POVERTY, INCOME INEQUALITY AND ECONOMIC DEVELOPMENT

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POVERTY, INCOME INEQUALITY AND ECONOMIC DEVELOPMENT

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TABLE OF CONTENTS

Preface and Overview

Preface

The fifth Annual Symposium of the Bank of Namibia on the topic Poverty, Income Inequality and Economic Development took place on August 22, 2003 at the Windhoek Country Club Resort. One of the objectives of the conference was to discuss the link between poverty and income inequality and their impact on economic development in Namibia.

It is important to point out that the Bank of Namibia supports and promotes economic policies that help to achieve sustainable economic growth, and which can reduce poverty and improve equity in the economy. On that basis, another main objective was therefore to identify effective policy strategies that assure that the benefits of the growth are shared equally among the population. For this reason, international experts in these fields have been invited by the Bank of Namibia to participate in the Annual Symposium and to share their knowledge and experiences with the view to contribute to the reduction of poverty in Namibia.

Overview and Reflections

Mr. Tom K. Alweendo, the Governor of the Bank of Namibia in his opening speech emphasized the importance of reducing poverty and achieving a more equal income distribution, so that everybody can benefit from economic growth. He emphasised that while, the interest of the Bank of Namibia is to promote economic policies that maintain monetary and financial stability and lead to economic growth, these policy should also be consistent with poverty alleviation and the improvement of equity.

Dr. Anne Epaulard from the International Monetary Fund presented a paper on Growth, Income Inequality, and Poverty Reduction in Namibia . The paper gives an overview of the key economic variables that describe the current status of poverty and income inequality in Namibia. Namibia has one of the highest GDP per capita among the Sub-Saharan African countries, but also has one of the most unequal income distribution in the world. The paper identifies three different scenarios for the evolution of income inequality and growth in Namibia. The plausible scenario, which takes into account a slow reduction of the inequality (the gini-coefficient of 0.63), shows that the annual growth rate needed to half the poverty rate within 10 years is 3.7 percent. These projections appear to be quite achievable. Finally, sectoral policies are believe to be more effective than overall macroeconomic policies in reducing income inequality.

In the paper "Economic Diversification, Income Inequality and Economic Development in Namibia , Prof. Samwel Wangwe from the Economic and Social Research Foundation, Tanzania, addresses the question how strategies that involve economic diversification can be formulated to reach a high and sustainable level of economic growth and simultaneously lead to poverty alleviation and a more equal income distribution. The paper concludes that economic diversification should be implemented on different levels, namely within the same sectors, into new sectors as well as in diversifying exports. Furthermore, Prof. Wangwe identifies productivity as a key contributor towards diversification and advises a shift from low to high productivity production systems. Special attention should be paid to the agriculture, the SME and the informal sector as well as to tourism, manufacturing and education.

Mr. R.L. Ritter (Economist), as a discussant, pointed out that economic diversification is a product of pursuing a policy of wealth creation through competitive advantages. He believes the objective rather should be to pursue competitive advantages and learning clusters within a framework of sustainable development. He further argues that Namibia has a small internal market and its future ability to grow will depend more on growing exports.

Prof. A. O. Akinboade from the University of South Africa presented a paper on Fiscal Policy, Income Inequality and Poverty Alleviation in Namibia . First, The paper acknowledges that Namibia has already made important strides in poverty reduction policies, which can be seen e.g. in the consistent fiscal spending on social services in several areas. The paper also gives a poverty profile of Namibia, revealing e.g. the fact that the vast majority of the poor lives in rural areas, and that the households headed by women are living in poverty more often than those headed by men. It is also affirmed that poverty is more pronounced, especially among the unemployed. The paper suggested that the tax policy could be considered and used as an instrument to achieve a more equal income distribution. A number of policy suggestions are made by the paper, which include the reforms of the school fee system, the health sector and the implementation of a revised social safety nets program. The discussant, John Steytler of the Bank of Namibia, complemented the paper for its detailed analysis on the role of fiscal policy. However, he cautioned that the analysis would be more meaningful if placed in the in the context of the Namibian economy.

Fiscal policy, income inequality and Poverty Alleviation in Namibia

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Unisa, South Africa

About half of the Namibian population lived in poverty at independence in 1990. Forty seven percent of Namibian households were relatively poor in 1994 while 13 percent lived in abject poverty. Income inequality was and is still high, drawn along racial lines, with a small proportion of the population controlling more than half of the nations wealth. There are regional inequalities as well. Khomas, Erongo and Karas are the three most developed regions of the country while the three least developed are the Caprivi, Ohangwena and Kavango in that order. This prompted the government to focus attention at poverty alleviation as a central theme in its National Development Plans and is clearly spelt out in the country s 2030 Vision. The Namibian government set itself twin targets of reducing the proportion of poor households from 47 percent in 1994 to 40 percent by 2000 and reducing the proportion of severely poor households from 13 percent in 1994 to 7 percent by 2000. It was also planned to reduce the inequalities in income distribution between households and regions. By 1998, the proportion of households living in poverty had reduced to 40 percent and to about 35 percent by 2001.

As a result, the United Nations Economic Commission for Africa in 2003 rated Namibia fourth among African countries that have made significant stride in their efforts to reduce poverty. This article discusses fiscal measures that were undertaken by the Namibian government, which contributed to poverty alleviation during this time. Namibia has a large public sector and tax revenue is used to finance the central government as well as regional and local governments. The Namibian government has attempted over the years to address the issue of economic inequalities and poverty more from the public expenditure side rather than on the side of revenue generation.

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SECTION ONE

MEANING OF AND CONCERNS ABOUT POVERTY

1. CONCERNS ABOUT POVERTY

Eradication of mass poverty has been the overarching objective of economic development of policy makers in most developing countries since the time of political independence. Indeed, evidence from colonial rule in many developing countries is overwhelming that the authorities ignored poverty of the people they ruled over and only served their own economic and political interests. The independent governments have inevitably sought to correct the perceived failures of colonial rule by embarking on a structural transformation of their economies and societies. Given the abject poverty of their population and the then prevailing high rates of mortality (particularly infant mortality), illiteracy, extensive under-nourishment, lack of access to health and educational services for most of the population, poverty has been seen as a multifaceted phenomenon, transcending the simple notion of just inadequacy of incomes. Because the colonial era was characterised by economic as well as political exclusion of the people in the colonies, poverty is also hence interpreted as the absence of participatory democracy. Asserting that poverty eradication is the overarching economic development objective, it also appears clear that the independent states saw rapid economic growth and better distribution of incomes as instruments for achieving this objective.

1.1 The concept of poverty

A concise and universally accepted definition of poverty is elusive largely because it affects many aspects of the human conditions, including physical, moral and psychological. Different criteria have, therefore, been used to conceptualise poverty. Most analyses follow the conventional view of poverty as a result of insufficient income for securing basic goods and services. Others view poverty, in part, as a function of education, health, life expectancy, child mortality etc.

Blackwood and Lynch (1994), identify the poor, using the criteria of the levels of consumption and expenditure. Further, Sen (1983), relates poverty to entitlements in terms of the various bundles of goods and services over which one has command, taking into cognisance the means by which such goods are acquired (for example, Money and Coupons etc) and the availability of the needed goods. Yet, other experts see poverty in very broad terms, such as being unable to meet "basic needs" - (physical; (food, health care, education, shelter etc. and non - physical; participation, identity, etc) requirements for a meaningful life (World Bank, 1996).

Poverty may arise from changes in average income or changes in the distribution of income. A poverty index, measured by a particular standard, will decrease (increase) as income increases (decreases). Since higher average incomes are above the poverty line, other things being equal there will be less poverty.

Among the "other things" that are equal is the distribution of income. If we compare for instance, two countries with identical mean incomes (and poverty line), in which one has a wider area of distribution of incomes (that is one with greater income inequality); poverty will generally be greater in the country with higher inequality, since there will be relatively more people with incomes lower than the poverty line. Thus, the distribution of income has an important influence on poverty.

While poverty is traditionally defined as an individual s lack of access to an adequate minimum level of monetary resources, human poverty and its reduction are about the denial of choices and opportunities for living a tolerable life . This expanded definition of poverty is discussed in the 1997 Human Development Report (HDR), and taken further in the 1999 HDR, Globalization with a Human Face .

Poverty is about more than inadequate income. It is about access to and quality of public services vital to the poor such as education, health and water and sanitation. It is about lack of opportunities and fear of harassment. It is also about lack of voice, lack of representation and access to information.

World Bank devoted the "World Development report 2000/2001: Attacking Poverty" to the subject based on new evidences and a deeper understanding of the meaning and causes of poverty. The report argued that major reductions in world poverty are indeed possible. It shows that economic development continues to be central to success in reducing poverty, but that poverty is also an outcome of economic, social and political processes that interact with and reinforce each other in ways that can ease or exacerbate the state of deprivation in which poor people live. Consequently, the report concluded that to conquer poverty requires actions at the local, national and global levels-to expand poor people’s opportunities, empower them, and increase their security.

This paper discusses the important role of fiscal policy in reducing poverty in Namibia. The rest of the paper is organized as follows. Section two presents salient background situation on Namibia and presents a brief poverty profile with the extent of poverty, household as well as regional inequality in the country. Section three on the other hand explains reasons for the persistence of poverty and household inequality while section four examines fiscal policy measures that the government of Namibia has implemented since independence with a view to addressing poverty reduction and income redistribution objectives. Rakner (2002) suggests that the Namibian government has attempted over the years to address the issue of economic inequalities and poverty more from the public expenditure side rather than on the side of revenue generation. In the light of this, the paper will highlight more on the expenditure side of Namibian government fiscal policy. The final section makes some concluding remarks and policy recommendations.

SECTION TWO

2.1 Background information on Namibia

Namibia achieved independence in March 1990 after 70 years of South African rule that replaced the German protectorate established in 1884. The South West Africa People s Organization (SWAPO) that spearheaded the liberation struggle from the 1960s formed the first government of independent Namibia following the December 1989 elections and gained over two-thirds majority in the 1994 Presidential and Parliamentary elections. The 1999 elections were to further increase SWAPO s majority seat in Parliament. Since independence, the government of Namibia has implemented and maintained a liberal economic policy regime that emphasizes investment incentives and a stable macroeconomic environment.

Poverty reduction occupies a central focus in development policy. It is clearly spelt out un the country s development plans as it is in 2030 Vision, that seeks to align Namibia s standard of living to that of developed countries in North America, Europe and Asia. The United Nations Economic Commission for Africa in 2003 rated Namibia fourth among African countries that have made significant stride in their efforts to reduce poverty (The Namibian, 2003). Namibia has a large public sector and tax revenue is used to finance the central government as well as regional and local governments. The central government employs about 80,000 people or about 5 percent of the population (Rakner, 2002). Due to the slow pace of economic growth creating jobs on a sustainable basis, the Namibian government has been reluctant to scale down public expenditure and down-size the public service for reason of possible employment impact.

Table 1: Selected Human Development Indicators in Southern Africa

Country	SADC HPI Ranking	Human Poverty Index (HPI-1)	Probability at birth of not surviving till age 40 (% cohort)	Adult illeteracy rate % 2001	Population without access to safe water 2000	Population without access to health services (1981-93)	Underweigh children under 5 years % 2000	Population without safe water and health services and underweight children % 1981-98
Seychelles		-	-	16.0a	-	1	6	-
Mauritius	12	11.1	4.6	15.2	0	1	16	6.3
South Africa	11	31.7	44.9	14.4	14	25	12	15.7
Swaziland	9	27.3a	70.5	19.7	50a	45	10	35.0
Namibia	7	37.8	52.3	17.3	23	45	24	29.3
Botswana	8	43.6	61.9	21.9	5	14	13	13.7
Lesotho	10	47.7	68.1	16.1	22	20	16	24.7
Zimbabwe	5	52.0	74.8	10.7	17	29	13	21.7
DRC		42.9	47.2	37.3	55	-	31	-
Zambia	4	50.3	70.1	21.0	36	25	25	37
Tanzania	6	36.2	46.4	24.0	32	7	29	22.7
Angola	1	54.7a	49.2	55.8	73	76	28	62.3
Malawi	3	47.0	59.6	39.0	43	20	25	34.3
Mozambique	2	50.3	56.0	54.8	43	70	26	50

Source: SAPRIN (nd). UNDP (2003); a (1998 figure)

Namibia has a relative small population of 1,87 million with high concentration areas in the northern part of Namibia where 60 percent of the total population resides. About 33 percent of the population is urbanised. The annual growth rate of the population is 2.6 percent. Predominantly due to the HIV/AIDS pandemic life expectancy has come down to 43 years. The GDP is currently approximately U$1900 per capita. About 35 percent of the population is unemployed. The literacy rate is above 80 percent. Compared with Southern African countries, table 1 indicates that in terms of human poverty, Namibia fairs better than countries like Botswana, Lesotho, Malawi, Mozambique, Zambia and Zimbabwe. Mauritius, South Africa, Swaziland and Tanzania are however fairing better in respect of some indices of human development.

Using the criteria that households that devote 60 percent of their expenditures to food consumption are relatively poor and extremely poor if they devote 80 percent of their expenditure to food consumption, 47 percent of Namibian households were relatively poor in 1994 while 13 percent lived in abject poverty (Geingob, 2000). Not surprisingly, during the First National Development Plan, the Namibian government set itself twin targets of reducing the proportion of poor households from 47 percent in 1994 to 40 percent by 2000 and reducing the proportion of severely poor households from 13 percent in 1994 to 7 percent by 2000. Additionally, the planned strategies sought to reduce the inequalities in income distribution. Its target was to lower the proportion of households with an income below the average, from 60 percent in 1994 to 50 percent. By 1998, the proportion of households living in poverty was 40 percent, reducing further to 34.9 percent in 2001 (UNDP; 1999, 2003). In 2000 Namibia s Human Development index was 0.601 and Human Poverty Index[2] was 34.5 percent. In other words a little over a third of the Namibian population was living in poverty in 2001 (UNDP, 2001, 2003). However, UNDP (2003) reports that Namibia s Human Development Index was 0.627 in 2001 and that human poverty index increased to 37.8 percent.

2.2 A brief poverty profile of Namibia

2.2.1 Poverty is more pronounced in rural areas

An overwhelming majority of Namibia s poor live in rural areas and depend on agriculture either as farmers with small land holdings or as landless workers for their livelihood. Another group of poor people are the farm or domestic workers. About

2 Human Poverty Index (HPI) is a measure of deprivation in economic provision and is measured by the percentage of people not using improved water supply, percentage of children under the age of 5 who are underweight both which yield a probability at birth of not surviving till the age of 40.

three quarters of the Namibia s poor live in the rural areas of the Northern and North-Eastern provinces that depend on subsistence agriculture, cash transfers, and poorly paid wage employment on commercial farms for their income. The remaining one-quarter of Namibia's poor live in peri-urban households and depend on either wage earnings or self-employment in small businesses or are unemployed. Eighty five percent of consumption poor households live in the rural areas of the country (GON, 2001). Farm and domestic workers that live in the central and Southern regions form the second largest category of poor people in Namibia (NEPRU, 1999). The number of the urban poor seems to be growing, along with unemployment and under-employment.

2.2.2 Women and poverty in Namibia

Women also appear to be an especially vulnerable group. Women head 40 percent of households, and those households are among the poorest of the poor. In rural areas, women s lack of access to productive inputs and the absence of male labour places an additional burden on the time and health of women and children (World Bank 2000). Forty-one percent of female-headed households are living in poverty, compared to 36 percent male-headed households (Geingob, 2000). In urban areas, the incomes of female-headed households are substantially below those of male-headed households. Though women professionals make up 55 percent of the population of professionals and technical workers in Namibia, UNDP (2003) estimates that female earned income (US$4,833) in 2001 was only about half of estimated male earned income (US$9,511), a situation that may further contribute to the predominance of women in the poverty groups in Namibia.

2.2.3 The poor are unable to access short and long term credit

Financial markets play an important role in helping poor households. Access to appropriate financial services increases the coping and self-help abilities of the poor without making them dependent on public support. Financial institutions also have an important role in facilitating the provision and maintenance of shelter, which is a more "lumpy" purchase than food. An individual with access to opportunities for productive investment (such as for example in human capital) as well as finance for such investment can escape poverty in the future, provided the returns from investment are high relative to the cost of finance[3]. Imperfections in credit markets could raise the cost of finance.

3 Financial services have the following functions: (1) Allowing transfer of purchasing power from users with low marginal rates of return to those with high rates; (2) Contributing to more efficient inter-temporal decisions about savings, asset accumulation, and investment; (3) Permitting a less costly management of liquidity and accumulation of stores of value; and (4) Helping individuals to manage economic risks.

The poor for various reasons do not have access to less expensive credit from formal credit institutions such as commercial banks. Land owned could serve as a collateral for obtaining credit. The northern regions of Namibia are highly populated and are composed mostly of poorer rural areas where few rural residents have valid land titles[4]. The Standard Bank in the 1990s considered rural women in Namibia unbankable entities within existing commercial bank framework (von Hotlz, 1991)[5] A lack of credit could prevent the poor from availing themselves of income raising opportunities in agriculture. Confronted with this situation, the poor resort to groups, which extend credit to each other on an informal basis at reasonable cost. Others obtain credit at much higher costs from moneylenders and other such informal sources or forego credit altogether[6]. The potential for climbing out of poverty, through availing of opportunities for investment with high returns, could be lost if the poor cannot get credit at modest cost. Severe credit constraints could dampen realized growth relative to potential growth[7].

In addition, the poor do not have access to long-term capital, especially from the stock market[8], owing to the small nature of their assets. The Namibian Stock Exchange (NSX)[9] was opened in September 1992. The number of companies

4 The functioning of land markets (both for transactions in land as an asset and in land tenancies) matters for poverty alleviation. The high cost of transactions in selling or buying land could lock-in potential sellers from exiting agricultural occupation to pursue more rewarding opportunities in other sectors of the economy. Also buyers, who can use the land more productively might be prevented from entering the agricultural sector, a situation that could have improved their chances of exiting poverty.

5 The Namibian government is planning the implementation of a four-pronged financial assistance programme for the sector comprising (1) Micro Loan Scheme aimed at informal sector businesses, with each loan limited to a maximum of N$20,000 for capital expenditure and N$10,000 for working capital; (2) Credit Guarantee Scheme: the scheme is intended to encourage the commercial banks to lend to small businesses; (3) the provision of seed capital meant to pump-prime the establishment of new businesses that need funds to prove their viability; and (4) Venture capital: through venture capital, small business will be enabled to access both equity and loan finance (ILO, nd).

6 NGO Credit Unions, providing saving, share ownership and loan facilities, are growing in importance, mostly in Katutura and peri-urban areas of the North. In Katutura, the biggest Credit Union is Saam Staan, which has 500 members of whom 95 percent are women, including many single parents, and also runs a housing project (See Marcus and Barden 1992)

7 However, to the extent credit constraints reflect asymmetric information, moral hazard and enforcement problems, the impact of policy interventions to ease credit constraints is ambiguous since such interventions have two effects which go in opposite directions: a positive effect on growth by enabling the poor to invest in high return activities and a negative effect arising from exacerbation of incentive problems that are at the root of credit constraints.

8 Most African capital markets are still tiny, illiquid and fledgling -- especially in comparison with their counterparts in other regions. In sub-Saharan Africa, the Johannesburg Stock Exchange accounts for early 90 percent of the total value of the region's market capitalization (listed shares).

9 The NSX is one of the calmest markets in the region as it benefits from a law that requires Namibian companies to invest 35 percent of their funds in local assets. However, billions of dollars of Namibian funds have been invested outside the country, particularly in South Africa, where there are greater investment opportunities. The outflow of capital from Namibia, mainly to South Africa, is estimated at N$200 million per month.

listing their shares on the exchange has jumped from just one at the launch to some 40 now[10] . Trading in one or just a few stocks often dominates total trading activity. The country s indigenous companies tend to be small and medium-sized. They have so far made relatively little use of stock exchanges, in part because they lack experience and resources for issuing shares, but also because their managers fear losing control after going public.

2.2.4 The poor are to be found among the unemployed in Namibia

Unemployment is another burning social problem in the country, having increased sharply in recent years, from 19 percent in 1991 to 32.9 percent in 1993 and 34.8 percent in 1997. The combined rate of unemployment and under-employment is more than 60 percent (NEPRU, 1999). The economy has produced too few jobs. Most of the unemployed have little education and poor skills, according to 1998-2010 National Human Resource Plan and 38 percent of them are aged 15-24. The problem of unemployment among the ex-combatants who fought for Namibia's independence has been particularly explosive. Efforts to rehabilitate them through a number of Development Brigade Corporation companies, set up specifically for the purpose, failed to alleviate the problem as some of the companies went bankrupt. A total of 9,511 have been registered for possible recruitment by the government or government-affiliated bodies (Geingob, 2000).

2.3 Household income inequality in Namibia

The biggest problem in Namibia is one of income distribution. Namibia's per capita income of $2,220 (1997) was more than four times the average for sub-Saharan Africa and puts it in the league of some lower middle-income East European countries. The figure masks one of the most unequal income distribution patterns in the world. The richest 1 percent of households consume as much as the poorest 50 percent (GON, 2001) and the wealthiest 5 percent of Namibians control close to 70 percent of GDP while the poorest 55 percent control only 3 percent (World Bank, 2000). As a legacy of apartheid, income distribution is also divided along racial lines. The white minority, who own most of the land and major businesses, are in the top tier, with the black majority at the bottom. A World Bank study found extreme income inequality for the country as a whole, with the inequality line drawn clearly between races. The white population, which makes up five percent of the population, along with a small black elite, another one percent, have average

10 In Namibia, the majority of listed companies are subsidiaries of foreign multinationals, and a minority of shares with a local float for domestic investors.

annual per capita incomes of US$16,500, while another 39 percent of the population, blacks who work in the modern sector, have annual per capita incomes of US$750. The rest of the population, all black, has annual per capita incomes of US$85.

Within Southern Africa, Namibia exhibits the worst level of inequality. This is shown in table 3 where Namibia does poorly in respect of all the indices considered. The richest 10 percent earn about two-thirds of the income, roughly 129 times the incomes of the poorest 10 percent who control only about 0.5 percent of the nation s wealth. The Gini index of 70.7 is the highest in the sub-region.

2.4 Regional inequality in Namibia

Table 4 presents a ranking of regions in Namibia by level of human development in 1999. Judging by the country s regional human development indices, Khomas, Erongo and Karas are the three most developed regions of Namibia while the three least developed are the Caprivi, Ohangwena and Kavango in that order. However, in terms of income per capita, the Caprivi outperforms Omusati and Ohangwena. The Government of Namibia is seeking to reduce regional imbalances in human and economic development as stated in the Second National Development Plan. As a part of this process, the government envisions to ensure that fiscal allocations are provided to influence regional development positively and accelerate the provision of basic infrastructure and services for the least developed areas. This regional ranking is subsequently used in this paper as the index for evaluating the impact of fiscal policy on regional income distribution.

In order to redress regional inequality, the government of Namibia launched a decentralization policy which sought to achieve a reduction in the difference between the human development index of the three most developed regions (Khomas, Erongo, and Karas) and the three least developed regions (Kavango, Ohangwena, Caprivi) from 36.6 percent to 20 percent. Also it is planned to reduce the overall Gini coefficient from 0.67 to 0.60 during the Second National Development Plan (GON, 2001).

SECTION THREE

3.1 Reasons for persistence of poverty

3.1.1 Inadequate economic growth rate

Adam Smith drew attention to the importance of economic growth for poverty reduction: "it is in the progressive state, while the society is advancing to the further

Table 2: Stock Market development in Africa

	Market capitalizatiion $ millions		% of		Value traded % of GDP		Turnover ratio: value of shares traded as % of capitalization		Listed domestic companies		S$P/IFC investable index % change in price index	
	1990	2000	1990	1999	1990	1999	1990	2000	1990	2000	1999	2000
Botswana	261	978	6.7	17.5	0.2	0.6	6.1	4.8	9	16	45.6	-6.9
Cote D Ivoire	549	1,185	5.1	13.5	0.2	0.8	3.4	2.6	23	41	-12.1	-25.6
Egypt	1,765	28,741	4.1	36.8	0.3	10.1		34.7	573	1076	24.2	-45.6
Ghana	76	502	1.2	11.8		0.3	0.0	1.5	13	22	-33.5	-50.9
Kenya	453	1, 283	5.3	13.2	0.1	0.7	2.2	3.6	54	57	-27.5	-8.1
Mauritius	268	1, 331	10.1	38.7	0.2	1.8	1.9	5.0	13	40	-6.7	-19.4
Morocco	966	10,899	3.7	39.1	0.2	7.2		9.2	71	53	-7.8	-19.1
Namibia	**21**	**311**	**0.7**	**22.5**		**0.7**	**0.0**	**4.5**	**3**	**13**	**5.3**	**-37.8**
Nigeria	1,372	4, 237	4.8	8.4	0.0	0.4	0.9	7.3	131	195	-10.3	-10.3
South Africa	137,.540	204,952	122.8	200.2	7.3	55.6		33.9	732	616	56.1	-17.3
Tanzania		181		2.1		0.1		3.4		4		
Zambia		291		9.2		0.4		4.7		8		
Zimbabwe	2,395	2,432	27.3	44.8	0.6	4.0	2.9	10.8	57	69	140.6	-24.6

Source: World Bank (2001)

Table 3: Inequality in SADC Countries compared

	UNDP HDI Rank	Income share of poorest 10%	Income share of poorest 20%	Income share of richest 20%	Income share of richest 10%	Inequality measure: 10% richest to 10% poorest	Inequality measure: 20% richest to 20% poorest	Gini index
Seychelles	36	--	--	--	--	--	--	--
Mauritius	62	--	--	--	--	--	--	--
South Africa	111	0.7	2.0	66.5	46.9	65.1	33.6	59.3
Swaziland	133	1.0	2.7	64.4	50.2	49.7	23.8	60.9
Namibia	124	0.5	1.4	78.7	64.5	128.8	56.1	70.7
Botswana	125	0.7	2.2	70.3	56.6	77.6	31.5	63.0
Lesotho	137	0.5	1.4	70.7	53.6	111.8	50.0	56.0
Zimbabwe	145	1.8	4.6	55.7	40.3	22.0	12.0	56.8
DRC	167	--	--	--	--	--	--	--
Zambia	163	1.1	3.3	56.6	41.0	36.6	17.3	52.6
Tanzania	160	2.8	6.8	45.5	30.1	10.8	6.7	38.2
Angola	164	--	--	--	--	--	--	--
Malawi	162	1.9	4.9	56.1	42.2	22.7	11.6	50.3
Mozambique	170	2.5	6.5	46.5	31.7	12.5	7.2	39.6

Source: UNDP(2003)

acquisition, rather than when it has acquired its full complement of riches, that the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state." (Smith (1937).

It generally holds that the reduction of income poverty occurs with growth in average living standards, except in situations where there are large initial income inequalities[11]. Sine independence, The Namibian government has being pursuing a liberal economic policies and has sought to diversify an economy dominated bymining and the services sector. Overall output rose at the robust average rate of 5 percent per year in the first five years after independence in 1990, growth has since slowed. Real GDP grew at an average annual rate of 5 percent between 1991 and 1995, keeping well ahead of an annual population growth rate of 2.6 percent. However, growth slowed in 1996 to a rate of 2.9 percent, dropping further to 1.8 percent in 1997, mainly due to external factors, such as falling commodity prices and adverse climate conditions, as well as declining productivity. Real GDP growth for the period 1980-99 averaged approximately 2.7 percent. For the period 1980-89, average GDP growth was about 1.3 percent compared to the 4.2 percent recorded for 1990-99. However, real GDP growth slowed down to 3.8 percent for the years 1995-99 (Alwendo, 2000). Real GDP per capita recorded an average growth of about 1.9 percent between 1990-99. Thus both real income and per capita real income have shown consistent declines since the period after independence (Alwendo, 2000). Effective poverty reduction will require sustained and higher per capita GDP growth, with strong commitment to expand opportunities and services for the poor.

3.1.2 Investment lags behind savings in Namibia

Early development economists, such as Arthur Lewis (1955) emphasized the importance of savings and the associated accumulation of physical capital for accelerating growth. The main focus of their theories was on savings and investment. It was traditionally presumed that the richer segment of the population would save a greater proportion of their income. It was hence suggested that greater inequality in the distribution of income, with a larger proportion of a given total income accruing to the rich, would augment savings, and hence, investment.

[11] One major study in 1997 by Roemer and Gugerty analyzes data for 26 developing countries in different time periods and finds that an increase in the rate of GDP growth produces an equivalent increase in the income growth rate of the poorest 40 percent of the population - an income elasticity of one.

Now-a-days, it is generally perceived that it is not just the rate of investment in capital (human or physical) but also whether there are incentives for its efficient use across activities and over time that is important for growth.

For a greater part of the period after independence, investment has lagged behind savings. At an annual average of about 25 percent of GDP for the period 1991-99, the savings rate ranks among the highest in Sub-Sahara Africa. Given the savings-investment gap, Namibia has witnessed a constant outflow of capital and a matching current account surplus for a greater part of the period under consideration. Under the Common Monetary Area to which Namibia belongs, savings from any one country can flow unhindered to a member country. The outflow of capital from Namibia, mainly to South Africa, is estimated at N$200 million per month. Gross fixed capital formation as a percentage of GDP hovered around 21 percent for the period. Both private and public investment have been on the decline, though this has been more pronounced for private investment. Two important factors that have contributed to the decline in private investment are the slowdown in government investment and the high interest rates that emerged after the financial crisis in the middle to late 1990s. The increasing savings-investment gap has remained a source of concern for policymakers particularly in the face of high domestic unemployment.

3.1.3 Lack of independent trade policy

Being a member of the Common Monetary Area (CMA), Namibia is confronted with monetary and trade policy decisions that are made for the entire membership of the Common Monetary Area as opposed to policies that take account of country specific situations. Due to the small size of Namibia within the CMA, the country s ability to influence monetary and trade policy is limited and hence, its ability to ensure that CMA member states adopt policies that might benefit the course of poverty alleviation in Namibia. South Africa is the largest economy in the CMA, and largely determines the monetary and trade policy of the group. It is well known that the process of industrialization in South Africa favours extensive importation of capital. When a situation arises where trade restrictions are imposed to protect capital-intensive importable in a labour abundant small open economy, it hurts the poor who have only their labour to sell. First, by reducing the returns to labour and, second, by raising the cost of their access to capital, as compared to a free trade equilibrium. Namibia was successful in 2002 in securing an eight-year infant industry protection from the Customs Union for its pasta, long-life milk and Broiler

Table 4: Ranking regions in Namibia by level of human development 1999

Region	Life expectancy (years)	Adult literacy (%)	School enrolment (%)	Per capita income N$ N$	Adjusted Per capita income Index (HDI)	Human Development
Khomas	56.2	94	87	11,359	4,113	0.730
Erongo	57.5	88.5	80.7	5,423	3,787	0.670
Karas	51.2	88.6	80.5	6,655	3,878	0.649
Hardap	50.7	80.7	81.0	5,945	3,828	0.621
Oshana	53.1	85.4	93.3	1,922	3,331	0.585
Otjozondjupa	53.8	64.0	71.1	3,944	3,647	0.556
Omaheke	50.1	72.0	71.4	3,659	3,614	0.556
Omusati	52	82.5	91.8	1,452	3,207	0.553
Kunene	55.5	64.3	75.3	2,203	3,391	0.540
Oshitoko	49.1	81.9	84.6	1,680	3,271	0.537
Kavango	49.2	73.1	84.3	1,763	3,293	0.520
Ohangwena	52.4	76.0	85.4	1,070	3,073	0.513
Caprivi	39.8	75.4	85.7	1,598	3,249	0.468
Namibia	**52.4**	**81**	**85.0**	**3,608**	**3,608**	**0.603**

Source: GON (2001) NDP 2.Source: GON (2001) NDP 2.

Industry, though the boiler industry is yet to take off (Namibia Economist, 2002). This will boost the manufacturing base of the country, decrease the country s dependence on imports from South Africa and increase employment. Similar country specific trade policy arrangements are needed in sectors of significance to the poorer segment of Namibia.

However, South Africa recently concluded a trade and development cooperation arrangement with the European Union. In essence, this agreement exposes Namibia to a free trade arrangement with the European Union without a corresponding increase in Namibian access to EU market. The level of protection enjoyed by some of the Namibian industries, especially the livestock and dairy products industry, will be reduced as a consequence of this agreement with an estimated annual loss of between N$1.9 billion and N$3.5 billion (Mail and Guardian, 1998). Other estimates suggest that the implication of this agreement could be a reduction of Namibian government revenue by minimum of 8.6 percent (European Research Office, 2002). This will have implications for fiscal spending and eventually poverty alleviation.

3.2 Reasons for household income inequality

Inequality in the distribution of income is the result of the inequality in the sources that generate income (e.g. stock of assets, opportunities for asset accumulations), and any inequalities among individuals in the process that transforms sources to income flows (e.g. returns on assets, failures for whatever reason to avail of opportunities). The functioning of socio-economic -political institutions is at the core of both these factors (Srinivasan, 2001).

The income of an individual (or a family or household of which the individual is a member) at a point in time depends on what that person can earn from current assets including labour. If an individual is categorised as poor in the sense of having an income below a poverty threshold, it means that the person s stock of assets is inadequate. Inadequacy of earnings from current assets does not necessarily preclude the possibility of an individual escaping poverty in the future.

3.2.1 The structure of the Namibian Economy

The pre-independence economy was designed to export Namibia s natural resources to and import consumer goods from South Africa rather than manufacture them locally (NEPRU, 1999). The structure of the Namibia economy hasn t changed very much since independence. Forty percent of the total economy is still controlled or owned by South African interests (Melber, 2000). The three main commercial banks operating in the country are all subsidiaries of South African banks and the commercial agricultural sector is tied to the South African economy through beef exports set up during colonial times.

The fishing industry is overwhelmingly owned by foreign interests! Overall, the country s business community is dominated by South African interests. A situation in which key sectors of the economy are still dominated by foreign interests implies that Namibians only have limited opportunity to earn income from the economy. Structural transformation of the economy is needed to ensure that increased control of the economy rests in the hands of Namibians. Otherwise, the current system might make it much harder to decrease inequality and poverty.

3.2.2 Limited development of small medium and micro-enterprises

Prior to independence, the regulatory environment for establishing and operating small businesses was unfavourable. The procedures for registering businesses were lengthy and the criteria for obtaining the necessary licenses extremely difficult to satisfy. Major regulatory obstacles were experienced in obtaining licenses for retail trade in general and particularly for liquor retailing, the transport of freight and passengers and the operation of hotels and catering establishments. These obstacles served as effective barriers to entry. They shut out all but those few entrepreneurs with the time, resources and contacts to overcome them. The most onerous restriction imposed on business in the pre-independence era was the Roman-Dutch law, which prevented married women from exercising their rights over property and finance. This severely affected the development of the small business sector where the majority of part-time entrepreneurs are women and contributed to widening income inequality.

3.2.3 Skewed provision of public services

At the time of independence, the provision of services such as health, education, utilities were highly skewed in favour of a minority of people. Apartheid rule denied black Namibians access to equal education leading to a severe shortage of skills in the country. Although the Afrikaans, German and English speaking population accounted for only some 13 percent of the population of the 15 years old and above, their share of student population was 30 percent for the secondary and 64 percent for the tertiary. The indigenous population that make up almost 90 percent of total population represented only 32 percent of the tertiary education in Namibia (GON, 2001). In the area of health, less than a third of children were immunized and community outreach services were low in relation to population needs (UNDP, 1997).

Namibia s major health problems include childhood diseases such as diarrhoea and respiratory infections, high rates of maternal and infant mortality, pneumonia, malaria and tuberculosis. But HIV/AIDS has become the leading cause of death, taking as many lives as malaria and tuberculosis combined. It may also be the country's greatest development threat says the UNDP Namibia Human Development Report 1998. Already, life expectancy in the 1995-2000 period is 52.4 years with the AIDS factor, compared with 61.3 years without, says the Joint United Nations Programme on HIV/AIDS (UNAIDS). Worse still, life expectancy may plunge to 40.6 years (with AIDS), in 2000-2005.

3.2.4 Taxation Policy and inequality

The Namibian central government tax structure is based on the Income Tax Act No. 24 of 1981, the sales Tax Act of 1992, the Income Tax Amendment Act of 1991 and the second Income Tax Amendment in 1991. In November 2000, the General Sales Tax (GST) and the Additional Sales Levy (ASL) were replaced by the Value Added Tax (VAT). Few moderate revisions have been effected in the Namibian tax regime since 1990, usually by adjusting the tax brackets and rebates. The Income Tax Act of 1981 has been amended 22 times (Rakner, 2002). Due to the openness of the economy and regional economic integration, the government of Namibia is reluctant to implement a programme of far reaching tax reform, as this might encourage capital flight. NEPRU (2003) criticises this across the board tax rate cut as being incapable of redressing income inequality in the country and that salary increases for workers granted in the 2003/04 fiscal year at a time when pension increases are frozen can increase income inequality in the country.

As the income tax structure is progressive, it benefits the low-income group in Namibia. However, because the system gives farmers and manufacturers very generous exemptions in a situation in which there are no taxes on capital gains, inheritance or on land, some authors argue that the system is regressive and has not been sufficiently exploited as a tool for income redistribution (Rakner, 2002). Tax payers in the mining sector, fishing companies and farmers pay very little taxes in relation to their contribution to the GDP. Mining companies contributed only 2 percent of total tax revenue in 2001 (Namibia Tax Consortium, 2002)

3.2.5 The poor, corruption and public spending

Corruption has many faces. But a common theme is that it hurts the poor disproportionately. When public expenditures meant for the provision of services of particular importance to the poor are diverted, it affects the poor directly[12]. This is because it increases the price for public services, lowers its quality and often restricts poor people s access to basic services such as water, electricity, education, health care and many other key services. If there is corruption in the disbursement of social safety nets like pension, it invariably hurts the poor who depend largely on it to support themselves and their families. It also distorts poor people s relationships with and trust for public officials, pension administrators, staff of the state water, electricity and health services company, the police and people in authority who extort bribes from them. The poor are more vulnerable to extortion and cannot use corruption in their favour. Corruption also hurts the poor indirectly because corruption is an impediment to economic growth[13], reinforces inequality, distorts public expenditure allocation and through many other channels is an obstacle to poverty alleviation.

Transparency International collects data on the perception of corruption, mainly on the basis of private sector surveys. Corruption is defined as the misuse of entrusted power for private gain and ranks from 10 (no corruption) to 0 (highly corrupt). The organization prepares a table annually, which shows the ranking of 91 countries. In general, African countries score low[14]. Only Botswana (rank 26), Namibia (30) and South Africa (38) are ranked in the top 50. Scores below 5.5 are perceived to indicate significant problems with corruption. Namibia scored a CPI of 5.4 for 2000, a slight improvement over the score of 5.3 obtained in 1999 and the only SADC country to have improved its CPI. Based on this ranking, it could be argued that corruption in the Namibian context is not as serious as is obtained in the rest of Africa. It is however close to the threshold of being considered significant. This means that Namibia is still perceived, to a certain degree, to have significant problems with corruption. This is not good for economic growth since evidence elsewhere has proven that corruption reduces private investment owing to higher

12 In South Africa for instance, an estimated 10% of the social security budget is lost due to fraud, theft and inefficiencies. The key shortcomings lie in weak or non-existent auditing and management controls and disbursement procedures. This has especially detrimental consequences for the poor since on average, one pension drawer supports 7 to 11 people with his pension, making it the most important poverty alleviation project in South Africa (Camerer, 1997).

13 Research suggests that corruption deters foreign investment (e.g. Wei, 2000). For a firm, paying bribes is like paying a tax, but then the firm is faced with more uncertainty.

14 Countries such as Nigeria, Uganda, Kenya and Cameroon are found at the bottom.

costs and increasing uncertainty on the part of the investor, and leads to price distortions. It also affects the poor and might retard gains already made in alleviating poverty. It is therefore important to tackle corruption and ensure greater transparency in the disbursement of public funds.

SECTION FOUR

FISCAL POLICY RESPONSE TO POVERTY AND INEQUALITY

4.1 Fiscal Policy to Alleviate Poverty and Reduce Household Inequality

4.1.1 Taxation Policies

Taxation policies could in principle be used as an instrument for effecting income redistribution in Namibia as they affect inter-temporal resource allocation decisions and influence growth. Income or capital gains taxes, for example, could influence the decisions to save and invest and thereby influence growth in the short run and possibly in the long run as well. It is therefore important to examine Namibian government taxation policies since independence.

The following table shows that government revenue as a proportion of GDP is quite high, usually in excess of 30 percent and much higher than the African average of 20 percent. Government revenue as a proportion of GDP is around 11 percent in Uganda, 15 percent in Tanzania, more than 20 percent in Kenya (Kayizzi-Mugerwa, 2002).

Table 5a: Namibian Government Revenue and Grants 1990-2001 (percent GDP)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Recurrent Revenue	32.7	31.3	31.7	30.7	33.4	32.4	34.7	32.6	28.7
Tax Revenue	29.8	27.2	28.4	27.4	30.5	29.3	31.9	29.9	26.2
Taxes on income, profits, capital gains	10.0	8.9	8.7	9.0	11.8	10.8	11.2	10.5	
Sales Taxes/VAT	9.7	9.8	10.2	8.9	8.9	8.4	9.4	6.9	7.2
Taxes on International Trade	9.7	7.8	9.1	9.0	9.3	9.6	10.8	12.1	8.8
Taxes on properties	0.15	0.32	0.28	0.22	0.21	0.21	0.23	0.17	0.15
Non-Tax Revenue	2.8	4.1	3.3	3.3	2.9	3.2	2.8	2.7	2.5
Grants	0.6	0.39	0.35	0.34	0.32	0.19	0.33	0.54	0.60
Other	0.16	0.26	0.28	0.24	0.23	0.23	0.25	0.20	0.16

Source: GON (2001a,b)

The most important source of tax revenue remains taxes on income and profits, which currently accounts for more than 30 percent of government revenue including grants. The progressive nature of income tax structure benefits the low-income group in Namibia since they do not pay taxes at all owing to the tax threshold or they pay less tax than the rich because of the lower marginal tax rate. In order to offset the tax implication of inflation adjustment to salaries from disadvantaging the poorer income groups, the government plans to adjust income taxes by inflation rates and to review the tax rate of the richest segment of the society, which is low by international standards (GON, 2001a)

Namibia relies heavily on receipts from the Southern African Customs Union and this dependence has increased since independence. Therefore international trade taxes as a proportion of government revenue has increased from about 29 percent in 1993 to about 36 percent in 2000 before dropping back to about 30 percent in 2001. These two revenue sources meet the usual requirement of simplicity of collection. Exports and imports are usually bulky and visible, passing through verifiable entry or exit points. Moreover, receipts from international trade originate from the Customs Union resource pool.

Domestic sales taxes or value added taxes are also important in the government revenue pool, though the importance declined from more than 29 percent of total revenue in 1993 to a about a quarter. Value Added Tax replaced General Sales Tax and Additional Sales Levy with effect from 27 November 2000. Three tax rates exist: Zero percent for basic foodstuffs (maize and mahangu meal, which is of benefit to poor households), 30 percent for luxury items (alcohol, jewellery etc.), and 15 percent for all others. Only those companies with a turnover of more than N$200,000 per annum have to register with the tax authority.

Table 5b: Sources of Namibian Government Revenue 1993-2001 (percent Total)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Tax on income and profits	30.1	28.2	26.7	29.0	35.1	33.1	31.9	31.7	34.0
Tax on international trade	29.0	24.5	28.4	28.9	27.6	29.4	30.9	36.3	30.1
Taxes on goods servicees/VAT	29.3	30.7	31.8	28.8	26.4	25.8	26.8	20.7	24.5
Taxes on property	0.9	1.0	0.9	0.7	0.6	0.7	0.6	0.5	0.5
Other Taxes	0.5	0.8	0.9	0.8	0.7	0.7	0.7	0.6	0.5
Non-tax revenue	8.5	11.5	10.3	10.7	8.6	9.7	8.1	8.4	8.6
Grants	1.8	1.2	1.1	1.1	0.9	0.6	0.9	1.6	2.0
Total Revenue and Grants	100	100	100	100	100	100	100	100	100

Source: GON (2001a,b)

4.1.2 Composition of Public Spending

It is crucial to examine the pattern of Namibian government spending since independence with a view to assessing its contribution to poverty alleviation. As stated earlier, the Namibian government has attempted over the years to address the issue of economic inequalities and poverty more from the public expenditure side rather than on the side of revenue generation.

When increases in government revenues are devoted to public expenditures on goods and services (such as education, health, sanitation and hygiene) that are disproportionately consumed by the poor, they could reduce non-income facets of poverty such as poor health, high infant mortality and morbidity, lower life expectancy etc. However, if economic growth results from a shift in public expenditure away from the provision of or subsidies on goods and services of importance to the poor towards public investment in growth promoting infrastructure, it would raise poverty. In this respect, it is not growth per se that is in the source of increased poverty but the mode of financing the investment that led to growth (Srinivasan, 2001).

Namibian government spending since independence has been characterized by a high degree of preference for the social sector in the provision of community and social services. The government is investing heavily in education, training and health and community services, currently more than 49 percent of its annual budget, to correct the imbalances of the colonial past and alleviate poverty and hardship.

Table 6: Ranking of the Namibian Government Expenditure by function/ economic classification 1990-2001 (percent Total)

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2001
A. Community and Social Services	**46.2**	**50.6**	**55.5**	**52.8**	**47.1**	**51.6**	**48.8**	**48.6**	**49.6**	**49.5**
Education	42.9	47.4	46.5	45.8	51.9	51.3	51.4	49.5	46.9	43.0
Health	20.8	19.5	20.0	21.0	20.7	20.6	21.5	22.3	22.1	20.2
Housing and community Amenity	18.0	16.0	16.8	17.6	12.6	13.7	12.4	11.2	13.3	17.8
Social Security, and welfare	12.1	12.1	12.2	10.8	10.8	9.4	9.7	11.9	12.9	14.7
Recreation, cultural Affairs	6.2	5.0	4.4	4.9	4.9	5.0	5.0	5.1	4.8	4.4
B.Gen. Gov. Services	**25.2**	**26.9**	**26.4**	**28.9**	**32.3**	**27.7**	**29.3**	**29.9**	**32.3**	**33.3**
Gen. Public Services	54.3	51.3	52.8	57.7	61.4	50.7	53	46.3	48.5	52.8
Public Order/ Safety	26.7	28.0	26.9	23.7	18.7	23.3	24.8	29.5	28.9	25.3
Defence	19.0	20.7	20.3	18.5	19.9	26.0	22.3	24.2	22.6	21.9
C.Economic Services	**16.4**	**19.6**	**14.5**	**15.5**	**16.9**	**17.0**	**15.4**	**15.2**	**11.7**	**10.6**
Agric. Forestry, Fishing, hunting	24.6	40.1	38.8	40.5	49.7	43.1	46.9	44.2	52.9	54.9
Transport & Comm.	60.8	43.0	42.2	40.3	32.3	41.8	30.6	35.3	12.4	7.0
Other econ. Affairs	12.2	9.1	12.3	13.4	12.6	8.4	16.1	14.4	26.1	29.4
Fuel and energy	0.1	3.9	3.6	3.2	1.7	3.5	3.9	2.9	3.9	3.4
Mining, mineral resources	2.2	3.8	3.1	2.7	3.6	3.1	2.4	4.7	4.7	5.3
Expenditure not classified	**12.3**	**2.9**	**3.6**	**2.8**	**3.7**	**3.6**	**6.5**	**6.4**	**6.3**	**6.6**
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source Bank of Namibia Several Years

4.1.3 Expenditure on education

There is little doubt that education is a priority in any effort to foster growth and reduce poverty. There is a large body of research confirming that education increases labour incomes. In Africa, this is true not only in the formal wage sector, but also in agriculture and the informal sector where Africa s poor are primarily engaged (Glick and Sahn, 1997). Education is also a leading determinant of rural households capacity to enter into remunerative non-farm employment in Africa (Barrett, Reardon and Webb 2001). Because there is a positive relationship between non-farm income and household welfare indicators across most of rural Africa (Reardon 1997), greater non-farm income diversification reduces households vulnerability, allowing more rapid growth in earnings and consumption (Block and Webb 2001; Barrett, Bezuneh, and Aboud 2001). Improved access to education can thus help poorer populations access a positive feedback loop wherein those participating in the rural non-farm economy enjoy faster income growth, thereby providing the resources to plough back into expanded non-farm activity that diversifies incomes (Barrett, Reardon and Webb 2001). In terms of capabilities, education produces important capabilities such as literacy and numeracy. Education has been identified as one of the priority sectors of the government of Namibia since independence. The budgetary allocation to Education Ministries has increased from about 18 percent of total expenditure in 1990 to about 24 percent in 1999, though it has fallen to about 18.5 percent during 2003/04. This is still quite substantial compared with other that low-income countries that spend on average 13 percent of their national budget on education. However, there is still a lot of disparity between white and black education administration budgets (World Bank, 2000).

4.1.4 Fiscal Spending on health care service delivery

Budgetary allocation to medical aid schemes and to the Ministry of Women Affairs and Child Welfare increased substantially during 2001 through 2003/04 fiscal years to take account of government concern for HIV/AIDS pandemic and to cater for AIDS orphans though no emphasis is as yet placed on curbing the spread of the disease which could reduce the financial burden of the AIDS pandemic in the future (NEPRU, 2001, 2003). During 2003/04, government established a N$250,000 fund for Namibian orphans estimated at about 80,000 in number (NEPRU, 2003).

Since independence, the government has aimed to improve health services by shifting resources from curative to preventive care, with emphasis on community-based clinics and primary health care. It now spends 13.5 percent of its budget on health -- the second largest allocation after education in the 1998/99 budget- and it is trying to overcome the urban bias in favour of rural areas and the poor. This has brought significant improvements in health care.

Namibia's expenditures on health were about 4.2 percent of GDP in 2000, a reasonable proportion for a country of its income level. New clinics have been built especially in the rural areas, thus improving access to health services. Access to safe water increased from 42 percent in 1991 to about 90 percent in 1998. Table 6 shows that Namibia performs better than many other countries in the SADC region in terms of public expenditure on the provision of social services such as health and education.

Table 7: Comparative analysis of Government Social Spending in SADC Countries

	Education Expenditure				Health Expenditure	
	Share of GDP		Share of Govt Exp.		Share of GDP	
	1990	1998-2000	1990	1998-2000	1990	2000
Seychelles	7.8	7.6	14.8	10.7	3.6	4.1
Mauritius	3.5	3.5	11.8	12.1	--	1.9
South Africa	6.2	5.5	--	25.8	3.1	3.7
Swaziland	5.7	1.5	19.5	--	1.9	3.0
Namibia	7.6	8.1	19.8	24.1	3.7	4.2
Botswana	6.7	8.6	17.0	--	1.7	3.8
Lesotho	6.1	10.1	12.2	18.5	2.6	5.2
Zimbabwe	--	10.4	--	--	3.2	3.1
DRC	--	--	--	--	--	1.1
Zambia	2.4	2.3	8.7	17.6	2.6	3.5
Tanzania	3.2	10.1	11.4	--	1.6	2.8
Angola	3.9	2.7	10.7	--	1.4	2.0
Malawi	3.3	4.1	11.1	24.6	--	3.6
Mozambique	3.9	2.4	12.0	12.3	3.6	2.7

Source: UNDP(2003)

4.1.5 Social Safety Nets

To alleviate poverty, the Government of Namibia placed strong emphasis on various kinds of income support programmes which include the provision of social pensions for the elderly and the disabled, a variety of grants for children, labour-based works programs, and shelter and housing programmes. Hence social safety nets in the country currently consists of state transfers (social pensions and other targeted assistance schemes) and church, NGO, and donor-based programmes.

The most important public sector program is the social pension (all Namibians over 60 are eligible) and accounts for more than 2 percent of the GDP. In addition to social pensions, the disability grants, and selective child and family allowances are important parts of the safety net. In order to widen the area of coverage the War Veterans Subvention Act was recently passed and makes provision for establishing a Trust Fund for the War Veterans (Geingob, 2000). With N$169 million budgeted for the 1998/99 and N$117 million in 2003/04 fiscal years, social pensions play an important part in alleviating widespread poverty. A monthly allowance of N$200 per month is provided and although this hardly covers basic necessities, a significant number of households, especially in the rural areas, depend on the pensions as their main source of income. However, due to the universality of the programme almost half of the beneficiaries are non-poor (Subbarao, 1996).

The other main public sector safety net is the Remission of Rent scheme whereby residents of municipal housing in townships may qualify for rent exemptions. Eligibility for the scheme is subject to a strict means test, which also determines the amount of the subsidy. By limiting eligibility to households renting municipal housing for at least two months, the scheme is not reaching the poorest of township residents (such as squatters and single residents). It would also appear that the means test is too strict as only 3,348 people benefitted from the scheme in 1991 and as the average subsidy per household is only half the allowable amount.

Social pension injects substantial volumes of cash into poor households and communities. It has stimulated trade and marketing infrastructure, helped stabilize rural food supplies, and reduced vulnerability by providing a 'safety net' against

[15] The Namibian Tax Consortium proposes a small monthly income grant for every Namibian older than 6 years. The automatic targeting achieved by this scheme will overcome the inefficiencies of traditional poverty relief grants. About N$500 million would be re-distributed annually, targeted at the poorest. The reduction in the disparity of income between individuals would result in Namibia s Gini coefficient improving to 0.61(See Namibia Tax Consortium, 2002).

livelihood shocks such as drought. Surveys in South Africa and Namibia have found that pension-dependent households are better off than small farmers. Since eligibility is activated by an age milestone rather than retirement, the incomes of the poor actually increase on reaching 60 years of age. The social pension even lifts many households out of poverty altogether. Increasingly, the pension is providing vital support to relatives affected by HIV/AIDS, with many elderly people fostering AIDS orphans. A positive consequence is that the pension makes elderly relatives economically independent and valuable family members, contradicting the widespread perception that they are financial burdens on their offspring (Devereaux, 2001). However, Subbarao (1996) suggests that the Northern and North-eastern provinces are considerably underserved by all transfer programmes and that the regional asymmetry is pervasive for the disability pension. The main grants for needy children also suffer from regional asymmetry and are heavily urban-biased. The pro-urban and middle class bias appears highest for in-kind programs such as school feeding programs and shelter/housing programs.

The Namibian Social Security Act provides maternity benefits (80 percent of full pay up to a ceiling of N$2400) through a mandatory combined scheme for sickness, maternity and death benefits financed by matching employer and employee contributions.

4.1.6 Affirmative Action and Reform of Labour Laws

The affirmative Action law was passed in 1998. The Act is intended to improve the representation of blacks, women and disabled persons in the formal workforce, by requiring employers with more than 50 employees to prepare affirmative action plans. The Employment Equity Commission monitors the implementation of these plans and is made up in part of persons from each of the designated groups. There must be two persons out of the total of 14 members who represent the interests of women, although only one of these two persons must actually be a woman (Hubbard, 2000).

This has been applied to women who work outside the formal workforce is through the Co-operatives Act. Any co-operative which has a substantial number of women members must ensure that there is at least one woman on its board, as a means to increase the representation of women in management positions.

Some labour law reforms in Namibia aim to remove discrimination and to ensure that women are not disadvantaged in the labour market by their role in childbearing. The Namibian Labour Act prohibits employment discrimination on the basis of sex, marital status, family responsibilities and sexual orientation (amongst other things), and forbids harassment on the same grounds. It also provides for three months of maternity leave for any woman who has been employed for at least one year by the same employer. Working women with incomes high enough to qualify as taxpayers further benefit from the removal of discrimination in income tax law against married women[16].

These reforms obviously have significance primarily for Namibian women in formal employment and are important in poverty alleviation especially in female-headed households.

4.2 Fiscal policy to reduce regional inequality

4.2.1 Fiscal Decentralization in Namibia

There is a growing literature on the importance of the decentralization of public services and the use of social funds to allocate public investments. There is some level of criticism at the efficiency of service delivery when a large part of government resources are concentrated at the level of the central government, skepticism over bureaucratic ineptitude, policy reversals, lack of commitment and ownership, corruption etc. This has led to increasingly focused attention on decentralization as a response, or at least a complement to policy reform measures usually associated with public expenditure reviews. The proximity of policy makers to the target groups reduces information and transaction costs of identifying the poor and helps in designing potentially successful 'capacity improving' and 'safety net' policies. In an economy with significant inter-community (regional/local) variations in preferences, and when there are no significant economies of scale and scope, decentralized provision of public services can enhance efficiency in the provision of these services and result in welfare gains. General improvement in capabilities of poorer regions will require improvement in physical and social infrastructure in these regions[17].

16 Income tax payment to the Treasury is the responsibility of each tax payer irrespective of gender. Tax relief or rebates for dependants (usually children) is no longer operational.

17 In one celebrated study, Ablo and Reinikka (1998) found that local schools received only 20 percent of the non-wage education spending that was budgeted for them in Uganda in 1995. The funds were not misappropriated. They simply disappeared in administration costs. If this is true more generally in Africa, then there is great scope for improving quality by reapportioning funds from central bureaucracies to local institutions themselves. This is the goal of decentralization.

The government of Namibia launched the decentralization programme in 1998 leading to the promulgation of a decentralization enabling act in 2000, providing for and regulating the decentralisation to Regional Councils and local authority councils functions vested in line Ministries. The Regional Councils Act 22 of 1992 was amended in 2000, and provides for the establishment and structuring of regional governments and defines powers, duties and functions of regional councils. The Act authorises Councils to conduct planning for socio-economic development and to enter into joint business ventures for service provision. The Act confers full responsibility and accountability for service provision to Municipalities and establishes the basis of devolving rural development initiatives to Regional Councils. Municipalities are defined by the existence of approved townships and are financially and logistically independent of the National Government. They provide funding for infrastructure and a wide range of social services.

Though Municipalities retain autonomy in planning and budgeting, they still depend on the National Government for financial support to carry out many of the assigned functions. The Regional Development and Equity Trust Fund Act was promulgated in 2000 to make financial assistance for the development of regions and local Authorities and to fund technical assistance for development projects, negotiate business ventures and cooperate with persons interested in the implementation of the decentralisation programme[18]. There are 13 regions in Namibia whose affairs are governed by the Regional Council whose members are elected on constituency basis. The Council elects the Governor and Management Committee from among its members. Each Regional Council elects two of its members to serve in the National Council.

Public spending patterns in Namibia continue to perpetuate existing inequalities. The 1998 Human Development Report demonstrates the inequality of public spending Regional Councils. The relatively wealthy Khomas Region received almost N$200 per resident between 1993 and 1995, compared to N$22 allocated to the Hardap Region per resident and only N$8 to the Okavango Region (UNDP, 1999). In Namibia, the spatial distribution of urban centers is skewed. Most of the urban centers are located in the central and southern parts of the country. The northern regions are highly populated and are composed mostly of poorer rural areas. Few rural residents have valid land titles, they hence pay little land service taxes, thereby providing little financial tax base for regional development. Table 5 shows that while attempts are being made to progressively shift public development

18 See GON,(2001b).

Table 8: Regional Share in budgetary allocation for regional development: Namibia. 2001-2005

Region	2001	2002	2003	2004	2005	Total NDP2
Khomas	23.06	17.16	14.02	14.83	17.18	17.07
Erongo	10.55	11.00	8.75	9.00	12.48	10.60
Karas	7.0	6.72	9.62	9.98	9.23	8.63
Top 3 Regions	**40.61**	**34.88**	**32.39**	**33.81**	**38.89**	**36.3**
Hardap	3.64	3.27	4.57	4.89	5.92	4.65
Oshana	8.36	6.73	7.95	6.99	7.55	7.50
Otjozondjupa	4.63	6.81	6.23	5.22	5.46	5.68
Omaheke	4.77	4.46	6.01	7.38	5.81	5.71
Omusati	5.83	6.34	7.17	6.71	6.06	6.40
Kunene	3.96	3.09	4.44	4.21	4.55	4.11
Oshitoko	8.12	17.88	10.49	8.56	5.29	9.58
Middle HDI Regions	**39.31**	**48.57**	**46.87**	**45.75**	**40.67**	**43.65**
Kavango	6.40	7.35	9.47	8.18	6.76	7.57
Ohangwena	7.22	3.17	4.94	9.04	8.34	6.70
Caprivi	6.46	6.03	6.34	5.01	5.34	5.78
Bottom 3 Regions	**20.08**	**16.55**	**20.74**	**22.23**	**20.44**	**20.05**
Namibia	100.0	100.0	100.0	100.0	100.0	100.0

Source: GON, 2001

expenditures away from the richest three regions, it is only the middle human development index regions that are benefiting from the process. The share of public development expenditure targeted at the poorest three regions remains low. It will therefore be difficult to reduce regional inequality, as planned by the government, to the benefit of the poorer regions.

Advocates argue that if the control of funds is closer to the end users, it is more likely that they will be used to provide quality services because it is easier to hold local officials accountable (Fuller and Rivarola, 1999). As at 2003, taxing authority in Namibia is still centralized and as such revenue mobilization is concentrated at the central government. Under the current system of government, only municipalities have separate taxing authority. Their main source of tax revenue is from the taxation of properties (in major cities) and from various user charges. Fiscal decentralization to local authorities has been on the cards since the early 1990s but has not been implemented (Rakner, 2002).

The World Bank (2002) examined emerging trends and progress in decentralization in Africa[19]. Namibia scored high with respect to political and administrative decentralization but low in respect of fiscal decentralization. This implies that in Namibia locally controlled expenditures do not account for a high proportion of overall public expenditure. Namibia is included in the category of countries where less than 3 percent of public expenditures are controlled by local authorities.

SECTION FIVE

CONCLUDING REMARKS AND POLICY SUGGESTIONS

Namibia has made important strides towards poverty reduction consistent with set objectives over the two development planning horizons. This can be attributed to consistent fiscal emphasis on the provision of social services in the area of education, training and health. Housing, community amenity, social security and welfare as well as recreation and cultural infrastructure are also well targeted. This should be acknowledged and praised. However, since 1996 education spending has declined from about 24 percent of the overall budget to about 18.3 percent in 2003. If this reduction is accompanied by expenditures in other poverty alleviation projects, it may be very well understood! Spending on transport and communication has also declined from about 10 percent of total budget in 1990 to 4.7 percent in 1998 and 0.7 percent in 2001.It must however continue to be borne in mind that fiscal spending in sectors of crucial importance to the poor are in many ways essential for poverty alleviation. Much more could have been achieved if the Namibian economy had grown at the same rate as was envisioned in the National Development Plans. This highlights the importance of vigorously pursuing a policy of economic growth with equity.

Because majority of the poor are women and indigenous people, government has emphasized affirmative action policies, removed impediments to women s full participation in the Small and Medium Scale enterprises and propagated anti-discrimination labour laws with generous fiscal provision for working married women. These measures have contributed to reducing poverty incidence from almost 50 percent to about 35 percent. However, more work still needs to be done especially in equalising women s wages with those of men in the professional categories. Similarly, reducing household inequality will require better targeting of support

19 Despite the fact that decentralization, particularly of public expenditures, is an idea in vogue, its actual application remains patchy in Africa. Too much of Africa s education and health budgets are spent on tertiary services (Sahn and Younger 2000). Likewise, central administration consumes large shares of public spending, instead of local services that confer benefits on the broader population.

programmes to the poor in Namibia. Universal pension provision, across-the-board tax cuts will not reduce household income inequality to an appreciable level.

Despite the progress made in poverty reduction, the poor are still concentrated in the northern and North-central region. Available evidence suggests that much as the government desires to reduce regional inequalities between the richer and the poorer regions, the poorer regions are still not benefiting as much from public development expenditures. Fiscal decentralisation, which could have assisted in reducing poverty incidence further, has not been significantly implemented to complement political and administrative decentralization.

Therefore, this study proposes the following fiscal policy reform measures for Namibia. They have not been listed in any particular order.

5.1 Education Spending Reform

A number of authors suggest the effectiveness and efficiency of education spending in Namibia could also be improved by distributing resources more equitably and spending more on education materials and less on teachers' salaries. Inefficiency is inherent in the multi-tier system (with general administration absorbing 14.6 percent of the overall education budget), and salaries are the biggest item within the context of formal education. Personnel costs of the Namibian primary education budget accounted for about 88 percent whilst personnel costs of the secondary education accounted for about 73 percent of total secondary budget during 1999/2000. Typically government subsidies are also characteristically concentrated in urban areas and in services such as universities, where the beneficiaries are usually not poor. Primary services that benefit low-income households are sometimes neglected in Africa[20].

The Namibia government may wish to consider subsidizing the current costs of education by reducing fees or even providing negative fees, cash transfers to students households, as in the Progresa project in Mexico[21], or in-kind transfers such as school uniforms in Kenya[22]. These transfer payments provide a powerful incentive for poor families to keep their children in school because current income is more valuable to families that are liquidity constrained. The effectiveness and efficiency of education spending in Namibia should also be improved by distributing

20 See Sahn and Younger (2000)
21 See Schultz (2001)
22 See Kremer, Moulin, Mayatt and Namunyu (1997)

resources more equitably and spending more on education materials, as a proportion of total education spending, with a reduced focus on teachers' salaries. Increasing the emphasis put on access to lower secondary education by judiciously expanding strategically-located primary schools, upgrading the skills of all teachers, and improving facilities is recommended. It will also be useful to streamline and reduce the administrative apparatus to release money.

5.2 Health sector development reform

The composition of expenditures on health care service delivery could be improved further by placing more emphasis on prevention and less emphasis on curative treatment. In the past, the government subsidized health services for all -- rich and poor. Structuring cost recovery so that the wealthy and insured pay more would lower subsidies, increase equity, and release scarce resources[23]. The review of studies by Chu et al (2000) also found that public spending on health was progressive though targeting was poorest in transition countries and in sub-Saharan Africa. Other structural problems plague social service delivery in Africa. For example, a disproportionate share of resources going for wage and salary payments, leaving clinics without drugs and basic supplies, and schools without chalk board, books, and benches for children to sit on[24]. There is also the problem of the large share of non-wage expenditures that seems to be absorbed by administration and central bureaucracy, resulting in only small shares of the non-salary expenditures actually reaching the clinics[25]. It is therefore important to improve the allocation of resources that are available to this sector.

5.3 Promotion of Export Processing Zones

Success in alleviating poverty will depend on the extent to which Namibia realises the objective of achieving annual economic growth of more than 5 percent. This is the only sustainable medium term solution to poverty alleviation. It is important for economic growth to be labour using, labour being the most important asset of the poor. Although such zones have succeeded in creating perhaps millions of jobs worldwide, they are often characterized by low wages, congestion, poor working conditions, and exploitation of female labour. In the past, they have also had limited success in generating linkages to the surrounding economy, and in realizing the agglomeration benefits of training, education, technology transfer, and so on.

23 See World Bank (2000)
24 See Sahn and Bernier (1995)
25 See Ablo and Reinikka (1998)

However, their record is improving with zone differentiation and more thoughtful planning, and they can be an important tool in spatially-targeted poverty reduction strategies of developing (and developed) countries. Policymakers need to be aware of the potential problems of severe working conditions, low wages and child labour. While such investments can be important in FDI strategies cognizant of poverty reduction objectives, governments must also properly regulate them without chasing them away. FDI promotion through the Export Processing Zones must address the following concerns: (1) No disincentives to labour employment; (2) Encouraging FDI outside urban centres; (3) Balancing labour market flexibility and worker welfare; (4) Avoiding bias against, and promoting, SMMEs; (5) Enforcing environmental safeguards; (6) Promoting FDI participation in the provision of basic needs; and (7) Broad stakeholder participation in FDI-related policies.

5.4 Fiscal incentives for Affirmative Action Policy

The affirmative Action law was passed in 1998. Fiscal incentives need to be put in place to encourage local businesses and investors adopt gender sensitive affirmative action principles in procurement at both national and provincial levels. It is important to mainstream gender issues into procurement policies at all levels. This will ensure increased patronage of women-owned SMMEs in Namibia an important step in poverty alleviation. This could be in the form of generous tax breaks for large firms that are patronize SMMEs by size of SMMEs and for those that encourage the SMMEs development over say a period of two years.

Tax allowances could also be granted to companies that promote the economic empowerment of indigenous people in Namibia by appointing them into senior management positions.

5.5 Need to remove gender wage discrimination in Namibia

Women in Namibia remain poorer than men and the wage gap between male and female is huge. The government should stress the importance of equal pay for equal jobs and to ensure that women are not discriminated against at the workplaces in terms of the wages they earn.

5.6 Improvement needed in fiscal decentralization and administration

The record on decentralization has been mixed so far in Africa, in part because central governments have been more willing to devolve responsibilities (buy your own drugs; pay your teacher) than the corresponding budget (through revenue sharing, for example). Even if central governments permit the necessary budgetary reallocations, administrative capacity at the local level may be lacking. For example, weak local administration has seriously hampered the implementation of Madagascar s ambitious plan to administer health services though 111 local health districts. However, experiences elsewhere are more encouraging! For example, in response to the Ablo and Reinikka s study showing low share of resources that actually reached local schools, the government of Uganda began to disseminate information both through the media and by posting public spending information at schools and district offices. In 1999/2000, the share of resources reaching local schools had risen to over 90 percent although with delays, manifesting remarking improvement[26].

5.7 Public Spending can reduce regional inequality

Available evidence still suggests that efforts to achieve equity in fiscal expenditure between regions have been weak and are achieving only modest results. The relatively wealthy Regions still continue to receive most of the government spending per resident as compared with the poorer regions. There is a need to correct asymmetry in the allocation of fiscal resources and to ensure increased per capita development expenditure to poorer regions and better targeting of government development programmes to the Northern and North-eastern regions.

5.8 Need for Land Reform

Not having access to enough cultivable land has long been identified as a major factor in explaining poverty of a large segment of rural population. As such, land reform (i.e. redistribution of land to the landless cultivators), as well as tenancy reform (i.e. improving the security of tenure and increasing the poor tenant's share in output), have been seen as an essential ingredient of any poverty alleviation.

5.9 Employment policy modifications

Institutions that govern the functioning of labour markets, particularly labour laws that impede the flexibility and raise the cost of hiring and laying off workers, and enforce relatively high minimum wages, could increase poverty, both by reducing employment in relatively high wage sectors protected by labour laws and by pushing workers into those less well paid sectors outside the ambit of labour laws[27]. There is a need to adopt a modified employment policy in Namibia. Employment policy is widely

26 See Renikka and Collier (2001)

27 See Srinivasan (2001)

regarded as a luxury which only prosperous industrial countries can afford. It is suggested in this paper that employment policy is affordable even in the context of African countries in transition and that it can certainly make a substantial contribution to combating poverty. It supplements government efforts under economic policy to create job opportunities, for example, by enabling the unemployed to acquire skills and, as a result, sustained income to secure a livelihood.

(1) Employment offices could be motivated to improve and expand their job placement services by drawing up special promotion programmes for problem groups. The ultimate goal of the active employment policy is to place the unemployed in jobs. The organisation of a regular, perhaps monthly, job exchange programme can contribute to the success of job placement offices. Where a forum exists for employers and job-seekers to meet with each other, the possibility is there that they maybe able to sign a job contract on the spot. Under this scenario, the unemployed also take an active part in the search for jobs.

(2) Schemes could be drawn up and implemented to assist the unemployed to acquire skills in keeping with labour market requirements. Training schemes for the unemployed could be devised and implemented in accordance with the needs of the labour market. The content of the training courses could also be made to accommodate the expressed wishes of participants as the ultimate beneficiaries of the training exercise.

(3) Incentives could be created for companies to create new jobs, for example with job cheques for young people. The institution of a system of "Job cheques" means that unemployed people are given a cheque from the employment office which any company that creates a new job for them over say a period of two years can redeem at the employment office.

(4) Public employment programmes could also be drawn up designed to integrate the unemployed into the regular labour market in the long term. Experience in other countries has shown that women are the first to leave employment when an economy is going through the transition process. Therefore a special project could be designed for women comprising training and support in setting up micro-enterprises. Furthermore, the disabled, the elderly and young people are disproportionately affected by unemployment. Some measures could be designed to meet their special needs and the needs of the long-term unemployed.

5.10 Alternative Initiatives to support SMMEs

A fiscal incentive could be put in place to encourage successful companies in Namibia to set aside a certain percentage (say 10 percent) of their profit before tax for equity investment in small scale industries. This will be tangential to alleviating poverty through joint ventures and is similar to what is currently in operation in countries like Nigeria where the Association commercial Bankers is taking the lead who are trying to alleviate poverty through the lending window[28]. The Enterprise Africa programme is developing a way for SMMEs to raise funds outside the traditional exchanges through the "private placement initiative". This will enable well-managed, solid, smaller companies in strategic sectors to issue shares or notes to investors with the help of financial intermediaries and should ultimately benefit African exchanges by providing smaller firms with capital until they become large enough to be listed[29]. Namibia could take advantage of this initiative.

Inappropriate regulation creates obstacles to the development of SMMEs by raising the costs of business entry and growth. In particular, regulation and inadequate institutions for property rights and the rule of law create barriers to transition from the subsistence and very small-scale economy to the modern more productive sector. Regulatory costs weigh most heavily on the smallest firms and should be reviewed. Among these are the many cumbersome procedures which often result in long delays in processing permits, licenses and approvals. Processes like those involved in the proclamation and establishment of townships in rural areas still take up to 24 months or more to complete. The small business environment can thus be improved through repeal or simplification of such administrative procedures[30].

5.11 Improved Access to Finance for Development is necessary

Public action is needed in order to overcome market failure in the provision of financial services to poor households. The effectiveness of financial institutions in delivering services that meet these needs can be improved through (1) Facilitating intermediation between informal and formal financial institutions, to increase returns to the depositor and to society, to facilitate transfers, to improve liquidity, and to reduce risk; (2) Increasing coverage of the poor and their specific financial needs; (3) Expanding access for disadvantaged groups, including women and the landless; and (4) Enhancing the outreach and sustainability of financial institutions.

28 See Akanji, (2002)
29 See Iving, (2002)
30 See ILO (n.d)

5.12 Adjusting the Implementation of the Social Safety Nets programme could be useful

The Regional Development and Equity Trust Fund Act was promulgated in 2000 to make financial assistance for the development of regions and local Authorities and to fund technical assistance for development projects, negotiate business ventures and cooperate with persons interested in the implementation of the decentralisation programme[31]. One way to increase local participation and control of fiscal resources is to expand the scope and activities of this Fund to include more social components, along the lines of social funds, which have greatly expanded since their inception by the World Bank in 1987. These funds are generally are used for education, health, and health-related projects (water and sanitation) that are chosen directly by communities. In practice, social fund projects devolve significant responsibility and budgetary control to communities, thereby directly increasing the poor s power over their own lives. Schools and health posts are by far the most popular projects that communities select, suggesting that there is pent up demand for education and basic health services in poor communities. These funds could be implemented in such a way as to ensure improved access by the poor to health, water and sanitation, electricity, education and others[32] .

Because social funds are relatively new, however, studies of their effectiveness are limited[33]. Available evidence suggests that the Northern and North-eastern provinces are considerably underserved by all transfer programmes whereas Khomas (Windhoek) accounts for a disproportionately large number of beneficiaries from such transfers. There is a need to correct this imbalance. Public resources should be to be reallocated to programmes of direct relevance to the rural poor. The possibility of restructuring the transfers must be explored. For social pensions, the government should consider scaling pension benefits to favour the poor. While the Remission of Rent scheme is small, it appears to be mis-targeted, and, with nearly 50 percent of the budget going to administrative expenses, it is also inefficient. The same resources could be better used as direct transfers or to upgrade housing for the poorest of the urban poor[34].

31 See GON, (2001b)

32 In South Africa, the government provides 6 kilolitres of water, 50 kilowatts of electricity and 5.88 kilolitres of sanitiation per month free of charge to poorer households in the Tshawne and Surrounnding areas (See City of Tswane, 2003).

33 See Newman, et al., (2000); Chase and Sherburne-Benz,(2000); Sahn and Younger, (2000).

34 See World Bank (2000).

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