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Growth, Income Inequality and Poverty Reduction
in Namibia

Dr Anne Epaulard

Economic Diversification, Income Inequality and
Poverty Allevation in Namibia

Dr S Wangwe

Comments on 'Economic Diversification, Income
Inequality and Poverty Allevation' in Namibia

Mr R L Ritter

Fiscal Policy, Income Inequality and Poverty Allevation
in Namibia

Dr O A Akinboade

Comments on 'Fiscal Policy, Income Inequality and
Poverty Allevation in Namibia

Research Department, Bank of Namibia

Land Reform, Income Inequality and Poverty Allevation
in Namibia

Dr W Werner

Comments on 'Land Reform, Income Inequality and
Poverty Allevation' and 'Lessons to be learned from other
African Countries Land Reform processes'

Dr Siphon Sibanda



BANK OF NAMIBIA

ANNUAL SYMPOSIUM 2003

**POVERTY, INCOME INEQUALITY AND ECONOMIC DEVELOPMENT
IN NAMIBIA**

Edited by Research Department

' **Bank of Namibia**

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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.

**COMMENTS ON FISCAL POLICY INEQUALITY AND POVERTY
ALLEVIATION PAPER**

RESEARCH DEPARTMENT, BANK OF NAMIBIA

Oludele Akinloye Akinboade's paper examines the role of fiscal policy in addressing income inequality and poverty alleviation in Namibia. The paper provides a fine overview about poverty and inequality in Namibia. It shows that rapid economic growth and better distribution of income are essential for reducing poverty. It also argues that poverty is about more than inadequate income. It is also about the quality of life and the access to basic necessities. Most importantly the author argues that poverty reduction is possible. The author also shows that the Namibian government has made great strides in reducing poverty in Namibia. While the theoretical link between growth, inequality and poverty reduction is well explain, one gets the feeling that the author did not pay sufficient attention to the role of fiscal policy on these variables within the Namibian context. Also some of the facts and figures that the author cited are outdated. Finally the author fails to come up with clear fiscal policy measures that could effectively reduce poverty in Namibia. Some other weaknesses in Akinboade's paper are outlined below.

In part B of his paper Akinboade examines the sources of inequality and poverty and the factors influencing them. Seven sources are identified, namely, poverty and rural areas, women and poverty, inadequacy of earnings from current assets, capital market imperfections, trade policy, unemployment and savings and investment. However the link between some of these sources and poverty reduction are not always clearly worked out. For instance, the section on capital market imperfections argues that stock market development can contribute to poverty reduction. However, the paper does not articulate clearly how stock market development may influence distribution and poverty. It should be noted that stock market in general are associated with those who already have, while the accessibility of the poor to these institutions are rather limited. Perhaps the author should have cited an example in the world where the stock market has significantly contributed to the reduction of poverty.

On the issue of trade policy, the author seems to argue that open policies are generally poverty friendly. Again are there lessons that one could learn from countries that have opened up and experienced reduction in poverty? Some countries (especially in the African context) that opened up rapidly experienced a sharp

increase in the rate of poverty. Is there something to be learned from these countries? Also too much focus on the export of one or two cash crops under a export oriented regime may lead to increased poverty among the majority of the population. On the issue of unemployment in Namibia, the author uses outdated figures. For example, the issue of ex plan combatant has been resolved in the mean time.

Putting it into the Namibian context could have strengthened the second paragraph of the section of unemployment. There is a general perception that wages in Namibia are high by regional standards and that may impact on the competitiveness of the country. What is the trade off between higher paid formal wages and employment reduction? Also the issue of savings and investment in Namibia is not clearly linked to either poverty or inequality. In general the second section of the paper could have been strengthened considerably by more reference to Namibia. Finally on section B it is noted that a number of sub sections, notably B3, B4 and B5 do not contain any reference to Namibia at all.

In section C the author attempts to analyse fiscal policy and poverty in Namibia, but with limited success. As already mentioned in the introduction, the paper established a clear link between growth, inequality and poverty. The paper assumes that increased growth will automatically trickle down to greater poverty reduction. This is not always the case in reality. Further the link between fiscal policy and poverty within the context of the Namibian economy are not clearly articulated. In this regard the paper could have benefited from a comparison of fiscal performance and poverty between Namibia and other developing countries. How effective was Namibia in reducing poverty through fiscal policy measures in comparison with other countries developing countries? How did fiscal policy impact on Namibia s growth performance? One of the key stimulus packages that the author elaborates on at length is the economic processing zone. First it should be noted that the EPZ programme is not solely a fiscal policy issue, but it is to a great extend also a trade and industrial policy initiative. The author attributes great success to the EPZ initiative in reducing poverty. He argues that EPZs tend to attract more investment, which in turn leads to greater output and hence the reduction in poverty. However, it would have been useful if the author could quantify how much the EZP contributed to the attraction of FDI in Namibia, the creation of jobs and the reduction of poverty. One of the important initiatives of Government in addressing poverty is the promotion of small and medium enterprises. Apart from mentioning how much money was earmarked for promotion of SME, the paper is quite on the success of these SME

On taxation, one would have like to see the author's views on VAT and poverty reduction. There are some who argue that VAT discriminates against the poor in favour of the rich. The author also suggest that tax rate of the richest in Namibia are low by international standards. This is debatable, because in rich industrialised societies the returns that the rich get from paying tax are probably much higher than in Namibia. In this regard the effective rate of tax maybe higher in Namibia. Thus, the scope for further increasing tax rates for richer individuals may be not feasible. Also within the context of SADC Namibians are taxed quite heavily.

The author argues correctly that more money should be spent on education materials. However, this should not be done at the expense of lowering the salaries of teachers. This may lead to low moral amongst teacher and may even cause a brain drain. Already in the case of Namibia, teachers feel that they are under paid and many of them have already left the profession for greener pastures. On the decentralisation policy, it is crucial to emphasis that if well implemented it could have a positive impact on poverty alleviation.

