

BANK OF NAMIBIA



*5TH ANNUAL
SYMPOSIUM PUBLICATION
2003*

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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Published by The Research Department of the Bank of Namibia
P O Box 2882
Windhoek
NAMIBIA

ISBN: 99916-61-08-5

Printed by Solitaire Press, Windhoek, 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.

CONCLUSIONS AND ISSUES EMANATING FROM THE SYMPOSIUM RESEARCH DEPARTMENT

CONCLUSIONS

Namibia is one of the richest countries in Sub-Saharan Africa in terms of its GDP per capita, almost four times the average for Sub-Saharan Africa. However, poverty seems to be highly prevalent in Namibia mainly due to the high income inequality (as measured by the Gini coefficient of 0.67). Furthermore, the dimensions of poverty vary by region and it is always more severe in rural than urban areas. It is interesting to note that all the papers presented were in agreement that the Namibian government had made considerable progress in devising policy initiatives aimed at managing poverty reduction and income distribution in the economy. However, empirical evidence indicates that some policy responses were not implemented properly and at times not thoroughly researched. Moreover, the lessons that government should note is that policy implementation is an all-inclusive process that has to be done in a coordinated fashion. In particular, policy makers should pay close attention to specific issues such as objective of policies, timeframe, targets and outcomes.

The following policy issues emanated from the symposium

Globalisation and its impact on poor nations

With the advent of globalization, developing countries are forced to open up their economies and expose their local industries to competition from foreign established companies. In other words, it has become difficult in terms of global trade rules for developing countries to protect their local small industries for too long against foreign domination. Thus the extent to which developing countries could use import substitution policies is currently limited. However, developed countries still protect their agricultural industries by means of subsidies against developing countries exports despite international pressure on developing countries to open their markets. This dilemma has shifted the international trade debate as to whether import substitution could still be a viable option as a industrial promotion policy for developing countries. The consensus here was that selective protection of small-scale industries is still possible and necessary under the global trade rules subject to reasonable period of learning rather than broad-based and indefinite protection.

Against this background, it is suggested that Namibia should explore selective small

scale industry protection policies aimed at import substitution similar to the experiences of China and Vietnam. These countries have successfully reduced poverty by protecting their selected small scale industries and gradually removing trade barriers to expose their local industries to international competition at a stage when they were ready and able to compete.

Fiscal Policy in particular the tax system as a poverty reduction and income distribution strategy

Namibia's tax revenue as a percentage of GDP is currently between 25-30 percent exceeding the IMF benchmark of 20 percent. It is also worthwhile to note that the Namibian government has successfully introduced pro-poor tax breaks to people with earnings below a certain level. This implies that Namibia has less room for raising additional revenue through taxes that can be used for poverty reduction programs. However, a closer scrutiny reveals that the tax system is generous (concessionary) towards corporate (big companies and therefore perpetuating the wealth in the hands of the rich. Similarly, the tax rate on individuals on average declines sharply (or increases slower) as it reaches the upper income bracket (higher earning individuals). This is contrary to what is expected from a progressive tax system.

Besides its tax system, the government could also enhance the procurement policy to promote small scale industries by procuring their supplies from these companies or alternatively only from big companies that have subcontracting arrangements with small scale companies. This implies that Government should use its expenditure to promote growth. Government could also introduce skills and development levies that compel companies to train individuals.

Social safety nets in Namibia

The Namibian government spends a significant portion of its national budget on social services (Health and Education) mainly aimed at reducing poverty. However, the type of safety net programs in Namibia is very few and at times not specifically targeted towards the poor. The most important social safety net program aimed directly at the poor in Namibia is the old age pension, which is at N\$250 per month. Other host of different social safety net programs such as disability grants, selective child and income support, which exist in Namibia, are not known to the wider least fortunate public. The recommendation on social safety nets is that Namibia should explore well-targeted additional social safety net programs aimed at the poor and create awareness on the availability of these programs.

Land and tenure Reform as a strategy for poverty reduction and income distribution

Land reform is widely regarded to play a major role in alleviating poverty in Namibia. It is argued that the patterns of poverty in Namibia mirror the unequal distribution of land. However, in official government documents i.e. NDP2 and Poverty Reduction Strategies, very little is mentioned about the use of land reform as a long term strategy in alleviating poverty and reducing income inequality. Similarly, the progress on land reform has not been very encouraging thus far mainly because of low land acquisition targets set by government and also the lack of sufficient resources set-aside for the purchasing of land. More-over, resettled farmers and affirmative action loan beneficiaries have not been very successful in establishing themselves as commercial farmers due to lack of adequate support structures and after care services i.e. access to loans for livestock, training and skills development, marketing and research etc.

The challenge therefore facing Namibia is to provide the enabling environment for the newly established farmers to succeed and at the same time making access to commercial land easier for prospective commercial farmers from the communal areas. There are various strategies proposed for achieving these twin goals. One of the strategies is to address the tenure reform in non-freehold areas in order to enable farmers to use tenure security for accessing bank credit. Another strategy is also to allow farm workers to participate as co-owners of land based enterprises by forming joint ventures with their employers. Government should also review the current qualifying requirements for Affirmative action loans and resettlement programs to ensure that it is pro-poor.

Another critical issue that was strongly emphasized was the selection criteria for resettlement program. The concept of historically/ previously disadvantage was found to be very broad and inclusive of all, in respect of income levels attained. There is a need to specifically target the current poor people and the unemployed.

Impact of HIV on poverty

Various studies have acknowledged that the impact of HIV-AIDS on different sectors of the economy has a regressive effect on poverty reduction. Moreover, the empirical evidence show that the impact seems to be more severe on smallholder agriculture which relies almost exclusively on family labour, which is one of the most important factor of production the poor people depends on. HIV-AIDS induced morbidity and mortality that constitute a serious threat to smallholder agriculture

through its adverse effects on household demography, productive capacity and food and livelihood security. At the household level HIV-AIDS increases the vulnerability of rural families and communities to food and livelihood insecurity and pushes many of them to impoverishment through loss of young adult on and off farm labour leading to a decline in production; decline in income causing a decrease in food consumption, increased drop-out among school children and poorer health status; dramatic rise in expenditures for medical treatment and transport and funeral costs and others. It is also worth to note the national impact of HIV/AIDS is devastating to all sectors of the economy, as the pandemic reduces the productivity of the labour force in all the sectors of the economy. Given the high levels of poverty and infection rate of HIV-AIDS in Namibia, there is a need to assess the various consequences of the pandemic on the poor people and the economic sectors in the country. Furthermore, there is a need to strengthen programmes and policies aim at reducing the prevalence of HIV/Aids in Namibia.