapters provide insight into trade and labour market policies and highlight recent trends. Chapter 7 examines social development, while chapter 8 focuses on the environmental constraints Namibia is facing. The report concludes with an analysis of strengths, weaknesses, opportunities and threats. The report refers to major developments and tries to keep data to a minimum. Tables with extensive data are provided in the Appendix. Primarily, publicly-available data from domestic sources is used rather than data from international organisations. The degree of reliability of national data justifies this approach.

## 2. Macroeconomic Policy Framework

Namibia is the youngest of the SADC nations, gaining independence from South African rule in 1990. The Namibian economy was highly integrated into the South African economy during the decades-long occupation, which inhibited autonomous, authentic economic development. With the exception of a few manufacturing companies, the economy was based on the extraction of natural resources. Mining activities (especially diamond mining), extensive livestock farming in the commercial – then almost exclusively white-owned – areas and widely uncontrolled fishing activities characterised the economy at independence. The Apartheid policy of racial segregation compounded the dual nature of the economy and society. The vast majority of the population was confined to the so-called homelands, particularly in the north and northeast of the country, and to a subsistence economy. Education was limited to the transfer of basic knowledge and skills. This resulted in a society characterised by a relatively wealthy minority living in well-developed towns and cities with functioning communal services and involved in the formal economy, and a majority living in rural areas, lacking basic services and making a living in the informal and subsistence economy.

Namibia's rich endowment with natural resources has resulted in a per capita income that classifies it as a lower middle-income country. But the per capita income covers a highly skewed income distribution that is reflected in a Gini-coefficient of 0.6<sup>1</sup>. Although dropping from 0.7 (based on the 1993/94 household survey) to 0.6 (2003/04) it indicates one of the most skewed societies in the world. The high Gini-coefficient implies that not only relative but absolute poverty exists amidst wealth in Namibia.

Subsequently, the incoming government of the newly independent country faced the daunting task of redressing these imbalances. The Transitional National Development Plan for the period 1991/92 to 1993/94 identified the following four main national development objectives:

- To reduce poverty;

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<sup>1</sup> The Gini-coefficient measures the income distribution in a given region and ranges from 0 (totally equal society) to 1 (absolutely unequal society).

- To create employment;
- To stimulate and sustain economic growth; and
- To reduce inequalities in income distribution.

The transitional development plan was followed by the First and Second National Development Plans (NDP1 and 2), but the main objectives have not changed. However, additional development objectives were added in NDP2 addressing new challenges:

- To promote economic empowerment;
- To reduce regional development inequalities;
- To promote gender equality and equity;
- To enhance environmental and ecological sustainability; and
- To combat the further spread of HIV/AIDS<sup>2</sup>.

NDP2 ends in 2006 and will be replaced by NDP3. The National Development Plans are medium-term plans covering five-year periods. They outline general development objectives as well as sector-specific goals. Towards the end of the first decade of independence, government identified the need for a long-term development strategy to guide the medium-term plans and eventually budget allocations. Vision 2030 was designed with the overall objective of elevating Namibia to a prosperous and industrialised nation by 2030<sup>3</sup>. Namibia's per capita income would be comparable to that of high-income countries. Its economic structure would have changed from being dependent on primary products and the public sector to an economy that produces manufactured goods and services and exports mainly manufactured products rather than raw materials. Regional integration - and in particular the implementation of the SADC Protocols - is one of the strategies to achieve the vision. The vision anticipates the transfer of several accretions of national sovereignty and state power to SADC institutions during the period 2010 to 2015. This statement is a clear indication for Namibia's strong commitment towards integration within SADC. Furthermore, Vision 2030 envisages the creation of a single currency and a regional central bank for SADC<sup>4</sup>. While the vision clearly states objectives for the period, it is rather weak on the strategies and policies necessary to achieve these objectives. For this reason, government is currently identifying strategies to implement the vision. The next medium-term development plan - NDP3 - will be crucial for laying the foundation to boost economic growth significantly, which has not yet been sufficient to make major strides towards a higher standard of living.

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<sup>2</sup> Government of the Republic of Namibia, 2002:50.

<sup>3</sup> Office of the President, 2004:38.

<sup>4</sup> *Ibid.*, p.195.

Overall, government sees its role in providing an enabling environment in which the private sector will take the lead in economic development. Government, however, will intervene in those sectors where the private sector does not invest.

Government has introduced several incentive schemes in order to attract investment, particularly in the manufacturing sector. It was expected that the schemes would support the diversification of the economy and the export pattern, and create jobs. Most notable are the Export Processing Zone (EPZ) scheme and the incentive scheme for manufacturing companies. EPZ status is granted to companies that export 100% of their production to markets outside SACU. These companies are exempt from paying company taxes and import duties on imported inputs. The export requirement can be lowered to 70% but companies would need to pay taxes and import duties on the products that are sold on the local – or SACU – market.

In addition, manufacturers can apply for the manufacturing status that will be granted for ten years. 200 companies have received the status to date, of which 102 still retain it, while it expired for 49. Another 49 have lost the status because of a change in rules<sup>5</sup>. The New SACU Agreement of 2004 provides for infant industry protection for a maximum period of eight years. Two industries have been granted infant industry protection so far – pasta and Ultra High Temperature milk – while two other applications are under consideration. The main aim is to expand the value chain of locally-available natural resources, and hence diversify the industry and create employment.

These schemes have not yet had the impact on the economy that was expected. Only investment in the textile industry has contributed significantly to job creation – about 7,000 – though the remuneration is reportedly low. However, the sustainability of the industry is uncertain after the Multi Fibre Agreement expired at the end of 2004. Recent events suggest that the textile industry in Namibia could follow the same path as in other southern African countries, namely closing down at least some of the operations. A review of the incentive schemes with a view to establishing the benefits and costs – in the form of foregone revenue – would be necessary.

Furthermore, government aims to diversify the primary sector through the green scheme and the promotion of inland aquaculture. Both initiatives are expected to result in the diversification of the agricultural and fisheries sectors and lead to the downstream investment in processing activities.

These various incentive schemes and policies have to be brought in line with the overarching Vision 2030. The same applies to the Millennium Development Goals and SADC's RISDP that are not yet fully integrated. Namibia has received technical assistance through the SADC Secretariat to compile its first report on the Macroeconomic Convergence Programme. It is expected that the draft report will be

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<sup>5</sup> Insight Namibia, September 2005:14

completed by the end of April 2006. Since Namibia has achieved most of the convergence criteria, the report is regarded as a formality rather than an undertaking that involves serious policy debates and decisions. The SADC National Committee and the sub-committees are in place. However, the committees are regarded as being reactive towards upcoming SADC meetings rather than pro-active drivers of the process.

Namibia has implemented a number of projects. These were primarily in the agricultural and transport sectors, but included the establishment of SME parks with financial support through RISDP as well. However, the country has encountered problems in the approval of project proposals because of the lack of qualified staff at the SADC Secretariat who could scrutinise and approve proposals in time. Domestic constraints have also hampered the development and promotion of SADC in Namibia. For instance, a clear mandate for officials responsible for SADC issues is apparently lacking, resulting in a lack of continuity in the participation of SADC issues. Thus SADC activities happen on an ad hoc basis prompted by upcoming events. Furthermore, the private sector is barely involved at all. National awareness workshops were held in 2002 and 2004 but the participation of the public was rather poor. More needs to be done to bring SADC and the RISDP onto the national agenda and to integrate it into national policies.

The following sections attempt to describe the main economic developments in detail and to highlight in particular domestic initiatives that are in line with RISDP.

#### *Composition of the economy*

Economic growth received a boost after independence. Gross Domestic Product (GDP) grew by 3.8% on average during the period 1990 to 1995. This compares quite favourably to a growth of 1.1% for the decade before independence. However, growth slowed down to 3.6% (1995-99), but picked up again over the next five years to 4.4% (2000-04) (Table A 1).

The increase in GDP shortly after independence can be closely linked to a surge in government activities that accounted for about 20% of GDP in 1989, but 26% in 1991. During the same period, primary industries' contribution dropped from almost 32% to 25%, while the share of manufacturing activities stayed more or less constant. Currently, the primary sector accounts for some 19.4%, manufacturing for 18.4% and the service sector for 54.2%. Mining continues to be the backbone of the economy. It contributed about 13.9% to GDP (2002), which slumped to 8.8% during the following year because of the strong and persistent appreciation of the Namibia dollar against, among others, the Euro and USD. In 2004, mining accounted for 10.4% of GDP, and contributed significantly to government revenue in form of company taxes and diamond royalties, and to foreign exchange earnings. However, because of its capital-intensive nature, the sector only employs roughly 6,000 people. The sector is dominated by large international enterprises. The Ministry of Mines and Energy established a Small Miners Assistance Centre in 1997 with financial support granted by the EU. This is in line with the SADC recommendation

to increase the participation of small-scale operators and in particular, women in the sector. However, the impact of this initiative has remained low in Namibia.

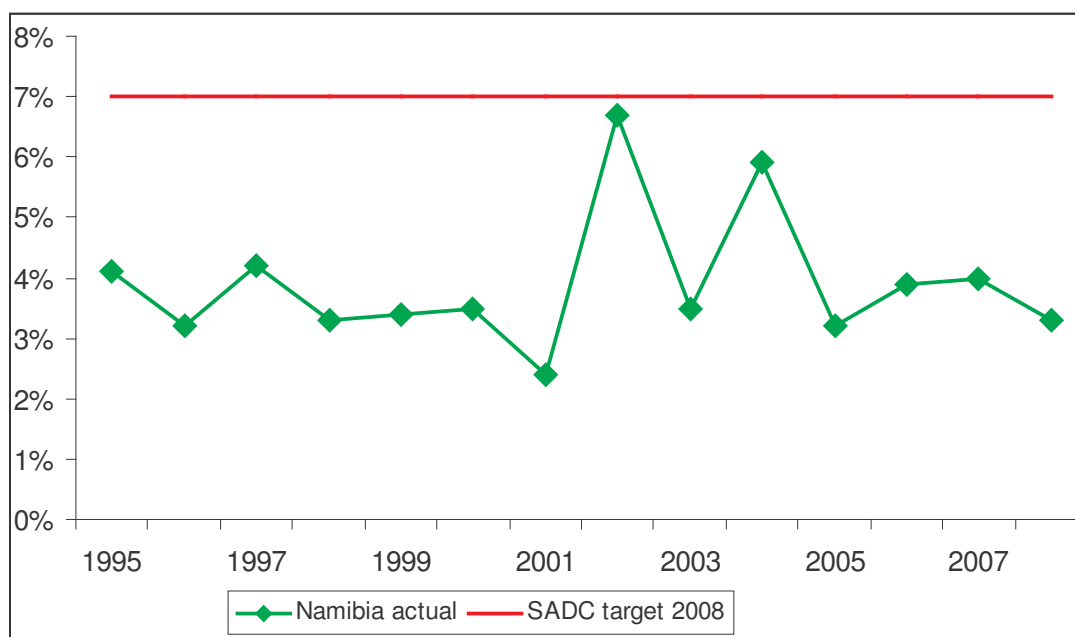
Fisheries has played a major role in the economy, but has been experiencing a downward trend for the last three years for various reasons. Fish stocks recovered during the 1990s as a result of strong fish stock management based on a system of fishing rights and fishing quotas. Fishing quotas are determined by the availability of biomass and the size of the fish. With the adoption of the Aquaculture policy in 2001 it is expected that inland aquaculture as well as mariculture will gain in importance. Both initiatives, a strong stock management system and the promotion of aquaculture, are supported by recommendations in the RISDP.

Despite efforts by government to diversify the economy, the macroeconomic data do not indicate much change. However, changes are visible on a micro level. Grapes have emerged as a major foreign currency earner since the second half of the 1990s. Fish processing has also gained in importance over the years, and a textile industry was established at the beginning of the new millennium benefiting from the USA's African Growth and Opportunity Act (AGOA). In addition, locally-produced milk and pasta products have entered the Namibian market, protected by the Infant Industry clause in the SACU agreement. Furthermore, horticultural production has increased significantly over the past few years. However, manufacturing activities continue to rely on processing agricultural and fishing products and are thus quite vulnerable to climatic conditions. This explains to a large extent the fluctuations in their contribution to GDP. The newly-established textile industry is about to change this pattern, but it remains to be seen how sustainable the industry is, following the expiry of the Multi-Fibre Agreement at the end of 2004. Recently established and expanded processing activities of minerals – a copper smelter, zinc refinery and various diamond cutting and polishing plants – add to the value chain and are expected to induce further 'downstream' developments. Textile and mineral processing industries were started during 2002 and 2003 and have contributed significantly to higher growth rates in recent years. But again, there are clear signs that domestic mineral processing companies are often too small in international terms to go it on their own. Foreign investors are needed to provide the necessary international expertise and access to financial resources.

Tourism is another important pillar of the economy. According to the traditional National Accounts it contributes less than two percent to GDP. However, its real contribution is significantly higher, since it has strong linkages to other sectors such as the transport and manufacturing sectors. Namibia started the construction of Tourism Satellite Accounts at the beginning of 2006 to measure the direct and indirect impacts tourism has on the economy. In this regard Namibia follows the recommendations of the RISDP, although it can be reasonably assumed that the initiative has been spurred more by domestic needs of comprehensive information on the tourism sector than by the RISDP. Early results of the Tourism Satellite Accounts suggest that the total contribution of the tourism industry to GDP could be in the range of 14%.

Despite these developments, economic growth has not been strong enough to significantly raise the standard of living in Namibia, and falls short of the SADC growth target of 7% - and of the growth rates necessary to achieve the domestic Vision 2030. The population grew by about 2.6% per annum between 1991 and 2001. This growth rate is expected to decline further – it stood at 3.1% during the previous decade – mainly because of the impact of the HIV/AIDS pandemic. The positive per capita growth since Independence eventually resulted in a decline of income poverty and income inequality. However, economic growth has not been employment-creating growth (Table A 19). The mining and fisheries sectors are capital-intensive sectors and output growth does not necessarily result in increased direct employment, but could result in additional jobs through forward linkages. However, despite economic growth, unemployment remained at high levels - 33.8% (2000) compared to 34.5% in 1997<sup>6</sup>. Therefore, there is a need for designing policies that support employment-creating growth rather than focusing narrowly on a specific growth figure alone.

**Figure 1** Namibia's growth rates 1995 to 2008 compared to the SADC target



Source: Republic of Namibia *et al.*, 2005. Forecast for 2006 to 2008 based on Ministry of Finance, 2006.

<sup>6</sup> The figures refer to the unemployment rate in the broad sense, which includes persons who are not actively seeking work. It is argued that this definition fits the Namibian situation better than the strict definition, which includes only persons who are actively seeking work.

### 3. Monetary policy

Namibia is a member of the Common Monetary Area (CMA), consisting of Lesotho, Namibia, South Africa and Swaziland. The currencies of Lesotho, Namibia and Swaziland are pegged one-to-one to the South African rand. The South African rand is legal tender in the whole CMA, but the currencies of the three smaller economies are not convertible, though they are sometimes accepted on transit routes. Foreign assets, such as the South African rand, need to back the value of the domestic currency in circulation to the same value<sup>7</sup>. Capital can move freely between the CMA member countries. This arrangement has benefited Namibia in at least two ways: firstly, there are no exchange rate fluctuations between Namibia and South Africa, its main trading partner. Secondly, since South Africa's economy is larger and more diversified, any event affecting a particular sector has less impact on the economy as a whole (and hence on the exchange rate) than it would in a smaller and less diversified economy such as Namibia's. It therefore provides a higher degree of credibility and predictability to foreign investors. However, the arrangement doesn't come without costs. Namibia has actually ceded its discretionary monetary and exchange rate power to South Africa and can thus not pursue its own monetary, exchange rate and exchange control policy. Namibia is compensated - to a certain extent at least - for its loss of sovereignty over the domestic money supply through annual payments (seignorage) by South Africa. The free flow of capital reaches beyond the CMA. Namibia has liberalised exchange controls in tandem with South Africa on an annual basis. Thus, the CMA supports the RISDP recommendation of exchange control liberalisation.

Because of her membership in the CMA and because of the dominant South African economy, Namibia follows South Africa's monetary policy. The Bank of Namibia (BoN) sets its bank rate in line with the South African Reserve Bank's repo rate. For a number of years, Namibia's bank rate was by between 25 and 125 basic points higher than the repo rate. However, the bank realised that this was not effective, and therefore the bank rate has been kept at the same level as the repo rate since August 2004. One of the reasons for the decision to follow the repo rate was also the limited financial instruments available in Namibia, which in turn is caused by the lack of capacity to manage more sophisticated financial instruments.

South Africa's monetary policy has been anchored to inflation targeting since 2002. It aims to keep inflation within the range of 3% to 6%. However, the strong South African rand putting pressure on export industries has reportedly lead to exchange rate considerations influencing interest rate decisions since the second quarter of 2005. This stance is often criticised for not using monetary policy more strongly to support economic growth and employment creation.

Since the CMA countries have reached the macroeconomic convergence targets, the MoU on Macroeconomic Convergence is seen as a very important declaration,

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<sup>7</sup> Bank of Namibia, 2004.

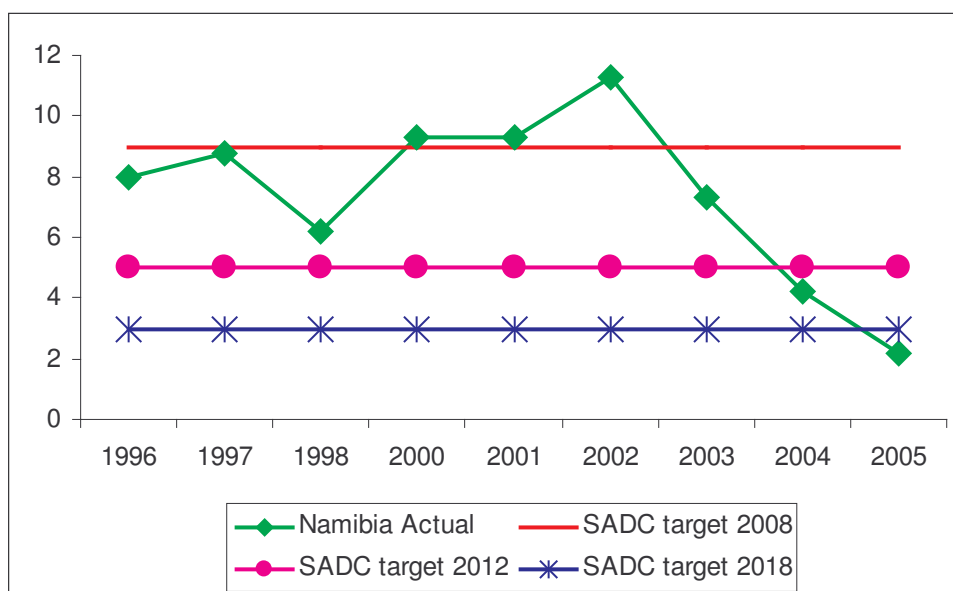
though it does not have a real impact on monetary policy decisions. Subsequently, the drafting of a National Convergence Programme is not necessitated by the need to address macroeconomic imbalances. Namibia will therefore see a continuation of the current macroeconomic policies.

### Monetary developments

Interest rates surged in the aftermath of the South East Asian financial crisis in 1997, but dropped from 2003 to unprecedented low levels. The bank rate increased steadily during 1998 from 16% to a high of 20.25%, but dropped during 1999 to 13.25%. From the beginning of 2003 it declined by more than six percentage points, to 7% in the second quarter of 2005. The bank rate has remained at this low level since then. The prime lending rate and other interest rates followed accordingly<sup>8</sup> (Table A 2).

The inflation rate fluctuated around 9% between 1995 and 2001; peaked at the end of 2002 at almost 14%, and has declined since then to an annual inflation of 2.2% in 2005. This is a result of both a monetary policy focusing on the inflation rate and a strong Namibia dollar reducing the costs of imports – in particular levelling out rising oil prices in recent months (Table A 3).

**Figure 2** Namibia's inflation rate 1996 to 2005 compared to the SADC targets, in %



Source: Republic of Namibia *et al.*, 2006

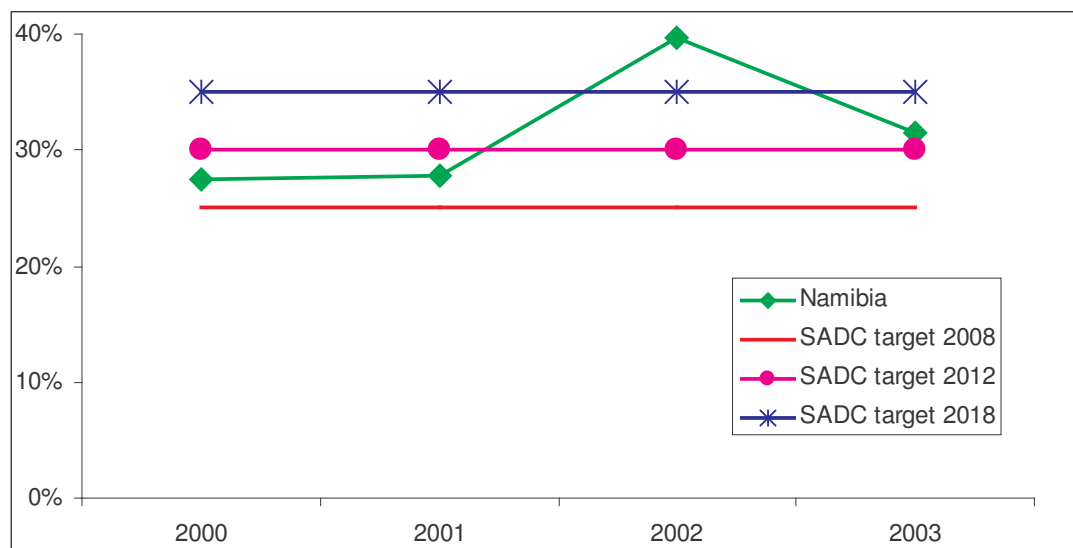
The financial crisis in South East Asia supported emerging market sentiments, and also affected South Africa and hence Namibia, since the Namibia dollar is pegged one-to-one to the South African rand. The strong US currency contributed to the downturn of the Namibia dollar, particularly during 2001. Since then the currency

<sup>8</sup> Bank of Namibia, Quarterly Bulletin, June 2005.

has recovered steadily, reaching a position of strength last seen at the end of the 1990s. While the South African Reserve Bank has tried in the past to influence the exchange rate through its bank rate, it later switched to inflation targeting and has left the exchange rate to market forces. This stance has apparently changed since the beginning of 2005 however, because the strong currency significantly affected the performance of the export sector. Statements of the Monetary Policy Committee indicate that the performance of the export sector is taken into consideration when decisions concerning the bank rate are made (Table A 4). Though the Namibian dollar itself is not convertible, it can at all times be converted into South African rand, which is legal tender in the whole CMA area.

Gross National Savings stood at 31.5% of GDP in 2003 (Table A 5). The high savings ratio over GDP is primarily attributed to contractual savings. Contrary to other developing countries, Namibia is a net-exporter of capital. Large sums in the form of pension funds, for instance, are invested in South Africa. In order to reduce capital outflow, Government has introduced the requirement for pension funds and insurance companies to invest 35% of their portfolio on the domestic market. However, since the absorption capacity of the local market is limited, this requirement could result in dubious investments that could turn sour. The skewed distribution of income as well as limited access to banking facilities in rural areas – even though access is increasing and banks are covering larger areas – constrains private savings. Based on historic data it can be assumed that Namibia will meet the 2008 (and probably 2012) SADC target concerning the savings ratio.

**Figure 3** Namibia's gross national saving rates from 2000 to 2003 compared to the SADC targets



Source: World Bank, various years.

Gross fixed capital formation fluctuated around 23% during the period 1995 to 2004 with no clear trend in either direction (Table A 6). It is driven by infrastructure projects (transport, communication, electricity and water), the mining sector and government. Government's share declined from 25% (1995) to 13% in 2004, while

the contribution of the mining sector almost doubled during the same period – from 10.7% to 19.8%. However, except for the agricultural and fishing sectors as well as to some degree the public sector, investment fluctuated significantly during the period. This is indicative of the influence of major projects on total investment, rather than continuous investments in the economy. Major infrastructure projects, such as the Trans Kalahari Highway (linking Walvis Bay through Botswana with the Gauteng province), the Trans Caprivi Highway (linking Walvis Bay with Zambia, Zimbabwe and the DRC), upgrading of the harbours and the power line to South Africa, as well as the development of a new mine and subsequently a zinc refinery have all had major impacts on the overall level of investment. Investment in the primary sector – 18.3% and 27.8% respectively – is driven by the availability of natural resources and the viability of its exploitation, which in turn depends on external factors such as world market prices. It can be argued that between 50% and 70% of total investment – government, parastatals and the mining sector – is influenced by factors other than the macroeconomic framework (Table A 7). It is expected that Namibia will not achieve the SADC target of an investment rate of 30%, which would imply an increase of about 50%. Since government has set ambitious fiscal targets, capital expenditure is often the item that can be more easily adjusted downward, rather than other expenditure items in times of financial constraints. There is also no major private investment expected that would provide the necessary boost of gross fixed capital formation, although the operation of the Namibia Development Bank will ease access to finance for – in particular – medium sized companies. It remains to be seen whether the development bank will also benefit small-scale enterprises. Various financing schemes have been developed focusing on the SME sector, though with little discernible impact.

Overall, Namibia is doing well with regard to most of the indicators. However, it lags behind in terms of investment. Despite the favourable macroeconomic framework and its well-developed infrastructure, Namibia has not benefited substantially from foreign and domestic investment. The recently-released Competitiveness report reveals some of Namibia's weaknesses that need to be addressed in order to reap any benefits a deeper regional integration could hold for the country. On the other hand, the positive rating (BBB-) Namibia received in December 2005 by Fitch Ratings could increase her attractiveness to foreign investors, and similarly could reduce borrowing costs for domestic investors.

#### **4. Fiscal policy**

According to the Second National Development Plan, the main objective of fiscal policy is "...to conduct prudent fiscal management with the emphasis on prioritised resource allocation and effective resource utilisation<sup>9</sup>." NDP2 further states that external borrowing should be restricted and limited to specific sectors (ibid.). Overall, fiscal policy is regarded as the key instrument for macroeconomic

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<sup>9</sup> Government of the Republic of Namibia, 2002:87

management, since Namibia's membership in SACU and the CMA limits its scope for an independent monetary policy. Through its fiscal policy, government aims to sustain macroeconomic stability, and to contribute to economic growth and employment creation. Hence current expenditure needs to be limited to increase capital expenditure, which in turn complements private sector investment. Moreover, restricting current expenditure provides government with a higher degree of fiscal flexibility in the event that revenue forecasts were too optimistic.

Government has introduced several instruments to enhance the management of state finances and to increase its efficiency and effectiveness. A Medium-Term Expenditure Framework (MTEF) was implemented in 2000 to provide a realistic resource framework. The MTEF covers a three-year period and contains ceilings for each ministry, office and agency for each year in current prices. Thus, ministries know what resources to expect over the medium term, and can plan their activities accordingly. The MTEF is complemented by the Performance Effectiveness and Management Programme (PEMP). The introduction of PEMP marks a shift from a focus on inputs to one on outputs. This is further supported by the implementation of Medium-Term Plans (MTP) in 2005 that outline what each ministry plans to achieve with the resources allocated to them. The MTPs include indicators that will be monitored and evaluated. Future budget allocation to ministries will depend on achieving the envisaged outcome.

It is expected that these tools will enhance the capacity within the public sector to efficiently control and monitor the use of public resources. Increased efficiency in resource allocation will prepare government well for times of less revenue caused by, for instance a decline in taxes on international trade. However, the effectiveness of these tools depends on the training provided to the accounting officers in applying the tools.

Government's fiscal targets are a budget deficit of not more than 3% of GDP, a debt ratio of not more than 25% and an expenditure ratio of not more than 30%. These targets are below the SADC convergence criteria, and hence do not influence government's fiscal policy stance. While government is close to its deficit targets, total debts and expenditure exceed the targets. However, a too-narrow focus on these fiscal targets would contradict government's stated objective of using fiscal policy for macro-economic management. Namibia has only limited influence on monetary and trade policies since it has ceded the sovereignty to the CMA and SACU respectively – in actual fact to South Africa, the dominant economic power in both groupings. Therefore, fiscal policy is the only significant remaining tool with which to influence the economy.

### **Expenditure patterns**

Namibia's development objectives are reflected in expenditure priorities. The education sector consistently receives the largest share, though its share is slightly declining – from about 27% (1997/98) to 22% in 2005/06. The Ministry of Health and Social Services has received the second-largest share (about 14%) for almost a

decade, though it dropped to third place because of increasing statutory expenditure (9% in 2005/06) of the Ministry of Finance (18% in 2005/06). However, about 30% of the Ministry of Health's budget is allocated to social pensions and other welfare grants and can therefore not be counted as health expenditure. It can be expected that health expenditure will increase in the near future because of the HIV/AIDS pandemic. Namibia receives funds from the Global Fund for HIV/AIDS, TB and malaria that are channelled through the State Revenue Fund.

Personnel expenditure has been dominating expenditure, followed by spending on goods and services. However, personnel expenditure is on a slightly downward trend - 47% in 1999/2000 to 43% (2005/06). This is not because of the declining size of the civil service, but quite the opposite. Government is by far the largest single employer, with more than 90,000 funded posts. Given the high rate of unemployment – 33.8% - and the limited absorption capacity of labour of the private sector, Government will find it very difficult to down-size its public service. However, it will be necessary to 'right-size' the public service in order to increase the efficiency of its operations. Statutory expenditure has increased steadily from 3.6% (1997/98) to 9% (2005/06). Although government borrowing is not expected to crowd out private investment – because of Namibia's membership in the CMA – statutory expenditure could crowd out other development expenditure. Statutory expenditure also increased over the past two years despite the significant drop in interest rates, and declined during the current financial year 2005/06 by only 0.3 percentage points.

### **Revenue patterns**

All customs and excise duties collected by SACU countries are transferred into the Common Revenue Pool. Each member country receives a share of this pool according to a revenue-sharing formula that consists of three components. Receipts from this pool have constituted the largest income for Namibia since Independence. It accounted for 31% on average between 1997/98 and 2005/06, with as high a share as 37%. However, it would be misleading to interpret this as a high dependence on taxes on international trade. The trade component has contributed less than 50% to the revenue pool<sup>10</sup>. Excise duties, as indirect taxes, have been more relevant. Hence, trade liberalisation will have a less severe impact on revenue than the transfers from the SACU pool would suggest at first glance. Namibia sources only a small share of all imports from SADC countries, which would suggest that a SADC Free Trade Area would not have a major impact on Namibia's revenue. However, transfers from the SACU CRP depend on the total size of the pool that is determined by total SACU imports. Hence, any impact analysis needs to take account of the volume of imports into SACU by all its member countries, notably by South Africa. Imports from SADC countries excluding SACU countries accounted for 0.8% of Namibia's total imports in 2003, but 1.6% of South Africa's imports. South Africa imported goods to the value of some USD550 million, and Namibia of

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<sup>10</sup> Based on Bank of Namibia, 2003:34.

less than USD 12 million<sup>11</sup>. These figures indicate that imports from SADC countries do not contribute significantly to the CRP. In addition, imports from SADC countries already receive preferential or free access to the SACU market. It is therefore not expected that the SADC Free Trade Area will result in a significant drop in Namibia's revenue from the SACU CRP. As a result, the Ministry of Finance does not intend to raise any other taxes in order to mitigate against possible losses in taxes on international trade.

Namibia employs a progressive income tax system. The first 24,000 Namibia dollars (N\$) earned per annum are tax free, which provides a substantial relief for low-income earners. The marginal tax rate for income earned above this tax threshold increases from 17.5% to 35%. Income taxes on individuals as well as company taxes have increased in importance from 26% (1997/98) to 39% in 2003/04. The vulnerability of company taxes to external events became apparent during the financial year 2004/05. The strong appreciation of the Namibia dollar against major currencies such as the US dollar and the Euro resulted in a downward revision of revenue estimates from company taxes by more than one billion Namibia dollars. Subsequently the contribution of company taxes dropped from 16% to 8% of total revenue – and the budget deficit soared to an all-time high of 7.5%.

The introduction of Value Added Tax (VAT) at the end of November 2000 replaced General Sales Taxes (GST) and Additional Sales Levies (ASL). Two tax rates exist: 0% for exempted products such as maize and Mahangu flour, and 15% for all other products. Government is currently considering re-introducing Luxury VAT, which was scrapped in 2002, at a rate of 25%. Revenue from VAT has contributed on average 22% since its implementation, compared to an average of 19% that GST and ASL contributed. This result once more proves the notion that VAT is a more effective and efficient tax instrument than sales taxes. The closing of some tax loopholes and an improved system of tax collection have levelled out the impact of a strong local currency on the profits of export industries and subsequently, revenue from company taxes.

Stronger regional integration often raises the concern of a 'race to the bottom' regarding taxation in order to attract investment. The RISDP has taken note of these fears and calls for tax harmonisation and cooperation among member countries regarding tax incentives, direct and indirect taxation and treaties on double taxation. However, it appears that no initiatives followed these recommendations. Tax rates differ widely even among SACU member countries, and there seems to be no coordination within the CMA when member countries decide on tax rate adjustments.

Grants channelled through the State Revenue Fund do not play a significant role. With the exception of 1997/98 (1.2%), grants contributed less than 1% to the revenue. However, grants are often transferred outside the State Revenue Fund to

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<sup>11</sup> [www.trademap.net](http://www.trademap.net) accessed on 13 September 2005.

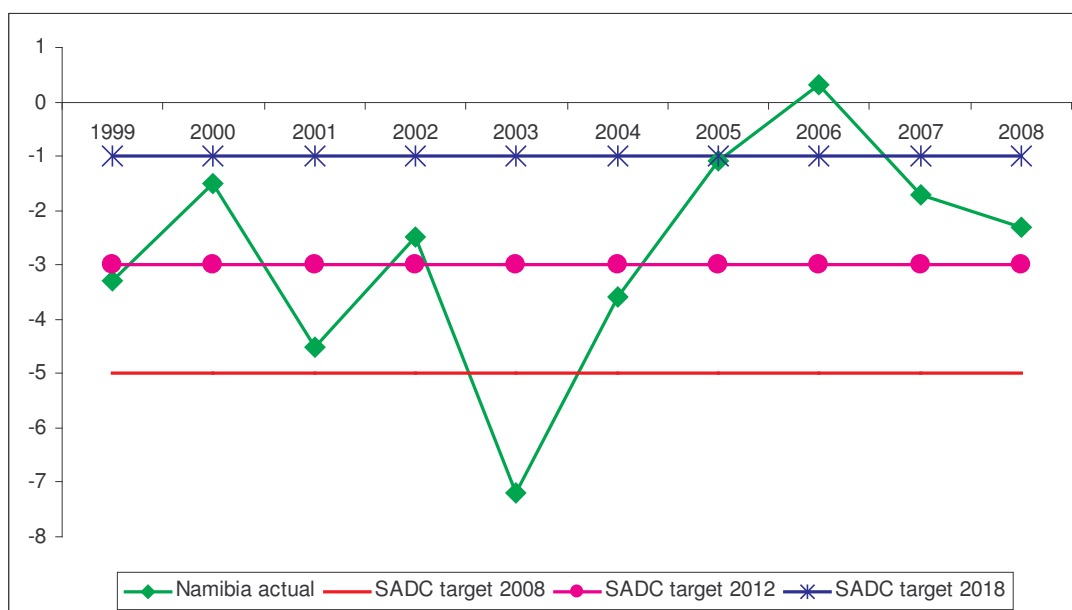
programmes and are not reflected in the national budget. Efforts by government to receive budget support have borne fruit with major donors (the EU and SIDA), who are now channelling at least part of their assistance through the SRF. This certainly improves transparency, accountability and the planning process. The low amount of grants also explains why there is seldom a difference between the deficits including and excluding grants.

Overall, it can be expected that trade liberalisation, in particular the impacts of the TDCA between the EU and South Africa, will result in declining income from the SACU pool. This decline could be levelled out by an increase in the efficiency of tax collection, which has already been happening over the past year, and increased economic activities that result in broadening the tax base. However, because of the low level of trade taking place between SACU and the rest of SADC, the reduction of tariffs on SADC goods is not expected to have a significant impact on the Common Revenue Pool. Whether or not trade liberalisation within SADC results in trade diversion (and hence in a loss of income) would warrant further research.

### Debts

The budget deficit has stayed within manageable levels, ranging between 1.4% and 7.5% for the period 1996/97 to 2003/04. The average for this period was 3.6%; however, excluding the high deficit of 7.5% for the year 2003/04 that was caused by a strong and persistent appreciation of the Namibia dollar and was not foreseen, the average stood at 3%. However, this external shock also revealed limitations in government's response to declining revenue. Expenditure was not adjusted in time to keep the deficit within the self-set range of 3% (Table A 8).

**Figure 4** Namibia's budget deficit 1999 to 2008 compared to SADC targets



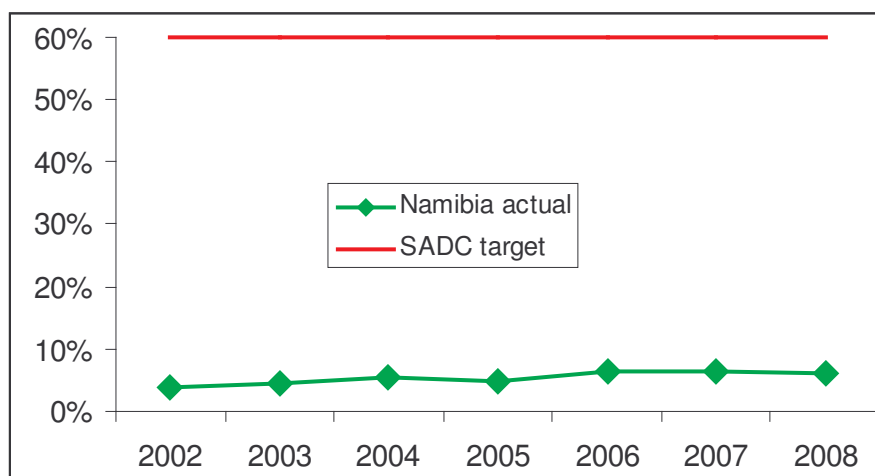
Source: Bank of Namibia, 2004 and Ministry of Finance, 2006

Furthermore, revenue has always been sufficient to cover recurrent expenditure, so that the deficit has only been used to finance capital expenditure. The deficit could

therefore be justified if capital expenditure resulted in returns in the medium- to long term. This is the case with investment in the productive sectors and infrastructure.

Total government debts stood at about 33.5% in 2004/05. 15% of these debts are foreign debt stocks representing between 4% and 6% of GDP (Table A 9). However, Namibia has not borrowed any money from the IMF or World Bank. Treasury bills and bonds are used for borrowing on the domestic market. The Central Bank Act provides for an overdraft for government. Government could request credit only in specific instances. Neither has happened yet. Government has always maintained savings on its account with the Bank of Namibia (Table A 22).

**Figure 5** Namibia's foreign debt as % of GDP from 2001 to 2008 compared to the SADC target



Source: Ministry of Finance 2005 and 2006

As with the deficit and debt ratio, the ratio of foreign debt over GDP is far below alarming international benchmarks. However, as the financial year 2003/04 illustrated, developments in the global economy can cause the fiscal balance to deteriorate rapidly. A slowdown of the global economy will affect revenue of the mining industry and its tax bills. Interest rate increases will impact on statutory expenditure, and without adjustments on other expenditure items, will increase the deficit.

In addition, government has guaranteed loans to parastatals and some private sector companies, mainly as part of its Affirmative Action Loan programme. Total guarantees amounted to almost N\$2.5 billion during the 2004/05 financial year, bringing total public and publicly-guaranteed loans to about 40% of GDP. Domestic guarantees account for 55%, and foreign guarantees for the remaining share<sup>12</sup>. Experience has shown that these guarantees carry risks, and government has had to honour its guarantees in cases where the beneficiary of the loan defaulted on the repayment. While there are good reasons for guarantees, decisions need to be

<sup>12</sup> Ministry of Finance, 2005:12.

based on a profound economic analysis of the business plan and its viability. Government has realised shortcomings in the current system and implemented new regulations that raise the hurdle to be granted government guarantees, such as a fee to be paid annually on the guaranteed amount.

Thus, continuing strong fiscal discipline is needed to keep control over public finances. The government has ambitious plans over the current medium-term expenditure period, not only to keeping the deficit below 3%, but turning it into a budget surplus. Achieving these targets would result in declining total government debts, but it will take several years to reach the fiscal target of 25%<sup>13</sup>. Similarly important is to keep the flexibility in using fiscal policy to stimulate the economy if needed and to pursue the national development objectives. Since Namibia is well within the SADC targets, it is not expected that macroeconomic convergence will put pressure on government to change its fiscal policy.

However, a risk looms on the horizon. The government adopted an ambitious Medium Term Plan to fight the spread and impact of HIV/AIDS. The plan is supported by donor funds – notably the Global Fund and PEPFAR - but requires significant Namibian resources for implementation. The estimated cumulative costs of the programme over the five-year period 2006 to 2009 amount to N\$4,923 millions, of which Namibia has to raise some N\$2,959 millions from its own resources. This would require a reorientation of resource allocation. Furthermore, should donor assistance dwindle after 2009, additional domestic resources would be needed to continue with the programmes, such as treatment and care services and orphan grants<sup>14</sup>. This could have repercussions on the budget deficit and eventually on achieving the convergence criteria.

## 5. Trade Policy Framework

Regional integration arrangements are seen as vital in addressing the demand side constraints faced by Namibia due to its small domestic market. It is believed that Namibia can overcome such constraints in the context of a larger regional market. Regional integration is also viewed as an enabling stepping-stone to the country's integration into the world economy. Namibia has consequently entered into a number of trading agreements.

Namibia belongs to the South African Customs Union (SACU). In 1994 a formal decision was made to renegotiate the 1969 SACU agreement, with a view to making it a more democratic institution. The renegotiation process lasted for eight years and led to the signing of the new SACU Agreement in 2002, that came into force in 2004. The new agreement introduces a system of managing and sharing the common revenue pool. The new SACU agreement requires countries to develop common industrial policies but to have cooperation in agriculture, competition and

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<sup>13</sup> Ministry of Finance, 2005:11 and 21.

<sup>14</sup> IMF 2005:13.

unfair trade practices. The key challenges facing the BLNS countries are the setting up of independent trade policies that will be in line with their own development priorities, and the decline in revenue from the common revenue pool as a result of changes in the way it was previously shared.

Furthermore, Namibia is a member of the Southern Africa Development Community (SADC). SADC has evolved from its initial objectives of focusing on food security and creating political stability in the region to regional integration and cooperation among member states. This has led SADC to extend its agenda on regional integration and trade liberalization. Although Namibia belongs to both SACU and SADC, its membership to SADC does not pose problems at present, because it is not yet a customs union. By 2010 when SADC is supposed to become a customs union, the external tariffs of SADC and SACU will be harmonised. SACU's rules of origin are also different from those of SADC, which currently poses obstacles to trade.

Namibia is also part of the Cotonou Agreement between the ACP countries and the EU. As such, it is currently negotiating an Economic Partnership Agreement with the EU as part of a group of SADC member countries<sup>15</sup>. The main objective of these negotiations is to foster the smooth and gradual integration of the countries into the global economy. These agreements should be seen as the continuous process of strengthening regional integration in SADC, rather than undermining it. The negotiations are undertaken on specific issues according to a set timetable. During 2005 negotiations are focusing on market access and non-market access issues in the area of agriculture and fisheries. The negotiations are to continue until 2008 when the EPA will enter into force.

Namibia did belong to COMESA, but pulled out in 2003 because it was already a member of a customs union with a common external tariff, namely SACU. The withdrawal has not resulted in major problems in trading with COMESA member states. Lastly, Namibia is a member of the World Trade Organization (WTO).

Regional integration initiatives are supposed to result in increased benefits to Namibia owing to access to larger markets, and increased efficiency due to competition and economies of scale. However, overlapping memberships can lead to high administration costs related to the different rules of origin and huge amounts of government funds spent on official participation in the negotiations. Furthermore, since human capacity is limited, participation in the various regional bodies and trade negotiations is also constrained.

Namibia does not have a written national trade policy. Its trade policy and strategies are guided by the country's national development objectives, which include the promotion of economic growth, creation of employment and reduction of poverty. In addition it is determined by its membership to both the international and regional

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<sup>15</sup> The group includes Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland, and Tanzania.

trading bodies. Its trade policy strategy is mainly driven by that of SACU, and most of the country's trade policy decisions are undertaken jointly under SACU.

Trade has always been viewed as an engine of growth for Namibia, and it is one of the most important pillars of integration in the SADC region. For this reason, Namibia's trade policy objectives are to diversify the economy from the export of primary and traditional goods to expand the country's manufacturing base through increased exports of value-added products and attraction of foreign investment. This strategy is aimed at promoting high economic growth through increased foreign exchange earnings and the attraction of sufficient foreign direct investment for the ultimate realization of increased employment opportunities, poverty alleviation and of addressing socio economic imbalances inherited from colonial times. To date, the impact of trade agreements on industrialisation has been somewhat marginal. The manufacturing sector is slowly diversifying but this is caused by its natural resources rather than the result of trade negotiations, with the exception of the textile industry that has benefited from AGOA. Policies are needed in support of balanced and mutually-beneficial industrialisation in the region, such as a competition policy and a policy targeting unfair trade practices.

As a member of the World Trade Organization, Namibia has committed itself to the gradual reduction of tariffs, with the aim of liberalising trade. Trade liberalisation is currently being undertaken at multilateral level under the WTO as well as at regional level under SADC and SACU. Under the new SACU agreement, member countries are not allowed to enter into a trade agreement without notifying and seeking the approval of the other SACU members.

### **5.1. SADC Trade Protocol**

Namibia joined the Southern African Development Co-operation Conference in 1990 after gaining its independence from South Africa, and was a founding member of SADC in 1992. It signed the SADC Trade Protocol in 1996 and became one of the first SADC countries to ratify the SADC Trade Protocol in 2001. By ratifying the protocol, countries bind themselves to the requirement of the protocol, which is mainly the gradual reduction of tariffs to make way for the free trade area in 2008. Through the Trade Protocol, SADC intends to establish a free trade area in 2008, and the Customs Union in 2010. Namibia has since deposited the instruments of implementation of the Trade Protocol with the SADC Secretariat, which is a tariff 'phase-down' schedule over the implementation period. The trade protocol is seen as the most important legal instrument in the region's quest for economic integration.

The gradual reduction of tariffs commenced in 2000 and the process is expected to take up to eight years. The BLNS and South Africa, being members of the Southern African Customs Union (SACU), have undertaken to implement the SADC trade protocol as a group, and they have been the main countries that have moved quickly in tariff liberalisation (fast liberalisers). Over 50% of products are now traded duty

free. Although Namibia does apply the tariff amendments as issued by South Africa Revenue Services (SARS) on a regular basis, the 2004 amendments to the SACU CET have not been gazetted. The delay with gazetting is due to internal capacity constraints given the bulkiness of the tariff book and the frequency of SACU's tariff amendments. Namibian customs authorities are currently addressing this issue in cooperation with SARS<sup>16</sup>.

However, a number of implementation issues still remain unresolved. According to the Ministry of Trade and Industry, outstanding issues remain in technical areas, such as the implementation issues relating to the rules of origins in terms of the local content of manufactured products. The key obstacle encountered in the process of implementing SADC regional economic integration is the definition of the Rules of Origin and the establishment of enforcement mechanisms for countries that are not adhering to the commitments they made. The mid-term review of the protocol conducted in 2004 indicates that tremendous progress has been made towards regional cooperation and integration among SADC countries, except for a few countries that are still struggling to implement the protocol, and that there has been an increase in intra-SADC trade in goods.

## **5.2. Trade Facilitation Initiatives**

During the negotiations and initial period of implementation of the SADC Trade Protocol, much of the focus was on reductions in tariffs. However, as the implementation proceeds, member states are becoming increasingly aware that Non-Tariff Measures are a substantial and growing barrier to intra-SADC trade and hence, to integration.

Trade barriers can be classified into tariffs which are duties on goods entering and leaving the country, and non tariff barriers (NTBs) which are often rules, regulations, and standards that distort and limit trade. Although the rationale behind most trade arrangements is to reduce trade barriers with a view to promoting increased flow of trade between countries with the ultimate objective of achieving economic development, countries still devise barriers to protect local markets, mainly from competition by foreign firms. Non-tariff barriers are more serious obstacles to trade than tariffs because they are not transparent. For the business community it is difficult to factor them into their business plans.

Like other countries in the region, Namibia continues to use tariffs and NTBs to restrict imports into the country with the aim of protecting domestic industries from competition and promoting import substitution industrialization. Import duties work only as a trade barrier against competition from outside SACU. Therefore, non-tariff barriers are used to restrict imports also from SACU member countries, mainly South Africa. Non-tariff barriers come in various forms, ranging from quantitative restrictions on imports and exports such as licences and permits; standards to

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<sup>16</sup> The Service Group, 2004

customs documentation and related procedures, all of which often add substantial costs to cross-border trade.

Namibia has imposed import and export restrictions on various agricultural products in accordance with Article 25 of the New SACU Agreement<sup>17</sup>. Maize may only be imported into Namibia once the Namibian harvest is milled, while wheat can always be imported. Maize and wheat flour are not allowed in the country, in order to protect Namibia's milling industry. It is anticipated that the staple diet for the majority of people, namely millet, will be declared a controlled product in due course and be subject to the same regulations as maize. Since customs duty rebates are applied on wheat imports, it is not permitted to export wheat or wheat flour. An import permit is required for horticultural products and is only issued once proof is provided that 7.5% of the import quantity has been purchased from local Namibian producers. The import restrictions have benefited Namibian producers and processors of domestic crops and extended the value chain of agricultural products. However, consumers are to some extent paying the price in the form of higher costs for maize meal and other related products.

The New SACU Agreement also allows for infant industry protection for a limited period of eight years. Namibia has made use of this clause twice to date, protecting its Ultra-High Temperature milk production (implemented in 2001) and pasta production (implemented in 2002). Additional duties are levied on the imports of these products and are due to SACU's Common Revenue Pool. Despite these additional levies, the industries face tough competition from South African companies.

Export restrictions are in place for sheep exports on-the-hoof. Export permits require that for each sheep to be exported, two have to be slaughtered locally. Since domestic sheep prices are lower than South African prices, farmers are left with a lower income. At a recent meeting, farmers and the abattoirs agreed on a price that satisfied both parties. In addition, the export of unprocessed hides and skins is restricted and a levy is imposed to protect the domestic processing industry. Aside from these regulations, trade in livestock and meat products is virtually free.

Other technical barriers to trade, such as standards, are many but appear to be reasonably well managed, not adding much to the costs of doing business<sup>18</sup>. Furthermore, in a survey conducted by NEPRU in 2005 as part of this project, businesses indicated that time-consuming customs procedures, high transport costs, risk of non-payment, and other bureaucratic procedures are the most relevant barriers to trade. The IMANI study identified further bureaucratic obstacles such as visa requirements imposed on professional staff. Business people are still required to obtain a business visa when travelling within the region. This can take several weeks to obtain by which time the business opportunity could be lost. Other barriers

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<sup>17</sup> The following section draws on Schade, Klaus, Rehabeam Shilimela, 2005.

<sup>18</sup> IMANI, 2004.

such as bans are posing a major problem for strategic imports of inputs into Namibia's manufacturing sector.

This underlines the point that the gradual removal of non-tariff barriers within SADC could have the potential to add impetus to the regional integration process by reducing the high costs associated with trade transactions. Therefore, trade facilitation plays a considerable role in deepening SADC integration. Namibia has taken some steps in this regard. Namibian customs authorities have introduced measures to minimize delays at border posts. The Ministry of Finance has introduced the ASYCUDA system at head office, and has also installed computers at customs border posts across the country. These measures are all aimed at increasing efficiency in the system in order to facilitate cross-border clearance procedures.

Namibia has invested substantially in its infrastructure to attract investment and to strengthen trade with its neighbours. Becoming a transport hub for the region is one of the strategies developed within the Poverty Reduction Strategy. The infrastructure of its two ports was improved and its main port – Walvis Bay – is linked through highways to neighbouring, landlocked countries.

The Trans-Caprivi highway connects Namibia with Botswana, Zimbabwe, Zambia, and the DR Congo. The Trans-Kalahari highway provides an important route from Walvis Bay to the Gauteng Province via Botswana. To accelerate customs formalities at the Botswana border, authorities have agreed to implement fast-track customs procedures for registered haulage operators on a trial basis. Namibia and other SACU countries currently have a common document and appropriate supportive legislation handling transit procedures.

### **5.3. Namibia's trade patterns**

The country's main trading partners are South Africa, the EU and the USA. The Namibian economy is very trade-dependent and the customs revenue from the SACU pool accounts for about a third of its tax revenue. Ores and minerals are dominant exports accounted for some 39% in 2004. Processed copper and refined zinc contributed an additional 3.5% to exports. Manufactured products accounted for 33% in 2004, consisting mainly of processed fish (16%). Other important manufactured products are beverages and other food items (7%) as well as meat and meat products (4%). The advent of new, export-oriented manufacturing industries during 2003 (textiles and garments, refined zinc), resulting in a slight diversification of exports, could however not offset the decline in processed fish that is dominating manufactured exports.

Finally, the importance of tourism for the domestic economy is reflected in the relatively high share of service exports – 17.8%.

It can furthermore be reasonably assumed that with the emergence of new industries and hence new products being exported, the relevance of export

destinations has changed, albeit slightly. Textiles are exported almost exclusively to the USA, benefiting from the preferential treatments under AGOA. Cut and polished diamonds are also exported to other destinations than raw diamonds. Raw diamonds produced by the De Beers group are distributed through its subsidiary Diamond Trading Company based in London. Thus Great Britain topped the list of export destinations. This has not changed as yet, since the diamonds that are cut and polished in Namibia are to a large extent bought in London and imported to Namibia. However, the intention is that diamonds mined in Namibia will be processed directly here, without the detour via London.

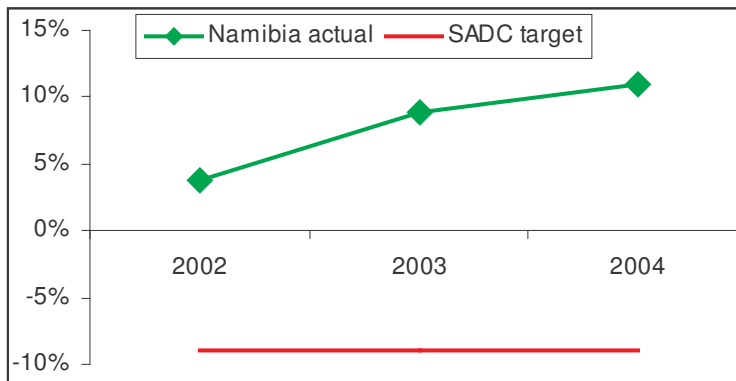
Overall, the EU was the main export destination in 2002 (48%), because of the exports of diamonds, fish, grapes and beef. South Africa followed with a share of 25% - mainly live animals (cattle, sheep and goats), beverages and other food products. These percentages changed significantly from 2002 onwards however, on account of the peace accord in Angola that led to substantial growth in exports, and the strong appreciation of the Namibia dollar against the Euro and USD in the following year. Subsequently the value in local currency of exports to Europe and the USA declined. Exports to SADC countries excluding SACU accounted for 6% in 2001 but rose to 23% two years later before the dropped to 16% in 2004. Though the figures look impressive, these exports are almost exclusively destined for Angola and are to a large extent re-exports from South Africa. The following factors have most probably contributed to the decline in the share of exports to Angola in 2004: more goods are imported through Angola's ports from original sources resulting in a decline of Namibian exports; customs duties are now enforced at border posts in Angola, and manufacturing activities in Angola are gathering pace. Exports are hence highly concentrated on a few export destinations. SACU and SADC countries – with the exception of South Africa and Angola – have not featured prominently as export destinations. However, some Namibian exporters use distribution centres in South Africa from where goods are distributed across South Africa but could also be further forwarded to other countries, in particular Lesotho, Mozambique and Swaziland. Hence, actual trade with other SADC countries might be higher than the trade figures indicate. Exports to the rest of Africa and the rest of the world accounted for less than 10% during 2002 and 2003. Exports to SADC excluding SACU countries grew by 53% on average between 1998 and 2004, substantially stronger than total exports (10.6%). However, this is exclusively attributed to a strong growth of exports to Angola for a short period of time (Table A 13).

Similar patterns are found on the import side. South Africa has always accounted for about 80% of all imports, followed by imports from the EU (between 8% and 10%). However, goods imported from South Africa are not necessarily produced there but can be sourced through South African wholesalers and importers from elsewhere. Imports from SADC countries excluding South Africa account for about 1% of total imports. This can be attributed to the product range imported. Transport equipment (20%), machinery and equipment (16%), and chemicals (13%) are the main import items and are rarely produced within SADC except for South Africa. The trade data clearly indicates that SADC except South Africa is not yet a relevant

trading partner for Namibia. However, some of the goods sourced from South Africa could in fact originate from SADC countries. But it is unlikely that this happens to a large extent, because of similar production patterns within SADC and a lack of economic diversification. Imports from SADC countries grew by 10.7% between 1998 and 2004 and hence faster than total imports (9.0%), but imports from SADC countries picked up from a low level. Since SACU is a fast mover concerning tariff reductions within SADC, stronger growth of imports from SADC outside SACU could have been anticipated if SADC were characterised by a complementary production structure. However, there is no indication that tariff reductions have played a role. Imports from these countries appear to be rather sporadic and display considerable fluctuations. Secondly, imports are substantially influenced by two countries, namely Angola and Zambia. The surge of imports from Zambia could be related to copper imports that are further processed at the copper smelter in Namibia. Hence there is not yet evidence that tariff reductions within SADC have led to a shift in imports towards producers in SADC outside SACU.

Namibia has incurred a trade deficit in most years, which however turned into a trade surplus during the first quarter of 2005. Because of the SACU transfers Namibia recorded a current account surplus (Table A 22).

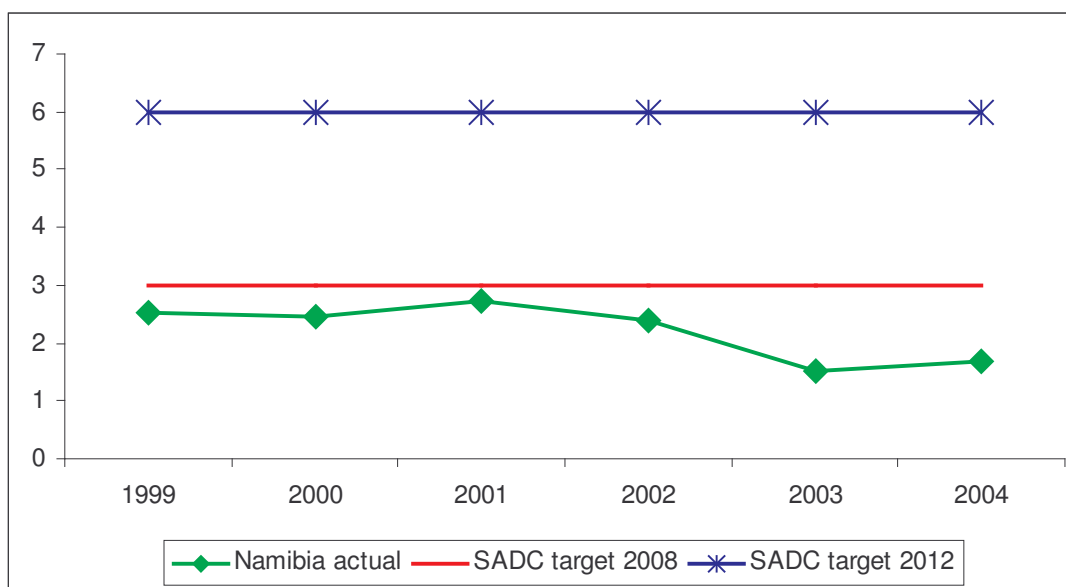
**Figure 6** Namibia's current account balance compared to the SADC target



Source: BoN Quarterly Bulletin 2003 June and Sept 2005

Foreign reserves covered the value of imports for an average of 9.5 weeks between 1999 and 2004. However, the import cover fell significantly from above 10 weeks to around 7 weeks during 2003 and 2004 (Table A 17).

**Figure 7** Namibia's foreign reserves in months from 1999 to 2004 compared to the SADC targets



Source: Bank of Namibia, 2004

## 5.4. Conclusion

Namibia gives a picture of an open economy, in terms of import and export ratios over GDP. Over the period 1995 to 2003 the ratio stood at 60% and 46% for imports and exports respectively. This is not surprising since it is a small, natural resource-rich country. Namibia exports commodities in raw or processed form and a few manufactured products for niche markets, but imports most of its consumer and producer products. The openness to trade, new trade agreements, as well as preferential access to some markets have not yet resulted in a rapidly diversifying economy. On the other hand, Namibia has not experienced significant external shocks from trade liberalisation. Namibian industries face the main threat not from trade liberalisation within SADC, but from established South African companies, hence from within the customs union. In particular, the Namibian dairy industry is under considerable pressure. This can in part be explained by the Trade and Development Cooperation Agreement between South Africa and the EU. Although the BLNS countries were not part of the negotiations, they are *de-facto* part of the agreement because of their membership of SACU. Customs duties on products from the EU are gradually reduced and increase the competitiveness of these imports. South African companies who experience the stronger competition try not to lose market shares in neighbouring countries to newly-established industries. They reportedly sell their products at the same price or at even lower prices than in their own country, despite transport costs and additional levies on certain products. This indicates that trade liberalisation needs to be accompanied by the necessary legal framework to level the playing field between local and foreign producers and to curb unfair trade practices. A competition policy is required and the capacity to

enforce it. Otherwise, trade liberalisation could result in a gradually less diversified economy – quite the opposite of what trade liberalisation is hoping to achieve.

## **6. Labour Market Policy Framework**

As stated earlier, Namibia inherited a highly unequal society at independence as a result of almost a century of colonial and apartheid rule. During this era, the majority of the population received only a very basic education. Subsequently, the workforce has been characterised by low levels of skills, which in turn resulted in a racially unequal distribution of employment opportunities, income and wealth. Low levels of skills go hand-in-hand with low wages and with unemployment. Furthermore, the dualistic society and economy has resulted in a formal sector with highly regulated working conditions and an informal sector with no labour regulations, leaving the workers unprotected and vulnerable to exploitation<sup>19</sup>.

### **6.1. Legislation regulating the labour market**

Various pieces of legislation regulate the labour market in Namibia. The Government promulgated the Labour Act, 1992, amended in 2004, in order to improve the labour market conditions and protect the workers. The Act covers labour-related issues such as freedom of association, conditions of employment, collective bargaining, occupational health and safety, social security and other labour issues.

The Namibian constitution prohibits discrimination on the basis of colour, sex, race or ethnic origin. However, this has not been sufficient to redress the situation on the labour market. Therefore, the Affirmative Action (Employment) Act of 1998 was implemented, specifically to target the inequity of employment opportunities and to promote the development and advancement of the previously disadvantaged in society. All companies with more than 50 employees are required to supply the Equity Employment Commission with annual affirmative action reports that outline the company's plan to provide equal employment opportunities to the previously disadvantaged. Training programmes need to be designed to promote those previously disadvantaged into higher positions. The term 'previously disadvantaged' includes racially disadvantaged persons, women and people living with disabilities.

Reports for 2004/05 indicate that about 31% of executive directors' positions and 44% of management positions are occupied by the racially disadvantaged, although they account for the majority of the population. The figures for women stood at 13% and 25% respectively. These figures indicate that much has remained unchanged in ensuring a representative workforce<sup>20</sup>.

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<sup>19</sup> Ministry of Labour, 1997

<sup>20</sup> The Namibian, 30 Sep. 2005:5.

The National Vocational Training Act, No. 18 of 1994 regulates the training system in the country. It aims to develop a mass skills' training programme in the country. The Act makes provision for the regulation of the training of apprentices and vocational trainees and provides for the establishment, powers and functions of a Vocational Training Board and trade advisory committees. It also provides for the establishment and approval of vocational standards, the designation of trades and the establishment and approval of training schemes in respect of such trades. The Act provides for the establishment of a National Trade Testing and Certification Centre, trade testing and certification of apprentices and provides for the registration of vocational training centres and for the imposition of training levies and the establishment of a Vocational Training Fund.

The Social Security Act No. 34 of 1994 established the Social Security Commission that collects contributions from employers and employees to cover employees in the case of maternity leave, sick leave and injury at work, and pays death benefits to employees' families.

Namibia does not have a national minimum wage policy *per se*, but the Labour Act of 1992 which was amended in 2004 makes provision for the establishment of a wage commission that has not yet been established. It is on the basis of this provision that parties are negotiating minimum wages for workers in certain sectors. So far, unions and employers have signed minimum wage agreements in three sectors, namely construction, agriculture (farm workers) and security services (security guards). The new Labour Act of 2004 further suggests that the wage commission will look into issues of income policy.

The low levels of skills in the country and subsequently the lack of skilled and qualified personnel have resulted in foreigners being employed in the country. The procedure of getting a work permit, however, is cumbersome. Applications with the necessary documentation are screened by the Ministry of Home Affairs, and the Immigration Selection Board finally decides on the application. The procedure takes at least six months, and often more than a year. The employment of non-citizens and the migration of labour are addressed under the Immigration Act of 1994. The government is currently working on the Employment Service Bill that will address the employment of foreign nationals.

Overall, labour market legislation is regarded as too rigid. The recent amendments to the Labour Act include an increase in annual leave days to 24, additional compassionate leave of five days each for the death of defined family members, changes in payments during maternity leave and severance pay. These regulations are regarded as unfavourable for creating employment opportunities. Combined with the impact of HIV/AIDS that results in lower productivity and hence higher labour costs, the legislation may support capital-intensive production methods rather than attract labour-intensive industries. Minimum wages have been determined for a few industries such as construction and agriculture, but are once again on the agenda. Experience with minimum wage issues is generally mixed, and the chief challenge is to get them right. If set too low, they won't have an impact, and if set

too high they will result in high production costs, leading to increased capital-intensive production techniques. Thus, increased unemployment could be the result and micro- and small-sized companies could be pushed into the informal sector to avoid the regulatory framework.

A SADC-wide labour market policy framework could avoid the temptation of lowering labour standards in individual countries in order to attract much-needed investment. However, the RISDP acknowledges at the same time that any framework needs to support a competitive market. It furthermore needs to take cognisance of the specific situation of each country's labour market.

## 6.2. Labour Market Trends<sup>21</sup>

Economic growth rose substantially after independence but then slowed down towards the end of the first decade. On the other hand, population growth declined from 3.1% in 1991 to 2.6% in 2001, according to the respective Population and Housing Censuses<sup>22</sup>. These should have been favourable conditions for a reduction of unemployment in the country. However, unemployment remained at a high level of about 31% in 2001, although had shown some decline compared to previous years.

Since then, developments have been rather mixed. New industries such as the zinc refinery and the textile industry have created roughly 8,000 jobs. Additional jobs are created in the service industries owing to increased demand, for instance for transport services. On the other hand, the agricultural and more recently the fisheries sectors have laid off workers. Workers in the fisheries sector have been retrenched because of strong competition resulting, in part from a strong local currency and increased oil prices. While there was cautious optimism that the unemployment rate had dropped, preliminary results from the 2004 Labour Force Survey indicate a considerable increase again – to 36.7%. This was unexpected, and a thorough analysis of the Labour Force Survey data is needed in order to establish the causes for this rise. Furthermore, preliminary results from the National Household Income and Expenditure Survey 2003/04 suggest a substantial drop in income inequality and income poverty. These results contrast with the rising trend of unemployment.

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<sup>21</sup> The analysis is primarily based on the Labour Force Surveys of 1997 and 2000. Data from the most recent Labour Force Survey (2004) is not yet available.

<sup>22</sup> Government of the Republic of Namibia, 1992 and 2003.

**Table 1 Labour Force, Employment and Unemployment, various years**

Year	Employed	Unemployed	Labour Force	Unemployment rate (Broad)
1991 <sup>1</sup>	388,014	91,765	479,779	N/A
1993/94 <sup>2</sup>	350,280	84,398	434,678	N/A
1997 <sup>3</sup>	401,203	97,121	498,324	34.5%
2000 <sup>4</sup>	431,949	109,598	541,547	33.8%
2001 <sup>5</sup>	409,591	185,258	594,849	31.1%
2004 <sup>6</sup>				36.7%

Sources: <sup>1</sup> Republic of Namibia, 1992/93; <sup>2</sup> National Planning Commission, 1996; <sup>3</sup> Ministry of Labour, 2001, <sup>4</sup> Ministry of Labour, 2002; <sup>5</sup> Republic of Namibia, 2003, <sup>6</sup> The Namibian 24 May 2006

The agricultural sector is the major employer in Namibia, accounting for 29.3% of all employees (Table A 19). Most of these jobs are provided by the traditional agricultural sector, while the commercial agricultural sector contributes only about 30,000 jobs. The agricultural sector is followed by the public sector and the wholesale and retail trade sector. The mining sector that contributes significantly to foreign exchange earnings and government revenue employs less than 1%. Government is the single largest employer with some 90,000 funded posts for the 2005/06 financial year. It is followed by the textile company with about 7,000 jobs, which are however currently under threat.

Women are more affected by unemployment than men (39% compared to 28% in 2000). Most striking is the impact of educational attainment on employment status. 36% of the labour force with only primary education is unemployed, compared to 42% with junior secondary (Grade 8 to 10) and 34% with senior secondary education. Persons with no formal education are less affected – only 23% are unemployed. A possible explanation is that these are older persons staying on farms, and are thus employed or self-employed in the traditional agricultural sector, while people with some degree of formal education migrate to towns and industrial centres in search for work and a better standard of living. A good education almost guarantees a job. The youth is hardest hit by unemployment. Almost half of the age group 15-19 years is unemployed. The rate drops dramatically the older the people are. From the mid-thirties, the unemployment rate falls to 10% and below. Youth unemployment is thus a major challenge to the country.

A report on the informal economy<sup>23</sup> revealed that there are some 85,000 informal businesses in the country employing some 132,000 people. Most of these businesses are run by women (53%) and by people with relatively low educational attainments. Employees in this sector share the same characteristics – they are mainly women (54%) with less than secondary education (63%). This is indicative for the informal sector being a 'push' sector rather than a 'pull' sector. The informal sector is apparently not a sector of choice but a sector people are pushed into because they can not find employment in the formal sector.

<sup>23</sup> Republic of Namibia, 2004

### 6.3. Causes of unemployment

There are a few factors that could explain the high rate of unemployment in the country. The economy is characterised by natural resource extraction that is highly capital intensive (mining, fisheries). The commercial agricultural sector is laying off workers to stay competitive, while the subsistence agricultural sector remains an employer of last resort. The introduction of a minimum wage for farm workers has reportedly contributed to retrenchments on commercial farms. Furthermore, cattle farms have been turned into game farms and hunting lodges, often requiring fewer employees than before. Moreover, they become part of the tourism sector if they stop livestock farming at all.

Relatively new manufacturing activities such as textiles and diamond cutting and polishing have had a positive impact on the labour market. However, the value chain of Namibia's raw materials needs to be extended in order to add further value and create employment. One of the main challenges remaining for the manufacturing sector is the small and dispersed population coupled with a highly skewed income distribution that limits demand. In particular, newly established companies face stiff competition from well-established and capitalised South African companies, not only on the domestic market but also abroad. Because of its limited size and range of products, the manufacturing sector contributes just 5% to employment.

So far, investment – both domestic and foreign – has not been sufficient to significantly alter the situation on the labour market. In a similar vein, Namibia's economic growth has not been particularly employment creative<sup>24</sup>. GDP in constant prices grew by 11% between 1997 and 2000, while employment increased by 8% (Table A 19).

One of government's priorities is to strengthen the SME sector in the country. Various initiatives have been started, such as credit schemes for instance. However, no systematic survey has been carried out to evaluate the impact of these initiatives and the extent of the sector. Poor access to finance is still cited as one of the major obstacles to growth in the economy and consequently to employment creation. Most new businesses are SMEs and do not have sufficient track records or collateral to secure loans from local banks. The establishment of the Development Bank of Namibia in 2004 is expected to ease access to finance, at least for medium-sized companies.

One major hindrance for employment creation is the low skills' level in the country. Government has prioritised education in general, but has also identified investment in skills' development and training as a major task for NDP2<sup>25</sup>. The lack of skills results in relatively low productivity and premium pay for skilled and qualified

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<sup>24</sup> Bank of Namibia, 2004

<sup>25</sup> Government of the Republic of Namibia, 2002

personnel. Finally, it affects competitiveness, and hence limits further employment creation.

Furthermore, the labour market is characterised by a high degree of regulation. The Labour Law 2004 includes provisions for instance for extended annual leave, compassionate leave, maternity leave, severance pay and payment of outstanding leave on termination. While it is necessary to protect workers' rights, rigid labour laws prevent job creation, since they increase the cost of labour relative to capital. High labour costs act also as a barrier for SMEs to enter the formal sector. A strongly regulated formal sector can thus result in a growing informal sector with negligible protection for employees.

Finally, scarcity of skills and low productivity are further worsened by the impact of HIV/AIDS. The prevalence rate was calculated at 19.2% for 2004. Absenteeism is increasing because of illness, as well as caring for infected family members and attendance at funerals. Investment in training often fails to produce the anticipated returns, since productive life is much shorter than anticipated.

In order to gain from additional investment as a result of regional integration, weaknesses the Namibian labour market displays such as low levels of skills and a high degree of regulation need to be addressed in a balanced manner that takes account of workers' rights and the competitiveness of companies. If the labour market is not competitive within the region, Namibia will lose out to other more competitive countries.

## **7. Social development**

With independence in 1990, the government inherited a dualistic society that deprived the majority of the population of access to basic needs. As a result, the largest shares of the national budget have been allocated to the health and education sectors to redress these imbalances that reduce the potential for economic growth. Primary education and primary health care have been prioritised. Clinics (rather than hospitals) and schools have been built in rural areas. Progress is reflected in some education and health indicators. Net enrolment rates and literacy rates have improved, as have mortality and immunisation rates. However, the scourge of the HIV/AIDS pandemic has resulted in a significant drop in life expectancy, wiping out progress made during the early years of independence. Life expectancy stood at 48.3 years in 2003, down from 57.5 years in 1990<sup>26</sup>. The decline explains the lower Human Development Index (HDI) for Namibia in 2003 (0.627 compared to 0.644 in 1998) and the drop in its worldwide ranking from place 107 (1998) to 125 (Table A 20). However, the well-being in international comparison improved slightly in 2003 compared to 2002, mainly because of an increase in life expectancy from 45 years (2002). The roll-out of anti-retroviral

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<sup>26</sup> UNDP, 1993 and 2004

treatment for persons living with AIDS is expected to increase life expectancy further, and eventually raise the HDI.

Regional discrepancies reflect the legacy of the past that continues to exist. The HDI ranged between 0.52 (Caprivi region) and 0.71 (Erongo region) in 2000. Life expectancy varied between 32.6 years and 47.2 years respectively, while the adult literacy rate was lowest for the Omaheke region (64%) and highest for the Khomas region (94%). Although the government has invested substantially to build new schools and clinics in rural areas and to improve the infrastructure, these areas are often still less well equipped than urban areas, and as the data illustrate some regions are still much better off than others. It remains a challenge for government to address these discrepancies.

HIV/AIDS poses the biggest threat to the social progress of Namibian society. The HIV prevalence rate dropped in 2004 from 22% (2002) to 19.8%, but it is too early to say whether this marks a reversal of the trend. Part of the decline can be explained by the inclusion of three additional testing sites, of which two revealed a below-average prevalence rate. Excluding these three additional sites, the rate would have dropped to 20.3%. However, since the prevalence rate expresses the proportion of HIV<sup>+</sup> persons over the total population, the treatment programmes should actually result in an increase in the prevalence rate over the next years as HIV<sup>+</sup> persons live longer. Only when the incidence rate drops will the prevalence rate eventually fall as well. Therefore, current trends of the prevalence rate need to be analysed with caution. After introducing a pilot programme in two hospitals, the government has recently spread the programme to prevent the transmission of HIV from mother to child to all thirteen regions. Data on the impact the programme has on the infection of infants is missing since the programme started only recently. In addition, about 16,000 persons receive anti-retroviral treatment in public health facilities out of an estimated 40,000 people in need.

Increased cross-border traffic and migration as a result of stronger regional integration could further contribute to the spread of the pandemic. SADC-wide efforts will therefore be urgently needed to contain the spread, if the population is to benefit from regional integration.

Overall, there is a good chance that Namibia will achieve most of the MDG indicators for 2006 (Table A 21). The exception is the fight against HIV/AIDS that has not yet been won. It remains to be seen whether the downward trend of the prevalence rate as described above is continuing.

Expenditure priorities have not changed over the years. Namibia has not had to undertake Structural Adjustment Programmes, and nor has a change in monetary and fiscal policies been necessary to achieve the SADC Convergence targets, except that more robust growth is required. Therefore, changes in social indicators are the result of factors other than macroeconomic policies. There are indications that efficiency in both sectors could be increased, such that a decline in revenue and hence in allocations will not necessarily result in a decline in the quality of service

delivery. Tools are put in place, such as output indicators, to monitor the efficient and effective use of public resources.

### *Income distribution*

As indicated earlier, Namibian society is characterised by a highly skewed income distribution, reflected in a Gini-coefficient of 0.6 based on the 2003/04 household survey. A progressive tax system including a tax threshold for the first N\$24,000 earned per annum and a zero VAT rate for the staple foodstuffs millet and maize are two tax measures employed to address this imbalance. Poor households in particular benefit from various social transfer schemes, such as non-contributory social pensions, pensions for ex-combatants that are paid in addition to the social pensions, and foster parent grants. Social pensions in particular contribute greatly to the income of households in rural, communal areas. Although pensions are meant to improve the standard of living of the elderly, in actual fact they benefit the whole extended family living with them. Furthermore, employees in the formal sector benefit from a social security system that includes sick leave benefit, maternity leave benefit, and death benefit. The social security scheme does not reduce poverty directly, but it prevents households from falling straight into poverty in any of the events covered by the system. Contributions to this system are shared equally between the employer and employee. The system is therefore not dependent on the income of government and payouts will not be affected by the fiscal policy.

Initial results from the latest National Household Income and Expenditure Survey conducted during a twelve-month period in 2003 and 2004 indicate a decline in income inequality and poverty. The Gini coefficient dropped from 0.7 (1993/94) to 0.6 (2003/04), while the incidence of poor and severely poor households declined from 29.1% and 8.7% to 24.0% and 3.9% respectively over the same period<sup>27</sup>.

A thorough analysis is needed to identify the factors that have contributed to the positive trends, since economic growth has not been strong enough to increase employment in the formal sector significantly. Little is known about the informal sector.

A decline of revenue could reduce allocations to social sectors. So far, they have been spared from cuts resulting from the unforeseen drop in revenue. However, the government has cited financial constraints at various times as the reason for not increasing social transfers. If social transfers were bound to the inflation rate, recipients would not face a decline in the standard of living in times of revenue constraints and / or high inflation rates.

Overall, since Namibia is performing relatively well concerning the convergence criteria and since, therefore, there is no need for strong adjustments of monetary and fiscal policies, it is anticipated that government could continue pursuing its

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<sup>27</sup> Republic of Namibia, 2006:32

social priorities. It is particularly important to address income inequality to stimulate and strengthen the domestic economy.

## 8. Environmental challenges

Namibia is an arid country, dominated by the Kalahari Desert in the East and the Namib Desert in the west. There are no perennial rivers within its borders. Mean annual rainfall varies between 600mm in the north east of the country and less than 100mm in the south and west. 25% of the country's surface is classified as desert and receives less than 25mm rainfall per annum. The average figures cover highly variable rainfalls within regions and between years. But even if the country receives average rainfalls, crop production can be severely affected by longer drought spells during the rainy season. Since the rainfall season – accept for the south – is concentrated during summer and hence the hottest months, immediate losses through evaporation amount to 83%<sup>28</sup>.

Government is aware of this fragile environment and has therefore included protection of the environment in the Constitution. Sustainable development is furthermore one of the cornerstones of Namibia's long-term Vision 2030 and is part of many national policies, such as Namibia's Green Plan. An Environmental Management and Assessment Bill as well as the Integrated Pollution Control and Waste Management Bill, among others, are being currently drafted<sup>29</sup>. With the policies in place, capacity needs to be built to monitor adherence to the policies. Government has declared approximately 17% of Namibia's land area as protected areas that are used as National Parks. Not all of these areas are accessible to visitors. Its wetland areas in the south at the mouth of the Orange River have received international recognition as a Ramsar site.

However, despite these protections, indications of a loss of biodiversity exist in both communal and commercial agricultural areas. Wildlife numbers have declined because of population pressure in communal areas, while certain predators are nearing extinction in commercial areas, such as lions, wild dogs, white-headed vulture, bateleur and the Cape vulture<sup>30</sup>. However, the implementation of conservancies in particular in communal areas increases the awareness of the value of wildlife among the population and the benefits they reap from it through tourism. Conservancies are managed by communities, and they receive income from hunting licenses or other tourist expenditure. The area covered by conservancies increased from zero (1990) to 4.9% in 2001. It is probably ambitious to achieve the target of 10.9% in 2006. More commercial farmers have also discovered the value of wildlife in order to attract tourists. Thus it can be seen that tourism can contribute to sustainable wildlife management and biodiversity.

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<sup>28</sup> UNDP, 1998:37.

<sup>29</sup> Office of the President, National Planning Commission, 2004, Namibia 2004 Millennium Development Goals.

<sup>30</sup> UNDP, 1998:53.

Tourism also has its drawbacks, however. It puts further pressure on scarce water resources in arid areas that tourists visit to enjoy unique landscapes. Off-road driving causes severe damage to flora and fauna, and in particular to the populations of certain birds that breed on the ground. Finally, many tourists at the same spot at the same time reduces the value of the pristine landscape and wildlife and can result in long-lasting negative impacts. Tourist arrivals have increased more than sevenfold since independence, from fewer than 100,000 to more than 750,000 in 2002<sup>31</sup>. However, the number is based on the internationally agreed definition of a tourist; namely a person who spends at least one night in a foreign country. A significant number of people from neighbouring countries, notably Angola, come for business and not for leisure to Namibia and do not therefore increase the pressure on a unique and fragile landscape. But even excluding them from the total number of arrivals, the number of actual visitors coming for leisure has substantially increased. Since the tourism industry is an important contributor to foreign exchange earnings and to direct and indirect employment, it needs to be managed carefully to make it sustainable.

Water is seen as one of the most limiting factors for further economic development. As stated, rainfall is highly variable and unpredictable; underground aquifers are feeling the pressure of increased water consumption, and perennial rivers are far away from industrial centres and major towns.

The intensification of agriculture is limited by low soil fertility, low water retention capacity and a low content of humus<sup>32</sup>. In the communal areas in the north and northeast, soils are usually of a better quality than in the commercial areas. However, there is a lack of proper land management since no land title exists, but the community can use the land for grazing. This system supports the over-use of land, especially around water points. The growing population in communal areas results in more land being used for farming, leading subsequently to deforestation. Wood is not only used as building material for homesteads, but also for cooking, and grows more slowly than it is cut. Eventually, this contributes to soil degradation and a loss of biodiversity. Wide tracts of the commercial areas are characterised by bush encroachment, which limits soil fertility and hence the carrying capacity of the land. Efforts are underway to combat bush encroachment, in particular invader bushes. Given the soil and climatic conditions, livestock and traditional crop farming (of maize and millet) can seldom be extended. There is probably the potential for high-value crop production (such as table grapes and dates) under irrigation along perennial rivers or close to dams and for horticultural production. If there are no competing water consumers, irrigation schemes for traditional low-value crops (maize, wheat) could be considered since it would induce downstream activities such as milling which adds to the value chain. Increasing traditional agricultural production would increase the pressure on the environment and result in soil

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<sup>31</sup> Republic of Namibia, Ministry of Environment and Tourism, 2005, Statistical Report 2004, p.12

<sup>32</sup> UNDP, 1998:49

degradation in the medium term. New crops need to be identified where Namibia has a comparative advantage.

Before Independence Namibia's fish stocks were subject to over-exploitation. After independence, a strict management system was introduced based on scientific evidence on the biomass available. Fishing quotas are then allocated to fishing rights' holders and controlled by ministry officials deployed on fishing trawlers. Adverse oceanic conditions, however, affect the biomass and fish stocks. Among them are phyto-plankton blooms, sulphur eruptions and regional and global climate change<sup>33</sup>. While water pollution from industrial activities are not yet pronounced, the impact of increasing offshore diamond mining activities on the food chain needs to be monitored. Because of the vulnerability of marine fish stocks, aquaculture farms are regarded as means to create employment and diversify the economy. Several projects have started, but here as well, the ecological impact needs to be monitored. Water evaporation and pollution from the fodder and chemicals used are two of the environmental challenges the new industry could face.

Mining activities often cause considerable environmental damage if not managed and rehabilitated properly. After independence, proper mechanisms were put in place to minimise the impacts of mining activities on the environment. These rules and regulations are generally adhered to. However, about 240 mining sites from earlier times exist that were abandoned without rehabilitation or removal of equipment<sup>34</sup>. With the right tools in place and skilled mining inspectors monitoring the mines, the potential environmental impact of mining activities should be minimised. The capacity to monitor offshore activities needs to be increased since this is a new area. So far it is limited to offshore diamond mining activities, but there is a high probability that offshore gas reserves will soon be exploited to fuel a power plant.

Namibia has put policies in place that support the sustainable use of its natural resources. Environmental challenges are created by a growing population and its demand for land for survival, and by additional economic activities that result in pressure on scarce resources such as water, rather than through monetary or fiscal policy decisions of the government.

Since Namibia's economy is based on a fragile environment and scarce water resources, any strategies aimed at increasing economic growth to achieve the SADC target of 7% - and Namibia's own ambitious Vision2030 – need to take cognisance of the limiting environmental factors. For instance, water-intensive industries are only an option at perennial rivers that mark the borders in the north and south to Namibia's neighbours, or if water recycling production techniques are applied.

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<sup>33</sup> UNDP, 1998:65

<sup>34</sup> UNDP,1998:58-61

**Table 2 Progress towards achieving the MDG environmental targets**

	1990	2001	2006 MDG target
Protected areas	13.6	6.8	15.1%
Registered conservancies	0.0	4.9	10.9%
Freehold land	5.0	6.1	8.5%

Source: Office of the President, 2004:31

## 9. Prospects for Namibia from deeper integration

Regional integration, and trade liberalisation in general, offer both opportunities and challenges. Whether the costs or the benefits of integration dominate depends on the strength and weaknesses of an economy, and thus its ability to react to new challenges. The following chapter attempts to highlight the strengths, weaknesses, opportunities and threats.

### 9.1. Strengths

#### *Political framework*

A major strength that bodes well for economic growth is Namibia's political stability. Namibia is a multi-party democracy based on general elections every five years at regional and national levels. The founding president has handed over power to his successor after three terms, since the constitution does not allow for serving more. The transition was smooth and without any disruptions. Elections in Namibia are generally seen as free and fair, though the results of the last elections in November 2004 were contested in court. The court ruling, which ordered a recount, once more underpinned the independence of the judiciary.

Namibia is a member of various regional groupings and international organisations. These memberships increase the predictability and credibility of its policies, in particular its monetary policy and exchange rate regime. Namibia's membership of the CMA for instance, cushions the impacts that external shocks can have on macroeconomic indicators.

Despite recent reports about mismanagement and corruption, Namibia continues to rank favourably in the worldwide Corruption Perception Index. An Anti-Corruption Commission has been established and commenced work early in 2006. The lack of such a commission was often cited as a reason for corruption not being dealt with appropriately, although it has been one of the mandates of the Office of the Ombudsman. The office, however, lacked the necessary resources to effectively fulfil its mandates.

Adequate policies are designed and put in place to address the major challenges of the country, although mechanisms of monitoring and evaluation of policies are often lacking.

### *Economic framework*

A further factor in Namibia's favour is its good and reliable infrastructure. Roads, including gravel roads, railway lines, airports, and seaports are in good condition and provide access to every corner of the country. The water, electricity and telecommunication networks work reliably and cover an increasing proportion of the country.

Namibia enjoys increasing, often preferential, market access owing to its membership of various groupings of countries, such as SACU, SADC, and the ACP countries. It benefits from preferential access to the EU and USA, through the Cotonou Agreement and AGOA respectively. Further trade negotiations with Mercosur, EFTA, Nigeria, India and China could open up more markets. However, the capacity to exploit these opportunities, in the private as well as public sector, is often limited.

Namibia has recently received a positive independent credit rating of BBB- that is expected to support the positive view of Namibia as an investment destination. On the other hand, the latest Competitiveness Report 2005 revealed several weaknesses that have resulted in Namibia being ranked less favourably than in previous years. These weaknesses need to be addressed in order to attract investment.

## **9.2. Weaknesses**

As indicated, some of the strengths are undermined by weaknesses. Although policies are designed and in place, the capacity to implement, monitor and evaluate them is often limited. In addition, policy design is not always well co-ordinated amongst ministries. The multitude of institutions, with partly overlapping responsibilities, contributes to efficiency losses. Furthermore, red tape, favouritism by government officials and an increase in corruption, are all cited as reasons for Namibia's plunge in its competitiveness ranking, down from 52 (2004) to 63 out of 117 countries in 2005<sup>35</sup>.

The weak capacity of implementing policies mirrors a general lack of skills and qualifications in the country, which can in part be explained by its legacy. Capacity building is therefore a priority in order to increase labour productivity and eventually the competitiveness of Namibian industries on the increasingly globalised market. The limited capacity also infringes on Namibia's capability to safeguard its industries against unfair trade practices. The necessary institutions need to be established and capacity within these institutions needs to be built to mitigate the negative impacts of trade liberalisation. National statistics need to be up to date, released in good time and be reliable. Reliable statistics are vital in proving unfair trade

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<sup>35</sup> The Namibian, 3 October 2005:3

practices: for instance, the surge in imports of a specific product that could be used to invoke quantitative import restrictions.

The small market size is a challenge businesses face. Namibia has a population of 2 million, of which a significant proportion lacks the purchasing power to stimulate domestic demand. Furthermore, the population is dispersed over a vast area with an average population density of about 2 persons per square kilometre. Hence, businesses have to be outward-oriented to exploit economies of scale. To penetrate foreign markets successfully, supply-side constraints need to be addressed. Despite preferential access to the EU market, for instance, Namibia was not always able to exploit its beef quota or increase its overall market share in the EU.

Namibia benefits from a well-developed telecommunication infrastructure that covers a large part of the country and allows access to worldwide information. However, the costs are reportedly high compared to other countries. This reduces the competitiveness of businesses and limits the access in particular of micro, small and medium-sized enterprises to market information.

Finally, Namibia's manufacturing base is not strongly diversified, although more goods are produced locally than were a decade ago. Government's procurement system, as well as focused and simplified incentive schemes, could support broadening the manufacturing base.

### **9.3. Opportunities**

Stronger regional integration provides several opportunities for Namibia. For a small country, the membership of regional groupings increases its negotiation power and the chance of the voice being heard in the international arena. The interests of Namibia will therefore be better served in international forums than if it were going it alone, as issues are taken up at the regional level.

Because of Namibia's small market size, domestic and foreign investors have to look across the borders. Duty free access to larger markets in the region coupled with a well-developed and reliable infrastructure could attract investment to the country that contributes to the diversification of the economy and to the creation of employment opportunities. The harbour of Walvis Bay could stimulate further investment in development corridors along the routes to neighbouring countries such as Botswana, Angola, and Zambia and further on to the DR Congo.

Increasing cross-border trade with neighbouring countries could further open opportunities for value adding industries. Access to additional sources of raw material could spur the processing activities of agricultural and mining products and lead to further forward linkages. For instance, the Namibian copper smelter sources copper from Zambia and the DRC. New downstream developments could emerge from an increased output, such as the production of wire and other related material. More of these business ventures could be explored. A suitable policy framework needs to be in place to support such developments.

Currently, the South African Reserve Bank determines monetary policy within CMA with little influence from the LNS countries. A higher degree of integration within SADC resulting in a common central bank, which could start with a common central bank for the CMA, would increase the influence of smaller economies on regional monetary policy. A common monetary policy would further enhance monetary and fiscal discipline within the region and could improve the ratings of the region and individual member countries by investors.

#### **9.4. Threats**

A major threat arising from deepening regional integration and trade liberalisation is linked to institutional and capacity constraints in Namibia. If policies and institutions are not in place to monitor impacts, and if capacity is not built to implement and enforce these policies, Namibian industries could face increased pressure from unfair trade practices, such as predatory pricing. Since the Namibian market accounts for only 4% of the South African market, there is a risk, for instance, that well-capitalised South African companies could try to capture a larger market share in Namibia by squeezing out local companies. Furthermore, the capacity at border posts to control the influx of goods effectively and to categorise the goods correctly according to the Harmonised System needs to be increased. Infant industry protection within the SACU agreement and the application of import restrictions due to a surge in imports of a specific product or product group is hindered by the lack of correct customs data. If the capacity to effectively control cross-border traffic and enforce trade rules and regulations does not exist, certain Namibian industries, such as the dairy or beverage industries, might be threatened. These threats go beyond the specific industry and would have impacts on the whole value chain.

Entering into too many trade negotiations at the same time without a thorough assessment of the impact on the domestic economy and without a profound analysis of potential gains could result in negative rather than positive impacts on the domestic economy.

Closely linked to the aforementioned threat is the lack of skills in the country. Without increasing the skills' level of the workforce and attracting skilled labour, income would not increase and hence the standard of living would not rise. Eventually, the domestic demand would then stagnate. Furthermore, the country would not increase its attractiveness for foreign investors and its competitiveness. In this way, Namibian industries would be vulnerable towards growing foreign competition. There is not only a scarcity of skills in Namibia, but there are too few forward- and outward-looking entrepreneurs, who grasp the new opportunities that trade liberalisation and regional integration offer. The intention of the Ministry of Education to replace Business Administration with the subject Entrepreneurship Education in schools is a step in the right direction towards promoting entrepreneurship.

The spread of HIV/AIDS poses various threats to Namibia's development objectives and to macroeconomic developments. The pandemic affects efforts to build an educated and skilled workforce. Investment in human resources results in lower returns than anticipated and could lead to lower investment, especially by the private sector. In addition, the cost of labour is increasing because of a decline in labour productivity and could support capital- rather than labour-intensive production techniques, despite the abundance of labour available in the country. Subsequently, economic growth would not result in an increase in employment and a reduction of poverty. Finally, demand for consumer goods is expected to decline because of increased expenditure for health-related goods and services.

Government's finances can be affected on both sides: a decline in revenue from taxes on individuals, and an increasing demand to finance health expenditure. This could crowd out other essential expenditure on education, social transfers or infrastructure. Increasing the deficit to finance additional expenditure is not an option, since it would result in growing statutory expenditure and reduce government's fiscal flexibility. Therefore, concerted efforts are needed to contain and ultimately slow the spread of the disease.

Unemployment rates and income inequality continue at a high level in Namibia. Both need to be addressed not only because these factors subdue domestic demand, but also because they could lead to rising social tensions and subsequently disturb the business climate<sup>36</sup>.

The relatively new textile industry, a major employer in the country, is in limbo due to the termination of the Multi Fibre Agreement, but also because of the strong currency. Despite the reportedly low wages paid, income from employment in the textile industry induces further economic activities. The industry also contributes to export earnings since all of its produce is exported. A collapse of the industry would have an impact on the employment situation in the country and on government revenue. Taxes on the income of individuals and on companies' profits would not be directly affected since the workers earn less than the tax threshold and the textile companies are granted EPZ status and hence do not pay taxes, but income from VAT and from taxes on the profits of other companies that would feel a reduction in demand, will be affected. Finally, it would diminish hopes in further backward and forward investment.

The low degree of diversification of Namibia's economy makes it vulnerable to external shocks, such as currency fluctuations or demand-side shocks. As experienced during the financial year 2003/04, these shocks have significant implications for government revenue and the deficit. Furthermore, although the sector is slowly diversifying, the manufacturing sector is dependent on inputs from the agricultural and fisheries sectors. Any adverse climatic conditions will negatively affect processing activities in the country, employment and ultimately, government

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<sup>36</sup> Hansohm, D., 2005.

revenue. Improved forecasting skills that take cognisance of the vulnerability of these sectors are needed to estimate revenue. Otherwise, Namibia risks exceeding the respective SADC convergence criteria.

Finally, closer integration in the region implies that Namibia will to a greater extent be affected by events within the region. Economic and political instability in other member countries will have greater impact on the domestic economy and a stronger impact on investment decisions. It is therefore in Namibia's best interests to ensure that other member countries adhere to the principles of good governance and prudent macroeconomic policy to contain any threats that instability in other countries could present for Namibia.

## **9.5. Conclusions**

As a small economy, Namibia depends on export markets to expand its economic activities. Further regional integration can play a significant role. Namibia is already closely integrated within the region through its membership of SACU and the CMA and has surrendered some of its autonomy to these groupings. These memberships have contributed to Namibia's achievement of most of the crucial SADC target indicators, namely inflation rate, budget deficit, external debt and savings ratio (Table A 22). Macroeconomic adjustments are rarely needed and negative impacts on social development and the environment caused by any adjustments are not thus far anticipated. Namibian industries are already exposed to stiff competition from South African companies. It is therefore assumed that opening the borders to further competitors from the region would not pose insurmountable challenges. However, in order to actually gain (and not simply to avoid losing) from regional integration, Namibia has to strengthen its foundations. The weaknesses need to be addressed. In particular, institutional capacity needs to be enhanced to identify opportunities from regional integration as well as to control the influx of goods more efficiently and effectively to protect domestic industries from unfair trade practices. National competition policies need to be harmonised and institutions be created to enforce them effectively and efficiently.

A major obstacle to increased trade within the region is the lack of information about business opportunities. By and large, little is known about industries in other member countries, about their products and the inputs needed. The SADC secretariat could initiate a web-based database containing information about suppliers of goods in the region. It could furthermore consider supporting companies in participating in trade fairs in the region or even establishing SADC trade fairs. These would be good opportunities for companies to get in touch with potential customers in the region or to join forces. Increased public relations' efforts are needed to inform the SADC population about member countries in general, and businesses in particular. This would help shift the focus from existing traditional business links to new opportunities. The SADC National Committee could play a vital role in disseminating information, in cooperation with the Namibian Chamber of Commerce and Industry.

Exploring new markets abroad always entails risk for companies. New partners are unknown, particularly their reliability in fulfilling contractual obligations. Non-payment by new customers could pose a serious threat, especially for small and medium-sized enterprises. National governments or the SADC secretariat could consider establishing an export insurance to cover some of the risks inherent in venturing into new markets.

If these issues are addressed, Namibia could benefit from regional integration and achieve higher growth rates through access to new markets. Higher growth rates are necessary, not only for compliance with SADC targets, but in order to achieve its own Vision 2030, and to successfully address the challenges of poverty reduction and reduction in income inequality.

## 10. Recommendations

Namibia has achieved most of the SADC targets. The growth and foreign reserve targets appear to be out of reach for Namibia at present. Namibia's monetary policy and trade policy are largely determined at regional level – by CMA and SACU respectively. The degree of influence of regional decisions varies between the two settings. SACU provides a higher degree of influence of the smaller member countries than the CMA, through its new structures. A review of the CMA structure could therefore be considered to broaden and deepen the consultative process, with the ultimate aim of establishing a regional central bank. A CMA central bank could become the anchor for SADC monetary integration. However, a thorough study is required to weigh the pros and cons of such a regional bank and to assess whether it would change the current decision-making structure. There would probably be a need to build capacity in the LNS countries in order to enable them to play a role within the bank.

Employment-creating economic growth is key to achieving SADC's macroeconomic targets and domestic policy objectives. Regional integration can result in stronger as well as weaker economic growth depending on the strengths and weaknesses of the economy. An analysis of capacity within the private and public sectors to exploit the opportunities provided by regional integration is essential. Such an analysis would ideally identify bottlenecks, and suggest a strategy for overcoming them.

Namibia belongs to various regional groupings and international bodies. There is a risk that their aims and objectives are not always consistent. In addition, there are a number of domestic sectoral policies in place. A review of the process of designing policies and of consistency among the policies would result in an increased effectiveness of those policies. At the same time, there is a need to review the process of monitoring and evaluating the impacts of policies with the aim of adjusting them when needed.

Regional integration is not simply about achieving certain economic indicators. It will only be meaningful if the people are involved and support the process. A

strategy needs to be developed to involve the public more extensively in the process and to inform them regularly on progress. Such an inclusive process would ensure that regional integration addresses the needs of the people, and ultimately benefits them. It would at the same time contribute to strengthening cooperation between the various institutions involved in and affected by regional integration.

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## Appendix

**Table A 1 GDP growth, 1995 to 2008**

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1995-99	2000-04	1995-2004
4.1	3.2	4.2	3.3	3.4	3.5	2.4	6.7	3.5	5.9	3.2%	3.9%	4.0%	3.3%	3.64	4.40	4.02

Source: Republic of Namibia, Central Bureau of Statistics, National Planning Commission, 2005, Ministry of Finance, 2006 (Forecast for 2006 to 2008)

**Table A 2 Interest rates, 1999 to 2005**

1999	2000	2001	2002	2003	2004	2005
11.50	11.25	9.25	12.75	7.75	7.50	7.00

Source: Bank of Namibia, 2005

Note: The interest rates refer to the rate at the end of the calendar year.

**Table A 3 Inflation rates, 1980 to 2005**

1980-89 <sup>3</sup>	1990-95 <sup>3</sup>	1996 <sup>2</sup>	1997 <sup>2</sup>	1998 <sup>2</sup>	2000 <sup>1</sup>	2001 <sup>1</sup>	2002 <sup>4</sup>	2003 <sup>4</sup>	2004 <sup>4</sup>	2005 <sup>4</sup>
13.0	11.8	8	8.8	6.2	9.3	9.3	11.3	7.3	4.2	2.2

Sources: <sup>1</sup>Bank of Namibia, 2005; <sup>2</sup>Republic of Namibia *et al.*, 1998; <sup>3</sup>Republic of Namibia *et al.*, 1996; <sup>4</sup> Republic of Namibia *et al.*, 2006

**Table A 4 Exchange rate, Namibia dollar per 1 USD, 1995 to 2005**

1995 <sup>2</sup>	1996 <sup>2</sup>	1997 <sup>2</sup>	1998 <sup>2</sup>	1999 <sup>1</sup>	2000 <sup>1</sup>	2001 <sup>1</sup>	2002 <sup>1</sup>	2003 <sup>1</sup>	2004 <sup>1</sup>	2005-Q3 <sup>3</sup>
3.63	4.3	4.61	5.33	6.11	6.8	11.5	8.9	6.5	5.7	6.5

Source: <sup>1</sup> Bank of Namibia, 2005; <sup>2</sup> Bank of Namibia, 1999; and <sup>3</sup> Bank of Namibia, Quarterly Bulletin September 2005

**Table A 5 Gross National Savings rates, 2000 to 2003**

	2000	2001	2002	2003
Gross National Savings rate, %	27.50%	27.80%	39.60%	31.5%

Source: World Bank, various years

**Table A 6 Gross fixed capital formation, 1995 to 2004**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP (N\$ million)	12,706	15,011	16,751	18,789	20,684	23,690	27,686	32,908	33,840	36,901
Gross fixed capital formation	2,817	3,535	3,288	4,321	4,760	4,460	6,073	6,964	9,867	9,286
GFCF ratio	22.2%	23.5%	19.6%	23.0%	23.0%	18.8%	21.9%	21.2%	29.1%	25.2%

Source: Republic of Namibia *et al.*, 2005

**Table A 7 Investment by economic sector, 1995 and 2004**

	N\$ million		Share in %	
	1995	2004	1995	2004
Agric	135	259	4.8%	4.8%
Fishing	79	174	2.8%	3.2%
Mining and quarrying	302	1068	10.7%	19.8%
Manufacturing	232	1058	8.2%	19.6%
Electricity and water	64	398	2.3%	7.4%
Construction	118	177	4.2%	3.3%
Wholes	316	200	11.2%	3.7%
Transport	207	643	7.3%	11.9%
Finance, real estate	642	696	22.8%	12.9%
Community social services	26	21	0.9%	0.4%
Government services	694	704	24.6%	13.0%
	2,817	5397	100.0%	100.0%

Source: Republic of Namibia *et al.*, 2005

**Table A 8 Budget deficit in %, 1999 to 2008**

1999 <sup>1</sup>	2000 <sup>1</sup>	2001 <sup>1</sup>	2002 <sup>2</sup>	2003 <sup>2</sup>	2004 <sup>2</sup>	2005 <sup>2</sup>	2006 <sup>2</sup>	2007 <sup>2</sup>	2008 <sup>2</sup>
-3.3	-1.5	-4.5	-2.5	-7.2	-3.6	-1.1	0.3	-1.7	-2.3

Source: <sup>1</sup> Bank of Namibia, 2004; <sup>2</sup> Ministry of Finance, 2006

**Table A 9 External debts as % of..., 2001 to 2008**

	2001	2002	2003	2004	2005	2006	2007	2008
total debts	20.7	15.3	15.7	16.5	15.2	18.8	19.1	18.9
GDP		3.7	4.6	5.6	4.9	6.3	6.4	6.1

Source: Ministry of Finance, 2005 and 2006

**Table A 10 GDP, GNI, per capita GDP and GNI, 1995 to 2004**

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP N\$ million	12,706	13,112	13,665	14,115	14,591	15,100	15,462	15,849	16,441	18,084
GDP growth%	4.1	3.2	4.2	3.3	3.4	3.5	2.4	2.5	3.7	5.9
GNI N\$ million	13,275	13,997	14,627	15,475	15,486	16,606	17,541	16,955	17,843	19,686
GNI growth, %	3.8	5.4	4.5	5.8	0.1	7.2	5.6	-3.3	5.2	3.9
GDP per capita, N\$	8,145	8,176	8,297	8,345	8,400	8,464	8,447	8,439	8,533	9,148
GDP per capita growth, %		0.38	1.48	0.58	0.65	0.77	-0.20	-0.09	1.11	3.27
GNI per capita, N\$	8,510	8,728	8,881	9,149	8,915	9,308	9,583	9,028	9,260	9,958
GNI per capita growth, %		2.6	1.8	3.0	-2.6	4.4	3.0	-5.8	2.6	1.3
Population (Million)	1.56	1.60	1.65	1.69	1.74	1.78	1.83	1.88	1.93	1.98
Assumed Population Growth, %	2.8	2.8	2.7	2.7	2.7	2.7	2.6	2.6	2.6	2.6

Source: Central Bureau of Statistics, 2005, Population growth based on Republic of Namibia, 2003. Per capita growth: Authors own calculation.

**Table A 11 Namibia's exports to SADC countries in NAD, 1998 to 2004**

	1998	1999	2000	2001	2002	2003	2004	Total
<b>Angola</b>	260,590,249	295,896,288	633,452,814	601,898,237	1,998,367,723	3,152,221,193	1,523,352,687	8,465,779,191
<b>Botswana</b>	7,664,596	24,508,511	52,640,052	52,173,663	63,521,745	107,470,644	78,790,715	386,769,926
<b>D.R.C</b>						47,212,587	65,960,742	113,173,329
<b>Lesotho</b>	4,829	0	106,176	150,041	15,400	30,000	519,929	826,375
<b>Malawi</b>	7,782,234	1,038,281	817,371	482,769	156,300	676,288	698,451	11,651,694
<b>Mauritius</b>	899,638	1,093,009	1,528,654	2,154,340	6,611,674	5,442,794	3,172,206	20,902,315
<b>Mozambique</b>	18,420,138	19,184,478	9,196,998	13,585,642	13,989,727	22,792,690	57,407,846	154,577,519
<b>Seychelles</b>	200	309,338	109,846	57,220	1,188,144	2,977,916	472,027	5,114,691
<b>South Africa</b>	1,908,696,547	2,247,671,210	2,264,029,943	2,357,533,242	3,304,600,403	3,202,821,020	3,079,318,286	18,364,670,651
<b>Swaziland</b>	338,678,824	3,004,053	173,300	3,297,638	638,427	10,275,728	2,455,996	358,523,966
<b>Tanzania</b>	1,461,672	1,891,202	1,473,725	1,978,367	3,713,799	5,719,460	4,128,929	20,367,154
<b>Zambia</b>	9,179,470	6,609,156	8,484,702	7,621,173	24,854,568	44,917,344	58,779,990	160,446,403
<b>Zimbabwe</b>	37,035,468	27,701,614	27,709,470	36,306,637	9,125,268	27,570,655	22,803,858	188,252,970
<b>SADC</b>	<b>2,590,413,865</b>	<b>2,628,907,140</b>	<b>2,999,723,051</b>	<b>3,077,238,969</b>	<b>5,426,783,178</b>	<b>6,630,128,319</b>	<b>4,897,861,662</b>	<b>28,251,056,184</b>
<b>SACU</b>	<b>2,255,044,796</b>	<b>2,275,183,774</b>	<b>2,316,949,471</b>	<b>2,413,154,584</b>	<b>3,368,775,975</b>	<b>3,320,597,392</b>	<b>3,161,084,926</b>	<b>19,110,790,918</b>
<b>SADC exc. SACU</b>	<b>335,369,069</b>	<b>353,723,366</b>	<b>682,773,580</b>	<b>664,084,385</b>	<b>2,058,007,203</b>	<b>3,309,530,927</b>	<b>1,736,776,736</b>	<b>9,140,265,266</b>
<b>Total</b>	<b>6,407,320,409</b>	<b>7,922,029,561</b>	<b>9,081,054,544</b>	<b>10,322,641,889</b>	<b>13,370,952,276</b>	<b>14,301,884,845</b>	<b>10,763,312,335</b>	<b>72,169,195,859</b>
<b>Madagascar</b>	0	35,347	0	282,908	45,010	96,592	96,592	556,449

Source: Data provided by Central Bureau of Statistics

Table A 12 Export share of SADC countries, 1998 to 2004 in %.

	1998	1999	2000	2001	2002	2003	2004	On Average
<b>Angola</b>	4.07%	3.74%	6.98%	5.83%	14.95%	22.04%	14.15%	11.73%
<b>Botswana</b>	0.12%	0.31%	0.58%	0.51%	0.48%	0.75%	0.73%	0.54%
<b>D.R.C</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.33%	0.61%	0.16%
<b>Lesotho</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Malawi</b>	0.12%	0.01%	0.01%	0.00%	0.00%	0.00%	0.01%	0.02%
<b>Mauritius</b>	0.01%	0.01%	0.02%	0.02%	0.05%	0.04%	0.03%	0.03%
<b>Mozambique</b>	0.29%	0.24%	0.10%	0.13%	0.10%	0.16%	0.53%	0.21%
<b>Seychelles</b>	0.00%	0.00%	0.00%	0.00%	0.01%	0.02%	0.00%	0.01%
<b>South Africa</b>	29.79%	28.37%	24.93%	22.84%	24.71%	22.39%	28.61%	25.45%
<b>Swaziland</b>	5.29%	0.04%	0.00%	0.03%	0.00%	0.07%	0.02%	0.50%
<b>Tanzania</b>	0.02%	0.02%	0.02%	0.02%	0.03%	0.04%	0.04%	0.03%
<b>Zambia</b>	0.14%	0.08%	0.09%	0.07%	0.19%	0.31%	0.55%	0.22%
<b>Zimbabwe</b>	0.58%	0.35%	0.31%	0.35%	0.07%	0.19%	0.21%	0.26%
<b>SADC</b>	40.43%	33.18%	33.03%	29.81%	40.59%	46.36%	45.51%	39.15%
<b>SACU</b>	35.19%	28.72%	25.51%	23.38%	25.19%	23.22%	29.37%	26.48%
<b>SADC exc. SACU</b>	5.23%	4.47%	7.52%	6.43%	15.39%	23.14%	16.14%	12.67%
<b>Madagascar</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Data provided by Central Bureau of Statistics

Table A 13 Export growth of SADC countries, 1999 to 2004 in %

	1999	2000	2001	2002	2003	2004	On average
<b>Angola</b>	13.55%	114.08%	-4.98%	232.01%	57.74%	-51.67%	60.12%
<b>Botswana</b>	219.76%	114.78%	-0.89%	21.75%	69.19%	-26.69%	66.32%
<b>D.R.C</b>	-	-	-	-	-	39.71%	6.62%
<b>Lesotho</b>	-100.00%	-	41.31%	-89.74%	94.81%	1633.10%	263.25%
<b>Malawi</b>	-86.66%	-21.28%	-40.94%	-67.62%	332.69%	3.28%	19.91%
<b>Mauritius</b>	21.49%	39.86%	40.93%	206.90%	-17.68%	-41.72%	41.63%
<b>Mozambique</b>	4.15%	-52.06%	47.72%	2.97%	62.92%	151.87%	36.26%
<b>Seychelles</b>	154569.00%	-64.49%	-47.91%	1976.45%	150.64%	-84.15%	26083.26%
<b>South Africa</b>	17.76%	0.73%	4.13%	40.17%	-3.08%	-3.86%	9.31%
<b>Swaziland</b>	-99.11%	-94.23%	1802.85%	-80.64%	1509.54%	-76.10%	493.72%
<b>Tanzania</b>	29.39%	-22.07%	34.24%	87.72%	54.01%	-27.81%	25.91%
<b>Zambia</b>	-28.00%	28.38%	-10.18%	226.13%	80.72%	30.86%	54.65%
<b>Zimbabwe</b>	-25.20%	0.03%	31.03%	-74.87%	202.14%	-17.29%	19.31%
<b>SADC</b>	1.49%	14.11%	2.58%	76.35%	22.17%	-26.13%	15.10%
<b>Total exports</b>	23.64%	14.63%	13.67%	29.53%	6.96%	-24.74%	10.62%
<b>SACU</b>	0.89%	1.84%	4.15%	39.60%	-1.43%	-4.80%	6.71%
<b>SADC exc. SACU</b>	5.49%	93.31%	-2.74%	210.58%	61.01%	-47.60%	53.34%
<b>Madagascar</b>	-	-1	-	-84.09%	114.60%	0%	-12%

Source: Data provided by Central Bureau of Statistics

**Table A 14 Namibia's imports from SADC countries in NAD, 1998 to 2004**

	1998	1999	2000	2001	2002	2003	2004	Total
<b>Angola</b>	28,923,179	11,687,758	14,199,187	11,689,698	58,956,427	26,693,256	20,537,014	172,686,519
<b>Botswana</b>	24,147,056	21,977,905	25,740,254	18,871,354	20,866,497	26,032,390	34,985,789	172,621,245
<b>D.R.C</b>	0	0	0	0	0	4,871,678	106,033	4,977,711
<b>Lesotho</b>	2,000	21,500	0	11,500	0	147,078	140,500	322,578
<b>Malawi</b>	1,482,316	53,680	51,992	234,427	1,069,532	352,187	157,498	3,401,632
<b>Mauritius</b>	83,010	19,622	17,291	594,628	237,145	5,643,383	1,003,817	7,598,896
<b>Mozambique</b>	424,056	151,993	183,042	621,943	238,125	636,975	2,621,225	4,877,359
<b>Seychelles</b>	28,618,877	22,288	23,669	183,874	35,095	3,286,401	93,989	32,264,193
<b>South Africa</b>	7,415,454,469	7,595,459,557	8,460,436,112	10,445,500,944	11,314,625,389	14,573,378,235	13,132,727,987	72,937,582,693
<b>Swaziland</b>	2,272,238	431,987	3,626,519	254,914	245,887	13,053,832	73,367,828	93,253,205
<b>Tanzania</b>	314,805	221,461	1,096,066	418,082	756,249	519,524	770,195	4,096,382
<b>Zambia</b>	6,814,508	7,445,753	14,097,312	740,846	6,158,725	20,628,685	8,357,563	64,243,392
<b>Zimbabwe</b>	103,110,210	40,997,938	22,880,712	45,925,637	85,549,175	235,135,763	120,922,286	654,521,721
<b>SADC</b>	<b>7,611,646,724</b>	<b>7,678,491,442</b>	<b>8,542,352,156</b>	<b>10,525,047,847</b>	<b>11,488,738,246</b>	<b>14,910,379,387</b>	<b>13,395,791,724</b>	<b>74,152,447,526</b>
<b>SACU</b>	<b>7,441,875,763</b>	<b>7,617,890,949</b>	<b>8,489,802,885</b>	<b>10,464,638,712</b>	<b>11,335,737,773</b>	<b>14,612,611,535</b>	<b>13,241,222,104</b>	<b>73,203,779,721</b>
<b>SADC exc. SACU</b>	<b>169,770,961</b>	<b>60,600,493</b>	<b>52,549,271</b>	<b>60,409,135</b>	<b>153,000,473</b>	<b>297,767,852</b>	<b>154,569,620</b>	<b>948,667,805</b>
<b>Total</b>	<b>9,612,530,499</b>	<b>9,243,471,776</b>	<b>9,755,641,223</b>	<b>12,227,307,771</b>	<b>14,699,977,038</b>	<b>17,657,354,029</b>	<b>15,323,237,822</b>	<b>88,519,520,158</b>
<b>Madagascar</b>	0	0	2,000	600	0	163,869	427,085	593,554

Source: Data provided by Central Bureau of Statistics

Table A 15 Import share by SADC countries in %, 1998 to 2004

	1998	1999	2000	2001	2002	2003	2004	On Average
<b>Angola</b>	0.30%	0.13%	0.15%	0.10%	0.40%	0.15%	0.13%	0.195%
<b>Botswana</b>	0.25%	0.24%	0.26%	0.15%	0.14%	0.15%	0.23%	0.195%
<b>D.R.C</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.03%	0.00%	0.01%
<b>Lesotho</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Malawi</b>	0.02%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%
<b>Mauritius</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.03%	0.01%	0.01%
<b>Mozambique</b>	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%	0.02%	0.01%
<b>Seychelles</b>	0.30%	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%	0.04%
<b>South Africa</b>	77.14%	82.17%	86.72%	85.43%	76.97%	82.53%	85.70%	82.40%
<b>Swaziland</b>	0.02%	0.00%	0.04%	0.00%	0.00%	0.07%	0.48%	0.11%
<b>Tanzania</b>	0.00%	0.00%	0.01%	0.00%	0.01%	0.00%	0.01%	0.00%
<b>Zambia</b>	0.07%	0.08%	0.14%	0.0061%	0.0419%	0.12%	0.05%	0.07%
<b>Zimbabwe</b>	1.07%	0.44%	0.23%	0.38%	0.58%	1.33%	0.79%	0.74%
<b>SADC</b>	<b>79.18%</b>	<b>83.07%</b>	<b>87.56%</b>	<b>86.08%</b>	<b>78.15%</b>	<b>84.44%</b>	<b>87.42%</b>	<b>83.77%</b>
<b>SACU</b>	<b>77.42%</b>	<b>82.41%</b>	<b>87.02%</b>	<b>85.58%</b>	<b>77.11%</b>	<b>82.76%</b>	<b>86.41%</b>	<b>82.70%</b>
<b>SADC exc. SACU</b>	<b>1.77%</b>	<b>0.66%</b>	<b>0.54%</b>	<b>0.49%</b>	<b>1.04%</b>	<b>1.69%</b>	<b>1.01%</b>	<b>1.07%</b>
<b>Madagascar</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Data provided by Central Bureau of Statistics

Table A 16 Import growth by SADC countries in %, 1999 to 2004

	1999	2000	2001	2002	2003	2004	On Average
<b>Angola</b>	-59.59%	21.49%	-17.67%	404.35%	-54.72%	-23.06%	45.13%
<b>Botswana</b>	-8.98%	17.12%	-26.69%	10.57%	24.76%	34.39%	8.53%
<b>D.R.C</b>	-	-	-	-	-	-97.82%	-16.30%
<b>Lesotho</b>	975.00%	-100.00%	-	-100.00%	-	-4.47%	128.42%
<b>Malawi</b>	-96.38%	-3.14%	350.89%	356.23%	-67.07%	-55.28%	80.87%
<b>Mauritius</b>	-76.36%	-11.88%	3,338.95%	-60.12%	2,279.72%	-82.21%	898.02%
<b>Mozambique</b>	-64.16%	20.43%	239.78%	-61.71%	167.50%	311.51%	102.22%
<b>Seychelles</b>	-99.92%	6.20%	676.86%	-80.91%	9,264.30%	-97.14%	1,611.56%
<b>South Africa</b>	2.43%	11.39%	23.46%	8.32%	28.80%	-9.89%	10.75%
<b>Swaziland</b>	-80.99%	739.50%	-92.97%	-3.54%	5,208.87%	462.04%	1,038.82%
<b>Tanzania</b>	-29.65%	394.93%	-61.86%	80.89%	-31.30%	48.25%	66.88%
<b>Zambia</b>	9.26%	89.33%	-94.74%	731.31%	234.95%	-59.49%	151.77%
<b>Zimbabwe</b>	-60.24%	-44.19%	100.72%	86.28%	174.85%	-48.57%	34.81%
<b>SADC</b>	0.88%	11.25%	23.21%	9.16%	29.78%	-10.16%	10.69%
<b>SACU</b>	<b>2.37%</b>	<b>11.45%</b>	<b>23.26%</b>	<b>8.32%</b>	<b>28.91%</b>	<b>-9.38%</b>	<b>10.82%</b>
<b>SADC exc. SACU</b>	<b>-64.30%</b>	<b>-13.29%</b>	<b>14.96%</b>	<b>153.27%</b>	<b>94.62%</b>	<b>-48.09%</b>	<b>22.86%</b>
<b>Total</b>	<b>-3.84%</b>	<b>5.54%</b>	<b>25.34%</b>	<b>20.22%</b>	<b>20.12%</b>	<b>-13.22%</b>	<b>9.03%</b>
<b>Madagascar</b>	-	-	-70.00%	-100.00%	-	160.63%	-96.70%

Source: Data provided by Central Bureau of Statistics

**Table A 17 Import cover in weeks, 1999 to 2004**

1999	2000	2001	2002	2003	2004
10.85	10.48	11.74	10.30	6.55	7.25

Source: Calculation based on Bank of Namibia, 2004

**Table A 18 Employment by economic sector in %, 1997 and 2000**

Sectors	1997	2000
Agriculture	36.6	29.3
Manufacturing	6.5	5.3
Mining	1.6	0.9
Fishing	1.7	1.8
Wholesale/ Retail trade and repair of motor vehicles	8.4	9.0
Others	45.2	53.7

Source: Ministry of Labour, 2001; Ministry of Labour, 2002

**Table A 19 Employment and GDP growth in comparison, 1997 and 2000**

	Employment	GDP in constant 1995 prices, N\$ million	Employment growth	GDP growth
1997	401,203	13,665		
2000	431,949	15,100	7.7%	10.5%

Sources: Republic of Namibia, 2004; Ministry of Labour, 2001 and 2002.

**Table A 20 Human development indicators, selected years from 1990 to 2003**

	1990	1996	1998	2000	2002	2003
HDI Ranking	135	107	115	122	126	125
Life expectancy at birth -in years	57.5	55.8	50.1	44.7	45.3	48.3
% Population without sustainable access to improved water source			17	20		
% Population on <US\$1 per day					34.9	34.9
% One year olds fully immunized against measles		61			68	70
% Births attended by skilled health personnel	71	68			78	78
% Population with sustainable access to improved sanitation		51		41	30	
% Children < 5 years under weight for age		26	12		24	24
HIV prevalence - %ages 15 – 49 years		15	20			21.3
Tuberculosis per 100,000 people		100.3			478	477
Under-five mortality rate per 1,000 live births	167	77	74	105.8	67	65
Adult literacy rate (%ages 15 and above)	40	81	80.8	82	83.3	85
Youth literacy rate (% ages 15 – 24)	87.4		91	91.6	92.3	92.3
% Net primary enrolment ratio	83	94.1	93.4	91.5	78	78
% Net secondary enrolment ratio		34.3	37.8	45.5	38	44

Sources: UNDP, various years

**Table A 21 Namibia's progress towards achieving the MDGs**

	1992	2003	2006 target	Progress toward target
<b>1. Eradicate extreme poverty and hunger</b>				
Proportion of households living in relative poverty*	38%	28% <sup>1</sup>	28%	Good <sup>2</sup>
Proportion of households living in extreme poverty*	9%	4% <sup>1</sup>	4%	Good <sup>2</sup>
<b>2. Achieve universal primary education</b>				
Net primary school enrolment	89%	92%	95%	Good
Survival rate for grade 5	75%	94%	95%	Good
Literacy rate, 15-24 years	89%	89%	94%	Slow
<b>3. Promote gender equality and empower women</b>				
Primary education (girls per 100 boys)	102	100	100	Good
Secondary education (girls per 100 boys)	124	113	100	Good
Tertiary education (girls per 100 boys)	162	111	100	Good
Proportion of seats held by women in National Assembly	9%	19%	30%	Slow
<b>4. Reduce child mortality</b>				
Infant mortality (per 1, 000 live birth)	67	52	36	Slow
Under- five mortality rate per 1,000 live births)	87	71	54	Slow
Proportion of one-year- old children Immunised against measles	63%	72%	80%	Good
Underweight among children under five	26%	24%	17%	Slow
<b>5. Improve maternal health</b>				
Proportion of births attended by trained health personnel	68%	75%	88%	Good
Contraceptive prevalence rate	21%	37%	50%	Good
<b>6. Combat HIV/AIDS, Malaria and other diseases</b>				
HIV prevalence among 13-19 year old women	6%	11%	9%	Worsening
HIV prevalence among 20-24 year old women	11%	22%	15%	Worsening
TB treatment success rate	58%	69%	75%	Good
<b>7. Ensure environmental sustainability</b>				
Proportion of rural households with access to safe drinking water	45%	80%	80%	Good
Proportion of rural households with access to basic sanitation	15%	21%	50%	Slow
Freehold Land	5%	6%	8.50%	Slow
Registered conservancies	0%	5%	10.90%	Slow
<b>8. Develop a global partnership for development</b>				
Per capita overseas development assistance to	130	60	90	Worsening

Note: The table provides a quick overview of progress on selected targets for each of the eight MDGs. The data is grouped to represent the closest year to 1992, 2003 and the medium- term targets for 2006. The last column assesses progress against the medium-term target. 'Good' means that if the rate of progress seen since the early 1990s continues then the target will be met. 'Slow' means that progress since the early 1990s has been positive but is not strong enough to reach the 2006 target. 'Worsening' means that the situation has deteriorated since the early 1990s. \*A new Household Income and Expenditure Survey will be finalised in 2004, which will update the income poverty figures. See Note <sup>1</sup> and <sup>2</sup>.

Source: Office of the President, National Planning Commission, 2004

<sup>1</sup> Figures included from Republic of Namibia, 2006:32

<sup>2</sup> Authors' own assessment

**Table A 22 Namibia's progress towards achieving the SADC targets**

Target Indicators	Namibia				SADC targets		
	2002	2003	2004	2005	2008	2012	2018
Core Inflation <sup>5</sup>	11.3%	7.3%	4.2%	2.2%	9%	5%	3%
Budget Deficit as a percentage of GDP <sup>1</sup>	2.5%	7.2%	3.6%	1.1%	5%	3%	1%
External Debt as a percentage of GDP <sup>1</sup>	3.7%	4.6%	5.6%	4.9%	60%	60%	60%
Current Account Balance as a percentage of GDP <sup>2</sup>	3.8%	8.9%	10.9%		-9%	-9%	-3%
Growth rate <sup>3</sup>	6.7%	3.5%	5.9%	3.2%	7%	7%	7%
External Reserves (Import Cover in months) <sup>2</sup>	2.2	1.7	1.7		3	6	6
Central Bank credit to Government in % of taxes <sup>2</sup>	-11.9%	-4.9%	-8.3%		10%	5%	5%
Domestic savings rates <sup>3</sup>	39.6%	31.5%			25%	30%	35%

Sources:

<sup>1</sup> MoF, MTEF for 2006/07-2008/09; <sup>2</sup> BoN Quarterly Bulletin 2003 June and Sept 2005; <sup>3</sup> World Bank, various years; <sup>4</sup> Republic of Namibia, National Planning Commission Secretariat, Central Bureau of Statistics, Namibia Consumer Price Index, January 2006