Private Sector Investment and Socio -Economic Transformation and Development

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I am pleased to have been given this singular opportunity to present on Private Sector Investment and socio economic transformation.

As you know, Namibia's economic transformation and development can augur only well if it has policy dimensions in place that would propel our economy on a sustainable and equitable economic growth and development. It is within this context that I will first give you a view on the structure of our economy, and then take you through the need or challenges for economic transformation and the factors essential to achieve that, with particular emphasis on black economic empowerment as an essential vehicle for poverty alleviation to the majority of the population.

Economic Structure of Namibia

Sustainable economic development and transformation remains an essential cornerstone for increased economic growth that translate into increased standard of living and prosperity for its citizens in an economy. Namibia is certainly no exception. This is enshrined in the economic Bible of Namibia, namely the **NDPI and II.** The objectives of Namibia's macro-economic development are thus to sustain a high level of economic growth, increase employment, reduce poverty and achieve a satisfactory income distribution. The importance of these objectives were decided in view of the fact that Namibia faces still at present low economic growth, high unemployment, abject poverty and skewed income inequality.

Despite this obscure economic situation, Namibia can be termed resource rich and is classified as a middle-income country with per capita income of little over US$2 000. Namibia's GDP per capita represents more than three times the average of Sub-Saharan Africa and is on 92nd place out of 206 countries (World Bank 2000).

Since independence, Namibia's overall macro-economic performance has been broadly satisfactory. Its macro-economic policies such as fiscal, monetary and trade policies have generally been supportive of ensuring a stable and improved investment climate and for sustained increased economic growth. Despite a stable macro-economic environment, Namibia however experienced a continuing decline in its economic growth from a high of 5 per cent on average during the 1991-1995 period to around 3.5 per cent in 1996-2003. The economic growth rates realized after independence is however more welcoming when compared to the decade before independence when real GDP growth recorded little over 1 percent on average.

Challenge of Economic Transformation and Development

The challenge of economic transformation lies in how to ensure increased economic growth of around 7 percent as indicated in *Vision 2030* to achieve broad based development. In order to address this challenge, it would be imperative to look at which factors are causing such low economic growth. The first factor that may be of interest is to recognize the fact that our economic growth depends on external influences, ranging from unfavorable climatic and marine conditions to international and regional fluctuations. Such influences tend to have adverse effects on the production and exports of mainly primary sector minerals (diamonds, uranium, copper, zinc) and manufactured produce (beef, fish, textiles etc).

It would be in our best interest to guard against such influences in order to minimize any adverse effects. Namibia seems to address this problem by having an economic expansion of production activities in areas less vulnerable to some of the external influences. Manufacturing and provision of services now play a more prominent role but not significantly than at the time of independence. Agriculture and mining, in contrast, have relatively reduced their role in overall economic activity. As part of ensuring more private and commercial activity, the share to overall GDP in terms of the Government services has also drop (partially attributed to outsourcing of some government services), although it does still remain the largest contributor to GDP.

Another challenging factor concerns the prioritization of sectors and gearing policies to take maximum advantage from such sectors. With the advent of globalization and regional integration configurations as regards to SACU, SADC with US and EU (our main trading partners), it would be in the best interest for Namibia to consider niche strategies for future economic expansion. This would involve identifying specific products and services that would be essential for increased economic growth and development. Namibia may have to consider agro-business processing of agricultural produce (such as grapes, dates, cotton, spaghetti etc) as key products in order to ensure broad based agricultural modernization, where 70% of the majority of the population lives.

This is in line with the economic strategy outlined in *NDPI & II* as well as in the *Vision 2030 Macro-economic Framework*, the government needs to be applauded for attempting to diversify the economy from a mainly South African manufactured goods import and primary export commodity dependent economy to an expanded manufacturing base and modernized agricultural sector led economy. This strategy is aimed at raising the future economic growth and to attract sufficient foreign direct investment for the ultimate realization of increased employment opportunities, poverty alleviation and of addressing socio economic imbalances inherited from the colonial times.

Namibia can also market itself as a true cosmopolitan country which boasts a relatively stable government, with an attractive foreign investment environment and a good communication network. Namibia should look more closely towards South Africa and exploit economic advantages whilst piggy backing on some of the economic potential that is mutually complementary with that of South Africa.

Key areas for Economic Development

For economic expansion and development to succeed, five key areas need to be considered as an essential part for the future. This relates to (a) ensured foreign direct investment and domestic investment, (b) reduction of highly skewed income inequality, (c) BEE as an instrument for economic growth and poverty alleviation, (d) and effective provision of social transfers.

Available statistics shows that Namibia has been able to attract substantial **Foreign Direct Investment** flows, from slightly less than N$100 million at independence in 1990 to over N$2 billion by 2002. The total foreign direct investment in Namibia as a percent of GDP increased from 17.8 percent in 1998 to over 25 percent in 2004. This is high when compared to neighboring countries such as South Africa, Swaziland, Zimbabwe and Zambia but below that of Botswana. Foreign direct investment can still be considered as a key for Namibia's economic development. The recent investment opportunities by the Malaysia Textile Company, RAMATEX and Scorpion Zinc Mine shows that there is attractiveness in terms of the incentives and policies offered by the government in providing a conducive environment for increased foreign direct investment. The available statistics show that these investments has created employment opportunities of around 9 000.

Even though FDI inflows are commendable, there is still a need to attract more FDI. A recent report showed that countries who attracted more FDI from Africa are countries with tangible assets such as natural and mineral resources as well as large markets. About 65 percent of total FDI inflows to Africa are concentrated in big economies such as South Africa and Nigeria. But where does it leave a small economy such as Namibia who does not have an significant huge natural resources and with a small population? A World Bank report stated that such countries can attract FDI by putting in place a favourable business environment. This seem to be for Namibia where it was at the top from 29 African countries who is having a good business climate suggesting that Namibia can actually become competitive internationally and attract FDI on a sustainable basis.

In terms of employment creation, sectoral wise in 2001, jobs has increased due to increased Foreign Direct Investment which was as follows: 7050 in the manufacturing sector, 942 in trade/services, 600 in infrastructure, 174 in tourism, and 2129 in the mining sector. These data indicate a significant shift from the mining sector, which has historically received the major share, to manufacturing. Also, it is of interest to note that in the manufacturing sector, a shift away has been observed from fish and meat processing to the manufacturing of a range of high quality consumer products, such as the sports gear to be manufactured by Ramatex *(Investment Center: 2001)*

FDI can improve more in Namibia if it attends to the following:

- Ensuring adherence to a stable and predictable political discourse and conducive macroeconomic environment for FDI;
- Privatisation programmes attracting FDI;
- Relatively high Gross Domestic Product (GDP) growth rates;
- Improved education levels of citizens, well developed infrastructure and favourable trade policies; and
- Deregulation paired with intense investment promotion activities.

Namibia has also realized the importance of **domestic investment** as a key to develop the economy. This is manifested through the process whereby Cabinet gave approval to the Ministry of Finance to introduce a number of policy recommendations. These recommendations are:

- Reducing the percentage of investment in dual-listed companies that qualifies as domestic investment to 10 percent over five years;

- To prescribe to all institutional investors a 5 percent minimum investment in unlisted Namibian companies; and

- To introduce legislation to subject Unit Trust Management Companies to a domestic asset requirement and to withdraw the tax-free status of returns on unit trusts.

The study done by the Ministry of Finance and the Bank of Namibia in 2003 found that in the midst of a relatively low economic growth in Namibia over the last five years, massive capital outflow, mostly to South Africa, were recorded mainly in the form of pension funds and life insurance and short-term investment, through transactions between local commercial banks and their parent banks in South Africa.

Capital outflow from pension funds, life insurance and commercial banks increased from N$1,8 billion on average between 1990 and 1994 to N$2.3 billion between 1995 and 2000. These capital outflows resulted in a Capital Account deficit of N$404 million per year on average between 1994 and 2001, with the highest deficit of N$1.1 billion recorded in 1999.

The study also indicated that the low economic growth has been largely constrained by poor investment growth due to capital scarcity caused by capital outflow and not as a result of insufficient saving. To date savings as a ratio of GDP has consistently outstripped investments in Namibia. Gross savings in relation to GDP ranged between 22.5 percent and 27.8 percent during the period between 1994 and 1997, whereas during the same period, gross fixed capital formation in relation to GDP averaged about 20.4 percent over this period, thus remaining virtually below the level of national savings for the entire period.

A policy response to capital outflow is thus necessary with the view for Namibia to use its savings for domestic investment. The study also indicated that experience from other developing economies indicates that control of capital can be successful in reversing the outflow of capital. The rationale for imposing capital control is to promote economic development. Namibia needs both the FDI and domestic investment to stimulate economic growth.

One key evil in our midst that needs to be addressed as a urgent priority is the unequal and skewed **income distribution** in Namibia. I have previously indicated that Namibia's per capita income of about US$2 000 (or close to N$14 000) is almost four times the average for Sub-Saharan Africa, which may mean in comparison that we are relatively rich compared to our cousins in Africa. But distribution of income remains highly skewed with a gini coefficient of 0.7. This means now currently we have even surpassed Brazil as being at the top of the list as being the most unequal society in the world. According to the Household Income and Expenditure Survey 1993/94, about 56 percent of the households in Namibia are poor or very poor based on the classification if they spend 60 percent plus of their income on food. The Human Development Report of UNDP indicated that the richest 10 percent of our population receives 65 percent of income.

The white minority along with an emerging black elite have average annual per capita income of N$100 000 whilst blacks who are employed as blue collar workers in the modern sector receives only N$4 500. The rest of the population has an annual per capita income of N$500. The income inequality is also prevalent in consumption levels, with the richest one percent of households consuming the same amount as the poorest 50 percent.

The income distribution is also skewed in terms of regions. Namibia's high income earners live in the central region and distributed around locality of the natural resources (such as minerals/base metals, fishing etc) whilst low income earners are heavily distributed in the rural areas. More than 80% of arable land (about 30 Million hectares) as well as 44% of total land surface remains in the hands of 4 000 white farmers. Communal land constitutes only about 41 percent of the total land surface area and supports only about close to 1 million people.

Giving such a skewed picture in terms of income distribution, what can be done to address this situation. There is no quick fix solution to these problem but the answer lies in equitable distribution of assets, whether its land, capital or educational attainments. A close assessment is needed to reflect that government expenditures needs to be well targeted on the poor. Another intervention is to allocate dedicated funds for SME & informal sector development in order to promote entreneurship and self employment schemes. There needs to be a assessment done to assess whether taxation does have some re-distributive effects from the poor to the rich.

There is an adage that you cannot make the poor rich by making the rich poor. There needs to be a process whereby the poor may have to come aboard within the mainstream of the economy whilst the rich needs to recognize that the current situation is unsustainable if we want to develop the economy.

It is quite clear from the onset that Namibia's economic growth performance needs to improve further if it wants to see real returns in terms of increased employment, poverty alleviation, and income equality. The anomalies that Namibia faces today remains however a reflection of the extremely low levels of black[1] people participation in the economy.

Even though commendable strides have been made in re-orienting the economy, the economy is still fundamentally rigid in the sense that it neither has nor fundamentally transformed itself from the Apartheid years. If one would termed the fundamental cause of this system was the marginalization of the black majority, it follows that insufficient measures are still taken in the post-independent era to significantly increase black participation in the mainstream economy. Hence, this could also explain the continued low economic growth rate.

One should be mindful therefore that Namibia cannot attain sustained high levels of economic growth without the presence of broad based participation of the majority of the population.

One crucial vehicle for ensuring this is to empower people. We all know that **Black Economic Empowerment** is upon us and not a single day goes without some reference to it in the media. BEE is still being looked at as if its only the black people who stand to benefit from Black Economic Empowerment.

One should acknowledge the fact that BEE should be an integrated and coherent socio economic process that contributes to Namibia's development, which is essentially based on significant increases in the numbers of black people (including blacks, women and people with disabilities) that manage, own and control the economy as well as ensuring significant decreases in income inequalities.

We are also saying that BEE should be broad based and not narrowly focused as it is currently. I also hope that currently drafted Black Economic Empowerment Policy and Laws would come up with a scorecard methodology to measure and track progress on BEE's five key pillars such as direct ownership, control of enterprises and assets, human resource development, employment equity, preferential procurement, enterprise development and corporate social investment.

[1] Meaning racially disadvantaged people of the Namibian population.

It is also my considered view that the government's approach on BEE would be as a key driver for economic growth and development and that BEE should be an inclusive process involving all people. History has taught us that no economy can grow by excluding any part of its people and hence BEE should be driven by considering the role that the previously advantaged can also play. BEE should not be driven with the purpose of ensuring "black-owned businesses or assets" but should expand their focus to accommodate avenues that will retain the experience, expertise and knowledge of the original racially advantaged owner. Both of us should look at BEE as a inclusive process of all people involved so that at the end of the day, BEE should read NEE or Namibian Economic Empowerment. Such an approach can also stop whites looking at BEE as an exclusionary detrimental process but one that they can also benefit from.

At independence, the Namibian government inherited a **social service system** that was characterised by regional inequalities, ethnically fragmented system and catering only for a minority of the population. Hence, the government engaged in expenditure patterns that reflect the policy priorities addressing social imbalances created in the past. Since then, the budgetary expenditure has been geared more to the education and health and social services where it has been absorbing the major part of the national budget, fluctuating around 30-40% since independence.

Namibia stands out as one of the big spenders on education, health and social service provision. However, despite these massive budgetary injections into the education sector as well as ensured increased access to the education system, the output of the system and its role in poverty reduction remains questionable.

The **education** system in Namibia is manifested in high rates of dropout (25% compared to 5% in Botswana for e.g.), high repetition in schools, and poor quality of teaching compounded by a slow process of upgrading in-service teacher training. The standard of education varies regionally where the northern regions are particularly disadvantaged with lower numbers of qualified teaching staff and fewer facilities and infrastructure such as water and electricity and teachers housing. Performance of Namibia's primary school children on the 2000 mathematics and reading tests of the

Southern African Consortium for Monitoring Education quality has been consistently lower than that of their peers in SADC countries. In 2000, only a third of students enrolled in grade 1 completed senior secondary school (grade 12). Inequalities in terms of distribution of access, learning outcomes and resource inputs does still persist, despite commendable efforts by government to reduce them. Overall, the effectiveness of the education system is low compared to other neighboring countries such as Botswana. These inequalities and the output of the education and training system renders the current system not to be effective in its role of poverty alleviation and reducing income inequalities.

The government has realized that something needs to be done and has invited a leading institution to undertake a thorough assessment of the education sector as a sector that supports economic development goals. The study also concluded that the education sector is faced with poor quality and ineffectiveness and has recommended wide ranging reforms to improve quality and effectiveness of the education system.

In terms of its effectiveness, Namibia's **health** system seems to have made greater strides in terms of effective primary health care delivery. This is indicative of the reduction in infant mortality rate per 1000 from 64 to 57.60 in1997 (better than that of Kenya and Malawi of 61.8 and 137.2 respectively). The access to safe water and maternal mortality rates are also favorable and comparable with other SADC countries. Namibia has also a high coverage rate of immunization although indications show that it has been declining lately due to administration and capacity problems.

It is expected that such favorable indicators are a reliable indication of a healthy nation, although there are still evidence of regionally inherited disparities in the health system, and that a decentralization of the delivery system with community based initiatives at local level would still be required to ensure a equitable, affordable and safe health care system in Namibia. The health system still has to fight on a front of combating the scourge of HIV/Aids within the Namibian society.

Namibia inherited a non-contributory **pension** scheme. Every elderly, blind or disabled person is eligible to a monthly pension of N$250. This system plays an important role in poverty alleviation, as it is a major income source for the poor, reaching beyond the beneficiaries via the extended family. Drawbacks in terms of poverty alleviation are the fact that it is not targeted (the non-poor also benefit), and that not all eligible persons actually receive their benefit: It is estimated that only 79% of the elderly and 27% of the disabled receive their pension.

Conclusion

Allow me to **conclude** that Namibia still needs both the FDI and domestic investment for ensuring economic growth in Namibia. Namibia needs to attend to the prevailing skewed income inquality and can use an all inclusive BEE as a strategy to ensure redistributive effects in that regard.

The education sector needs reform and it is timely that the government is currently focusing on it at a sectoral level to ensure that its output and effectiveness can be improved so as to aid in poverty reduction and reducing income inequalities.

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