INEQUALITY IN SOUTHERN AFRICA: AN ASSESSMENT OF THE SOUTHERN AFRICAN CUSTOMS UNION

COUNTRY BRIEF: NAMIBIA[1]

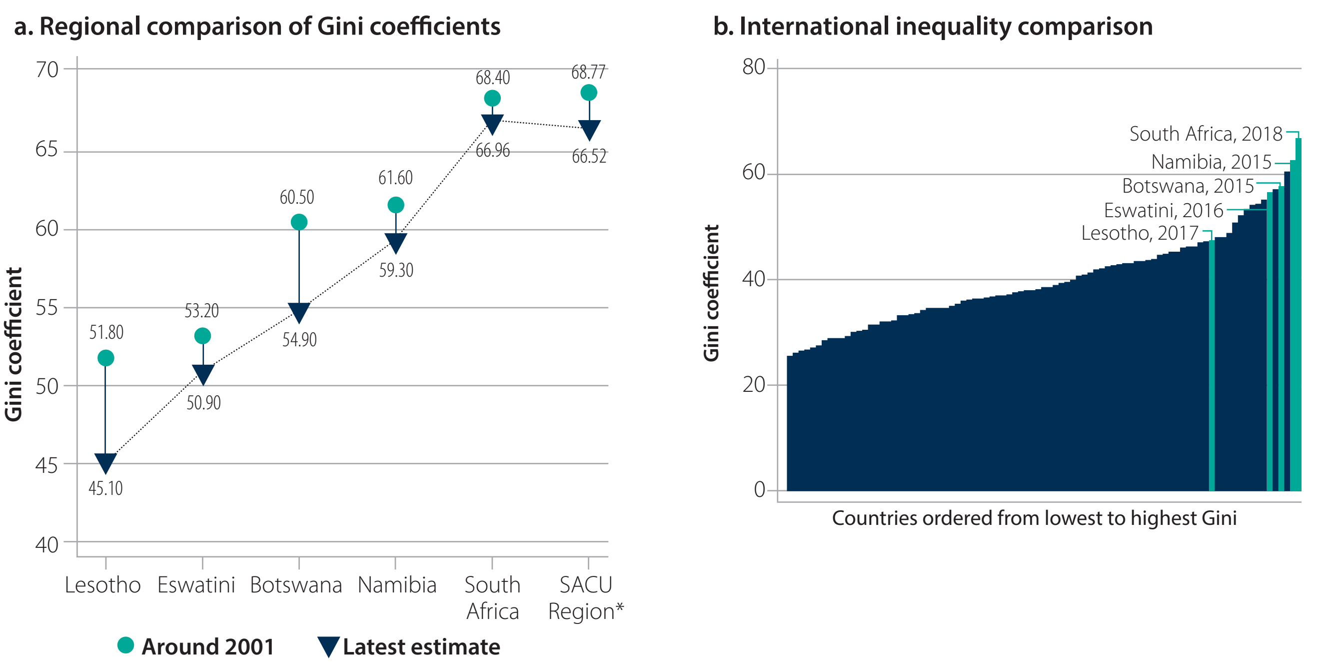
Namibia is the second most unequal country in the world, with inequality in per capita consumption about 45 percent higher than the average for upper-middle-income countries. The country has made little progress in reducing inequality in recent years. The main sources of inequality are inequality of opportunity and disparities in factor markets, with the legacy of apartheid playing a significant role and access to jobs and land being severely constrained and uneven. High spending on transfers and social services partially mitigates unequal outcomes, although social transfers could be better targeted. Moving forward, Namibia needs to: (a) improve access to quality services to promote equality of opportunities across races and disadvantaged groups; (b) enhance conditions for private job creation, including by reducing barriers to entrepreneurship and self-employment, and by enhancing access to productive assets (skills and land); and (c) continue investing in the capacity of social protection systems to respond to shocks, especially in view of the growing climate-related risks, while improving targeting of safety net programs.

A. Inequality is high and stagnant

Namibia is the second most unequal country in the world, behind only South Africa among 164 countries in the World Bank's global database of Gini coefficients, which measure inequality of per capita consumption (or income, depending on the country).

Inequality has not been reduced much in recent years. Between 2004 and 2015, Namibia's Gini coefficient changed very little, declining by just 2.3 Gini points from 61.6 to 59.3. This is among the slowest rates of progress in SACU.

Figure 1. Inequality has fallen but remains relatively high



Source: World Bank 2022.

Note: Panel a presents the Gini coefficient of consumption for the whole SACU region, based on the earliest and latest rounds of household surveys from member countries.

1 This brief is largely drawn from a SACU regional report on inequality prepared by the World Bank and co-authored by Victor Sulla, Precious Zikhali, and Facundo Cuevas. The report uses the framework highlighted in Box 1: World Bank. 2022. *Inequality in Southern Africa: An Assessment of the Southern African Customs Union*. Washington, DC: World Bank.

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B. A lack of education and jobs and the legacy of apartheid drive inequality

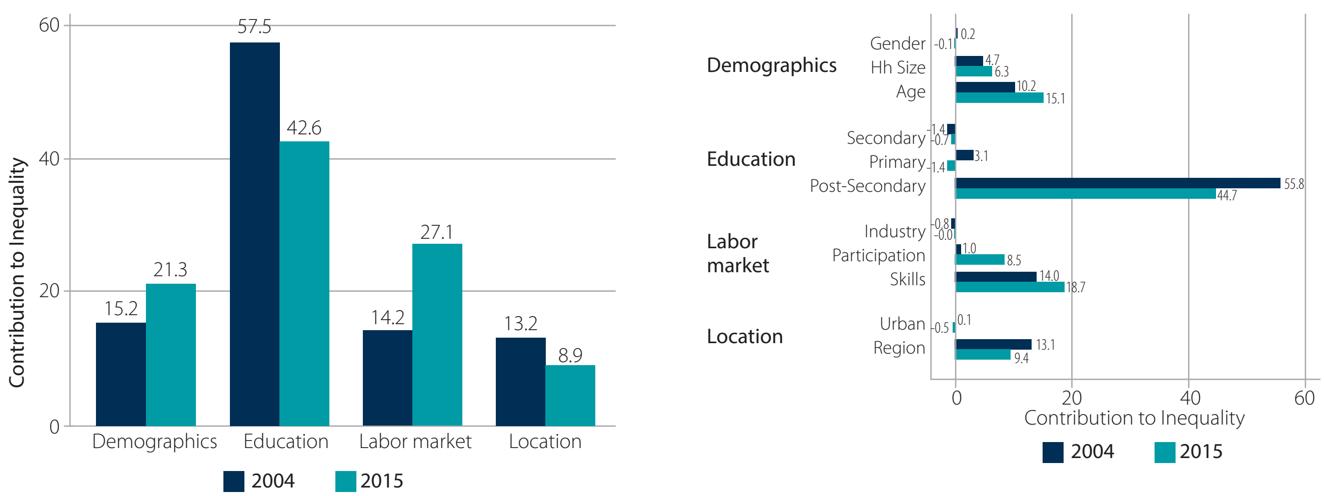
Inequality in Namibia, as in South Africa, is rooted in their shared legacy of apartheid. The common story is one of incomplete transition after apartheid. The main legacies of the long colonial rule and racial segregation are stark divides in income and opportunities by race, including severe disparities in access to basic services. Such structural inequalities are powerful barriers to progress. Progress in reducing gaps in endowments and opportunities has been slow, even though most forms of legal and institutional discrimination have been replaced by progressive policies based on the principle of equality.

Differences in educational attainment are a key driver of inequality, especially post-secondary or tertiary attainment. Disparities in higher education, which is key to human capital accumulation, contribute about 45 percent to overall inequality. Average levels of human capital remain low—the World Bank's Human Capital Index (HCI) estimates that a child born in Namibia in 2020 would on average reach only 44.6 percent of its potential productivity as an adult.

Figure 2. Decomposition of inequality

a. Contribution of selected factors to inequality (%)

b. Breakdown of the contribution of selected factors to inequality, percentage points



Source: World Bank 2022.

Note: Panel (a) reports the contribution (%) of spatial, demographic, education, and labor market factors to overall inequality. Panel (b) disaggregates the contribution of each of these four factors into its various subfactors.

Disparities in employment outcomes are the second most important contributor to inequality. Differences in labor market attributes (labor force status, industry of employment, and occupation type) account for 27 percent of overall inequality. Their role has increased since 2004 against the backdrop of poor economic and labor market performance. Among these attributes, differences in occupation type (such as senior managers, professionals, and clerks), which reflect skills differences, contribute most to inequality. This is followed by labor force status (whether people are employed or not), which is growing in importance. The third attribute, "industry in which people work", does not seem to be significant.

C. Inequality and the cycle of income generation

It is useful to analyze the process of household income generation to identify the sources of high and persistent inequality. The first step focuses on the *pre-income distribution*, which is the inequality of opportunity that arises from differences in circumstances at birth and during childhood, such as gender, race, location, parental education, and family wealth; these differences create expected inequalities in income distribution even before people interact with factor markets. The second component looks at the *primary income distribution*—how inequality

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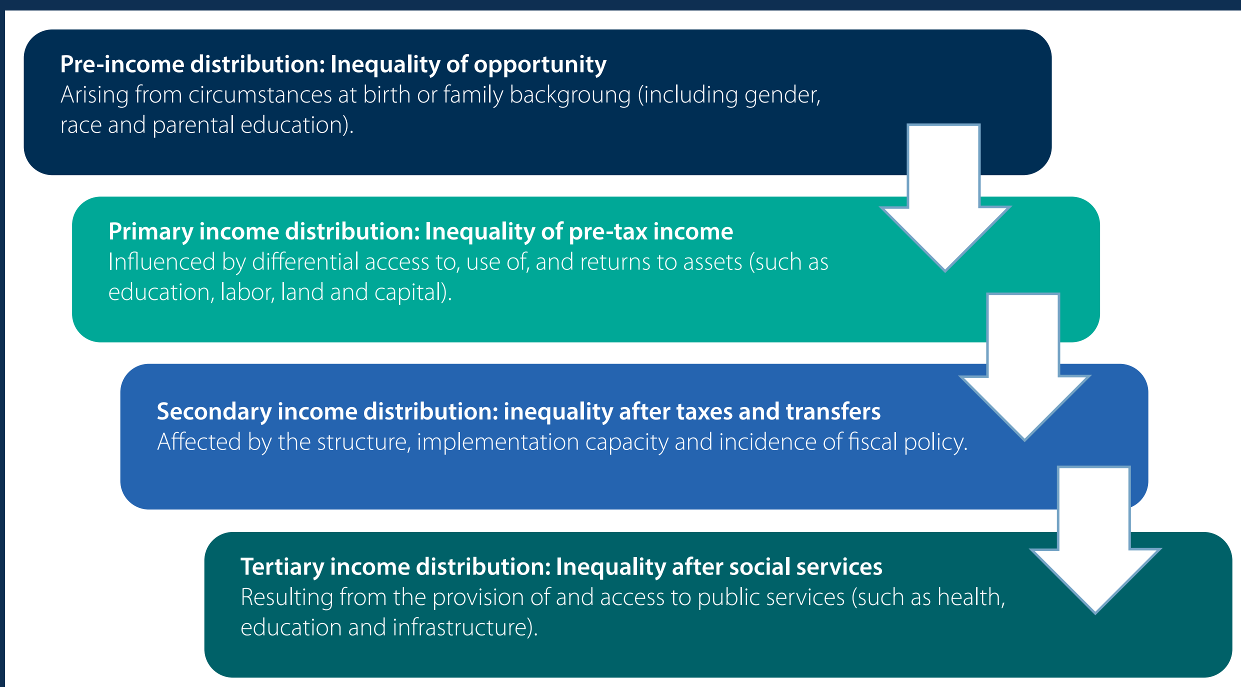
is affected by access to factor endowments (or assets), such as education, skills, land, and capital, as well as their use and returns from interaction with markets. The third explores the *secondary income distribution*, assessing how inequality is influenced by taxes and government transfers. Finally, the fourth component relates to the *tertiary income distribution*—the disparities that remain after accounting for the role of social services (such as education, health, and infrastructure).

Box 1. Framework to assess sources of income and consumption inequality

The SACU regional inequality report uses an innovative framework built around the process that underlies household income generation to identify sources of high and persistent inequality. The framework is organized into four sequential components, presented in Figure 3.

Figure 3. Framework to assess sources of income and consumption inequality



Source: World Bank (2022).

High inequality of opportunity

Children face stark differences in life prospects depending on their circumstances at birth and during their early years. Inherited circumstances—such as gender, age, growing up in an urban or rural area, and parental characteristics—account for 22.4 percent of inequality in consumption per capita.[2] Region of residence and living in urban areas account for almost all inequality of opportunity, overshadowing circumstances such as gender and age.

Children from low-income households tend to grow up without access to key services, which reduces their opportunities later in life and so perpetuate inequalities. Region of residence and living in urban areas are important because of their association with access to services. Children raised in lagging regions and rural areas are deprived of access to services that are critical for their development, such as water, sanitation, and electricity at home, as well as early childhood care and education.

2 Unfortunately the effect of race could not be analyzed because of a lack of data. Therefore, this figure should be taken as a lower-bound estimate of inequality of opportunity.

High inequality is underpinned by very limited socio-economic mobility. Namibia shows the highest association between parental and children's earnings in SACU. The intergenerational elasticity of earnings for working young people is 0.58, about 30 percent above the SACU average. The higher the elasticity, the more likely income patterns are to persist, which means intergenerational mobility is lower.

Inequities in access and returns to productive assets (labor and land)

A lack of job creation and skills mismatches hamper the ability of disadvantaged households in urban areas to generate income, and so limits the reduction in inequality. Unemployment remains high, at 20.3 percent of the labor force in 2020, and is almost twice as high for young people. Disparities in labor market outcomes stem from bottlenecks that limit the capacity of firms to create jobs and from barriers that constrain the ability of workers to access such jobs. Although many factors are at play, one stands out: having post-secondary and tertiary education is vital both for getting a job and for getting better wages once employed.

High wage inequality fuels overall inequality. Given the limited number of skilled workers, returns to post-secondary education are high, which in turn increase wage disparities. The gender wage gap is also substantial: among people with similar education, backgrounds, and occupations, men earn on average 29 percent more than women.

Land ownership has historically been unequal. The highly skewed land distribution, rooted in historical discrimination against black Africans, underpins unequal outcomes in rural contexts. Various land restitution and redistribution programs have been implemented in the last three decades, but land reform remains a critical concern. By 2018, Namibians of European descent owned about 70 percent (27.8 million hectares) of the country's 39.7 million hectares of commercial farmland, whereas black Namibians owned only 16 percent.[3]

Taxes and social spending play an important role in reducing inequality

Taxes and transfers significantly contribute to lower inequality. Driven primarily by high spending on education and health services, complemented by progressive personal income tax and social assistance programs, Namibia's fiscal interventions help reduce inequality. Without social transfers and social spending, inequality would be about 13 Gini points higher. This redistributive fiscal impact is among the highest in the world, at least among countries in which comparable studies have been done.

The impact of social assistance could be increased with better targeting. The social assistance system comprises a mix of categorical, means-tested, and geographically targeted programs. Since 71 percent of spending is on categorical programs, this limits its capacity to reduce inequality. The two main programs are the old-age grant and the child grant. Most of the benefits in those programs accrue to nonpoor households. Redirecting resources towards lower-income households would have a larger effect on inequality without requiring additional resources.

The social protection system was swiftly mobilized to respond to the COVID-19 crisis. The pandemic has wrought unprecedented socio-economic challenges across the world. The social protection system responded with the relatively swift introduction (by April 2020) of an emergency income grant to people who had lost their income in the pandemic and who did not already benefit from other social grants.

D. Policy considerations to accelerate the reduction in inequality

Improve access to quality services to promote equality of opportunities across races and disadvantaged groups. Spending on social services is high by international standards, but results are often below those of other countries with similar development levels. The policy agenda could focus on elevating the quality of public education and health services, improving basic services such as electricity, and addressing coverage gaps for certain groups (such as black Africans) and locations (such as townships and rural areas). In education, the focus should remain on enhancing early childhood development programs and improving basic education at all levels, in terms of both enrollment and learning outcomes. Early childhood development initiatives offer a particularly cost-effective area of action. Investing in young children in their first 1,000 days has lifelong implications and could help break the intergenerational cycle of unequal chances.

Consider better targeting of flagship social assistance programs. The old-age and child grants provide important benefits to low-income households, representing a significant share of their expenditure. Tweaking their design

3 Land statistics are based on Namibia Statistics Agency (2018).

and eligibility rules to reduce transfers to high-income households could increase the impact of these grants on inequality without requiring additional fiscal resources.

Revitalize employment creation and remove barriers to jobs for disadvantaged populations. Although the structural reform agenda aims to resume a path of growth and employment generation in the economy, removing barriers to self-employment and entrepreneurship and strengthening programs to boost employability will help alleviate the lack of job opportunities. Relaxing regulatory constraints and simplifying legislation could help boost entrepreneurship, self-employment, and small businesses, all sectors with untapped potential. This could help get people working, as it does in other developing countries, instead of staying unemployed, becoming discouraged, and depreciating their human capital. To enhance the inequality-reducing impact of this option, low-skilled entrepreneurs could be supported with business skills, socio-emotional competencies, and grant financing to address constraints that go beyond the regulatory framework.

Continue strengthening the responsiveness of the social protection system to shocks, with attention to climate risks. The system demonstrated its adaptive capacity to weather the COVID-19 crisis. Going forward, as part of the strategy for adapting to growing climate risks, ongoing investment is needed in the responsiveness and efficiency of the system for horizontal and vertical expansion. This would allow it to reach new affected populations (horizontal expansion) and/or increase support to existing beneficiaries (vertical expansion). Digital technologies and mobile payments could support such initiatives.

References

World Bank. 2022. *Inequality in Southern Africa: An Assessment of the Southern African Customs Union*. Washington, DC: World Bank.