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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

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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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## **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.



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

**SAMUEL WANGWE<sup>1</sup>  
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**1. INTRODUCTION**

The main theme of the symposium addresses the challenges of economic development with concerns for poverty reduction and improved income distribution in the economy. The analysis of inter-linkages between poverty, income inequality and economic development leads to the important question of designing and formulating development strategies that are capable of addressing the twin objectives of development with poverty reduction and better income distribution. This paper brings into the debate challenges of economic diversification as one possible strategy of development .

This paper attempts to raise questions relating to the appropriate diversification or niche market strategy for Namibia that will sustain high rates of economic growth that would be consistent with poverty reduction and more even income distribution. The strategy to be adopted must be able to identify channels that can be used to attack poverty and reduce inequalities. The paper will attempt to throw some light on the challenges of choosing a development strategy for Namibia with special attention to the role of economic diversification as compared to the role of comparative advantages as a strategy for fighting poverty and inequalities.

After this introduction, section 2 reviews the current status of the structure of the economy and human development. The section presents the current status of economic structure and employment, poverty and human development and inequality. Section 3 addresses the concept of economic diversification and related policy interventions in Namibia. Section 4 examines principles and policy proposals for bringing about pro-poor economic diversification in Namibia. Section 5 is the conclusion.

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## **2. THE CURRENT STATUS OF ECONOMIC STRUCTURE AND HUMAN DEVELOPMENT**

### **2.1 Economic structure and employment**

Namibia is endowed with rich natural resources such as minerals (largely diamonds), fish and landscape for tourism. Mining contributes 10 percent of the GDP and employs 6,600 workers (1.6 percent of the total employment). Wages and salaries in this sector are generally high due to high degree of unionisation leading to distortions in the labour market. Small scale mining remains weak and unassisted. The establishment of the Small Miners Assistance Centre is expected to strengthen this sector through improved marketing and enhanced productivity (e.g. by adopting more productive technology).

The industrial, agricultural and other key sectors of the economy remain underdeveloped. The manufacturing sector contributes about 10 percent to the GDP and employs 26,000 people (some 6.5 percent of formal employment). Manufacturing activities are mainly based on inputs from the agricultural and fishery sectors. Historically, Namibia has been a supplier of raw materials to South Africa and the outside world and most exports went to South Africa. Exports consist of primary commodities which are subjected to deterioration of terms of trade while the reliance on primary commodities hampers economic growth and employment creation and puts pressure on the natural resource base and the environment. The wholesale and retail trade contributes some 9.4 percent to the GDP with most of the large retail businesses owned by South African companies.

The majority of the indigenous population (about 70 percent of the population) do not own land (NDP2). However, they occupy 41 percent of the country and they are mainly involved in small scale subsistence farming using traditional methods of cultivation. The fact that they do not hold land titles hampers access to credit as well as investment and productivity. Around 800,000 cattle from these areas are excluded from being exported to overseas markets because of inadequate veterinary services (NDP2).

The growth of GDP has largely originated from the mining sector which is capital intensive employing small proportion (less than 2 percent of the labour force). After independence the largest source of growth of formal employment has been government. However, the expansion of government is not a sustainable source of employment. According to NDP1, the main sources of new productive employment were to come from fishing, manufacturing, construction, tourism and trade as well

as from the productive activities in the informal sector. The labour market is associated with several inherited constraints such as a limited skill base, high wages and uncompetitive formal labour market and discouragement of informal businesses. Informal sector employment accounts for some 25-30 percent of the labour force. According to the National Labour Force Survey of 1997 the rate of unemployment in the narrow sense is 19.5 percent and 34.5 percent in the broad sense (including those who are not actively seeking employment). Lack of access to credit, technical and managerial services continues to constrain self-employment. The structure of employment is characterised by some 40 percent formal sector employment. Urban areas are dominated by modern sector activities while rural areas are dominated by the informal sector including subsistence farming. In urban areas most households derive their incomes wages and salaries (75 percent), and from businesses (8.6 percent) while in the rural areas most households derive their incomes from small scale farming (42.4 percent), wages and salaries (28.3 percent) and pensions (9.7 percent).

The role of SMEs in employment and income generation is significant for the majority of Namibians. The place of the SMEs in the economy of Namibia is quite significant. Estimates of employment differ from one source to another but the main point made by all of them is that SMEs generate considerable employment and incomes in Namibia. For instance, the Commonwealth and NNCCI report (cited in Erastus-Sacharia, Hansohm and Kadhikwa, 1999<sup>2</sup>) these enterprises employ some 16,000 people per year as compared to 3000-4000 persons employed every year in the formal large scale sector. A World Bank Report puts total employment by these enterprises at 150,000 (cited in Erastus-Sacharia et al 1999). Even if some sources show somewhat lower estimates, they all indicate that the significance of SMEs in this respect cannot be ignored. This situation presents the case for nurturing entrepreneurial development and creating conditions for developing a diversity of businesses. As regards nurturing entrepreneurial activities and SMEs initiatives have been taken to put in place the Policy and Programme for the Development of SMEs. To this end industrial parks and SME modules have been built in various parts of the country.

The budget as a tool for development is being improved by institutionalising MTEF

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<sup>2</sup> Anna Erastus-Sacharia, Dirk Hansohm and Gerson Kadhikwa. Small Enterprise Support Institutions in Namibia. NEPRU Research Report No. 7 February 1999.

with priority being given to allocating public resources strategically to stimulate economic growth and development, to reverse the negative impact of HIV/AIDS, to reduce the size of the public service, to reform state-owned enterprises and to support the manufacturing sector with the Special Industrialisation Programme (MTEF 2002/3-2004/5).

## **2.2 Poverty, human development and inequality**

Classified as a lower-middle income country Namibia still has large inequalities in wealth and income. Income distribution is highly skewed with a Gini-coefficient of 0.67 (NDP2)<sup>3</sup>. The richest 10 percent consume 44 percent of total private consumption and 65 percent of total income. There is a large gap between urban and rural living standards a factor which accounts for the large rural-urban migration. The inherited structure of economy and employment reflected a dual society with a few rich population mainly white and the bulk of low income population mainly Africans.

The dimensions of poverty vary by region. About 85 percent of the consumption-poor households are located in rural areas making their living largely from subsistence farming primarily in the Northern and North-eastern communal areas (NDP2). Poverty is closely associated with environmental degradation as poor households are concentrated in areas which are currently under high environmental pressure. The majority of the poor are engaged in subsistence farming and as farm and domestic workers. About 4000 commercial farmers occupy 44 percent of Namibia's land surface while 95 percent of the nation's farming population live on 41 percent of the total land area largely in communal lands which are generally of poorer quality.

Little attention was given to the development of human resources. The colonial policies had created a dual economy with one part of the economy being associated with high levels of poverty, low level of human development, cheap labour for foreign companies and landlessness among the indigenous population. The bulk of the indigenous population has limited access to education and knowledge and capital hampering their participation in private business. For instance, while the Afrikaans, German and English-speaking population account for 13 percent of the population of 15 years of age and above, they constitute 64 percent of all students

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<sup>3</sup> GRN. Second National Development Plan, 2001/2-2005/6. National Planning Commission, Windhoek.

in tertiary education. In addition, the historically privileged are more likely to go to higher quality tertiary education institutions. In general the distribution of national assets has been associated with deprivation on the part of the indigenous population.

Poverty rates as measured by various indicators of human development can vary considerably across countries with similar levels of income. Namibia has lower levels of human development indicators than its level of income would permit. For instance, the income per capita of Namibia is higher than that of Cuba and slightly lower than that of Malaysia but both Cuba and Malaysia have much higher levels of human development. The population below the poverty line of \$1 per day is 34.9 percent in Namibia compared with less than 2 percent in Cuba and Malaysia (UNDP, 2003). The status of human development in Namibia is low relative to its level of income. The human development index has been estimated at 0.627 for year 2001 ranking 124th among 175 countries (UNDP, 2003). In terms of income per capita (PPP US\$), however, Namibia ranks much higher by 59 points (i.e. ranks 65th). The rank in terms of income per capita minus the rank in terms of the human development index is  $-59$  which is one of the highest in the world only bypassed by South Africa (-64) and Botswana (-65). Based on what other countries of similar levels of income have managed to do, it can be suggested that with its current level of income Namibia could achieve higher levels of human development.

Namibia's NDP1 had poverty reduction as one of its development objectives. Midway through the implementation of NDP1, the Government of Namibia took the initiative to formulate an Integrated Poverty Reduction Strategy (PRS). The PRS has three areas of concern: fostering more equitable and efficient delivery of public resources, accelerating equitable agricultural expansion and non-agricultural economic empowerment (with emphasis on informal and self-employment options). The National Poverty Reduction Action Plan for 2001-5 (NPRAP) has been designed in the context of the NDP2 and its Public Sector Investment Programme (PSIP). The NPRAP demonstrates the holistic and synergistic response that GRN is making towards poverty reduction with clear objectives, targets, implementing agencies and monitoring indicators.

Poverty seems to be an obvious phenomenon but its definition has been a subject of considerable debate. At least four approaches to the definition of poverty: the monetary approach, the social exclusion approach, the capability approach and the participatory approach. It has been pointed out that each of the four approaches is

a construction of reality, involving numerous judgements which are not always transparent (Laderchi, Saith and Stewart, 2003)<sup>4</sup>. It has been shown that the different approaches have different implications for policy as well as for targeting and hence for poverty reduction strategies. The policy implication here is that poverty must be defined broadly suggesting that the proposed strategy for addressing the poverty problem must also be inclusive of the disadvantaged majority and must address the dimensions of incomes, human development and capabilities and participation.

There are two ways the poor could improve their standard of living: through income redistribution from the rich and through overall growth whereby the incomes of both the poor and the rich could rise. According to Ravallion and Chen (1997)<sup>5</sup>, on average, growth has been more effective in reducing poverty than redistribution. They found that fast growth went with fast poverty reduction and fast contraction went with increased poverty. In fact, the decline in human development indicators in Namibia during 1996-99 has been attributed to insufficient growth (at 2.5 percent) during this period aggravated by the impact of HIV/AIDS on life expectancy (NDP2). Economic growth directly reduces income poverty of households creating conditions for increasing savings and government revenue which are needed for making investments in human development. The development debates in the 1990s have focused on the need for economic reforms, the need for strong institutions and governance and the need for social justice. Relatively little attention was paid to the structural constraints that impede economic growth and human development (UNDP, 2003)<sup>6</sup>. The quality of the factors contributing to growth requires fundamental attention if poverty is to be reduced and a better quality of life attained by all (Wolfenshon, 2000)<sup>7</sup>.

A major challenge of development in Namibia is to broaden the ownership of national assets with a view to empowering the historically disadvantaged Namibians and diversify the economy. Economic diversification should be guided by the need to broaden the sources of incomes, accelerating growth and shifting the pattern of economic growth in favour of the poor and disadvantaged groups in

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<sup>4</sup> Laderchi, C.R., R. Saith and F. Stewart. Does it Matter that we don't Agree on the Definition of Poverty? A Comparison of Four Approaches.. QEH Working Paper Series No. 107, May 2003.

<sup>5</sup> Ravallion, M. and S. Chen. Distribution and Poverty in Developing and Transition Economies: New Data on Spells During 1981-93. World Bank Economic Review, 11, May 1997.

<sup>6</sup> UNDP. Human Development Report, 2003. Oxford University Press, New York, 2003.

<sup>7</sup> Wolfensohn, J.D. Foreword to World Bank The Quality of Growth, Oxford University Press, 2000.

society. Taking into consideration the imperatives of globalization and competitiveness, such a strategy will need to be implemented in the context of such an environment.

### **3. ECONOMIC DIVERSIFICATION AND POLICY INTERVENTIONS**

#### **3.1 Economic Diversification: the concept and strategy**

Diversification can be conceptualised in terms of a strategy for improving the stability and earning capacity of exports or in terms of increasing the range of high productivity activities in the economy. Diversification has often been accompanied by the process of industrialisation associated with the production of high value goods and local processing of raw materials with a view to adding value and therefore incomes. The strategy of diversification has therefore been pegged to the problem of instability of incomes or exports, overconcentration and overdependence of exports or sources of incomes in general.

The strategy of diversification can be three fold. First, it may involve diversification within the same sector such as agriculture by shifting to high value products or attain higher levels of productivity for the same products. Second it may involve processing of low value primary products with a view to increasing value. This would entail industrialisation and utilisation of improved technology in the production of manufactures and processed goods. Third, it may involve export diversification. In all the three strategies, diversification would require that the right conditions be created for local initiative and enterprise to flourish. This may require substantial resources but considerable progress can be achieved through policy changes.

The development strategy led by economic diversification is buttressed on the expected role diversified industries in bringing more resources into the economy, widening the tax base and increasing avenues of support for development projects and programmes such as roads, schools, community services and small and medium size businesses. There is a case for formulating an appropriate economic diversification strategy which is consistent with a high level of economic growth, poverty reduction and reduced inequalities. The proposed strategy is supposed to identify channels and instruments which can be appropriately used to manage economic growth in such a way that the pattern of growth incorporates poverty reduction and income distribution in the economy in a dynamic context. The implication is that economic diversification should be consistent with the growth of the sectors and activities in which the poor are actively engaged with a view to

bringing about less income inequalities as the economy grows.

### **3.2 Policy Initiatives in Namibia**

According to the NDP2, economic diversification is one of the major concerns for development in Namibia. In the context of diversification, the NDP2 has indicated major objectives such as:

- strengthening and diversifying the agricultural base to ensure food security and resilience to changes due to seasonality, environment and economic conditions.
- Ensuring that poor communities broaden their income base through diversification (e.g. by participating in tourism).
- Building a critical mass of competitive SMEs
- Expanding labour intensive public works programmes

The strategies to be adopted include establishing a framework for the promotion of investment and industries in rural areas and assisting rural communities to establish community based tourism projects. As regards non-agricultural activities, initiatives are to be taken to identify the feasibility of manufacturing, service industries and other value adding activities building on comparative advantages of regions and the availability of local resources. On the ground, however, achievements have been at best modest due to various challenges of implementation.

## **4. PRO-POOR ECONOMIC DIVERSIFICATION: GUIDING PRINCIPLES AND POLICIES**

### **4.1 Diversification for inclusive growth**

In the concrete situation of Namibia, where the majority of the poor are engaged in low productivity and low income agricultural activities and SMEs, diversification must mean shifting to more productive agricultural activities and creating non-agricultural employment opportunities that can provide for alternative higher incomes to the poor. The growth pattern must be characterised by a significant presence of sectors and activities which are inclusive of the poor and disadvantaged groups in society. In the case of Namibia the economic diversification strategy should ensure higher levels of productivity in SMEs operations which influence lives of the majority of the people in the Namibia. SMEs deserve high priority in the diversification strategy.

#### **4.2 Diversification and broad based participation**

Economic diversification which can bring prosperity and therefore poverty reduction occurs when all the players in the development sphere have the right incentives. The way forward must be to create incentives for effective participation for the trinity of governments, donors and individuals (private households and businesses) (Easterly, 2002)<sup>8</sup>. This suggests that diversification away from low productivity monoculture production systems towards higher productivity and more broad based production systems requires mobilisation of major socioeconomic agents to formulate and implement diversification programmes.

#### **4.3 Diversification beyond static comparative advantages**

In a competitive environment the process of diversification must take account of the competitiveness of the new diversified activities. Economic diversification strategy must take into account comparative advantages but its main thrust is to create new comparative advantages. Consistent with the principles of competitiveness, the basic SME development strategy will aim at developing enterprises that can compete nationally and regionally and seize opportunities offered by the globalization process while also withstanding its threats. To the extent that the country has resources which are not fully utilised, the strategy will start with identifying and effectively mobilising and utilising existing resource endowment and comparative advantages as a basis for creating competitive advantages which are more consistent with an investment driven economy and progressively transform into a technology driven economy. As the national economy exploits its comparative advantages based on its resource endowments, its structural base for competitiveness should be changing towards investment-driven economic growth and proceed further into technology-based economic growth. The strategy of economic diversification is therefore not inconsistent with comparative advantages but it must make use of existing comparative advantages as a stepping stone towards creating new comparative advantages driven by investments in new areas and technology adoption in those areas.

A first step in the formulation of an economic diversification programme must therefore start with the preparations of sector profiles in which structural constraints to the development of the sectors would be identified and the supply conditions

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<sup>8</sup> Easterly, W. *The Elusive Quest for Growth*. MIT Press, Cambridge Massachusetts and London, 2002.



would be examined. The sector profiles should also establish the extent to which the poor are engaged or can be engaged in the activities of the sector, understand the market conditions and establish requirements for developing the respective sector with a thrust on inclusivity of the poor.

#### **4.4 Needs of SMEs**

The kind of support the SMEs need is reflected in their views on the key problem areas. In a survey of SMEs support institutions indicated that the most important problem areas are demand (related to quality and marketing), access to finance, business training, deficiencies in business support, government policy and legislation and information (Erastus-Sacharia, Hansohm and Kadhikwa, 1999). In general, the majority of the poor are endowed with unskilled labour but they have limited access to other key resources and assets which are needed for development. In this context, access to land, capital and upgraded skills is essential. Upgrading the skills of the rural poor, enhancing their access to financial services and accessing infrastructure including work premises deserve high priority.

#### **4.5 Towards competitiveness in SMEs Development: direction of action**

The right incentives will need to be offered to SMEs and a conducive institutional framework put in place but these will need to be complemented by more direct interventions to build capabilities of various actors especially those who have been disadvantaged. Competitiveness in SME development can be attained through actions at three levels.

First, sound macroeconomic policies. Diversification is likely to be successful if sound policies to support the SMEs development are put in place.

Second, a conducive institutional framework creates the potential for the SMEs operations to be efficient and competitive. Institutional capacity building is necessary to support and facilitate the efficient working of the market and to create markets where they are missing. These institutions can be categorised into public institutions, the private sector organisations and public-private partnerships (PPP). The strategy for public institutions will ensure that their role is to improve the business environment, making markets work more efficiently and reducing risk (actual and perceived), by doing at least four things: (i) create confidence that the policies will remain stable based on legitimacy and predictability; (ii) ensure transparency and clarity of the rules of the game for public-private interactions, with systems in place to ensure that public officials refrain from arbitrary action; (iii)

ensure that a judicial framework for monitoring and enforcing private-to-private contracts is in place and that it complements the existing private mechanisms for dispute resolution; and finally (iv) ensure that public institutions develop the capacity to deliver public goods and services to the private sector with a high degree of reliability and efficiency.

SMEs are often too scattered to have influence in policy making. They need to be encouraged and facilitated to organise themselves institutionally in the form of associations or other forms of collective action so they can have voice.

Public-private partnerships (PPP) are now accepted as essential vehicles for producing socially essential goods and services whose marginal costs may exceed marginal revenues. Such goods and services may help existing markets to work better, or missing markets to emerge. It is recommended that a strategy for enhancing PPP should be formulated with high priority given to investments in infrastructure, social service delivery, technology and delivery of financial services.

Third, productivity is achieved through enhanced enterprise level capabilities to create valuable goods and services, using improved methods of production and an improved micro-level business environment which meets the business requirements of firms. The player in achieving economic growth and social equity is an SME that has the capacity to formulate effective strategies, develop effective organisational structures to support those strategies, and develop competence in production and marketing. To assist SMEs in achieving these goals, effective support services comprising training, consultancy and advisory services, marketing services, technological services, information dissemination and promotion of business linkages, etc., are critical. The main reason for using supportive services is to build the capacity of enterprises by fostering learning processes. The learning processes may occur through private learning mechanisms, for instance by hiring experts, through in-house training, or through in-house R&D activities. The learning processes may also be facilitated by collective technical support services which may be supplied as public goods by NGOs, government, donors or business associations

The strategy for supporting SME development is two pronged. The first element is to remove obstacles to learning processes by enterprises. This can be done by taking actions such as relaxing restrictive practices that inhibit the flow of information from the rest of the world to the region. The second element is to actively take the initiative to support learning processes by enterprises. This can be

done by taking action to promote learning obtained from study tours, trade fairs whereby enterprises learn from the experience of others. Action could also be taken to introduce mechanisms for matching grants foster learning by individual enterprises (e.g. tax deductibility and partial refund of costs incurred on training and business travelling).

Consistent with poverty reduction strategies that Namibia has adopted, the strategy of empowering small businesses is expected to achieve productivity increase and build competitiveness, create decent jobs, facilitate social mobility and meet requirements of equity and other political economy considerations. This suggests that the development of African business should be encouraged both from the political economy point of view and from the point of view of economic diversification in the context of growth, poverty reduction and reduction of income inequalities over time. This political economy challenge can be addressed with the help of the previously privileged groups in society along the lines that the Namibia Agricultural Union has initiated development action involving empowerment of new emerging commercial farmers through the transfer of farmer skills from the more established and experienced commercial farmers (Namibia Agricultural Union, 2003). The strategy of capacity building of small businesses should involve action on four fronts: information dissemination, developing entrepreneurial skills, enhancing access to financial services, and enabling small businesses to have a voice in society and in the policy making processes. These may be elaborated as follows:

(i) Information dissemination can be promoted by taking action to have the governments collaborate with private business associations in setting up information bureau to dispense well packaged information and advice to small businesses.

(ii) The increasing knowledge content of development and trade has come to be a major determinant of competitive positions and development of nations. The strategy for economic diversification through SME development must therefore place high priority on human resource development. In this task both public and private investments and partnerships will need to be encouraged. Education and training are central to the enterprises ability to learn and compete in the market. The governments should continue to put more resources into human resource development, in particular education and longer term training while giving incentives to the private sector to invest in short-term tailor made training

programmes and on-the-job training. With appropriate incentives the private sector should be encouraged to increase investments in education and training at all levels. Particular attention should be given to developing entrepreneurial skills by facilitating collaboration between private and public sector institutions, donors and NGOs to jointly develop and implement management and vocational training, networking and linkages, re-orienting educational curricula to promote agriculture as a commercial rather than subsistence activity, and to stimulate confidence in African entrepreneurial capacity. Collaboration and networking between large and better established enterprises and less established ones is another potential that can be harnessed. For example the pilot that has involved the transfer of skills from the experienced commercial farmers in Namibia to the less experienced and emerging commercial farmers has shown positive results which can be emulated and replicated more broadly (Namibia Agricultural Union, 2003)<sup>9</sup>.

(iii) The strategy for enhancing SMEs access to financial services will entail action on two fronts. First, actions will be directed to reducing risk associated to lending to the private sector with special emphasis on the SMEs. Second, actions will target improving incentives to induce financial institutions to be more innovative in diversifying financial products to cater for the needs of the private sector especially the SMEs, agriculture and non—farm activities in the rural areas.

(iv) Giving small businesses a voice in society. For small businesses to have a more effective voice they will need to be more effectively institutionalised and special effort should be devoted to capacity building for business associations. Interventions could also include corporatisation of investment groups to spread the shareholding culture to wide sections of the population. In this context, the role of policy research and capacity building in SMEs and their institutions to enable them engage in policy processes is essential.

The strategy for supporting firms to attain the capacity to respond to markets should be designed in ways that are consistent with market forces. This means that appropriate mechanisms for cost sharing should be designed in close consultation with the respective stakeholders. The strategy of supporting the development of services for business development should be directed towards four main areas. Networking and forging linkages, business development services, information and

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<sup>9</sup> Namibia Agricultural Union. Namibia Farmer Skills Development Action: a project concept. Tabled at the Fifth Annual Symposium of the Bank of Namibia on Poverty, Income Inequality and Economic Development, Windhoek, 22 August, 2003.

communication technologies and development of professional services.

#### **4.6 Mechanisms of making SMEs an engine of economic diversification and growth**

There are three mechanisms which must be adopted as strategies for making the SMEs be an engine of growth and economic diversification with reduced inequality in then dynamic context in Namibia.

First, the SMEs must operate in a business environment which enables the cost of doing business to be reduced. The mechanism here is essentially the efficient allocation of resources based on market competition and improved division of labour (e.g. through exploiting both the national market and an enlarged regional market), improved quality of infrastructure, quality public institutions and improved regulatory environment with minimum bureaucratic red tape.

Second, the SMEs must engage in higher levels of investment through a mechanism often identified with capital accumulation. In this process savings in the country would be converted into higher capital per worker and enhanced investments in human development, leading to rising labour productivity. The saving and investment activity is therefore central to the strategy for SMEs development. The strategy should ensure that the investment climate is characterised by governance system that allows firms and farms to pursue productive activity, respect contracts and property rights and a competition and regulatory policy that channels private initiative in socially useful directions.

Third, SMEs development should adopt a strategy of making improvements in productivity and capacity of firms including SMEs to compete nationally and progressively to compete regionally and internationally. Technology is central to competitiveness, therefore, through technological diffusion and technological innovations. Technology deserves to be given high priority as a means of raising the level of productivity and therefore levels of incomes in business operations with special attention given to improving productivity conditions in the SMEs and informal sector activities.

#### **4.7 Some priority activities in economic diversification**

Economic diversification will have to start from where the current status is and take first steps from there. This suggests that priorities would have to include searching and shifting towards higher productivity agricultural products, investing in primary

products processing with a view to adding value and therefore generating higher incomes and activating inclusive tourism and other services. In the case of tourism development, for instance, the development of community tourism is one avenue for diversification of rural incomes. While the commercial farmers had been granted exclusive use rights over animal wildlife in the 1970s these rights were extended only much later to the communal farmers as a step towards leveling the playing field between commercial and communal farmers. The current trend of community-based natural resource management is a potential avenue for generating diversified incomes for the rural areas. The Namibia Community Based Tourism Association established in 1995 can assist communities to set up tourism enterprises. Labour based public works is another area of high potential for diversifying incomes in the economy. These are associated with benefits of employment creation which can be spread into from road construction where pilot projects have been successfully implemented to other sectors such as drilling holes in agriculture, construction of buildings for health and education and other constructions of rural infrastructure. In this context, the drafting and approval of a national policy for labour-based work is a commendable step in the right direction.

## **5. CONCLUSION**

The process of economic diversification in Namibia will need to take into account three dimensions of diversification within the same sectors, diversification into new sectors and new sources of incomes and diversification of exports. Diversification will entail broadening the sources of incomes with a view to shifting from low productivity production systems towards higher productivity production systems within agriculture and in non-agricultural activities such as tourism and manufacturing. The implementation of diversification programmes will need to start with in-depth sector profiles which will unveil the supply and market conditions and potentials for diversification into broader and higher productivity activities and identify resource requirements for achieving that kind of diversification. The diversification programmes should be implemented through the pursuit of sound policies and interventions to build the capabilities of disadvantaged actors including enhancing their access to key resources (land, capital, skills). In this context, agriculture and SMEs in other sectors, including those in the informal economy, are supposed to receive special attention. Consistent with poverty reduction strategies that Namibia has adopted, the strategy of empowering small businesses is expected to achieve productivity increase and build competitiveness, create decent jobs, facilitate social mobility and meet requirements of equity and other political

economy considerations. This suggests that the development of SME business should be encouraged both from the political economy point of view and from the point of view of economic diversification in the context of growth, poverty reduction and reduction of income inequalities over time. The strategy of capacity building of small businesses should involve action on four fronts: information dissemination, developing entrepreneurial skills, enhancing access to financial services, and enabling small businesses to have a voice in society and in the policy making processes.

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