

*BANK OF NAMIBIA*



*5<sup>TH</sup> 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

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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*



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**BANK OF NAMIBIA**

**ANNUAL SYMPOSIUM 2003**

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

**Edited by Research Department**

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' **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.



**COMMENTS ON "ECONOMIC DIVERSIFICATION, INCOME  
INEQUALITY AND ECONOMIC DEVELOPMENT IN NAMIBIA"**

**R.L. RITTER<sup>1</sup>**

Prof. Samuel Wangwe's paper on: "Economic diversification, income inequality and economic development" describes Namibia's current economic situation, identifies policy gaps and makes proposals and policy recommendations.

Economic diversification is on Namibia's policy agenda since independence. The Bank of Namibia, Annual Report 2002 and Prof. Wangwe's analysis come to similar conclusions about the progress of diversification: "It was found that despite a number of initiatives and policy measures put in place by the Government of Namibia to diversify the economy, this has not yet shown the desired sectoral shift." (BON, p.25)

The same could be said about inequality and poverty. Inequality is still persistent and high as well as poverty.

The question that policymakers must ask themselves today, is why are these policies to diversify the economy not effective? Secondly, what new policy recommendations are made today by Prof. Wangwe and lastly, what could be the missing links?

My function as discussant should not be restricted to a summary of the paper, but rather to highlight fresh ideas and add new ones if possible.

**What is new?**

If one would apply the NDP2 as a benchmark of the most recent policy framework for Namibia one would come initially to the conclusion that the paper by Prof. Wangwe entails nearly all the concepts used in NDP 2. Agriculture, SME-sector, informal sector, tourism, manufacturing and education. All these concepts do appear in the NDP2. However, it is the context that matters not the words as such.

In the paper economic growth is seen as a prerequisite for reducing inequality and reducing poverty. Prof. Wangwe points out that the decline in human development in Namibia during 1996-1999 was a result of insufficient growth. He believes that

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<sup>1</sup> Mr. Ritter is an Economist based in Windhoek, Namibia.



the direction of causality runs from growth to human development in contrast to NDP2, which sees growth as integral part without explicitly pointing out causalities.

Secondly, Prof. Wangwe points out on a number of occasions to shift from a low productivity production system towards higher productivity production system. Productivity is thus seen as a key contributor towards diversification. This view is also supported by a recent study on Namibia's prospects for growth and employment. Productivity growth is singled out as one of the main factors to drive long term per capita growth.

A third aspect touched by Prof. Wangwe is the aspect called institutional economics, meaning to improve the business environment through the efficient and reliable provision of public goods and services. To create confidence in policies through the reduction of risk (actual or perceived) by adhering to policies on the basis of clarity, transparency, legitimacy and predictability. We are good in Namibia to put policies on paper, but we lack often the will and the capacity to implement good policies. The last aspect, which I want to highlight, is the recommendation to build the capacity of enterprises by fostering learning processes and also to remove obstacles to learning processes experienced by SME's. Learning processes and the tolerance for failure creates self-confidence and self-confidence is one building block for risk taking and thus entrepreneurial behavior.

### **What I miss in the debate**

The topic includes not only economic diversification but also economic development. Economic development does not mean growth per se. There is a distinction between growth and development. Growth is essentially an economic concept based on "classical" assumptions such as:

- The use of a single indicator - GDP or GNP per capita - as a measure of development;
- The existence of an homo-economicus maximizing his profits and minimizing his costs;
- The use of the concept itself of "standard of living", in which a non-economic idea (the well-being) is transferred to the field of economic values ("well-endowed");
- The likelihood of a society in which reaching richness and welfare is an objective per se.

If we assume that there is no single path to "development" for all societies in the world, we also have to assume that development must be seen as a whole, in which economic factors exist side by side with a concern for cultural, political, social and ecological aspects of life. Development is thus a process, which encompass several aspects of man's life, from economic security to education, from trust to the right to express divergent political opinions, from a good environment to the possibility of self-determination in choosing one's main priorities in life. Development also means the right to survival of people in different world contexts (synchronic solidarity) and the right of the future generations to live on a healthy planet and ecological healthy country. Development is thus a complex system and growth is only a part of the system. The reason for economic diversification is often the risk of developing a dependence on a primary non-renewable resource of commodity (diamonds). In the case of Namibia diamonds are seen as a long-term risk due to the limited life span of diamond income. We have to diversify into sustainable sectors is the common argument. Sustainability means the capacity of one complex system to persist in the long run, to reproduce itself and, if necessary, to grow without undermining the very properties of factors which have made it a functioning system. Sustainability thus stands on two interdependent legs:

- A physical one (natural resources and energy)
- An organizational one (the ability to solve problems)

Sustainability or collapse follows from the success or failure of problem - solving individuals, teams and institutions. To manage sustainability and complexity is thus mainly a problem - solving strategy.

If diversification was not successful up to now in Namibia, should one adopt new strategies or should one asked oneself to re-look our current thinking or paradigm? Is diversification per se our main objective, or should it be sustainability, wealth creation (with a more equal distribution of income) and development?

From the success and failure of companies we know that diversification for the sake of diversification was more often a failure than a success. Companies who pursued a strategy on core competencies and capabilities, superior market knowledge and constant problem solving, learning and innovation - survived. If we adopt the above lessons learnt to the Namibian economy, we have to forget about diversification as the main objective, but rather see diversification as a possible result of pursuing a policy of wealth creation through competitive advantages. I believe the objective

should be to pursue competitive advantages and learning clusters within a framework of sustainable development. Namibia has a small internal market and its future ability to grow will depend more and more on growing exports. Companies must be competitive (not comparative advantage) and market focussed if they want to survive in the global market. They have to manage the value chain and build strong relationships and gain knowledge about competitors and markets. A good example could be the improved management of the various value chains of the food industry (fish, meat, grapes etc.).

A second paradigm shift I want to elaborate on is the thinking of Prof. Wangwe on the causality between economic growth and poverty reduction and a more even income distribution. We know that new knowledge, creativity (not capital in any form), new institutional arrangements and new technology is the fountainhead of economic growth. We also know from various studies that more than half of growth arises from human sources (human capital) and natural and physical capital account less and less towards growth. This has very important implications for theory and policy. On the theory side one can thus argue that growth is a permissive factor, this means that there is no mechanism that automatically translates growth into greater human development. It is rather vice versa. On the policy side the implications are training and education. If the proposition is that human development promotes growth the causality that growth promotes reduced poverty and lowers income inequality could be questioned. It should be rather obvious that the policy emphasis should be on relevant training, education and the creation of opportunities than growth per se. To add an additional dimension to the above argument within the context of a multi-cultural society (as Namibia portrays) is the issue of cultural diversity. Above it was argued that one should think in terms of competitive advantages and not economic diversification. If we see cultural diversity not as a liability but as an asset within the context of human development we shift the "diversity" issue from the end of the equation to the beginning of the equation. If we see different ways of life, different ways of thinking and different ways of looking at the world as a source of creativity, we surely can view Namibia's cultural diversity as an additional source of human development.

The last issue I want to elaborate on is the phenomena of persistent income inequality. If income is the fruit of economic activity, and if the market rules who gets more or less income, surely we have to critically reflect on the market as a "moral place". No system, be it economic or political, can survive if it lacks legitimacy or stays in imbalance (income inequality). The question that then arises is how can we

have an economy that enhances a distribution of income? I believe that answer lies more in a re-definition of our core values and the purpose in our lives.

Fundamentally economic or business activity means "creating value" by way of producing commodities and consumables to satisfy human needs. Since any reasonably efficient economy functions on the principle of the division of labor, it is out of necessity governed by the rules of social interaction and distribution of profit. Socio-economic "value-creation" can thus be understood as a practice which has always been based on moral values and norms and that is inescapably founded on certain ideal concepts of the good life and just co-existence between individuals. We therefore have to be fundamentally be concerned with the fundamental consideration of the meaning and purpose of human existence and the moral principles on which economic activities are based.

A very unequal distribution of income requires thus moral and thus ethical dimensions as a normative framework. We must see society not as inner part of unencumbered economic rationality and economics as such, but rather economics embedded within society guided by a normative framework based on ethical reflection.

We must become a caring and inclusive society with less ethnic division and more time and resources for the elderly, poor, disabled, Aids-orphans and less fortunate children.

