UNDP NAMIBIA ECONOMIC REVIEW 2007

UNDP

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AGRONYMS AND ABBREVIATIONS

APCI	Adjusted per capita income
BLNS	Botswana, Lesotho, Namibia and Swaziland
CBS	Central Bureau of Statistics
CMA	Common Monetary Area
EG	Economic Growth
HD	Human Development
GDP	Gross Domestic Product
HIV/AIDS	Human Immune Virus/Acquired Immune Deficiency Syndrome
NLFS	Namibia Labour Force Survey
MDGs	Millennium Development Goals
NHIES	Namibia Household Income and Expenditure Survey
NDPI	First National Development Plan
NDPII	Second National Development Plan
PTA	Preferential Trade Area
SACU	Southern Africa Custom Union
SPS	Sanitary and Phytosanitary
TB	Tuberculosis
UK	United Kingdom

CREDITS

> Prepared by the Policy and Analytical Advisory and Support Unit

> Design and Layout by the Office of the Resident Coordinator

INTRODUCTION

Poverty reduction remains a challenge in developing countries, especially in countries with high inequalities like Namibia, since growth is expected to mitigate inequality. Though poverty can be reduced with economic growth, it has been widely acknowledged that growth alone is not enough and more attention should be given to the structure and quality of that growth. Furthermore, growth can mesmerize policy makers. When the economy enjoys constant strong positive growth, this may divert the attention of policy makers from analyzing both the origin and the distribution of that growth. Poverty reduction will depend on the extent to which growth creates employment as well as on the distribution of income and its change over time. Therefore, for policy makers, the focus should be on strengthening the link between economic growth and human development through pro-poor policies which among others ensure that the patterns of growth are labor intensive, improve access to productive assets and channel major shares of public revenue into priority areas.

This economic review looks at the progress in Namibia thus far both in terms of economic growth and economic development. It opens with a brief overview of the Namibian economy and economic policy, followed by a brief analysis of economic developments over the last eleven years, and concludes with policy recommendations.

Box A: Human Development (HD) and Economic Growth (EG)

All nations of the world strive for economic growth not for itself but as a means to human development (HD). Therefore, the purpose of economic growth (EG) should be to enrich people's lives. HD refers to the process of enlarging peoples' choices in a way that enables them to live a longer and healthier life. It is considered among others to primarily consist of the health and education of the population. While economic growth is necessary as a means, the structure and quality of that growth is crucial to ensure that HD does take place.

While empirical studies (Ranis et. al 2000) have indicated that a link between EG and HD exists, with high growth promoting HD and high levels of HD leading to high growth, it has rightly been acknowledged by both researchers and policy makers that this is not an automatic link. And unless this link is gradually fortified by pro-poor policies, growth may be jobless thereby leaving the majority deepening in poverty. Dollar and Kraay (2001) argue that there is a positive relationship between economic growth and the income of the poor. Analyzing the relationship between poverty rate and economic conditions, Hoover and Wallace (2003) found that despite GDP growth in excess of 4% the poverty rate in the USA declined only modestly and income for almost all quintiles except the highest quintiles stagnated. Ravallion and Chin (2004), examining China's progress against poverty, found that the pattern of growth matters, while Weisbrot et al (2001) argue that even if the poor benefit from economic growth the extent to which they benefit varies considerably based on policy changes. Thus, for economic development to take place there is need for pro-poor growth and pro-poor policies. Growth is defined as pro-poor if it benefits the poor proportionally more than the non-poor, i.e. if it uses the assets owned by the poor, if it favors the sectors where the poor work and if it occurs in areas where the poor live. To establish the link between growth and HD, growth should be driven less by capital intensive activities and focus on more labour-intensive oriented manufacturing activities. Furthermore, it can be enhanced through commitment to employment creation, investment in human capital, and strengthening small-scale and informal sector production.

OVERVIEW OF THE NAMIBIAN ECONOMY

Namibia economic growth over the last eleven years has been good averaging around 4%. However, on the labour front the performance has been discouraging. The Namibia Labour Force Survey (NLFS), 2004 estimated unemployment at 22% for those who are available and seeking work but cannot find it. If one includes all those who have given up looking for work this figure increases to 37% (NLFS, 2004). According to the 2003/04 National Housing Income and Expenditure Survey (NHIES) preliminary data, the main source of income in Namibia is wages and salaries accounting for about 46%. This represents a marginal increase from 44% in 1993/94. Compared to 1993/94 figures, wages and salaries have taken over from subsistence farming and pension which were cited by 46% as the main source of income. Currently, they account for about 38% (29% and 9% respectively). This represents a decline from 35% and 11% respectively. This seems to indicate a shift from dependence on subsistence farming and grants to wages and salaries. Households citing income from businesses as the main source of income increased marginally from 6% in 1993/94 to about 7% in 2003/04 while, that from remittances remain constant at about 4%.

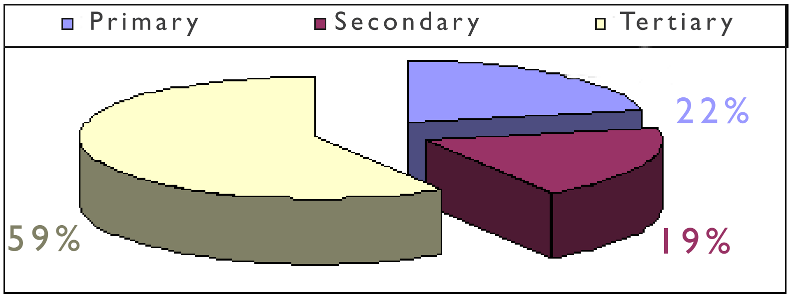
The 1993/94 NHIES indicates huge disparities in income distribution with 5% of the population accounting for about 52% of the total household income while the remaining 95% accounts for about 48% of the income. By 2004, this figure indicates a slight improvement with about 90% of the population currently accounting for about 54% of the income (2003/04 NHIES preliminary data). This shows an improvement in income distribution with about 10% of the population accounting for less than half of the total household income as compared to 5% of the population accounting for more than half of the total household income in 1993. Furthermore, the Gini Coefficient[1] has improved from 0.7 in 1993/94 to 0.6 in 2003/04 indicating a slight improvement in income distribution, though Namibia still has one of the highest levels of inequality in the world. Income distribution is a key component for poverty reduction since poverty reduction is a function of the rate of economic growth and the share of the increment in growth captured by the poor. Therefore, the larger the share of income captured by the poor the more the country is converting growth into poverty reduction.

1 Gini Coefficient measures the extent to which the distribution of income among households in a country is deviating from a perfectly equal distribution. A value of 0 indicates perfect equality while a value of 1 perfect inequality.

2.1 STRUCTURE OF THE ECONOMY

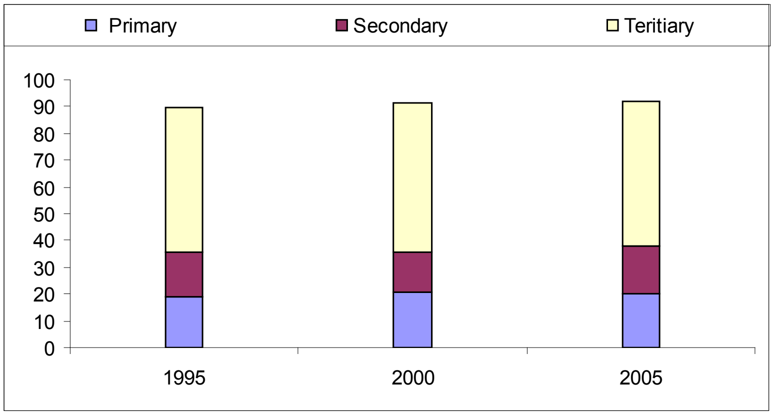
The Namibian economy is characterized by a large, non-tradable sector (government services – Figure 1), and an export oriented primary industry - mainly fisheries, agriculture and mining. The structure of the economy has not changed with the tertiary industry as the main contributor to GDP. In terms of dependence, the primary industry dominates, supporting more than half of the population while it remains the second most important industry in terms of its contribution to GDP. The secondary industry remains the third main contributor both in terms of GDP and as a source of living.

Figure 1 Industrial Contribution to GDP, 2005 (1995 prices)



At the macro level there has not been major shift in the industrial dominance of the economy over the last eleven years as revealed by Figure 2. The figure indicates that the tertiary industry accounts for more than half of GDP with close to a quarter coming from government services. The primary industry which is the largest employer contributes just about 20% while the secondary industry just over 15%. Over the last eleven years only the tertiary industry did not experience a contraction due to good performance by the government services; wholesale and retail, repair; transport and communication and real estate and business services sub-sectors. The secondary industry fluctuated following performance in the manufacturing sub-sector, while the primary industry was the most variable owing to variability in both the mining and the agricultural sub-sectors.

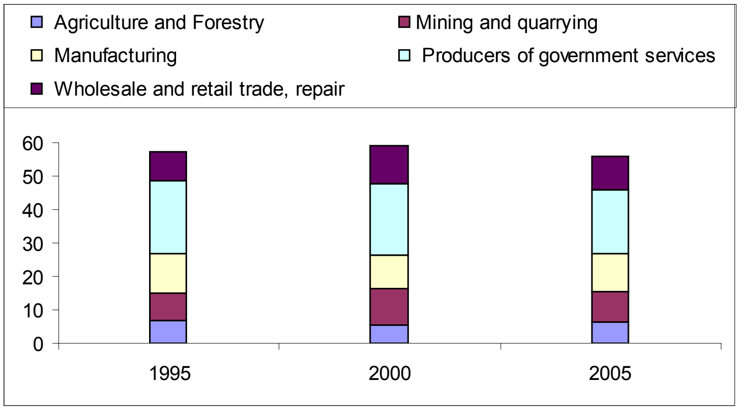
Figure 2 Industries' contribution to GDP



Source: Central Bureau of Statistics, 2006

At the micro level, some sub-sectors have managed to maintain a positive growth over the last eleven years though no single sub-sector has emerged as a leading performer or has outperformed the traditional sectors (Figure 3).

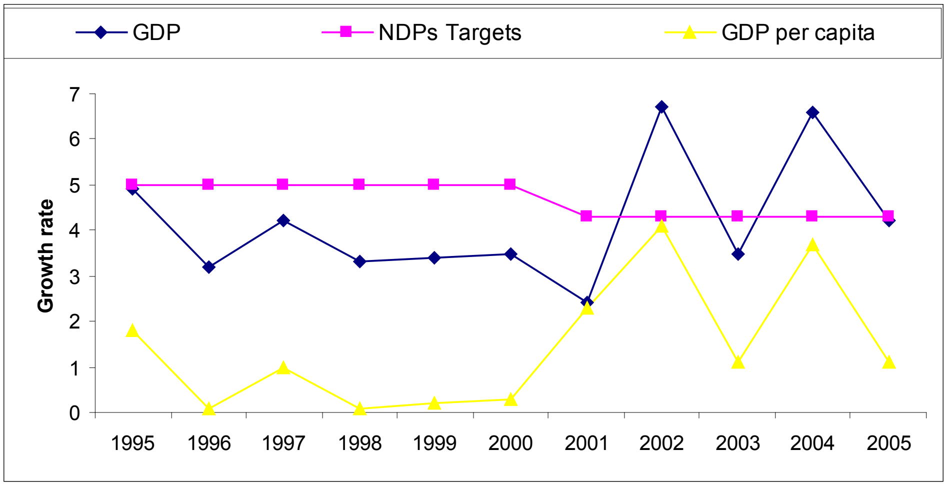
Figure 3 Sector's contribution to GDP



Source: Central Bureau of Statistics, 2006

Figure 4 below depicts economic growth over the last eleven years. During this period growth in GDP averaged about 4%. Though growth fluctuated around 4%, the economy registered no contraction over the last eleven years. Apart from 2002 and 2004 when the economy recorded growth of more than 6%, economic growth has been volatile and below the National Development Plan one (NDPI) target of 5% but much closer to the Second National Development Plan (NDPII) target of 4.3%. It is also higher than the growth rate experienced in the 1980s and the population growth rate of 2.6% (2001). However, GDP per capita averaged only about 2% during this period. For the outstanding years, the mining sector and the diamond sub-sector in particular has performed very well while performing dismally in poorly performing years. This seems to indicate that whenever the diamond sub-sector is performing well, this has a positive impact on the overall performance of the economy. However, this economic growth has not been able to absorb growth in the labor force (Sherbourne et al. 2003). This is understandable if the growth rate is driven by the mining sector which has become capital intensive.

Figure 4 Economic growth, 1995 – 2005



Source: Central Bureau of Statistics

Box B Economic Growth versus Economic Development

Economic progress is often referred to as the main determinant of a nation's well-being which is assumed to be measured both by economic growth and economic development. While economic growth refers to a sustained quantitative increase in GDP/ GDP per capita i.e. an expansion in the economy, economic development refers to sustainable qualitative changes in the living standard of the population resulting from a substantial change in the structure of the economy. Furthermore, economic growth results from an increase in the use of factors of production such as labor or capital, the introduction of new technology or exploitation of natural resources while economic development refers to a transition in an economy from one which depends on agriculture or natural resource extraction to one with an increased share of output from manufacturing and services.

It has been argued that economic growth and economic development are interlinked through the trickle-down effect. The determinants of economic growth are understood to be the same for economic development. Economic growth is determined by growth in the labor force, investment in physical and human capital, low inflation rate, open trade policy, ability to adopt technological changes and government policies. Human capital can be measured in terms of educational level and health. This will further indicate the capability of the country to adapt to technological changes. A large labor force makes it easier for a country to absorb new products or ideas that have been developed elsewhere. Government policies such as better maintenance of the law, few distortions of private markets, less non-productive government consumption and greater public investment play a crucial role in determining where the economy will go in the long run. Inflation uncertainty reduces efficiency by discouraging long term contracts and increasing relative price variability. Furthermore, high and unpredictable inflation rate is negatively related to investment and economic development.

Economic growth can generate basic improvements in the quality of life such as increases in life expectancy, reduction in infant mortality, improvement in literacy rate, etc and when this happens economic development is understood to have taken place. Economic growth is determined by the discovery of new resources, efficient and effective use of existing resources and by the development of innovative ways of using existing resources.

The government has put in place strategies for creating an enabling environment for development through maintaining economic and political stability, and providing incentives for foreign direct investment. Economic policy has been guided by the medium term National Development Plans (NDPI, NDPII), which have among their goals the reduction of poverty through creation of employment, an economic growth target of 5% and 4.3% for NDPI and NDPII respectively, the reduction of inequality in income distribution and gender equality and equity. Currently, economic policies are guided by Vision 2030 and it is anticipated that the National Development Plans (NDPs) will be used as the implementing tools commencing with NDPIII. The challenge is to ensure that NDPs are pro-poor, focuses on sectors most used by the poor, and utilizes resources owned and managed by the poor for its implementation.

Faced with deteriorating public debts (30.9% and 35.9% as a percent of GDP for 2003 and 2004, respectively), government's focus is on how to increase economic growth and reduce poverty while keeping the debt stock at a manageable level. Towards this end, government introduced the Sovereign Debt Management Strategy to monitor and maintain public debt at a manageable level. Government is also exploring foreign borrowing options through the envisaged Foreign Borrowing Plan. The focus is for government to borrow less and make large net repayment of public debts thereby reducing the debts stock. While it is essential to maintain a manageable level of public debts, this should not be done at the expense of a decline in pro-poor public investment which is essential both in bolstering private investment and in poverty reduction. It should also be noted that tighter spending controls and new tax measures will have a contractional impact on the economy through reductions in aggregate demand, thereby leading to poor economic growth.

Monetary Policy is set within the context of the Common Monetary Area (CMA), thus Namibia follows the South African monetary policies of inflation targeting. With price stability as the primary goal of monetary policy, inflation targeting guides the public's inflation expectations, thereby improving planning for the economy. Furthermore, it ensures transparency and credibility of monetary policy. Apart from poor economic performance, high inflation is associated with redistribution of income from savers to borrowers. Given the high weight of food (of about 30%), high inflation impacts negatively on the poor given that the poor have a higher weight for food in their consumption basket. It seems as if the option for Namibia is to benefit from price stability, elimination of transaction costs, credibility, and long term predictability or less uncertainty which is beneficial for both economic growth and economic development. The cost of the CMA is the loss of exchange rate as a policy instrument in responding to domestic economic problems.

Though Vision 2030 strives for 5% of the population earning their living from the agricultural sector by 2030, government is currently developing strategies aimed at improving the agricultural sector growth by exploiting potential economic benefits presented by the sector. The main focus is to address poverty through employment creation. These strategies include doubling the output of the animal and horticulture sectors given the sectors' performance in the export market (Cabinet Retreat 2005). The focus is to increase the production of livestock and the implementation of the Green Scheme. Government's strategy is to use the infant industry protection, preferential market access, the special and differential treatment trade rules that exist in order to strengthen the share of the Namibian products in the world market. However, it should be noted that this is the sector that experiences an increasing trend in non-tariff barriers. Thus due consideration on non-tariff barriers is required if Namibia is to fully realize potential benefits from this sector. Furthermore, countries in the Southern African Custom Union (SACU) of which Namibia is a member, produce similar products which may limit intra trade. Nonetheless, Article 26 of the SACU agreement provides for Botswana, Lesotho, Namibia and Swaziland (BLNS) to apply temporary measures for a period of eight years. Notwithstanding V2030 targets, government efforts to reduce unemployment should strive to increase the processing of agricultural products and increase the manufacturing base of the economy.

Economic growth was estimated at 4.2% in 2005 following a robust growth of about 6% in 2004. Poor performance in the mining and fishing sectors as well as in the transport and communication, the wholesale and retail trade, repairs and real estates and business services have contributed to the decline in economic growth. Economic growth for 2006 is forecasted at 3.92% with the International Monetary Fund forecasting a growth of 4.5% compared to a lower growth of 3.4% forecasted by First National Bank owing to reduced demand for Namibian minerals as well as contraction in the fishing industry resulting from higher oil prices. Economic performance is expected to improve to about 4.2% in 2007.

Table 1GDP and Inflation forecast, 2006 and 2007

	GDP		Inflation	
	2006	2007	2006	2007
Ministry of Finance	3.8	4.0	-	-
Bank of Namibia	3.9	4	3.3	-
First National Bank	3.4	3.3	-	-
Economic Intelligence Unit	4.1	5.1	4.9	4.1
International Monetary Fund	4.5	4.5	5.1	5.0
Standard Bank	3.8	4.9	-	-
Average	3.92	4.18	4.55	4.55

Source: Bank of Namibia, First National Bank and Economic Intelligence Unit

4.1 PRIMARY INDUS-

Major sectors in this industry comprises of agriculture, fishing and mining. During the past eleven years, the agricultural sector's performance fluctuated due to external shocks (weather, high demand and good prices). The agricultural sector performance dipped in 2001 and has recorded an average real growth of about 6% since. The sector's growth was estimated to have improved recording a real growth of 10.7% in 2005 compared to 0.9% in 2004. This resurgence is attributed to the recovery of the commercial sub-sector which recorded a significant growth of 10.6% compared to a decline of 9.9% in 2004. The sector's performance is expected to improve owing to good rainfall received in the 2006 season.

Similarly, employment in the agricultural sector has declined from about 37% of the employed population in 1997 to about 27% in 2004, a significant 10% reduction. However, agriculture is still by far the sector that provides the most jobs. What can be observed is that the agricultural sector fluctuates both in terms of its contribution to GDP and employment. Real average growth in the agricultural sector over the last eleven years is estimated at around 2.2%. Notwithstanding this, the 2001 census indicates that about 95% of the population still earns their living from agriculture. Thus, the sector continues to play a major role in the economy both directly and indirectly since the manufacturing sector relies on its inputs. Despite periodic drought, the agricultural sector has the potential to significantly contribute to economic growth and employment creation if the sector is diversified. Substantial investment in agriculture could improve food security thereby reducing dependence on imports. Given the availability of labour and abundance of land as well as the recurrence of floods, Namibia has a comparative advantage on the production of agricultural products. Vision 2030 strategies strive for only 5% of the population to be dependant on agriculture by 2030. Economic theory suggests that a decline in the agricultural sector's contribution to GDP coupled with growth in the manufacturing sector would signal economic development. This follows the stylized fact that economic development is preceded by an increasing share of the secondary industry's contribution to GDP and a diversification of the economy.

Despite a declining trend over the last two years, fisheries remain one of the major economic sectors in Namibia. Average real growth over the last eleven years is about 3%. The sector registered substantial negative growth rates for two consecutive years, recording a decline of 3.4% in 2005, a marked improvement compared to a decline of 9.1% in 2004. Rising prices of crude oil increase the operational costs while the prevailing strong exchange rate erodes the competitive advantage of the industry. These factors continue to impact negatively on the sector, thereby contributing to its poor performance. In terms of employment, the sector's contribution increased marginally. It now accounts for about 3% of the employed population, up from about 2% in 1997. Given a reduction in the total allowable catch for several fish species, the sector's performance is expected to contract.

The mining sector which accounts for the highest export in value continues to show significant growth, registering an average real growth rate over the last eleven years of about 5%. Diamond production continues to dominate with the sector's growth closely following those in the diamond sub-sector. The sector's growth declined to 1.8% in 2005 following a buoyant growth of 36.5% in 2004. This can chiefly be attributed to a decline in the diamond sub-sector which registered a decline of 4.1%. While the mining sector remains the driving force of the Namibian economy its contribution to employment creation remains limited to around 2% of the employed population. This is not surprising given the capital intensity of the sector. It must also be noted that this sector is very sensitive to external shocks.

4.2 SECONDARY INDUS-

Major sectors in the secondary industry are manufacturing, electricity and water and construction. The manufacturing sector, a priority sector for government policies and regarded as a potential growth pole, has been volatile registering a real growth of about 3% over the last eleven years. This volatility arises from the fact that more than 70% of its contribution is agriculture dependent (food processing and fish processing). The good performance experienced in the last four years is owing to non agricultural manufacturing usually cited as other manufacturing. This category includes manufacturing of textile, woods, paper, chemicals, basic metals and machinery and equipments.

During the period under study the manufacturing sector performance fluctuated in the early years before it began to register a steady growth over the last five years. However, the sector failed to maintain this growth trend, registering a decline of 0.6% in 2005. This decline can be directly attributed to a decline in fish processing on shore and other manufacturing. Furthermore, as fisheries are a significant part of the manufacturing sector its performance has impacted the manufacturing sector negatively. This impact seems to have spilled over to the sector's ability to create employment with the sector's employment declining from 6.5% (1997) to 5.3% (2000) before it bounced back to about 6% (2004) of the employed population. The strong linkage to the agriculture and fisheries sectors and the lack of diversification leaves the manufacturing sector volatile to external shocks.

The energy sector composed of electricity and water sub-sectors plays a crucial role in the economy as a provider of reliable energy to both the production sector and to households. Following a lower growth of about 4.4% in 2004, the electricity and water sector registered a strong growth of 11.3% in 2005 due to good rainfall. This good performance is estimated to continue during 2006 with an estimated growth of 7.5 %. The sector's contribution to employment has been fluctuating around 1% of the employed population.

The performance of the construction sector has been fluctuating with no visible trend, registering a real average growth rate of about 7% over the last eleven years. However, over the last three years the sector has maintained positive growth rates in line with declining interest rates. The sector is estimated to have recovered from a lower growth of 1.2% in 2004 to register a growth of 3.2% owing to low interest rate which reduces the cost of borrowing as well as a reduction in the price of building materials resulting from the entrance of new players in the industry. Positive growth is estimated to continue at about 7% real growth rates. The sector's contribution to employment continues to fluctuate around 5%.

4.3 TERTIARY IN-

Government services continue to be one of the main contributors accounting for just less than a quarter of GDP in 2004. The sector has registered a real average growth rate of about 5% over the last eleven years. The sector's growth declined slightly from 5.4% in 2004 to 4.9% in 2005. While a decline in government services reflects a reduction in government expenditure which augurs well for fiscal stability, if the reduction comes largely from personnel costs it may have a negative impact on overall economic growth by decreasing aggregate demand.

One sector which has seen a constant marginal growth over the years is the wholesale and retail trade sector. This sector has been growing in terms of its contribution both to GDP and employment. The sector's average real growth rate over the last eleven years is around 6%, surpassing both NDPI and NDPII targets. Its contribution to employment has increased from around 8% in 1997 to about 14% in 2004. The sector's prospects look good and look to continue benefiting from the low inflation rate and low interest rate.

The contribution of the Hotels and Restaurant, a proxy for the Tourism sector, which is often cited to have the potential to increase economic development, has been constant at around 2% while its average real growth rate over the last eleven years is around 5%. Following a contraction by 3.2% in 2004, the sector seems to have recovered registering a marginal growth rate of 0.3% in 2005. Its contribution to employment has improved from 0.7% in 1997 to 3.4% in 2004. Empirical studies argue that the tourism sector has the potential to contribute between 5-10% to GDP. Therefore, current economic developments (sectors' real growth) seem to indicate that economic development is not taking place at the expected rate.

The transport and communication sector plays an important role in the economy as they represent the state of a country's infrastructure - a major factor for investment decisions. Its contribution to GDP has been growing constantly over the years. The sector registered an average real growth of about 7% over the last eleven years. Following a good performance in 2004 (11.9%), the sector recorded a slightly lower growth rate of 8.7% in 2005. Given the high increases in the fuel prices, the good performance is estimated to have been driven by the communication sub-sector owing to high demand resulting from decreasing mobile phone prices. The sector is estimated to grow at about 9% for 2006. The sector's contribution to employment has increased slightly from about 3% in 1997 to about 4% in 2004.

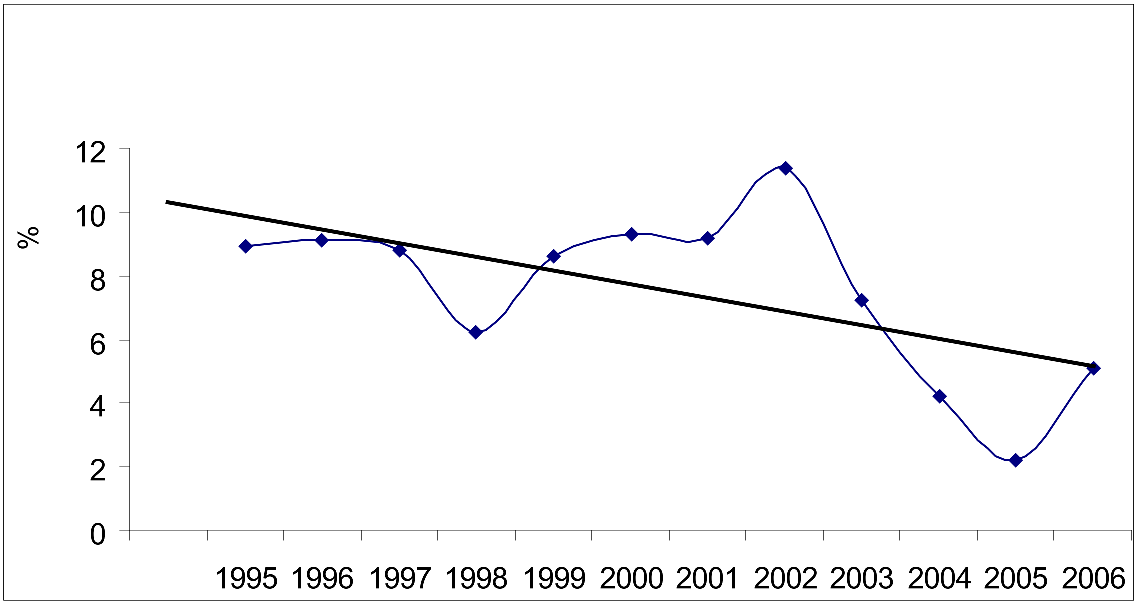
4.4 DECLINING INFLATION RATES

Inflation is generally a result of an increase in aggregate demand and a contraction of aggregate supply. It is caused by either an increasing demand of goods exceeding the supply of goods or by an increase in the cost of production. With the exception of unemployment, inflation is one of the concerns of policy makers, business community and the public. Foods with a weight of about 30%, Energy with about 21% and Transport with about 15% represent the heaviest weights and any major changes in these items will determine the direction of the inflation rate in the country. Given that Namibia imports about 80% of its products from South Africa, the trend in inflation rate follows closely those in South Africa.

With the exception of 1998 and 2001 which saw fluctuations, annual inflation rates have increased slowly though irregular through the mid 1990s and early 2000s hovering around 9%. The decline in 1998 was dominated by a reduction in the price of energy and transport while the rise in 2002 was a result of rises in the price of food stuffs (Central Bureau of Statistics, 1998 and 2002). The inflation rate then fell rapidly to less than 5% in 2003 and has remained below the target of 6% for the last three years. In 2005, Namibia registered its lowest inflation rate in the 16 years since independence of about 2%.

The major contributors to the low inflation rate were housing, water, electricity, gas and other fuels and alcoholic beverages and tobacco. Clothing and footwear, health, communication and education also registered low rates during the period under review. This downward trend in inflation rates is beneficial to the poor since it has a direct impact on the demand of basic goods. Given the higher weights of categories such as food, housing, water, electricity, gas and other fuels, the impact of the fuel price increases on overall inflation was softened by lower inflation in these categories. Continued stability in inflation rates will lead to a lower real interest rate and this will provide an important stimulus to domestic demand as well as investment.

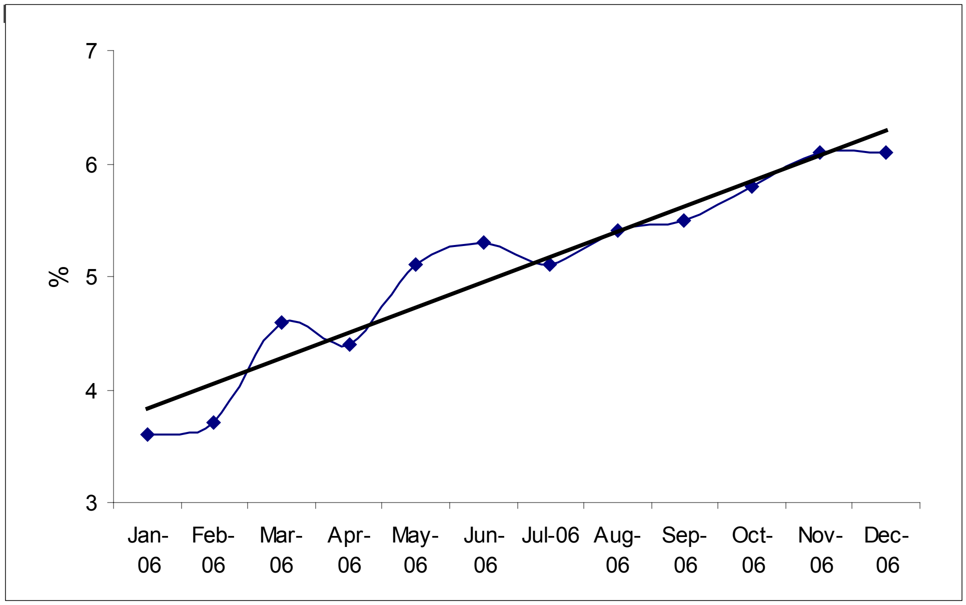
Figure 5 Inflation rate, 1994 – 2005



Source: Central Bureau of Statistics

While it is generally believed that high inflation rate is not good for the economy, zero inflation - deflation is not good for the economy either since it indicates economic stagnation. Since the poor hold a large portion of their wealth in currency, they are usually the hardest hit by high variations in inflation rates. Given that food commands a higher weight and the fact that the poor spend a large proportion of their income on food, the poor are the hardest hit by higher and variable inflation rates. Furthermore, inflation results in increased uncertainty which makes economic decisions more difficult and makes the price signal role less efficient thereby resulting in lower levels of investment and growth. Therefore, a stable inflation rate is good both for investors as well as for the poor. Generally, high and variable inflation rate causes uncertainty. This increased uncertainty will make both individuals and firms reluctant about taking up new investments. This results from the fact that highly variable inflation is regarded as a signal of poor economic policy.

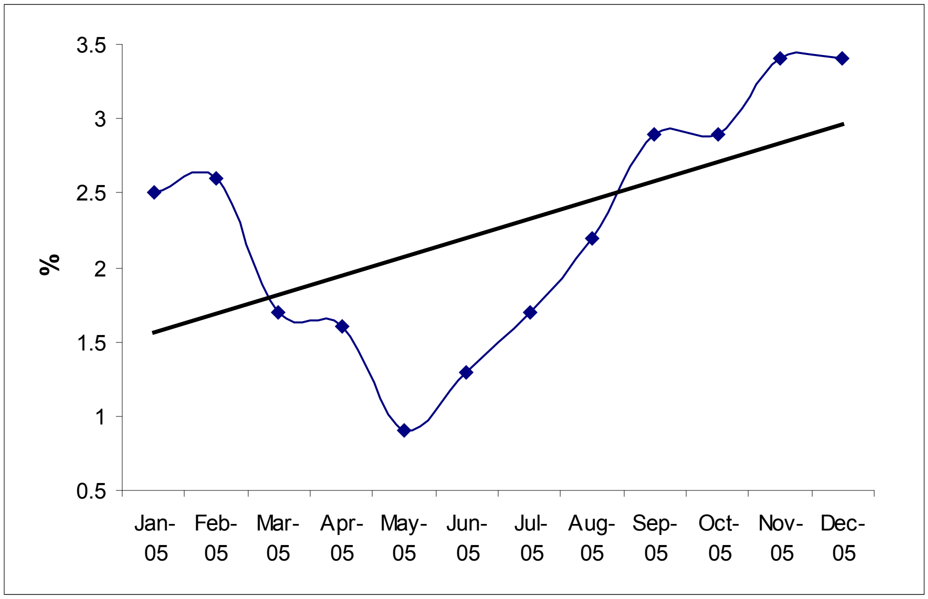
Compared to the last five years, 2005 witnessed a low and decreasing rate of inflation. However, recent development seems to indicate an increase in the inflation rate for 2006 due to frequent increases in fuel prices. Furthermore, monthly inflation rates for 2006 as depicted by Figure 6 show an upward trend. Thus, the average inflation rate is expected to rise owing to higher food and fuel prices. While the impact of the fuel price increases on overall price was softened by lower prices in categories such as food, housing, water, electricity, gas and other fuels in 2005, these might not be the case for 2006 as these categories experienced an increasing trend during the year. Higher inflation increases the cost of production thereby directly affecting both manufacturers and traders. Furthermore, it reduces the purchasing power of consumers leading first to substitution effects and then reduction in demand. Continuous rises in inflation can be contained by increasing interest rates. However, this impacts negatively on the economy as it increases the costs of capital which can lead to reductions in aggregate demand.



Source: Central Bureau of Statistics

As can be observed from Figure 6 and Figure 7, 2006 seems to be a reverse of the price changes observed in 2005. The first half of 2005 experienced a decline in prices at an increasing rate as depicted by Figure 7 before it started rising though at a declining rate. In contrast 2006 has experienced an increasing trend for most part of the year.

Figure 7 Monthly Inflation rates, 2005



Source: Central Bureau of Statistics

4.5 LOW AND STABLE INTEREST RATES

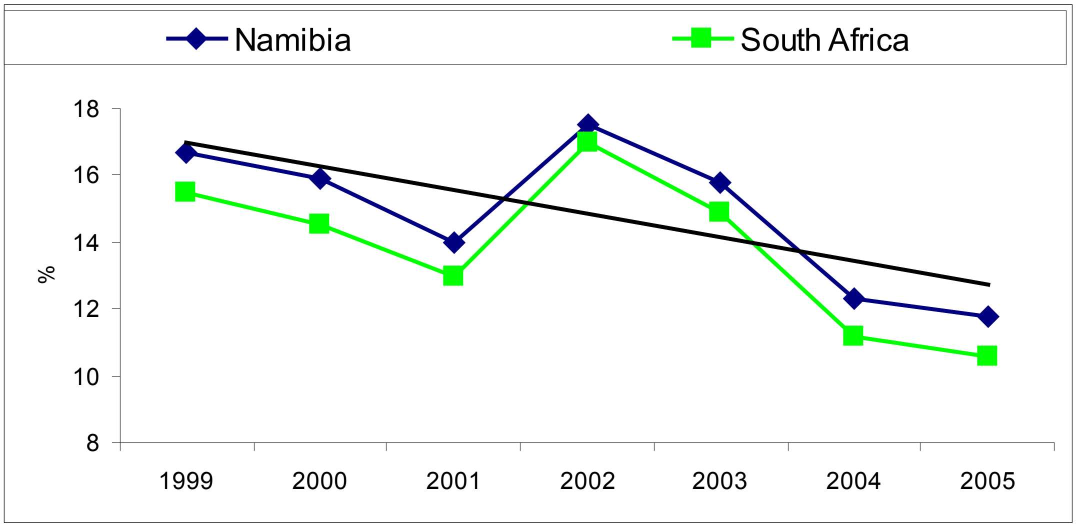
Interest rates, which reflect the cost of borrowing, play a major role in stimulating economic growth through an increase in consumer spending resulting from a reduction in interest rates. Interest rates can be increased to control inflation or reduced to stimulate the economy. Shifts in interest rates are driven by factors such as inflation, strengthening of Namibian dollars and economic performance among others. Figure 8 below indicates a declining trend which indicates a gradual decrease in the costs of borrowing. A reduction in the cost of borrowing indicates low cost of investment thereby attracting both local and foreign investors. For the consumers it indicates a reduction in the costs of home loans.

Furthermore, the figure below seems to indicate stability in interest rates during the later period. This augurs well for economic development as well as for the achievement of Vision 2030. However, 2006 has witnessed an increase in the repo rate in response to rising inflationary pressures resulting from higher international oil and food prices. This has further increased the cost of living. Generally, Namibia enjoys relatively less fluctuation in interest rates. The country compares favorably in many business environment indicators with a low number of startup procedures, low business startup and closing costs and high coverage of creditors. However, the country is considered to have the highest cost of doing business with the number of days to start a business estimated at 85 days surpassing the regional average by 22 days (AGOA, 2005).

Given that the Namibian Dollar is pegged to the South Africa Rand one to one, monetary policy in

Namibia closely follows those of South Africa. This is clearly reflected by movements in the prime lending rates in the two countries. Thus, interest rates in Namibia are influenced less by economic developments in Namibia but rather by monetary policy developments in South Africa. This means that monetary policy is not reactive to local factors. This results from Namibia's membership to the CMA and the perfect capital mobility that exists between the two countries.

Figure 8 Prime lending rate, Namibia and South Africa



Source: Bank of Namibia

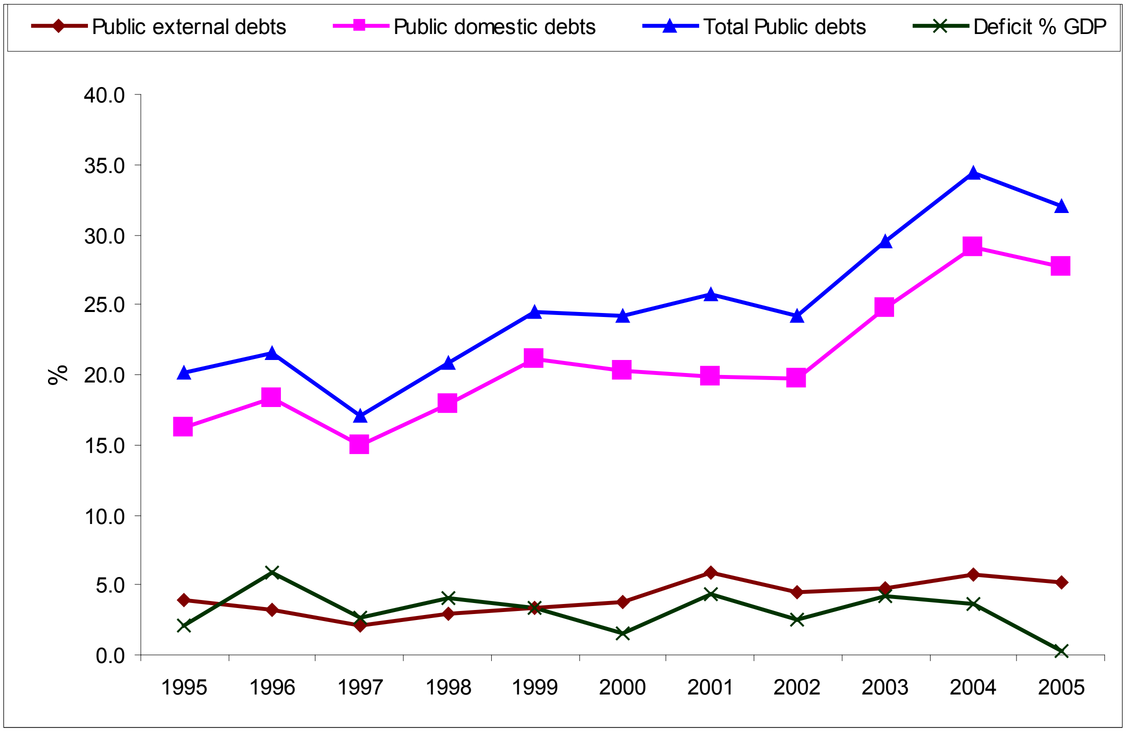
4.6 FISCAL POLICY

Government introduced budgetary reforms in the form of the Medium Term Expenditure Framework and Performance and Effectiveness Management Programme to strengthen macroeconomic management and revenue collection. Namibia's public debt is estimated at about 34% of GDP. Figure 9 below indicates that budget deficits as a percentage of GDP have been fluctuating below 5%. When budget deficit increases, this will increase the public debts which results from the need to finance a budget deficit. As depicted in Figure 9 budget deficit seems to be moving with total public debts thereby confirming the notion that public debts are needed to finance budget deficit.

4.6.2 GOVERNMENT DEBT

Public debt as a percentage of GDP has increased from about 8% in 1991 to about 28% in 2003. It is currently estimated at about 32%. Government is currently spending around 8.7% of the budget on interest payments. Movement in public debts is chiefly accounted for by increases in domestic debts as depicted by Figure 9. During the period under review, changes in total government debts closely follow those of domestic debts. This seems to indicate that public debts have been restricted to domestic debt which is good since domestic debts depends directly on the growth of the economy for its resettlement as opposed to foreign debts which require foreign currency. Public domestic debts have increased from about 16% in 1995 to about 28% in 2005. Currently, as a percentage of GDP, domestic debts have exceeded the international threshold of 20%. To monitor borrowing government introduced the Sovereign Debt Management Strategy which was approved by Cabinet in 2005. Government is also planning to introduce a Foreign Borrowing Plan to guide the financing of NDP projects where funds cannot be sourced locally. Though Namibia is not yet at that level, one has to be cautious since the problem with increasing public domestic debts is that it has the potential of clouding out private investments.

Figure 9 Public debts as a Percentage of GDP

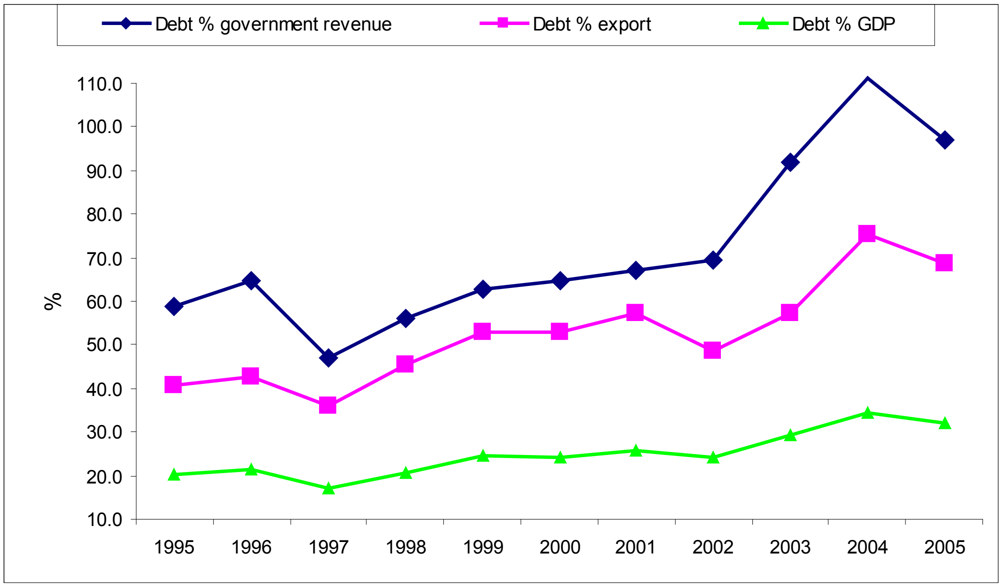


Source: Bank of Namibia

External government debts seem to have minimal influence on the direction of total government debts. As a percentage of GDP, external debt remained well below 10% recording its lowest level in 1997 as a result of debt cancellation by South Africa. The importance of keeping public external debts manageable is that high public external debts lead to debt crises by increasing public expenditure through obligatory expenses. This has a direct negative impact on both social and capital public investments, thereby affecting the growth of the economy. Government debts increase whenever government expenditure exceeds revenue. Thus, changes in budget deficits result directly from changes in government spending or tax changes. The other negative impact of public borrowing is that it may cause capital flight as investors anticipate increases in the tax burden through raising taxes. If a country raises taxes, this will distort economic choices, thereby hurting long term economic growth. It is therefore often argued that for debt sustainability to occur a country should attempt to keep foreign debt as a non-increasing percentage of GDP. While it is essential to keep a sustainable budget deficit and thus sustainable public debts this should not be allowed to impact negatively on public investment which is essential both for private investment and economic growth.

Three measurement methods are usually applied to determine government's ability to service its debts. These measures are illustrated in Figure 10. Apart from 1997 when South Africa wrote off Namibian external debts, Figure 10 illustrates an increasing trend in public debts as a percentage of government revenue, export and GDP. With an average debt of about 20% of GDP, Namibia does not differ very much from other developing countries. If a country has a high external public debt, debt as a percentage of export is a good measure since it indicates the country's ability to generate the hard currency needed to service its external debts. However, given that a large portion of public debts in Namibia is made up of domestic debt, sustainable high economic growth is required to finance public debt, thus debt as a percentage of GDP will be a good measure.

Figure 10 Debt as a percentage of Government revenue, export and GDP



Source: Bank of Namibia

4.6.2 CREDIT RATING

In an effort to attract investment, Government opted for credit rating. Credit rating is an investment rating carried out by the internationally renowned rating agency Fitch Ratings. Their rating system uses letter A for high credit quality to D for poor credit quality. Credit rating signals an ability of an entity to fulfill its financial obligations.

As such it is used by investors as a benchmark of the likelihood of receiving their money back. A long term investment grade rating of AAA indicates relatively low credit risk with a strong capacity of fulfilling financial obligations and it is unlikely to be affected by unforeseeable events while DDD signal a very high level of credit failure.

Namibia has been assigned a long term foreign currency rating of 'BBB' and a long term local currency rating of 'BBB' which measures the capacity to meet both foreign and local currency commitments. This rating indicates a good credit quality. The rating indicates a low expectation of credit risk as well as an adequate capacity for timely fulfillment of financial obligation though this may be affected by adverse changes in economic conditions. Given government's commitment to the achievement of V2030 and the Millennium Development Goals, the rating forms a good basis for promoting public investment by providing both public and quasi-public goods. Given that public investment is complementary to private investment in Namibia, the rating augurs well for both economic growth and economic development.

4.7 EMPLOYMENT

Government has cited employment creation as one of its main objectives in both the First and Second National Development Plans (NDPI and NDPII). Unemployment[1], which according to the Institute for Public Policy Research's national opinion survey has been consistently ranked as Namibians number one concern, is currently estimated at about 22% (2004 data). This figure is being augmented at a rate of about 3% per year. If we consider the broad definition[2] of unemployment, the rate is about 37% indicating that more than a third of those who are available for work in Namibia are not employed.

As depicted in Table 2, regional comparisons indicate that the unemployment rate in Omaheke has been declining and is currently estimated at 19% and 9% for the broad and strict definition respectively. This is the lowest rate of unemployment rate in Namibia - much lower than the national average. In comparison the Ohangwena and Omusati regions have the highest rates of unemployment at more than 64%. This is followed by Caprivi where just over half of the labor force are unemployed. However, it has to be noted that the majority of those unemployed in these regions have given up looking for work as the rate drops to 31%, 17% and 28% respectively when one uses the strict definition. Regional comparisons further reveal that while unemployment has generally increased between 1997 and 2004, five regions, namely Hardap, Karas, Khomas, Omaheke, and Oshana have experience a substantial decline in their unemployment rates. Among these regions only Khomas has experienced a reduction on broad definition and an increase on strict definition. The reduction in Hardap, Karas, and Oshana regions could be attributed to both the absorptive capacity of the economy as well as by the reduction in the Labour Force Participation Rate (LFPR) resulting from migration. Give that the LFPR in Khomas and Omaheke has increased the decline in unemployment rate seems to be explained by employment opportunities.

The unemployment rate peaks at 65% and 49% in the age category of 15-19 for the broad and strict respectively and then declines gradually. This indicates that unemployment is high among the youth and even more so among females. The major contributing factor seems to be school drop out, as the grade 10 school leaving rate is estimated at 43% (Ministry of Education, 2003).

Table 2 Unemployment rate by region, 1997, 2000, 2004

	BROAD			STRICT		
	1997	2000	2004	1997	2000	2004
Caprivi	51.3	24.3	51.1	38.1	15.6	27.9
Erongo	29.1	32.6	34.3	19	24.3	25.9
Hardap	37.2	29.8	28.0	22.7	16.3	16.0
Karas	29.0	27.9	26.8	20.1	15.7	21.0
Kavango	40.4	22.8	44.4	22.4	17.4	31.9
Khomas	30.0	27.6	24.2	16.1	20.6	19.9
Kunene	32.6	36.6	40.1	12.5	16.9	21.0
Ohangwena	35.4	58.2	64.2	21.1	26.5	31.3
Omaheke	29.3	25.6	18.9	15.2	13.7	9.1
Omusati	49.4	39.7	64.6	18.7	21.5	17.2
Oshana	38.9	35.4	31.2	19.4	19.8	17.9
Oshikoto	24.6	40.7	35.0	9	16.5	16.1
Otjozondjupa	28.7	30.8	28.8	18.7	24.2	23.7
Namibia	34.5	33.8	36.7	19.5	20.2	21.9

Source: The Namibia Labor Force Survey, 1997, 2000, 2004

1 Refers to the strict definition of unemployment: those individuals 15 years or above without a job, who are available for work and seeking work.

2 The broad definition of unemployment refers to those without work, available for work but not seeking work.

Available data seems to indicate that unemployment has been increasing marginally over the years. As can be deduced from Table 3, this seems to be a result of school drop out. An analysis of the unemployed by educational attainment (Table 3) reveals that unemployment is higher among people with lower skill levels. Unemployment rates for those with no education declined between 1997 and 2000 before it increased to 33% in 2004. The same trend applies to those with primary education. This seems to represent performance in the education sector rather than the labour sector. Primary net enrolment rate declined from 95% in 1997 to about 91% in 2000 before it increased to 96% in 2003. During the same period grade 5 and grade 7 survival rates increased from 87% to 94% and from 76% to 82% for 1997 and 2000 respectively. This means that the number of uneducated people is declining. Therefore, as the overall level of education increases there will be a reduction in unemployment for those with no education while unemployment rates will increase for those with lower levels of education.

Table 3 indicates that about a quarter of the unemployed has either primary education (strict) while about 42% have secondary education. The unemployment rate for those with grade 12 education and above is below 8%, thereby signaling that unemployment is not a major concern for graduates. Unemployment starts declining as the level of education increases. This could be a result of the trainability of individuals with this level of education. It can therefore be deduced that unemployment is rather a result of lack of education or shortage of skills and training as opposed to lack of job prospects.

Table 3 Unemployment by qualification, 1997, 2000

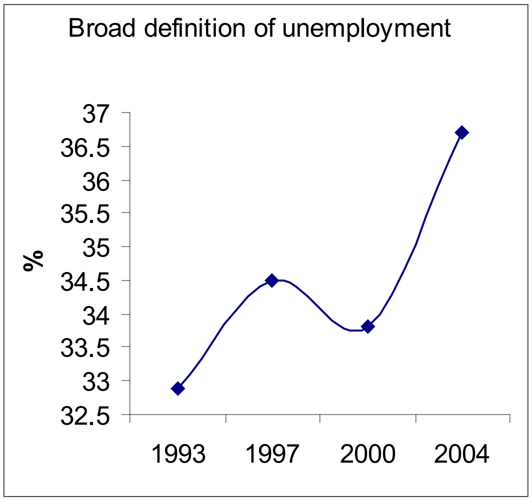
	STRICT			BROAD		
Qualification	1997 (%)	2000 (%)	2004 (%)	1997 (%)	2000 (%)	2004 (%)
No Education	13.2	7.8	15.1	28.2	23.1	33.2
Primary Education	20.1	36.2	23.4	38.7	35.8	41.4
Junior Secondary	26.0	28.1	27.6	40.5	41.8	43.2
Senior Secondary	21.7	25.0	21.8	31.1	34.0	31.0
After Grade 12 Certificate	3.6	4.4	5.0	6.4	7.9	7.3
University	2.2	0.7	4.1	3.3	1.3	4.1
Post Graduate	1.2	3.7	2.7	3.7	4.4	2.7
Teacher training	2.2	0.0	0.9	3.9	0.3	0.9

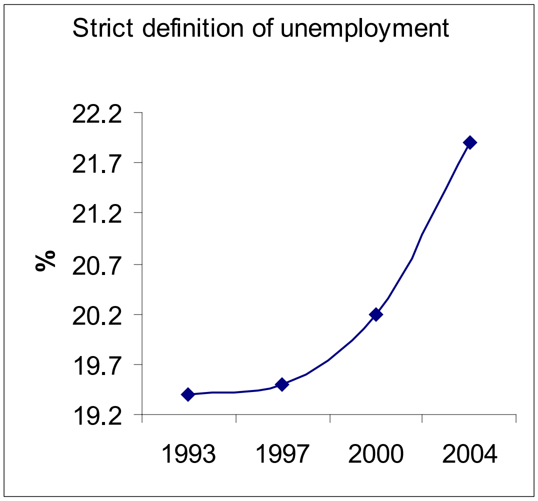
Source: Namibia Labour Force Survey 2000, 1997 and 2004

There is a sign of wage rigidity in the market which seems to support the theory that because of heterogeneity among workers and jobs, wages do not respond to accommodate increases in the supply of labor both for non-skilled and skilled workers. This is reflected by the high unemployment rate for primary, junior and senior secondary graduates. The table further indicates an increase in unemployment for all those with an educational level of grade 12 certificates or below and a relatively low unemployment rate for those with university and teachers' training. This could be attributed to a decreasing number of people who have never attended school from 26% in 1991 to 15% in 2001 and the high demand for teachers. Furthermore, retrenchment mostly targets lower skilled employees, which may explain the fluctuations in unemployment for those with no education. However, given the unemployment rate of about 4% for University graduates unemployment seems to be more a question of demand for skills. This indicates that a higher level of education increases employment opportunities. Empirical studies argue that University graduates are more trainable and this seems to be supported by the data in Table 3. Noting that unemployment is concentrated in the lower skills levels, by increasing the number of those with higher skills which in turn increases the demand for individuals with lower skills unemployment can be reduced.

Figure 11 below indicates an increasing trend in unemployment since 1993 for those actively looking for work while the number of those who have given up looking for work but are still available is fluctuating. This indicates that over one third of people available for work in Namibia are unemployed.

Figure 11 Unemployment rate 1993, 1997, 2000, 2004

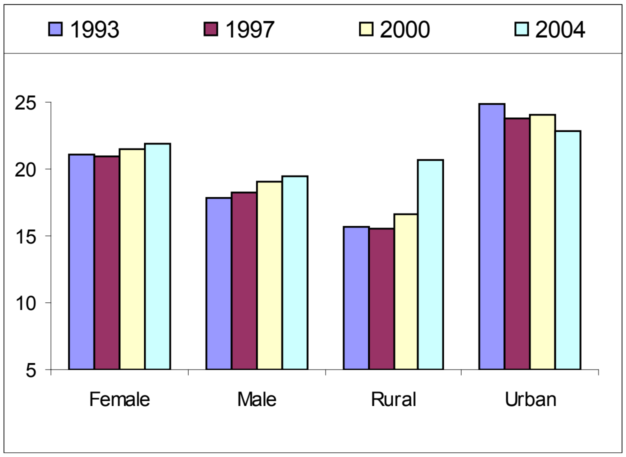




Source: Namibia Labour Force Survey 1997 and 2000, 2004

Comparison of unemployment by gender and location (Figure 12) seem to indicate that more women are unemployed and that unemployment is more common in the urban areas. Given the availability of employment opportunities in urban areas, this does make sense as one would expect more people to be actively looking for work in urban areas. In terms of growth, the graph indicates a marginal increase in unemployment among females, males and in the rural area and a slight decline in the urban area between 1993 and 2004. Overall, unemployment seems to have been increasing over the years. An analysis of the educational profile of the unemployed reveals that compared to males, female are in general less educated while the opposite is true for the employed. This seems to indicate that educated women have more chances of being employed as compared to men while the opposite is true as uneducated women have fewer chances of being employed.

Figure 12 Unemployment rate by location and Gender



Source: The Namibia Labor Force Survey, 2004

Table 4 indicates that the agricultural sector continues to be the main employer in Namibia. However, its prominence has been declining from about 37% of the employed population in 1997 to about 27% in 2004. Sherbourne et al (2003) observed the same trend arguing that employment within the agricultural sector declined by two-thirds between 1991 and 2001. The message from the table seems to be that agriculture is slowly becoming less important in the provision of employment. The worrying factor is that employment growth in other sectors has been slow resulting in stagnation in employment opportunities. Employment in the mining sector seems to be limited as the industry is more capital intensive, prone to external shocks and already saturated. Diversification of the economy seems to be slow with Wholesale, Retail Trade and Repair the only sector which registered increases in employment. Employment in the manufacturing sector has declined slightly from 7% in 1997 to about 5% in 2000 before picking up in 2004. The indication seems to be that even though Namibia experienced positive economic growth over the last eleven years, it has not been translated into increased employment opportunities.

Table 4 Employment by industry (per cent of total workforce)

		2000	2004
Agriculture	37	29	27
Manufacturing	7	5	6
Construction	5	5	5
Wholesale, Retail Trade, Repair	8	9	14
Real Estate, Renting, and Business Activities	5	9	2.4
Public Administration, Defence & Social Security	6	6	8
Education	6	7	8
Other community, Social and Personal services	6	11	3.3
Private household with employed persons	7	5	6.2

Source: Ministry of Labor, Labor Force survey 1997, 2000, 2004

Economic theory assumes that the level of employment depends on both short-term and long term price expectations, i.e. the price that a manufacturer would expect for his/her products and the return he would expect for his investment. This seems to suggest that employment would be determined by the prevailing confidence in the business climate, which would then induce demand for labor in the market. Following this argument, unemployment could be regarded to be a result of lack of demand for goods and services and hence insufficient demand for labor. Unemployment further depends on the production base of the economy, the capacity of the companies to improve or expand their production. As it is often argued, the wealth of the nation depends on the capacity of its people to produce, to invent and to organize. However, in Namibia unemployment seems to be a result of lack of skills as opposed to lack of demand for labor.

The labor market is assumed to be a competitive market with the demand and supply of labor reacting to changes in prices and wages. Economic theory assume that based on the rate of unemployment, the unemployed would bid the wage down until the supply of labor equals labor demanded. This assumes a perfect market. However, given that heterogeneity among workers and jobs is an essential factor of the labor market, the market may not necessarily clear. Thus, as a result real wages is unresponsive to demand changes thereby creating unemployment. Other reasons why firms may not adjust wages to reflect the supply of labor is that firms who pay more than the market clearing wage their jobs are valued and as such workers will exert more efforts, which further raises the average ability of the workers they hire. Furthermore, high wage can build loyalty among workers.

4.8 POVERTY

Poverty and inequality have always been referred to as one though there is a slight difference between the two. Inequality can lead to inefficient allocation of resources thereby exacerbating the level of poverty in the country. Thus, inequality can be referred to as an indirect cause of poverty. Reducing inequality will lead to a reduction in poverty, however this ratio never reaches zero. In order to effectively reduce and eventually eradicate poverty, the identification of the poor has to be correct. This is essential to facilitate the process of targeting the poor.

Official statistics reveal that there is progress with regard to the effort to reduce poverty. Defining the poor as those spending more than 60% of their income on food Table 5 indicates that about 24% of the households in Namibia are poor, a reduction of 14% from 38% in 1993. This indicates that NDPII target of reducing the proportion of poor households by 10% by 2006 has been exceeded. If one considers severely poor household being those whose food consumption made up 80% or more of their income, the table reveals that the target of reducing the proportion of severely poor households by 5% by 2006 has been met. However, poverty level in the rural area is still high at 42%. This figure declined by about 7% from 49% in 1993/94 compared to a reduction of 10% in urban area from 17% in 1993/94 to 7% in 2003/04. While the number of severely poor households in the rural area declined by 6%, there is hardly any change in the number of relatively poor households which currently sits at 36% versus 37% in 1993/94. This seem to indicate that economic growth experienced over the last ten years did not benefit the rural area, thereby confirming the notion that economic growth can mesmerize policy makers if the origin and distribution of that growth is not adequately analyzed. Therefore, while at the aggregate level the poverty target of NDPII has been achieved, progress has been very slow in the rural areas. Given that poverty is more prevalent in the rural areas, this seem to indicate that the country has been unable to adequately covert its growth into poverty reduction.

Progress has also been registered on income redistribution with a reduction in the Gini Coefficient by 0.1%. Though the 2006 target of reducing Gini-Coefficient to less than 0.6 has not been met, the progress is good. Furthermore, the data shows that there has also been a positive change in the distribution of income with 90% of the households with the lowest adjusted per capita income now accounting for 54% of total income up from 48% in 1993, while the remaining 10% of the households accounts for about 46%. This represents an increase and a decline of 6% respectively.

The reduction both in terms of poverty and inequality coupled with relatively good economic performance of about 4% over the ten year period could indicate good economic policies. However, this depends on the growth structure. The growth rate experienced during this period seems to be largely accounted for by the tertiary sector registering an average growth of 5% compared to 3% of both primary and secondary sector. If one assumes that labor intensive projects use the assets possessed by the poor, agriculture and manufacturing to be the sector where the poor work and poor isolated areas to be areas where the poor live, then it seems as if the growth has not really been pro-poor. However, while at the aggregate level unemployment has increased marginally, regional unemployment rate indicates that some regions have experienced a substantial decline, namely Hardap, Karas, Khomas, Omaheke, and Oshana. Poverty level in these regions has also declined. Therefore, assuming a positive relationship between unemployment and poverty, this might partly explain the decline in poverty levels.

The Namibia Informal Economy Survey (NIES) of 2001 indicates that about a quarter of the labor force is employed in the informal market. This represents about 31% of the employed. While lack of data prohibits growth analysis, the informal sector is considered as one of the fastest growing sector in Namibia. Employment concentration shows that the majority (62%) are in rural areas while the small-scale service sector accounts for the most number of jobs (53%). The decline in poverty could be explained by opportunities for income generating activities particularly in the informal sector during the period under study. While the mushrooming of the informal sector might have provided a source of income, the sustainability and growth in terms of business retention and expansion will depend on sound economic policies. Thus, it will be difficult for government to sustain the same progress on poverty reduction.

Table 5 Poverty and inequality over ten year period

NO HH	1993/94	2003/04	2006 TARGET	REDUCTION	TARGET MET
Poor	38	24	28	24	✓
Severe poor	9	4	4	5	✓
INCOME DISTRIBUTION (LOWEST AND HIGHEST APCI)					
Gini-Coefficient	0.7	0.6	Less than 0.6	0.1	×
10% highest APCI	52	54	-	+ 2	-
90% lowest APCI	48	46	-	2	-

Source: Central Bureau of Statistics

APCI: Adjusted per capita income

While it is acknowledged that economic growth will in the long run contribute to poverty reduction, it is now widely accepted that the trickle-down effect is not effective and has not worked in the Namibian case. Growth is described by aggregate measures such as GDP or GNP which is derived from sectors driving the economy such as the mining sector in the Namibian case. Economic growth needs to result from an increase in the production base of the economy which will further lead to demand for labour thereby leading to job creation and poverty reduction. But as long as this linkage is not existent growth alone will not result in poverty reduction. Therefore, in order to effect poverty reduction the focus should be on pro-poor growth. Pro-poor growth would have a direct impact on the poor and very poor through employment creation as the primary path out of poverty is through increasing the number of jobs created per year. Thus, the best and most effective way to reduce poverty in the long run is the creation of income-producing capabilities through education or retraining programs resulting in the possession of skills or individuals' ability to gain resources over time.

BOX C Tourism and Poverty

Tourism is one of the sectors that has the ability to reduce both unemployment and poverty. However, tourism is often viewed as a product that has nothing to do with the poor. While this might be true in terms of consumption, the poor can benefit a lot from the fallout of tourism activities. Thus, a well designed and targeted tourism industry can have a great impact on income generation for the poor thereby reducing poverty. It is often argued that growth is pro-poor if it uses the assets that the poor own (unskilled labor), favors the sectors where the poor work (agriculture, small-scale service sector) and occurs in areas where the poor live (isolated rural areas). Often niche tourism seems to be more pro-poor compared to mass tourism. While tourism is not a panacea for economic development it does have some advantages over other sectors for delivering pro-poor growth. However, it should be noted that as tourism operates in a market economy it is subjected to international market forces as new markets emerge and others decline especially in those countries that offer undifferentiated products.

Communal area tourism is one of the tourism products being offered to tourists. Though this provides employment to the community, there seems to be limited knowledge on the contribution that tourism in communal areas makes to the national economy. Therefore, there is limited knowledge on the ability of tourism and the pace/ rate at which it can reduce poverty. With focused and targeted strategies communal tourism can impact significantly to the development of the country through job creation to the majority of unemployed Namibian namely women and young people. Furthermore, tourism can provide opportunities to diversify the economy. However, to realize tourism benefits road infrastructure investments are essential. For tourism to be viewed as a mechanism for delivering on poverty reduction a linkage between tourism and poverty reduction needs to be established.

4.9 PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS

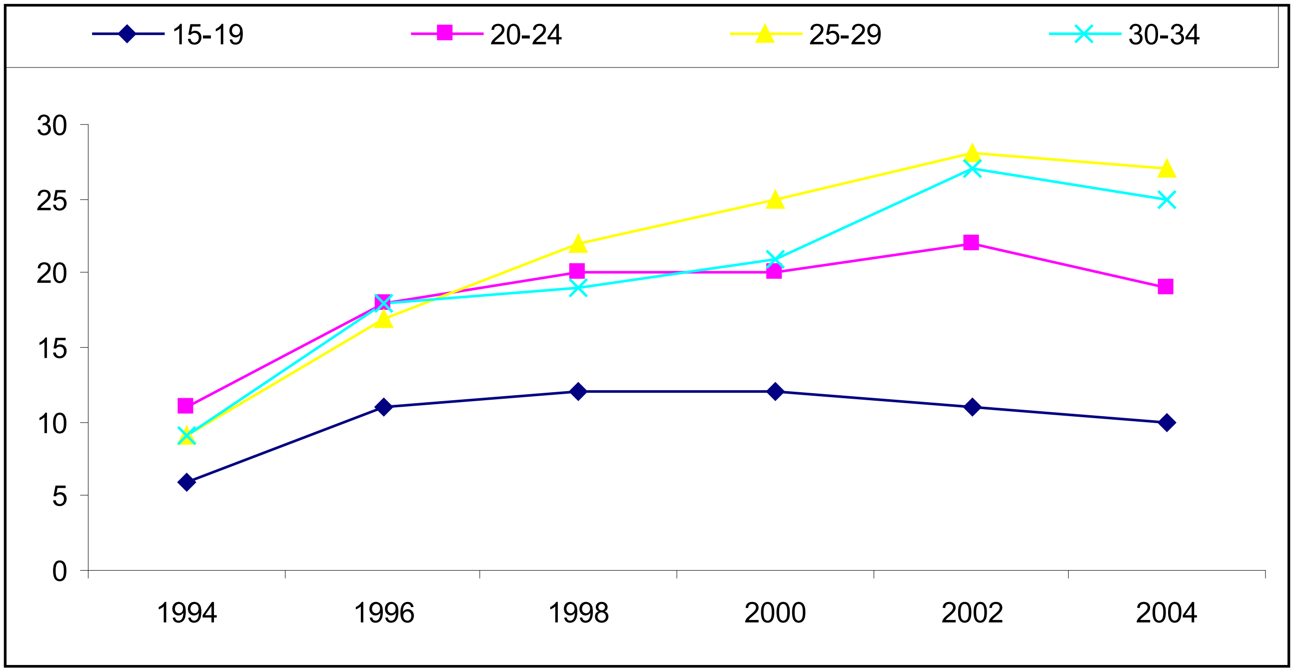
On average progress on the MDGs has been good. At the aggregated level progress on access to education has been very good (95.7% net primary enrollment rate), marginally surpassing the 2006 target. However, access to quality education remains a concern especially for the previously marginalized communities of the Himba and the San. The introductions of Mobile schools has increased access but school drop-outs in these communities and in mobile schools are relatively high compared to conventional schools, thereby making survival and completion a major concern. While good progress has been achieved towards universal access, the same cannot be said about survival rates as grade five survival rates have declined from 95% in 2001 to 90% in 2002. The survival rate is a greater problem among male learners (89%) compared to female learners (91%). Otherwise, gender disparity is non-existent at all levels of schooling.

Good progress has also been registered in terms of the proportion of seats held by women in the National Assembly. Current estimate put the number of seats held by women at about 27% up from a low of 9% in 1992. This represents a huge stride and moves Namibia very close to the SADC target of 30%. A decline in the prevalence rate for HIV/AIDS has been experienced for the first time in Namibia in 2004. However, it is still difficult to identify whether the decline can be attributed to the implemented policy on HIV/AIDS. Progress on infant mortality is encouraging though slow and under threat by the impact of the HIV/AIDS pandemic. Table 6 below indicates that Namibia is making good progress towards several MDGs: eradicate extreme poverty and hunger, achieving universal primary education, promoting gender equality and empowering women, improve maternal health, and ensuring environmental sustainability.

GOAL	1992	2005	2006 target	Progress towards target
1. Eradicate extreme poverty and hunger				
Proportion of household living in relative poverty	38%	24	28%	Good
Proportion of household living in extreme poverty	9%	5	4%	Good
2. Achieve universal primary education				
Net primary school enrolment	89%		95%	Good
Survival rate for grade 5	75%	90%	95%	Good
Literacy rate, 15-24 years	89%	89%	94%	Slow
3. Promote gender equality and empower women				
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%	27%	30%	Good
4. Reduce Child mortality				
Infant mortality (per 1000 live births)	67	52	36	Slow
Under five mortality (per 1000 live births)	87	71	54	Slow
Proportion of one year old children immunized against measles	63%	72%	80%	Good
Underweight among children under five	26%	24%	17%	Slow
5. Improve maternal health				
Proportion of births attended by trained health personnel	68%	75%	88%	Good
Contraceptive prevalence rate	21%	37%	50%	Good
6. combat HIV/AIDS, malaria and other diseases				
HIV prevalence among 15-19 year old women (2004)	6%	10%	9%	Worsening
HIV prevalence among 20-24 year old (2004)	11%	19%	15%	Worsening
TB treatment success rate	58%	69%	75%	Good
7. Ensure environment sustainability				
Proportion of rural household with access to safe drinking water	45%	80%	80%	Good
Proportion of rural household with access to basic sanitation	15%	21%	50%	Slow
Freehold land	5%		8.5%	Slow
Registered conservancies	0%	5%	11%	Slow
8. develop a global partnership for development				
Per capita oversees development assistance to Namibia (in	130	60	90	Worsening

Figure 13 HIV/AIDS Prevalence rate among pregnant women depicts the HIV/AIDS prevalence rate trend among pregnant women over the last 12 years. Given the lack of detailed data, this rate is used as a proxy for the total prevalence rate. In 1994 the prevalence rate among the 15-19 and 20-24 age category was estimated at about 6% and 11% respectively. This rate peaked to 12% in 2000 for the 15-20 age category before declining to 10% in 2004, while for the 20-24 age category rates peaked at 22% in 2002 before declining to 19% in 2004. The total HIV/AIDS prevalence in Namibia is currently estimated at about 20% declining from 22% in 2002. HIV/AIDS threatens the good progress that is being made on meeting the national and millennium goals. However, the downward trend is encouraging and experiences elsewhere (Uganda, Brazil and Thailand) have shown that the war against HIV/AIDS can be won.

Figure 13 HIV/AIDS Prevalence rate among pregnant women



Source: National HIV/AIDS Sentinel Survey, 2004

Access to safe water, electricity and telecommunication provides an opportunity for employment creation, thereby having a direct positive impact on poverty as well as on human development (Table 7). For this reason, access to services, resources and information signals an improved level of development. While lack of data makes it difficult to trace the trend in access to both services and resources, where comparison is possible, access seems to have improved markedly since independence. Access is very limited in rural and poor regions. Only about a quarter of the population in Caprivi, Kavango and Kunene has access to telecommunications. Access is even worse in Ohangwena, Omusati and Oshikoto where only between 13% and 17% have access. Access to electricity follows the same pattern with only 2% of the population in Ohangwena and Omusati respectively having access. Access is expected to increase with the recent introduction of Regional Electricity Distribution companies.

Table 7 Access to services, 2001

	ACCESS TO					
	Safe Water	Electricity (Cooking)	Secure Tenure	Newspaper (Daily)	Radio	Telecommunication
Caprivi	86	6	88	14	85	25
Erongo	96	67	59	39	89	73
Hardap	95	35	60	15	77	58
Karas	94	27	58	19	81	66
Kavango	62	5	91	5	79	24
Khomas	98	66	70	36	83	61
Kunene	73	10	71	3	72	25
Ohangwena	78	2	93	8	72	13
Omaheke	89	14	62	9	77	40
Omusati	83	2	91	10	75	17
Oshana	94	11	83	24	84	42
Oshikoto	88	9	84	11	79	17
Otjozondjupa	94	28	53	15	80	44
Namibia	87	25	76	18	80	39

Source: Central Bureau of Statistics, 2001

4.10 INTERNATIONAL TRADE

Free and equitable trade can be a powerful driver of economic growth especially in smaller economies like Namibia. However, this can only be realized at a level playing field with no restrictions to market access and no sheltering of producers. About 80% (Table 8) of Namibian exports are derived from the primary sector. Mining accounts for about half of the exports with diamond export accounting for about one third of total export. The value of non-diamond mining has also been increasing over the last eleven years averaging around 15% of total export. The export of meat has been fluctuating averaging around 6%. Fish export has been constant accounting for about a quarter of total export.

Namibia has not been able to meet the beef export quota of about 13000 tons to the European Union (EU). The main reasons for this seems to be better prices in the South African market, minimum requirements on the quality standard that could not be met and market diversification strategies. Furthermore, the EU has experienced a reduction in the price of beef. Thus, declining EU prices reduce returns on beef exports thereby deteriorating the value of the preferential market access. The quality standards introduced under stricter Sanitary and Phytosanitary (SPS) measures further increase the investment costs to meat producers. These measures include a labeling system which ensures traceability of animals' origin from its birth to its slaughter and cut.

The crops, vegetables, fruits and forestry product group performed very well with the export of grapes surpassing the export quota. Though this category only account for about 2% of total exports, its contribution has been increasing since 2000. Import tariffs are generally no longer seen as the biggest obstacle for market access to agricultural products. Rather, sanitary and phytosanitary measures are making market access more and more difficult as technical barriers to trade. The export of manufacturing beverages and other food products has also increased from about 4% in 1993 to about 7% in 2004. On average this product group accounts for about 6% of total exports over the last eleven years.

Table 8 Composition of Export, % total export

Time	Live animals	Metal ores including uranium	Diamond	Meat	Fish	Beverages, other food products	Crops, Vegetables, fruits, forestry	Copper	Zinc refined
1995	8.49	11.76	34.49	9.08	24.16	3.74	-	4.89	-
1996	8.96	13.75	38.20	9.11	19.49	5.35	-	2.53	-
1997	4.78	14.67	40.46	6.65	22.49	5.17	-	3.15	-
1998	5.39	13.87	31.56	6.80	31.44	6.00	0.68	0.76	-
1999	4.66	14.64	37.94	7.06	27.72	4.01	0.72	0.00	-
2000	2.92	12.99	43.07	5.73	24.80	5.89	0.34	0.63	-
2001	3.03	12.72	39.55	6.53	25.69	6.53	0.56	1.91	-
2002	4.84	12.79	38.96	3.65	23.34	7.13	1.68	1.96	-
2003	3.93	7.69	25.01	4.23	25.71	7.68	2.05	1.31	
2004	3.62	9.13	35.70	5.16	23.30	5.60	2.71	1.54	
2005	4.14	9.58	31.51	6.31	22.26	5.26	2.21	1.24	

Source: Central Bureau of Statistics, 2006

Imports composition (Table 9) is dominated by machinery and equipment, chemical products and transport equipment symbolizing a non-manufacturing economy. Together the imports of machinery and equipment related products account for more than one third of the total imports. The constant increase in the importation of machinery and equipment and transport equipment signals infrastructure investments which augur well for economic growth and for the achievement of Vision 2030. The importation of services is also significant though has been declining from about 25% in 1995 to about 11% in 2005. Over the last eleven years the importation of food products averaged around 7%. This is a significant figure given Namibia's comparative advantage on food production and the fact that 95% of the population still earns their living from agriculture. Namibia imports mostly production inputs, intermediate goods, consumer products and food stuffs mainly from South Africa.

Year	Agriculture and forestry products	Chemical products, rubber and plastic products	Electrical	Fabricated metal products, machinery and	Machinery and equipment n.e.c.	Other food	Refined	Textiles, clothing, leather and	Transport	Services
1995	3.21	8.24	2.67	3.62	7.83	7.95	6.91	6.04	13.71	24.91
1996	3.16	9.05	2.26	3.34	7.38	8.05	6.76	6.45	13.65	25.09
1997	3.90	9.26	2.74	4.14	7.01	8.72	6.86	6.29	11.20	23.23
1998	3.60	9.02	2.56	4.71	8.02	8.04	5.18	5.94	16.30	23.17
1999	3.10	9.15	2.65	3.38	6.25	7.52	6.29	5.62	18.04	23.62
2000	2.42	9.77	3.43	3.80	7.30	7.37	7.86	5.55	14.37	18.71
2001	1.88	12.75	3.14	5.12	10.06	7.38	10.98	5.33	13.89	15.82
2002	2.72	9.96	3.12	4.70	9.08	5.63	9.14	7.32	11.78	13.90
2003	2.57	9.21	2.56	4.58	8.86	5.91	8.95	7.34	10.84	10.00
2004	2.47	12.04	2.66	3.95	8.41	7.12	9.43	6.62	13.05	13.06
2005	2.26	11.21	3.78	3.86	7.50	8.09	12.16	5.06	15.33	10.83

4.10 CAN A COMMON AGRICULTURAL POLICY (CAP) REFORM BE OF ANY BENEFIT TO NAMIBIA?

Namibia is essentially a primary goods exporter. Its main export destination is the UK, Spain, Japan, USA and South Africa. About 80% of these exports are agricultural products. The question is whether the CAP reform involving reduction in trade restrictions such as tariffs, quotas, technical regulations as well as subsidies will be beneficial to Namibia. This depends on the composition of the reform, whether it entails tariff reduction, quota reduction, and a reduction of support to farmers and exporters.

Firstly any trade agreement that would restrict policy options for Namibia is not the best to promote the achievement of V2030. However, this is an EU unilateral policy though it can be challenged under the World Trade Organization (WTO) rules. Developing countries including Namibia need policies that will enable them to export their way out of poverty given that about two-thirds of the poor people live and work in the agriculture sector. Liberalization of the EU's trade policies, especially the removal of subsidies could have positive development effects for developing countries. Furthermore, any major reform of the EU agriculture and trade polices will remove distortions in the global market thereby enabling developing countries to exploit their comparative advantages in agriculture which is one of the most labour intensive industries.

While the reform is generally good for developing countries, it means competition for Namibian products. The question is how Namibia responds to the changes. Given that Namibia has been exporting to the EU it may be ideally to maintain and secure the new export opportunities while minimizing the negative impacts of the reform. Thus it is important for Namibia to maintain its market access within the EU. It is equally important for Namibia to exert all possible avenues to fulfill its quotas. This is essential as it serves to demonstrate the ability to sustain suppliers over time. However, if good export prices could be received from regions other than the EU who have lower SPS standards, thereby requiring lower investment in SPS measures, higher returns could be obtained. This would mean lower production costs and thus it is beneficial for Namibia to explore possible new alternative markets.

Box D Import substitution

It is often argues that the market is the best mechanism for allocating resources and determining investment decisions in nearly every case. While this might be true, empirical evidence has indicated that a laissez-faire approach is not the best policy either. Because of externalities as well as government failure and market failure none can be defended as the de facto first-best policy. The essence of import substitution is that it presents the community with a development opportunity more especially in food production.

Import substitution substitutes externally produced products with locally produced ones and in so doing allows the local community to put their money to work within their boundaries. The notion of import substitution was initiated as a strategy to promote economic independence and development in developing countries but failed due to inefficiency and globalization. Can this notion be an effective strategy to promote national and regional development in Namibia both in terms of employment creation and poverty reduction? As argued by Basu (2005), local economies are often described as a "leaky bucket" with the bucket representing the local regions with money flowing in and out of the bucket. When money earned locally is spent on local products, money will circulate within the bucket. Money will flow in when local products are bought by consumers outside the region and flow (leak) out when consumers within the region source products and services outside the region.

The rational for attracting investment into the local economy is that it will create employment as the money generated will circulate within the local economy through local spending of such income. This process can be strengthened by linking local demand to local supply through the provision of timely and adequate information. Is there potential for Namibia to reduce the importation of food products? Community Supported Agricultural Programs can provide a way for food producers to sell their products locally thereby reducing the leakage from the bucket. With about 39% of the population below the age of 15 years, Namibia is a youthful national and could benefit from domestic trade as a pro-poor strategy. This arises from the proposition that trade is the original human activity which underpins all production and innovations. What is required is a good marketing strategy both by producers and traders. Competition develops innovative businesses processes and growth of business which can then be exported once they have stood the test of local markets.

On its own, import substitution may not seem beneficial as it is difficult to isolate its contribution to economic development. But when combined with poverty and employment creation strategies it can be a beneficiary tool. However, it should be considered that in most cases local producers do not take advantage of the economy of scale as such their products may not be cheaper than imported products.

1.1.2 BALANCE OF PAYMENT

Namibia has run a persistent trade deficit owing to faster growth in imports than in exports. Despite this trade deficit, Namibia has run a persistent current account surplus since the early 2000s because it has consistently run a surplus on its transfer payments. In the same period, Namibia has also run a persistent capital account deficit owing to net outflow in portfolio and other long term investment dominated by pension funds and life assurance. This trend was expected to decline with the introduction of the Namibia Re-insurance Company in 2002 which required institutions to reinsure their risk locally. However, the impact has not been as expected. The persistent capital account deficit has partly offset the current account surplus, leading to an overall balance of payment deficit in both 2003 and 2004.

The consistent increase in capital outflow has prompted government to think of introducing capital controls. Generally, the main causes of capital flight are macroeconomic imbalances and political instability. These are in the form of low interest rates, high inflation rates, high deficits and thus high debts. However, given a higher real interest rate in Namibia than in South Africa, and relatively macroeconomic and political stability, capital flight seems to be determined by other factors. Namibia is a member of the CMA which is one of the oldest monetary unions in the world. Among others, one of the requirements of a monetary union is free capital mobility and full integration of the financial markets of the member countries. Therefore, in Namibia, capital flight seems to be determined by our membership in the monetary union, the attempt to diversify risks and efforts to increase returns for the savers.

5 CONCLUSION AND ECONOMIC REMARKS

Namibia enjoys a relatively stable macroeconomic environment with low and stable inflation and favorable interest rates. This results from its membership to the CMA. The growth of the Namibian economy is dominated by the mining sector which by its nature is capital intensive and prone to external shocks. Efforts to diversify the economy have produced moderate results. Thus, economic growth has not been sufficient enough to address the challenges of unemployment, poverty, inequality and HIV/AIDS facing the country.

• Economic growth is mainly determined by the efficient utilization of existing resources, accumulation of both human and capital resources and the ability to adapt new technology. As the level of education and health improves, it increases growth in the labor force which further generates new products and ideas which in turn underlie technological progress. Apart from efficient utilization of resources, there is a need for efficiency and reliability of economic policies, i.e. efficiency and reliability or stability in the implementation of economic policies. Furthermore, low level of government consumption, sustained high government investment and few market distortions are crucial for economic growth.

• Given that the agricultural and mining sectors continue to be main players in the economy, there is a need to reinforce efforts to broaden the industry base in order to minimize the adverse effects on economic growth through shocks in the two sectors.

• The government has identified the agricultural sector as one of the sectors which can support poverty reduction through employment creation. Given the potential benefits that could be reaped from the agricultural sector, there is a need for a focused market access analysis for Namibian agricultural products. There is further need for due consideration of non-tariff barriers given their prominence in the agricultural sector.

• Given that the agricultural and tourism sectors are the sectors that use the assets possessed by the poor (unskilled labor), are the sectors that are commonly used by the poor and the sectors whose activities are carried out in areas where the poor live (isolated rural areas), it follows that potential opportunities for the sectors to grow should be fully exploited in efforts to reduce poverty and unemployment.

• While it is crucial to limit government spending, it is equally beneficially to maintain and increase public investment both for economic growth and employment creation. Given the complementarity between public investment and private investment, public investment indicates government's confidence in the economy thereby reinforcing private investment. Furthermore, public investment in roads, transport, telecommunications infrastructure and sanitation are capability improving factors which reduce the vulnerability of the poor.

• Given that poverty is closely related to unemployment a focus on pro-employment growth as opposed to general economic growth is required.

• Economic growth will not be sustainable unless it is accompanied by improvements in Human Development. Thus, economic policy should focus on sustaining or retaining and strengthening small and medium enterprises as well as informal sector production. This sector has the potential to generate employment and income for the majority of the population. Given the easy with which it can be run and managed as well as low start up capital required, the informal sector serves as the base of economic activities from which businesses graduate into the formal economy.

• Business retention and expansion. It is often argued that the best way to attract Foreign Direct Investment (FDI) as well as creating job opportunities is to ensure the retention and expansion of current businesses. Therefore, there is need to identify possible obstacles to business retention and expansion while at the same time developing strategies to combat them.

• Domestic trade needs to be encouraged as a pro-poor growth strategy. This follows from the proposition that trade is the original human activity which underpins all production and innovations. Furthermore, before a firm starts exporting its products it needs to satisfy the local demand and then grow beyond the local market to become an exporting entity. Thus, there is need to emphasize the importance of domestic trade in all cities, towns and villages across the country.

• While development is a city phenomenon which is founded through domestic trade and strengthened through openness by learning from the global knowledge pool, protection of infant industries is necessary for an industry to establish itself locally before it can compete in the global market.

• Investment in human capital should be seen as an unemployment reduction strategy. It is often argued that one of the concerns both in attracting FDI and in absorbing FDI benefits is a shortage of skills. Furthermore, the principle of comparative advantage asserts that two parts can be made better off where each specializes in the skill in which that person is most effective. Therefore, if this principle is applied to the unskilled labor force in Namibia, the greater the increase in the skill levels of those with higher skills, the greater the demand for individuals with lower skills thereby leading to a reduction in unemployment rate for the unskilled. Therefore, government should consider investment in human capital as priority number one.

• Unemployment can be increased or sustained by social policies which set minimum benefits for workers whose skill levels are less valuable than the levels of minimum benefits. Therefore, minimum wage, minimum health and workers' compensation benefits and minimum leave requirement may serve as obstacles to the employment of individuals whose skills are less valuable than the minimum benefit level.

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