

*Macroeconomic Challenges and the
Budget of Namibia*

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By

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Chairman

Eminent Members of the NCCI Wlavis Bay Branch

Distinguished Guests

Ladies and Gentlemen

I am pleased to have been given this opportunity to present to you the macroeconomic challenges of Namibia and what it means for the budget for Namibia.

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 the budget that is a national resource tool for poverty alleviation and job creation.

Economic Growth in 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.

The growth anchors for Namibia after independence has been mainly primary sector driven. During 1991,1993-94, the diamond producing sector as well as the fishing sector pushed the Namibian economy to a record high of close to 8 percent. Sadly, such overall growth was not repeated since that time and now we are recording around 3 percent on average. Such sustainable yet low growth is supported by sectors such as manufacturing (although having a small base but augmented somewhat by EPZ activities), agriculture, trade, post and telecommunications, mining and tourism.

The recent announcement by the Minister of Finance in her budget of which I will touch on later shows that Namibia is forecasted to enjoy a stable growth pattern of close to 4 percent. This pattern shows that the economic growth is in a comfortable position of sustainable yet normal growth situation.

Challenge of Economic Transformation and Development

The question that begs us, do we need to grow beyond 4 percent. The answer is yes since the current economic growth does not realistically

translate in real things that matter the most to people such as job creation, poverty alleviation and development whether it's increased housing, electricity or water for all Namibians.

This situation clearly shows that we still need to grow at levels that we had immediately after independence. The *Vision 2030* document even acknowledges that in order to ensure real change in terms of standard of living and achieving broad based economic development, we need to achieve growth levels of around 7 percent.

Mr. Chairman, I have to indicate to you today that not only economic development is needed in this country, but that we as Namibians need to think now about economic transformation. We need a mind shift in terms of growing our economy.

How can we go about that? First of all, we need to identify which sectors are growth enhancing and which sectors need to be support continually as a sustainable base of the economy. I will start with the latter since that is easy. We know that Namibian economy is sustained by primary output production such as diamonds, copper, gold, beef, fishes, etc. These are mainly from mining, agriculture, and fishing sectors.

Given that the above are sectors that ensure the foundation for Namibian economic growth, we need to be mindful as to the sectors that I think can

give Namibia potential for growth beyond the base or the foundation. These are the Small and Medium Enterprises. International research and empirical evidence is showing that that Small and Medium size Enterprises (SMEs) development is the invaluable key to reduce poverty by accelerating economic growth, and promoting and empowering the poor, women and the differently abled so that they can escape malnutrition, hunger, and diseases.

They generate the power of the private sector. They are employers and employee generating. They lay down the yeast of competition and productivity and can have spill over effects on innovation and efficiency that translate into increased value added output.

In Namibia, SME are also recognised by government and private sector alike as being the key sector in poverty alleviation and economic growth generation in Namibia. Recent statistics show that it is fastest growing and adds to employment and investment. The crucial characteristic of SME is that it can grow anywhere from a tourist resort to a conservancy, construction, maintenance, carpentry, metal or mechanic, art, or information technology.

But then what is wrong with the Namibian SME sector. Why does it not aid in growth? One positive aspect is take note about SME contribution to growth is that it may not be accurately recorded in our official statistics. Hence this may point to the fact that our official growth indicators need to

be re-looked at since indications show that our economy can be larger than originally quoted. Hence, SME growth may still be unrecorded as part of our official statistics although independent studies show that it is growing.

According to a recent survey conducted by the Namibian Economic Policy Research Unit (NEPRU, 2003) on SMEs, it is evident that this sector is a key sector in poverty alleviation and economic growth generation in Namibia. The study showed that the sector has exceeded the targets set in NDP2. In terms of the sector's contribution to GDP, it increased from 8.0 per cent as recorded in 2002 to 11.0 per cent in 2003, exceeding the target of 5 to 10 per cent by 2006. In terms of the sector's share in the labour force working full-time, its contribution increased by 4.8 per cent to 19.8 per cent in 2003. As it is in the case of the sector's contribution to GDP, SMEs share in total labour force exceeded the set target of 2.8 per cent annual growth rate in NDP2. The sector's contribution in terms of employment and economic growth is expected to grow further as its contribution to investment increased from 5.1 per cent to 8.5 per cent in 2003. Generally, an increase in investment is followed by more employment creation and growth.

Despite such growth, there are challenges for SME in terms of ensuring real and noticeable growth in Namibia. The limited access to finance and technology, the high cost of doing business, stringent SME regulation and

lack of fiscal relief measures, low level of skills training, artificial level of price increases in some of the products and services that can ideally be offered by SME's, high start up capital, are all factors that needs to be attended to for this sector to grow.

Another sector that can ensure growth is agriculture. I am not talking about agricultural output production in its conventional sense but agricultural modernization. I am particularly encouraged by the green scheme project although its results need to be seen as yet. Namibia's consideration of agro-business processing of agricultural produce (such as grapes, dates, cotton, spaghetti etc) as key products for the future is encouraging in order to ensure broad based agricultural modernization, where 70% of the majority of the population lives

The second point that one needs to consider when we talk of increased economic growth is an appropriate economic strategy for a small open import commodity dependent economy such as ours. 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. As I have indicated above, SME and agriculture modernization are key

pillars for growth but supported by a matured and sustainable and stable growth in other sectors such as manufacturing, mining and fishing.

Some people might say we seem to be doing exactly this, but we are still not growing. Why then is it not the case. One crucial factor to note 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. Its time to plan proactively and guard against such external shocks. It therefore requires timely research and intervention strategies.

Namibia is still a structural rigid economy. We have not moved away from what we are used to economically to areas that can propel the economy to a growth dimension. We haven't transformed economically. We need to move into economic expansion of production activities in areas less vulnerable to some of the external influences such as manufacturing, agro business, and provision of services with a strong SME content who does

have also a local content. We need to get our competition policy and law going so as to fostered fair and just competitive spirit in key areas conducive for growth in banking, transport, energy sectors.

We have implemented a lot of programs and plans. Everybody talks of NDPI & II as well as in the Vision 2030 Macro-economic Framework. These are noble and worthy initiatives, that no doubt is necessary as a planning framework. But we need to think how to implement those plans and programmes. Action plans and strategies fostered by open minded thinking should be encouraged so that we think creatively to ensure practical implementation of diversifying the economy from a mainly South African manufactured goods import and primary export commodity dependent economy to an expanded manufacturing base (aided by SME's) and modernized agricultural sector led economy.

We are also doing the right things but we do not stop sufficiently and consider whether the things we are doing is done in a right fashion. We need to monitor and evaluate our policies be it on EPZ incentives, industrial parks, industrialization policies, diversification policies, free trade agreement accessions, and legislative or regulatory laws.

The kind of economic strategy that I am proposing can only assist us to raise 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.

I do not want to stop without tourism but was careful not to mention it as a sector but as a sub-sector of SME development. This sector although laudable and important for the industry can only survive if global trends are favourable to it and if no external shock can destabilize it. But nevertheless, using a right market strategy, Namibia's tourism itself is a useful source of growth since Namibia is a true cosmopolitan country which boasts a relatively stable government, with an attractive foreign investment environment and a good communication network.

Another economic strategy that I always say but am not supported usually for is that Namibia should look more closely towards South Africa and exploit economic advantages whilst piggy backing on some of the economic potential of South Africa that is mutually complementary. I do not mean keep the existing economic order going with SA. But using SA as an economic fall back position, we need to expand on reaching new markets and reorient our mode of thinking in terms of the economy. Its time we Namibians think of exploring beyond keeping the economic house not just in order but to extend, restructure and renovate the house altogether. This takes strategic thinking, awareness of value addition,

good and corporate governance, and successful implementation of our planning frameworks.

What can we do to aid in economic growth?

For economic expansion and development to succeed, one can only do it through more capital. We have a good investment climate with good investment incentives. We must take due cognisance that countries who actually attracted more FDI are countries with tangible assets such as natural and mineral resources as well as large markets. We do have significant natural resources but not at a great scale and with a small population. Then, given the limitation, let's think regional and global and use our membership be it SACU, CMA or SADC to attract investment as a collective rather than individually. I am confident that as a collective, Namibia can actually compete internationally and attract FDI on a sustainable basis.

Apart from low foreign investment, I feel encouraged that we as a Nation are realizing that we are not actually bad at savings. 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 outflows to the levels of N\$2 to N\$3 billion are recorded on an annual basis whilst we encounter capital account deficits continually of around N\$500 million.

This could also be the reason for the low economic growth as it is largely constrained by poor investment growth due to capital scarcity caused by capital outflow and not as a result of insufficient saving. Hence to grow our economy, it's necessary to reverse some of this savings which can promote economic development. But the key here is not to sit complacently and welcome such funds with open arms.

The key is to find outlets for such funds to grow, monetarily and value addition. The outlets can be private equity through the form of venture capital by injecting funds into SME's who needs it dearly. Another venture is to ensure project financing for industrialization through the Namibian Development Bank. Another intervention is to allocate dedicated funds for informal sector development in order to promote entrepreneurship and self employment schemes.

I have touch mostly on economic growth but growth does not mean anything if accompanied by real change in the living standards and wellbeing of Namibians. One key evil in our midst that needs to be addressed as an 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.

We still have people who are without employment, now estimated at 35% of the total population. If we include those that are under-employed, this official figure would still be higher around 65%. We are also a rich nation with an income of N\$14 000 per head in Namibia, but at the same time, we are poor, representing close to 60 percent of the households in Namibia. 50% of the poor Namibians consume what 1% of the rich people are consuming. There are those (white and black alike) who have average annual per capita income of N\$100 000 whilst there are many others who receives between N\$500 to N\$4 500.

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.

Mr. Moderator, these statistics is not merely there to indicate the skewed ness in terms of resource endowment, entitlement and access in Namibia, but also reflects the exclusion of the majority of the population in Namibia

at a macro level from assets, capital, positions, and resources, be it tangible or intangible. Hence, the challenge is, how does one ensure that we bring more people onboard. In other words, how do we get those people, the blacks that were excluded from the economic mainstream, from the developmental pillars and the resource allocation processes so that they can escape abject poverty and become economic agents worthy of change in the macro economy. One essential vehicle to ensure this is through Black Economic Empowerment.

Black Economic Empowerment (or *Swart Ekonomiese Bemagtiging*) is in essence just what the words encompass. It means economic empowerment of those people previously disadvantaged. BEE can thus be termed a vital and essential tool to encourage the process of wealth and employment creation through balanced opportunities for all Namibians to partake into a broad based economic transformation and development.

The definition of "black" refers to the previously disadvantaged communities and individuals that were subjected most to exclusion in the historical past, including women and people with disabilities.

As there is as yet no formalized Black Economic Empowerment Policy and Law for Namibia, but is still been drafted, I may not concretely affirm the official uniform and written definition of BEE in Namibia. But from

empirical experiences, the strategic policy thrust of BEE would be centered around six key pillars: *(a) direct ownership, management, control of enterprises and productive assets (b), SME enterprise development (c) human resource and skill development, (d) achieving employment equity, (e) preferential procurement or balanced tendering, and (f) corporate social investment in HIV/Aids prevention programmes and community development initiatives.*

Some of these key areas are already being addressed by government and the private sector alike, but is not as yet concretely approached as a coherent and deliberate strategy from a BEE point of view. But generally and concretely, BEE should be seen as a process where nobody in Namibia is made worse off but complemented by effective and efficient redistributive process of wealth to aid in balanced economic empowerment supported by increased economic growth.

The Namibian Budget

Allow me to turn my attention to the budget. A budget is a national resource tool that provides a financial, resource allocation, and policy plan of action within a specified period, usually a year. It also helps to identify government priorities and represents currently the major economic instrument to effect change in Namibia.

The budget is normally presented around March – April although this year it was a bit late due to the change in government ministries. Accompanying the budget is a Medium Term Expenditure Framework which is more detailed and sets out the economic and fiscal outlook as well as a medium term plan that reflects the objective, programming and costing of each and every ministry. The MTEF as it is normally called, gives details on what government believes it can achieve within those three years and identifies constraints and opportunities for fiscal management.

The budget 2005/06 to 2007/08 that was presented by the Minister on the 12 May had interesting observations. It sees fiscal policy at a turning point where a low budget deficit is forecasted with surpluses for the remaining two years. This will be the first time in the history of Namibia that the budget will record surpluses. How the Minister intends to do this is commendable?

She intends to improve on revenue collection, tax compliance and administration through forensic tax audits, covering tax loopholes in some areas such as unit trusts and interest on investments, increases in sin taxes, stop abuses of VAT refunds, and introducing certain taxes such as luxury and environmental taxes.

She is also cautious about spending and has called for prudent expenditure during the next three years. This is to ensure reduction in current debt levels.

She focused on banks to do more for the economy, as well as reversing our savings from SA, support for SME through micro financing and NDB, role for Agribank to assist in land reform, anti-money laundering, parastatals reform, and an urgent need for expanding economic production thereby ensuring economic growth.

She maintained her usual stance on including provisions on poverty reduction through granting major budgetary expenditure towards education and health and social services but now incorporating pertinent factors such as funding for HIV/Aids and Orphans.

The intended objective of increased revenue allocation, expenditure containment and credible debt management strategy can free up increased resources for government to focus on key priority areas that are growth enhancing such as infrastructural development. With the current inflation and interest rate environment and ensuring a competitive exchange rate for both importers and exporters, the Minister also stated that she is upbeat about the prospects of the economy but mainly due to mining, agriculture, trade, manufacturing, tourism, post and telecommunications sectors.

Conclusion

In conclusion, the question begs *"Is Namibia still on the right track economically"*. I am very confident that this economy can grow and can become the "Singapore" of Africa. There is sound macroeconomic stability although we need to think more sectoral-wise and start zooming in on sectors that are of strategic importance to take the economy forward.

Political climate is stable and government administration is still relatively managed and still worthy as employer, unlike in some African countries. The government's commitment to diversify an economy from primary commodity dependent economy to one that should be services sector led is welcoming. Right now the focus should be on implementation rather than talking on NDP's and Vision 2030. We need to inculcate a culture of implementing the plans, programmes and objectives as the time has come for the Namibian nation to realize independence dividend's from an economic perspective.

Namibia at independence was a nation divided on all fronts, politically, economically and socially. Therefore, after 14 years there is an aura of confidence that with a fostered peaceful democratic and political dispensation and a robust private sector in co-operating with the government, that Namibia can look forward to building an equitable society that strives to reduce unemployment and poverty in the country.

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