

NAMIBIA

SYSTEMATIC COUNTRY DIAGNOSTIC



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July 2021

2021 The World Bank Group
1818 H Street NW, Washington, DC 20433

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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
Agribank	Agricultural Bank of Namibia
AIDS	Acquired Immune Deficiency Syndrome
BAU	Business as Usual
BIPA	Business and Intellectual Authority
CBNRM	Community-Based Natural Resources Management
CPB	Central Procurement Board
CSA	Climate-Smart Agriculture
CSP	Concentrated Solar Power
DAI	Digital Adoption Index
DPSM	Department of Public Service Management
ECB	Electricity Control Board
ECDE	Early Childhood Development and Education
EFTA	European Free Trade Area
EIG	Emergency Income Grant
ES	Enterprise Survey
EU	European Union
FDI	Foreign Direct Investment
FMD	Foot-and-Mouth Disease
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GER	Gross Enrolment Rate
GFCF	Gross Fixed Capital Formation
GNI	Gross National Income
HCI	Human Capital Index
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
HRMIS	Human Resources Management Information System
ICT	Information and Communication Technology
IIP	Infant Industry Protection
ILO	International Labor Organization
INDC	Intended Nationally Determined Contributions
IPP	Independent Power Producer
ISC	Industry Skills Committee
LFP	Labor Force Participation
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments, and Agencies
MERCOSUR	Mercado Común del Sur; Southern Common Market
MoEAC	Ministry of Education, Arts and Culture

MoHSS	Ministry of Health and Social Services
MPE	Ministry of Public Enterprises
MSME	Micro, Small, and Medium Enterprise
NaCC	Namibian Competition Commission
NCA	Northern Communal Area
NCD	Noncommunicable Disease
NCP	National Competition Policy
NDC	Nationally Determined Contribution
NDP	National Development Plan
NDP5	Fifth National Development Plan
NFIS	Namibia Financial Inclusion Survey
NHIES	Namibia Household Income and Expenditure Survey
NIRP	National Integrated Resource Plan
NSFAF	Namibia Students Financial Assistance Fund
NRSC	National Road Safety Council
NTA	Namibia Training Authority
NUST	Namibia University of Science and Technology
OAG	Old Age Grant
OECD	Organization for Economic Co-operation and Development
PER	Public Expenditure Review
PMR	Product Market Regulation
PPP	Public-Private Partnership
PSEMAS	Public Service Employee Medical Aid Scheme
PV	Photovoltaic
RRA	Risk and Resilience Assessment
R&D	Research and Development
RCC	Roads Contractor Company
REFIT	Renewal Energy Feed-In Tariff
RFA	Road Fund Agency
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAM	Social Accounting Matrix
SAPP	Southern African Power Pool
SASA	Southern Africa Solar/Renewables Accelerator
SAT	Standardized Achievement Test
SCD	Systematic Country Diagnostic
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
SWAPO	South West Africa People's Organization
STR	Student-Teacher Ratio
TEIs	Tertiary Education Institutions
TFP	Total Factor Productivity
THE	Total Health Expenditures
TVET	Technical and Vocational Education and Training
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNAM	University of Namibia
VTC	Vocational Training Center
WBG	World Bank Group
WHO	World Health Organization

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ACKNOWLEDGMENTS

This SCD was prepared by Victor Sulla (Senior Economist, EA1PV) with inputs received from the Namibia SCD team across the World Bank's Global Practices and Thematic Areas, as per the table below:

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ES = **EXECUTIVE**
SUMMARY

1. Since gaining independence in 1990, Namibia has undertaken an economic transformation and experienced strong economic growth.

Fast economic growth has been associated with structural transformation, a growing share of services, rapid internal migration, and urbanization. The economy remains resource-rich, although dependence on the mining sector has started to decrease recently. The country has become Africa's leader on many governance indicators and has benefited from significant investments, including foreign direct investment (FDI) in the extractive industry. Namibia has made great strides in fighting the human immunodeficiency virus (HIV) and improving its educational system. Investment in infrastructure—roads and ports, information, and telecommunications—has been accompanied by the rapid development of the financial system, and modernization of the legal and regulatory framework. There has also been steady progress in improving access to clean drinking water, electricity, and public health services. As a result, the country has made significant progress in reducing poverty and reaching upper middle-income status.

2. Despite decades marked by progress, deep underlying challenges remain in Namibia, undermining the prospects for further advancement.

The pre-1990 history of systematic exclusion of the black majority from full participation in economic activities continues to shape society and the economy, constraining the country's economic and social progress to this day. The key legacies of colonial rule and racial segregation are persisting territorial segregation and resource misallocation, and a lack of access to basic services for a large portion of the population. Economic advantage remains in the hands of a relatively small segment of the population, and significant inequalities persist. This lack of inclusiveness and vast disparities have led to a dual economy—a highly developed modern

sector co-existing with an informal subsistence-oriented one—and are manifested in three main socioeconomic challenges that define the economy today:

• **Namibia ranks as one of the world's most unequal countries.** Its developmental success masks deep inequalities in the distribution of resources, opportunities, and incomes. Namibia's Gini coefficient of 57.6 in 2015 was second only to South Africa in terms of inequality. Geographical disparities in both economic opportunities and access to services are large and widening. Areas with low population density, where the cost of public services delivery is disproportionately high, are systematically left behind. Land ownership remains highly unequal, a legacy of the lopsided distribution of arable land during colonialism. High levels of inequality result in starkly different poverty rates across different groups, including by age and gender.

• **Relatively high poverty, lagging human capital, and poor access to basic services are interrelated problems.** Namibia's poverty rapidly declined from 1993/94 to 2015/16, but it remains high for the country's level of development. Despite recent progress, Namibia ranked 117th among 157 countries on the Human Capital Index. Similarly, it remains well behind other upper middle-income countries in indicators of health, education, demographics, and access to basic services. Only about half of the population is connected to the electricity grid, a figure that drops to about one-third for the rural population. Close to 40 percent of the population does not have access to standard sanitation. About one-quarter of children under 5 years old are stunted—four times more than the average of upper middle-income countries. Namibia has one of the world's highest HIV prevalence rates.

The poor are deprived on multiple fronts, and poverty's multidimensional nature poses critical development challenges.

✱ **The duality of the labor market, combined with slow job creation and low primary-sector productivity, results in very high unemployment.**

The labor market consists of a highly sophisticated formal sector and a large, relatively unproductive subsistence agriculture sector. Since independence, demand for the primary sector's output has declined, and the tertiary market has expanded. Many new branches of the services sector have flourished—for example, the telecommunications sector, banking and financial institutions, and real estate services have expanded considerably. In terms of growth rates, the services sector has exceeded industry, while agriculture production has stagnated. Slow growth in the primary sector has led to rapid rural-to-urban migration. However, job creation in the tertiary sector has not been rapid enough to compensate for lost agricultural jobs, leading to an unemployment rate of 33.4 percent in 2018, according to the national definition. Unemployment among the youth reaches 69.6 percent (age 15 to 19) and 57.0 percent (age 20 to 24). Women are more likely to be unemployed than men (34.3 percent compared with 32.5 percent) and tend to cluster in lower-paying jobs despite surpassing men in educational attainment. The low productivity of the informal sector, which employs about 41 percent of the population, contributes to higher income insecurity and vulnerability.

3. Namibia has been in recession since 2016 and public finances have continued to deteriorate. Real economic activity stalled in 2016 as the drivers of growth (construction, mining) slowed down, and the economy was affected by South Africa's slowdown

and worsening terms of trade. Gross domestic product (GDP) growth contracted by 0.5 percent annually over the period 2017–19. An expansion in government spending during the 2010–15 period of high growth associated with rising public debt resulted in a severe deterioration of the fiscal situation despite fiscal adjustments as economic growth contracted. Government debt, including guarantees, increased from 25 percent in 2010 to over 50 percent of GDP in 2017. With the COVID-19 crisis, it is now expected to reach 76 percent of GDP in 2020 and debt service is expected to reach 4.9 percent of GDP, raising challenges for fiscal policy. Lackluster growth, debt sustainability concerns, and vulnerability to external shocks pose significant challenges for Namibia to achieve inclusive, sustainable, and equitable economic growth.

4. The global COVID-19 crisis is expected to have a substantial adverse economic and social impact.

The global slowdown caused by the COVID-19 pandemic and country lockdown is expected to result in an estimated contraction of 7.1 percent of GDP in 2020. The fiscal outlook is fragile as negative growth and slowing trade constrain revenue collection and pose a challenge for the fiscal adjustment program. The lockdown resulting from the COVID-19 pandemic is expected to increase the upper-bound poverty rate by 2.5 percentage points. The increase in poverty is equivalent to an 8.6 percent fall in consumption. The COVID-19 crisis is threatening to widen gaps and increase the already extremely high level of inequality. Younger workers, those with only primary education and those in larger households, will experience more significant poverty increases. However, social protection programs can effectively offset the poverty impact of the pandemic. The proposed mitigation measures are expected to cushion some of the impacts of poverty.

A. Sources of Growth and Poverty Reduction

- 5. Large private capital investments in mining and public investments in infrastructure have been the main drivers of capital accumulation and growth over the past 25 years, but productivity growth has been low.** A credible exchange rate peg and relatively prudent fiscal policies have supported growth, and the stable political and legal environment has provided conducive conditions for investment. The economy is heavily dependent on minerals for export. Mining accounted for on average 9 percent of GDP between 2015 and 2019, but provided more than 50 percent of foreign exchange earnings. Large private mining investments and public infrastructure investments—the main drivers of capital accumulation—contributed an average of 62 percent to GDP growth in the 1992–2017 period. The remaining 38 percent of growth was primarily contributed by labor, although private investment in labor-intensive production sectors remained muted. Throughout the period, the average contribution to growth by total factor productivity (TFP) was mostly negative.
- 6. Reliance on revenues from mineral exports has enabled the expansion of the tertiary sector but is also exposing the country to external shocks.** Activity in the tertiary sector has played a key role in spurring growth, particularly after 2004. Since independence, the tertiary sector has typically accounted for more than 50 percent of annual output, with services on average contributing more than 72.4 percent of total growth. However, the economy has historically relied on the primary sector for export earnings, particularly diamonds, uranium, gold, meat, fish, and grapes. Product complexity is low because the level of value added in most of these goods is limited. This has made the country extremely vulnerable to external shocks. FDI and private investment have been mainly channeled into the mining sector. The economy remains highly dependent on exports of primary products with little value added and a capital-intensive mining sector that employs only 2 percent of the population.
- 7. The main source for wealth accumulation and fast economic development has been human capital, while natural resource capital has been significantly used.** Namibia has been highly successful in promoting long-term growth through human capital investment. Human capital increased by 67 percent between 1995 and 2014. This was achieved at the expense of disinvestment in renewable natural capital, which declined from 32.4 percent of the wealth in 1995 to 20.1 percent in 2014. In the 1995–2014 period, per capita value decreased by 34 percent for forests and 41 percent for pastureland.
- 8. Economic growth and expansion of the education sector have been the main drivers of poverty reduction, while extending the social protection system has contributed to some reduction in inequality.** Namibia has seen one of the fastest reductions in poverty in Sub-Saharan Africa—from 37.5 percent in 2004 to 28.8 percent in 2010 and 17.4 percent in 2016. Between 2009/10 and 2015/16, consumption growth largely drove overall poverty reduction, while distributional change slowed poverty. Poverty decomposition suggests that improvements in education have played the largest role in reducing poverty. Social protection programs have also played a role, but less so than the expansion of education and growth of earnings in agriculture and self-employment. The social protection system has been more instrumental in reducing inequality, probably because of imperfect targeting.
- 9. Namibia needs to raise productivity to achieve sustained growth.** The period of strong growth over 2010–15 was associated with declining productivity as the economy relied on mining and low-productivity sectors with low complexity of exports. The country's economic growth is mainly dependent on the global and regional contexts, underscoring its exposure and vulnerability to fluctuations in commodity prices and financial shocks. To achieve higher and

more sustainable growth rates, Namibia will need to implement structural reforms to raise TFP growth over the medium term.

10. Labor productivity is low. Productivity is almost 40 percent below the trend line established by peer countries. Low labor productivity in relation to the country's level of GDP is particularly challenging in sectors where informality is high, including agriculture, hunting and forestry, wholesale and retail trade, hotels and restaurants, and other community, social, and personal activities. The informal sector represents about 41 percent of employment, contributing to income insecurity and vulnerability.

11. There is growing concern that Namibia may be stuck in the so-called "middle-income trap," with slow productivity growth making it unlikely that the country can catch up with the more advanced economies in the near future. The current macroeconomic framework suggests that growth potential has peaked and, without significant boosts in productivity and job creation, economic progress will be very gradual in the medium to longer term. There is a clear consensus among stakeholders that transitioning Namibia to high-income status will not be easy and will require a strong growth strategy. A challenge remains in developing a business-friendly environment to promote productive job creation. Boosting labor demand through investment in labor-intensive activities would create jobs, deliver needed productivity gains, and reduce inequality. Private investment will generate different impacts depending on the sector. Both the agriculture and service sectors are among those with the highest GDP multipliers, driven by large direct effects despite weak backward linkages with other sectors. Emphasis on labor demand should spur more significant employment increases; thus, policymakers should consider interventions that encourage more labor-intensive production. Encouraging private investment and targeting labor-

intensive sectors would represent a double win. Increasing the number and quality of formal and informal sector jobs is an important goal. On the supply side, improving skills should further increase productivity and boost the economy. We have identified four main binding constraints that impede this objective (Box 1).

12. All the factors mentioned in Box 1 could boost growth and wealth accumulation but might not increase shared prosperity. It is imperative to reduce income inequality by investing in human capital among the poor, enhancing social protection and service delivery, using targeted special interventions, and developing and supporting the middle class. Ultimately, each country's growth story is unique and requires strong evidence-based backing of the proposed policy priorities.

BOX 1: Overcoming the Middle-Income Trap

An extensive literature review by Larson et al. (2016) suggests that the best policy to overcome the middle-income trap is by boosting productivity—a key element to support and preserve long-run economic growth and wealth accumulation. The literature finds at least four fundamental components of long-run growth that are especially relevant to countries transitioning out of middle-income status.



Strong macroeconomic stabilization policies. Sound countercyclical fiscal, monetary, and financial policy-making supports long-run economic growth by helping to control inflation, avoid financial crises, and strengthen resilience to cyclical volatility.



Strong institutions, quality governance, and rule of law. The quality of governance assumes public-sector efficiency, control of corruption, and effective legal systems that support enforcement of contracts, and civil and political rights. By contrast, an overburdening government that distorts markets or ineffectively interferes in the economy weakens the private sector and impedes growth.



Investment in human capital development is crucial to growth and wealth accumulation. Human capital accounts for close to two-thirds of the rich countries' wealth. The rate of productivity improvement and technological innovations largely depends on the presence of a highly skilled labor force.



Open and competitive markets that promote increased specialization, efficient resource allocation based on comparative advantage, improved productivity, and the diffusion of knowledge and technology.

B. Binding Constraints to Wealth Creation and Sustainable Economic Development

13. This SCD identifies four binding constraints for inclusive economic growth:

- **Highly segmented input and output markets, and dependency on low-productivity sectors.**

A severe segmentation of the labor market is characterized by a significant gap between those in high-productivity, high-paying jobs, and those in low-productivity, low-paying jobs. Similarly, high levels of inequality in access to land, finance, and product markets significantly hamper average productivity. Both supply and demand factors explain this inequality. State intervention and monopolistic practices are relatively common. State-owned enterprises (SOEs) remain dominant, and their inefficiency hurts competitiveness. This situation is exacerbated by low rates of entrepreneurship and relatively low competition. The financial sector, dominated by South African banks, also caters to large formal companies.

- **Poor-quality educational and health systems.**

Lack of skills is an important binding constraint for economic development. High spending on inefficient, low quality education has resulted in widespread skills mismatches. The educational system is often characterized by over-aged enrolment, weak learning outcomes, high repetition and early dropout rates, and inadequate provision of educational services in remote rural areas. There is an excess supply of low-skilled laborers but a lack of demand. The returns on postsecondary education are high. Shortages of skilled labor limit the capacity to apply knowledge and innovation in many sectors. Technology constraints slow productivity growth, reduce profitability and investment returns, and diminish international competitiveness. Despite rising health spending, poor health outcomes are evident, particularly for low-income groups. Poor children's health outcomes are a critical barrier to inclusion over time.

- **Highly skewed distribution of productive assets and land.**

Property rights are weak, and a small segment of the population still holds most of the wealth and land. Weak titling—

especially in poorer, more informal areas—limits the value of the property. Such inequality strains socially acceptable standards of fairness. It is a major source of policy uncertainty, especially in agriculture. At the same time, the legacy of apartheid is reflected in limited or expensive connectivity, and underserved historically disadvantaged settlements and northern parts of the country. Although many Namibians continue to live far away from job opportunities, migration has been significant from rural areas in pursuit of jobs in cities. This migration can help reduce poverty, but it also can put pressure on the sustainability of existing public services. Access to electricity, water and sanitation, flush toilets, and good public clinics and schools remains much weaker in historically disadvantaged communities.

- **Extreme vulnerabilities to climate change and vulnerabilities arising from markets and technology.**

Renewable natural resources are critically important, not only to the economy but also to the population, especially the poor. The country is exposed to prolonged droughts and intensifying water insecurities, and urbanization and economic growth continue to increase demand for water. Namibia is the driest Sub-Saharan African country and one of the most vulnerable to climate change. The most impoverished population and indigenous people are particularly vulnerable to climate change and weather shocks. Structural water deficits are acutely felt in the agriculture, tourism, and fisheries sectors. Households face significant environmental and economic shocks, and targeted assistance and mitigation strategies should be adjusted to meet the challenges of different drought events. The adverse effects of price shocks distress revenue streams and impact efficient resource exploitation. Namibia is also highly dependent on South Africa's product markets, which have high barriers to entry, and firms miss out on opportunities to tap into high value-added global markets and growth through technology transfers.

C. Pathways to Overcome Growth and Inclusiveness Challenges

14. These development pathways can address Namibia's binding constraints:

- I. **Establishing an environment for private sector-led, job-creating growth** by creating an environment conducive to long-term growth through better economic management, enhanced competition, and development of a better entrepreneurship ecosystem.
- II. **Building human capital and increasing the productive potential of the labor force** by improving the quality and relevance of the educational system, generating needed skills, and improving health outcomes.

III. **Reducing inequalities through better services delivery** by improving governance and the quality of services, especially for marginalized communities and remote areas where population density is low and the cost of delivering services is high.

IV. **Reducing vulnerabilities to climate change and environmental shocks** through investments that can mitigate adverse consequences.

These developmental pathways will work together to lift the binding constraints and move Namibia toward boosting economic growth and becoming a more inclusive economy.



D. Establishing an Environment for Private Sector-led, Job-creating Activities

- 15. Job creation has not been rapid enough to absorb Namibians who have lost agricultural jobs, leading to increased unemployment.** Unemployment is 15 percent higher in rural areas than in urban areas, women are 6 percent more likely to be unemployed than men, and unemployment is especially high among young people, reaching 46.1 percent. Structural factors result in mismatches between the skills demanded by employers and those supplied by job seekers. These factors combine to result in Namibia having the world's seventh-highest unemployment rate.
- 16. Given the high unemployment rate, the priority is to boost competition and develop a vibrant private sector.** The analysis highlights areas related to increasing competition, improving entrepreneurship, and reducing the antitrust and business regulations that are obstacles to both domestic and foreign investment. Youth unemployment is unquestionably a problem. Programs targeting youth unemployment can take various forms, such as a matching process to shrink the informational gap between employers with unfilled vacancies and potential workers with the appropriate skills for those jobs. It would reduce frictional unemployment by connecting employers with employees. Depending on its structure, the process may also reduce structural unemployment based on differences in skills and needs across various locations in the country.
- 17. The goal of fostering competition could be advanced through improving the legal framework, reducing regulation, and reforming SOEs.** Lack of competition among Namibian companies is a serious issue for private sector development, as it reduces the contestability of markets. The strict regulatory environment and substantial bureaucracy are barriers to both domestic and foreign investment. They also impact business startups, permitting, and access to key infrastructure. This contributes not only to lower domestic investment but also to the low levels of non-mineral FDI. The market structure is mostly monopolistic, where several big players dominate markets and use their position to restrict entry by new competitors, especially small and medium enterprises (SMEs). Furthermore, a large government sector and its presence in the private sector economic space through SOEs and parastatals, increases market inefficiencies and crowds out the private sector. The SCD highlights the importance of: (i) streamlining newly implemented legal frameworks, processes, and institutions, including the Public Procurement Framework, operationalizing its implementing body and reducing turnaround time for business registrations and the application process for backhaul transportation; (ii) introducing reforms to SOEs as a key component in addressing the challenges facing Namibia's competitiveness; and (iii) achieving a double win by boosting public-private partnerships (PPPs) and private investment in targeting jobs in the industry and services sectors.
- 18. A broad set of actions will improve the entrepreneurial ecosystem and access to SME financing.** The low level of entrepreneurship is an obstacle for SME development and the creation of productive jobs. There is a need to engage the Government, the private sector, and tertiary institutions to foster a conducive environment for boosting entrepreneurship. This SCD focuses on: (i) fostering entrepreneurship by upgrading skills, networks, and hubs for startups; (ii) making it a core priority to boost entrepreneurship and support the development of digital incubators, accelerators, and early-stage funding programs; (iii) expanding access to financing and promoting financial inclusion, and an improved regulatory framework for microfinance institutions; and (iv) facilitating financial access for micro, small, and medium enterprises (MSMEs) via an improved credit information system for MSMEs, a secure transaction framework for movable assets, and a modernized insolvency regime.
- 19. Investing in the digital economy will help foster productivity.** Namibia is one of the information and communications technology (ICT) development frontrunners in Africa. However, the country has a highly concentrated market, with the Mobile Telecommunication Company and Telecom Namibia controlling 91 percent of the assets and 88 percent of the revenues. Despite the progress in expanding access to internet and broadband services, the

cost remains high. The mobile money penetration level stands at 45 percent, signaling further room for growth. Domestic technical skills are not high enough to drive the digital transformation initiatives that the country aspires to roll out. Adopting new technologies and focusing on the digital economy will increase productivity. Investing in the digital economy could be an integral part of entrepreneurship development, supporting the development of digital incubators, accelerators, and early-stage funding programs.

20. Creating more and better jobs requires an economic transformation that focuses on developing rural productivity while also supporting internal migration and agglomeration.

Creating more and better jobs rests on a broad economic transformation, as well as moving workers from lower- to higher-productivity activities, and from rural to urban areas. Higher agricultural productivity and climate-smart agriculture are critical in catalyzing growth and economic transformation. Most rural workers have limited educations and tend to do informal work, so usable technologies designed to help them learn more and earn more have substantial potential to make them more productive. At the same time, digital technologies have the potential to help people with low educational levels and limited opportunities to build their skills, boost their productivity, and create better jobs in all enterprises, including informal ones.

21. Value chains and trade are important. Although overseas sales have grown, the diversity and complexity of Namibia's exports have fallen in the past decade, compromising future growth potential. The small size of the domestic market and its specialization on low-productivity goods

increases the importance of refocusing the export strategy. The SCD focuses on: (i) resolving weaknesses in the trade-enabling environment and lowering regional integration barriers to cross-border business; (ii) continuing to diversify exports into medium and higher technology products and building product groups with higher technological content; (iii) developing the regional corridors to their full potential through additional investments and services development; and (iv) exploiting better preferences under its free trade agreements.

22. In the medium term, continuing fiscal consolidation will be crucial but very challenging.

Namibia's revenue streams are vulnerable because of the fiscal pressure of the ongoing COVID-19 crisis, the volatility of commodity prices, and uncertainty over Southern African Customs Union (SACU) receipts. The country's economy is heavily dependent on earnings generated from commodity exports of livestock, fish, and minerals, especially diamonds. It is integrated with South Africa, which supplies the bulk of Namibia's imports. Exposure to commodity prices variations is also amplified by dependence on volatile Angolan demand for Namibian services (transport, housing, and education). The fiscal outlook is expected to remain weak in fiscal years 2021/22 and 2022/23. While the authorities are committed to recalibrating expenditures from the temporary COVID-19 stimulus, the deficit is expected to remain large, averaging about 11 percent of GDP over fiscal years 2021/22 to 2022/23, as SACU transfers are set to decline sharply as a result of the COVID-19 pandemic. Public debt is expected to peak at 76.2 percent in 2020 and to gradually decrease thereafter, declining to below 70 percent by 2022.



E. Building Human Capital and Increasing the Productive Potential of the Labor Force

23. Investing in education and health is a key priority.

The focus on overcoming the challenges of developing early childhood development and education (ECDE) programs and improving basic education at all levels should continue. Opportunities to develop skills need to be substantially broadened to generate human capital for economic modernization, while also making investments to enhance the quality, relevance, and efficiency of skills training.

24. ECDE and basic education programs should be redesigned to cater for the poorest sections of society.

The SCD focuses on: (i) implementing curriculum reform, including the incorporation of technical education; (ii) improving classroom and standardized student assessment, enhancing teacher training programs, both pre-service and in-service, and improving the teacher management system and policies for recruitment, deployment, performance incentives, and continuous professional development; (iii) addressing the shortage of teacher housing; (iv) developing teaching and learning materials; and (iv) broadening and improving ECDE.

25. Reforms should be adopted in technical and vocational education and training (TVET) and the higher education system.

The SCD focuses on: (i) encouraging long-term investments needed

to improve the quality of higher education, and keep up with increasing student enrolments; and (ii) strengthening faculty development for pedagogy and research skills, accelerating the upgrading of faculty qualifications, improving the curriculum's job-market relevance to enhance graduate employability through industry partnership, boosting industry collaboration for research and innovation, and improving research grants through competitive grant schemes.

26. Further reforms are required in the health system.

The SCD focuses on: (i) establishing a single-payer reform that includes a health financing strategy with operational plans, the necessary legal framework and governance system, and national dialogue with all stakeholders; (ii) conducting analysis and continuing to monitor and evaluate health sector performance in the public and private sectors; (iii) increasing domestic resources and strengthening public sector management; (iv) improving the regulatory framework for health services delivery in the private and public sectors; (v) ensuring operational excellence in health services; and (vi) revisiting the organization and structure of the health workforce.



F. Reducing Inequalities through better Services Delivery

- 27. High and persistent inequality constrains the ability to generate sustainable and equitable growth.** Poor services delivery, especially in remote areas, and ineffectual policy implementation and coordination, diminish the Government's ability to reduce inequality and spur equitable growth.
- 28. Large-scale development of solar and wind industries can create jobs, boost growth in remote areas, and reduce inequality.** Namibia imports 73 percent of its electricity. Access to electric power remains inadequate, especially in rural areas (45.4 percent of households connected). Poor access poses a key constraint on reducing rural poverty, improving economic opportunities, and accessing social services, including health and education. Namibia's potential for low-cost, renewable energy is substantial, given cost reductions in renewable energy, the country's high solar-irradiation environment, and recent improvements in battery-storage technologies. Renewable energy conserves the nation's natural resources, provides reliable power supplies, enhances energy security, and reduces the need for energy and fuels imports. The development of the renewable energy sector

presents an opportunity to stimulate private investment across the value chain. Moreover, solar power could also facilitate energy access to sparse populations through off-grid electrification. Investments in renewable energy should also promote a structural shift of the energy sector from centralized and monopolistic models toward distributed systems. PPPs can unlock the benefits of private sector financing to support renewable energy development.

- 29. Reforms to the machinery of government should improve the quality of services delivery and boost implementation capacity.** Good governance represents a fundamental pillar of Namibia's development progress. However, the governance story is more complex than a cursory look at the indicators might imply. The low indicators of regulatory governance point to poor private sector development policies. The implementation of the long- and medium-term plans is a persistent challenge, and the monitoring and evaluation (M&E) function of national development planning is still in its infancy. Institutional capacity for either policy coordination or interagency coordination is limited.



Improved governance and coordination are required in several domains. The SCD focuses on: (i) upgrading, as a first precondition for success, the capacity to plan service delivery solutions across agencies, and to monitor and evaluate the implementation of such plans; (ii) coordinating interagency activities both horizontally (across ministries, departments, and agencies) and vertically (among national and subnational levels of government); (iii) ensuring the availability of key services delivery inputs for an efficient public procurement system; and (iv) better management, training, and deployment of public employees.

30. Sizable resources are allocated to Namibia’s social protection system, but its targeting and efficiency should be improved to further reduce inequality.

Social protection makes important contributions to inclusive growth and poverty reduction. However, the SCD analysis points out that sizable shares of the benefits leak to the non-poor, diluting the poverty-fighting impact. The social protection system is also fragmented, leading to inefficiencies. A priority should be improving the social protection system’s targeting efficiency. The SCD focuses on: (i) modernizing social protection to improve efficiency

and policy coordination through the development of a unified social registry; (ii) improving the targeting efficiency of means-tested programs; and (iii) redirecting resources toward children.

31. Overcoming the legacy of apartheid requires strong land-tenure security and a capacity for land reform.

The highly unequal distribution of arable agricultural land has historical origins. Back in the apartheid period, most arable and productive land in the southern and central parts of Namibia was taken from black Namibians and allocated exclusively to white European settlers and their descendants. As a result, currently, 70 percent of Namibia’s 39.7 million hectares of commercial farmland is owned by Namibians of European descent. Farmers on communal land do not have land titles, which makes it difficult to secure financing from commercial banks. Resolving land-ownership inequality is a key priority area. The SCD focuses on: (i) streamlining the process for applicants to plots allocated by local authorities, and enlarging communal lands to create more space for grazing and agricultural production; and (ii) developing a legal provision for group land tenure in communal areas to increase the ability of communities to manage their land sustainably.

G. Reducing Vulnerabilities to Climate Change and Environmental Shocks

- 32. Namibia is the driest country in Sub-Saharan Africa and one of the most vulnerable to climate change.** The water and agriculture sectors are particularly vulnerable to climate change, and the poor are affected most by water shortages and pollution. At the same time, forests, fisheries, and tourism play an important role in offsetting losses in agricultural income.
- 33. Promoting territorial development is an important area of further investment.** Namibia has seen one of the world's most rapid urbanizations. In the early 1990s, only about one-quarter of Namibians lived in cities. Today, close to half do. Urban population growth gives rise to both opportunities and challenges. Cities are attracting human capital, talent, and investment. Urban areas are becoming major growth engines, generating larger shares of GDP and helping many people rise out of poverty. However, the speed and scale of urbanization can leave cities struggling to keep up with their fast-growing populations. Housing crises and widening income gaps are increasing in the cities. A rapidly growing urban population puts pressure on land availability, employment opportunities, and the delivery of basic services, including security. This is especially true if local governments do not have the capacity and know-how to cater to the growing population. Namibia should prepare for massive urban population growth and ensure that it occurs in efficient and sustainable ways. Moreover, given Namibia's large territory and low population density, the way in which it develops its cities and how they are connected to each other and to regional/ international markets will have significant implications for infrastructure needs and their climate impacts.
- 34. Urbanization can contribute to sustainable growth if managed well.** Building cities that are inclusive, safe, resilient, and sustainable requires policy coordination and investment choices.¹ National and local governments have an important role to play in creating opportunities for urbanization.
- 35. Investment in climate smart agriculture (CSA) should increase resilience and boost productivity.** The adverse effects of climate change, including recurring and increasingly prolonged droughts, are expected to increase and intensify. The SCD focuses on: (i) building resilience through the adoption of CSA technologies and practices; (ii) restoring degraded land, disseminating innovative CSA technologies, including drought- and heat-resistant seed varieties, and rotational grazing, and building knowledge and local capacity; and (iii) stimulating both private and public investment to build capacity to clear invasive bush species in an environmentally sustainable manner.
- 36. Effectively manage water production and improve sanitation.** Namibia is severely water-stressed and highly vulnerable to the impacts of water scarcity on agriculture, human capital, and economic growth. The most arid country in Sub-Saharan Africa, Namibia, is marked by low and varied precipitation. Water scarcity acts as a brake on economic growth, and such water challenges require systematic mitigation. Namibia's structural water deficit is felt most acutely in the agriculture sector. This reinforces the idea that the CSA strategy will be fundamental to maintaining Namibia's productivity. Water scarcity also increases stunting and threatens tourism. The perennial drought conditions demand attention to such issues as integrated water monitoring, innovative water production, re-use, desalinization, aquifer recharging and water transfers, as well as other demand management options such as through improved efficiency and regulation. Improved, sustainable water production is critical in both rural and urban contexts. The SCD focuses on: (i) improving information and data management for water security; (ii) investment in water conservation, saving, and utilization; (iii) enhancing fair water pricing; (iv) converting food production into CSA; (v) fostering more water cooperation with regional neighbors; and (vi) developing sound systems to collect and manage hydro data.

1. *Urban development following the concept of sustainable, livable, green and compact cities provides a strong foundation for climate smart, more efficient and resilient urban forms.*

- 37. Namibia is also in a favorable position—because of its leading knowledge—to work on enhancing water production using renewable energy and reusing water.** Namibia has a uniquely large potential for renewable energy (solar,² wind and biomass) and has access to good quality seawater that can be used for desalination using renewable energy sources. Namibia’s globally acknowledged water reclamation achievements, especially in Windhoek, demonstrate a commitment to, and know-how in, diversifying water sources. Within Southern Africa, and even more widely in the continent, Namibia is a leader, and its being ahead of the curve could be used to great effect to benefit the entire African region.
- 38. Smallholder access to the market offers a way to boost tourism, and support forest conservation and forest restoration.** Renewable natural resources are of critical importance not only to the economy

but also to the population, especially the poor. Forests, fisheries, and tourism play an important role in offsetting losses in agricultural income. Critical areas for forest and land restoration need to be identified, and community forest management should be promoted along with opportunities for the development of the tourism sector.

- 39. The targeting of drought-relief assistance should be modified because the mechanisms used in the past may not work in reaching victims of future droughts.** Social protection policies are one way that governments can help households manage risks. A sustainable approach requires efficient infrastructure networks, institutional and financial incentives, communications that guide demand management, financial sustainability, and institutional role assignment and coherence.



H. Prioritization of Constraints and Interventions

- 40. The reform agenda is large and complex.** Recent developments have highlighted the importance of diversified sources of growth and improved resilience in key productive sectors. The authorities’ ability to move away from a state-centric growth model and create conditions for further private sector contributions to growth will dictate the pace of this diversification agenda. The areas of intervention can be grouped by their development pathways

and ranked according to their potential impact in lifting the identified binding constraints: (1) boosting growth, (2) reducing poverty, (3) sustainability of the intervention, (4) time horizon of impacts, and (5) complementarities for achieving the twin goals. Reforms include interventions to support PPPs and private sector investments to promote growth and generate job opportunities. Table 1 summarizes the key policy interventions proposed in the SCD.

2. *With approximately 300 sunny days and over 3,000 sun hours per year, the annual solar irradiation for Namibia reaches values of 2,200 to 2,400 kWh/m². Due to the constantly high irradiation, PV systems in Namibia generate twice as much electricity as comparable systems in Germany on an annual average (source: https://www.giz.de/en/downloads/GBN_Sector%20Brief_Namibia_RenewableEnergy_E_WEB.pdf).*

TABLE 1: Prioritization of the Proposed Interventions

TIER 1: PRIORITY REFORMS	TIER 2: LONGER-TERM INVESTMENT
Establishing an environment for private sector-led, job-creating growth	
<ul style="list-style-type: none"> • Ensure macro-fiscal stability, focusing on debt reduction through reprioritization of spending and broadening of the tax base. • Ease burdensome regulatory processes and improve the antitrust framework. • Expand access to financing and implement FSAP³ recommendations. • Improve the entrepreneurship ecosystem and invest in the digital economy. • Focus on youth- and gender-related labor market programs. 	<ul style="list-style-type: none"> • Broaden the tax base and revise tax administration. • Deepen integration into global value chains, improving overall fitness and boosting trade-enabling environmental reforms. • Support the development of a bankable PPP program, and develop institutional capacity and regulation to bring infrastructure projects to market.
Building human capital and increasing the productive potential of the labor force	
<ul style="list-style-type: none"> • Improve quality ECDE programs, focusing on the poorest. • Strengthen basic education, with an emphasis on addressing regional inequities and enhancing student learning outcomes. • Invest in pharmaceutical management systems and a regulatory framework for health service delivery. • Strengthen routine primary care and prevention against health risks. 	<ul style="list-style-type: none"> • Improve quality and relevance of skills training as well as efficiency of TVET system and higher education to keep up with increasing student enrolments. • Set up a single-payer health reform, which requires a health financing strategy with operational plans, the necessary legal framework, and a governance system.
Reducing inequalities through better services delivery	
<ul style="list-style-type: none"> • Diversify energy sources through a shift toward cleaner, less expensive solar energy. • Improve targeting of social protections. • Invest in CSA and de-bushing⁴ for rural jobs creation. • Strengthen tenure security and capacity for land reform. • Strengthen the Ministry of Public Enterprises (MPE) and public procurement, especially its ability to monitor the performance of public enterprises. 	<ul style="list-style-type: none"> • Support urbanization and increasing productivity that can contribute to sustainable growth if well-managed. • Improve coordination, planning, M&E. • Strengthen the Department of Public Service Management's ability to manage public employees. • Create incentive system for the public enterprises to track and report on key indicators.
Reducing vulnerabilities to climate change and environmental shocks	
<ul style="list-style-type: none"> • Invest in effective water management and improve sanitation. • Support forest conservation and forest restoration. 	<ul style="list-style-type: none"> • Target of drought-relief assistance must be modified for different drought events. • Improve social-insurance schemes to protect against adverse shocks. • Foster the Blue Economy approach.⁵

3. FSAP - Financial Sector Assessment Program.

4. Bush encroachment is defined as the invasion or thickening of aggressive undesired woody species resulting in an imbalance of the grass to bush ratio. <http://www.dasnamibia.org/wp-content/uploads/2016/07/De-Klerk-Bush-Encoachment-in-Namibia-2004.pdf>

5. The Blue economy is a range of economic sectors and related policies that together determine whether the use of oceanic resources is sustainable. <https://openknowledge.worldbank.org/bitstream/handle/10986/26843/115545.pdf?sequence=1&isAllowed=y>







1



INTRODUCTION AND
ANALYTICAL FRAMEWORK

1. Introduction

- 41. Namibia consists largely of desert and has a long coastline on the South Atlantic.** It borders South Africa, Botswana, and Angola. The country has a population of 2.5 million. Due to the large, arid Namib desert, the country is one of the world's least densely populated. The largest population cluster is found in the extreme north-central area along the border with Angola. The population has diverse origins, including at least 11 ethnic groups. As a former settler colony, the population includes an economically prosperous minority of European descent. The population is rapidly becoming urbanized. In 1991, close to 28 percent of the population lived in urban areas, but as of 2016, this figure had risen to about 48 percent.
- 42. After independence, gross national income (GNI) per capita grew quickly, and the success has been attributed to effective governance.** The country used earnings from its natural resources to modernize physical capital, build human capital, and develop and strengthen institutions. The Government devoted money to changing the economic structure by investing in education, health, and infrastructure. As a result, the country made significant progress in reducing poverty and achieved upper middle-income status. Namibia has made considerable gains on universal primary education, literacy, access to water and sanitation, gender equality, and various health indicators.
- 43. Despite the progress, Namibia has not taken full advantage of its opportunities, and growth has not been fully inclusive.** The country continues to grapple with the triple challenges of poverty, high inequality, and high unemployment. The economy's steady growth has not generated enough jobs, which has resulted in a sluggish reduction in inequality. The unemployment rate has remained extremely high, and the country is burdened with one of the

world's highest levels of income inequality, with a Gini coefficient of 57.6 in 2015. The spread of the human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS) has caused a deterioration in several Millennium Development Goal indicators.

- 44. Structural transformation of the economy is required to achieve broad-based and sustainable economic growth and poverty eradication.** Stable economic growth halted recently. The National Development Plan (NDP) recognizes the need to transform the economy, taking advantage of a favorable geographical location, natural resources, and improvements in intellectual and skills profiles. Located next to South Africa, which has the continent's second-largest and most sophisticated economy, Namibia still wrestles with weak productivity growth, low wages among unskilled workers, limited skills, and high transportation costs. The Government's current plans include the Fifth National Development Plan (NDP5: 2017/18 to 2021/22), and the Harambe Prosperity Plan. Both aim to achieve "prosperity for all" with the following goals: poverty eradication, a more equitable distribution of income, rapid and sustainable economic growth and diversification, human capital development, and good governance.
- 45. The challenge, however, is to look deeply into Namibian history, culture, and institutions to find the drivers of economic transformation.** This requires strong leadership and a national consensus supporting determined efforts to turn challenges into opportunities. A favorable investment climate, a labor force with the necessary technical skills, and institutions that can meet the challenges of global competitiveness will support the effort.

2. The Historical Context and the Legacy of Apartheid as a Defining Feature

- 46. The legacy of apartheid is the defining element of South African and Namibian history.** The long period of colonial rule and racial segregation created stark divides in poverty levels and a lack of access to basic services for most of the population, giving rise to the country's high levels of unemployment, poverty, and income inequality.⁶ Formerly known as South West Africa, Namibia gained political independence in 1990 after more than a century of colonial rule, first by Germany from 1884, and then by South Africa from 1915. Pre-1990 history continues to shape the country and casts a shadow that constrains progress to this day. It is the story of an incomplete transition in which progress on the political front has not been matched by progress on the social and economic fronts. Distortions from the historical legacy hold back further social progress, including reducing poverty and inequality.
- 47. The foundation of apartheid was the belief in racial differences.** When the National Party was unexpectedly voted into power in 1948, racial segregation intensified with the implementation of apartheid policy. Because Africans were disenfranchised, the interest of the poor whites trumped those of blacks, and apartheid became a tool to create a dual economy. A white-dominated modern industrial economy, with a European-style class system that included a proletariat, stood beside a traditional black economy. The black economy was largely detached from the white one, except when it came to jobs eschewed by whites, often because they involved severe hazards. This division between an affluent economy and a weak economy, separated along racial lines, casts a shadow.
- 48. The consequences of apartheid were wide-ranging.** Access to services, including education, was uneven, and the impact on skills still exists as a barrier to entering the labor market. Pre-1990 governments underinvested in the education of black Namibians, most notably under the 1953 Bantu Education Act designed to limit blacks to only minimum schooling. The consequences of a dual educational system persist to this day, with stark differences in educational outcomes across ethnic groups and schools. Education is key to obtaining jobs and earning good wages, and the unequal educational system contributes to the current high levels of income inequality. Black marginalization extended beyond education to such areas as health and housing (further discussed below). These exclusions serve as barriers that continue to disproportionately affect Namibia's historically disadvantaged population.
- 49. Although the legal structure of apartheid has fallen, the spatial legacy continues to disproportionately affect historically disadvantaged groups and serves as a barrier to entry into the labor market, especially for the poor.** After the Land Act of 1913, blacks were often moved off their properties, forfeiting their assets, breaking up families and social structures, and worsening and entrenching black poverty. The black settlement was designed to maximize returns for the white-dominated modern economy. Townships were located near areas where production required black workers—but sufficiently far from white settlements. This created the considerable spatial misallocations observed today, where townships are often far away from major places of production, especially cities. As

6. *This historical legacy led to the divergence of economic and social development between the country's less-developed north and more-developed south, a region with much better infrastructure due to its proximity to South Africa.*

a result, workers face long commutes, which are exacerbated by relatively high transportation costs that raise reservation wages (a job needs to pay more than it costs to get to it). Affirmative action policies are designed to break the entrenched structures of exclusion, including those in labor markets (employment equity) and capital markets.

- 50. The bitterness engendered by colonialism and apartheid’s racist practices also posed real threats to the creation of a peaceful postcolonial society.** Recognizing the potential threats, the new

government adopted a policy of national reconciliation as the basis for building a new nation, and as the bedrock for policies to address the economic and social injustices of the past. The constitution adopted after independence was drafted with a strong sense of positive socioeconomic rights, including access to education, health care, water, electricity, and housing. Consistent with the aspirations of the new constitution, policies implemented after independence focused on promoting economic growth and addressing social challenges.

3. Framework for the SCD Analysis: “Changing Wealth of Nations”

- 51. This SCD applies a wealth framework (Lange et al. 2018) to identify priorities for inclusive growth in Namibia.** A nation’s prosperity is determined by wealth, as well as income. GDP measures the value added of the goods and services that a country produces, but it fails to measure changes in the underlying asset base. Although GDP is the widely used indicator concerning the health of national economies, it can provide misleading signals because it ignores wealth accumulation and asset depreciation. Wealth is determined by a country’s total assets minus its vulnerabilities. The “Changing Wealth of Nations” framework is preferable to just focusing on GDP growth and its inclusiveness because it considers the annual flow of national revenue (Box 2). The proper management of a country’s endowments is a necessary condition for sustained long-term economic growth. Using wealth accounting helps determine which binding constraints are impeding the sustainable management of natural capital, long-term investments in produced capital, and the development of intangible assets that will generate favorable conditions for future growth.

- 52. The emphasis of this SCD is on identifying priority interventions to accelerate progress toward the goals of ending extreme poverty and promoting shared prosperity in a sustainable manner over the next five to 10 years.** The SCD draws from an extensive set of reports, papers, and studies produced by the World Bank, the Government of

Namibia, development partners, and academics and research institutions. A full list of these reports is provided in the report’s references section. In addition, the SCD benefited from extensive consultations with key stakeholders, including government, parastatals, and agencies, the business community, civil society organizations, development partners, academics, and research institutes. The remainder of this SCD is structured as follows:

- *Chapter 2* presents the success story and poses the main questions.
- *Chapter 3* identifies the challenges to sustainable economic growth, focusing on the recent economic slowdown and analysis of constraints in competition and trade.
- *Chapter 4* looks at the challenges of inclusion. It assesses the degree to which individuals can build and leverage assets to contribute to, and benefit from, growth; this includes analysis of inclusiveness and the challenges of education, health, and other key assets.
- *Chapter 5* focuses on the challenges of sustainability in the face of the issues that Namibia faces in managing natural resources, mitigating shocks, and dealing with fiscal vulnerabilities.
- *Chapter 6* summarizes the main binding constraints and identifies key short- and medium-term priorities for meeting the aims of inclusive growth and poverty eradication.

BOX 2: Explaining the 'Changing Wealth of Nations'

The framework includes the following asset categories:

- **Produced capital and urban land** includes machinery, buildings, equipment, and residential and nonresidential urban land, measured at market prices.
- **Natural capital** includes energy (oil, gas, hard and soft coal) and minerals, agricultural land, forests, and terrestrial protected areas; natural capital is measured as the discounted sum of the value of the rents generated over the lifetime of the asset.
- **Human capital** is disaggregated by gender and employment status (employed, self-employed); it is measured as the discounted value of earnings over a person's lifetime.
- **Net foreign assets** are the sum of a country's external assets and liabilities; for example, foreign direct investment and reserve assets.

WHAT IS WEALTH?



PRODUCED CAPITAL

Machinery, buildings, equipment and urban land

NATURAL CAPITAL

Fossil fuels and minerals, agricultural land (crop and pasture land), forests (timber and some non-timber forest products), and terrestrial protected areas.

HUMAN CAPITAL

The present value of future earnings for the labor force.

NET FOREIGN ASSETS

Foreign assets minus liabilities.

Source: Lange, Wodon, and Carey 2018. <https://openknowledge.worldbank.org/bitstream/handle/10986/29001/9781464810466.pdf>.





ACHIEVEMENTS SINCE INDEPENDENCE AND THE MAIN CHALLENGES

The Republic of Namibia is a young, upper middle-income country with an impressive track record of economic development since gaining its independence in 1990. In the post-independence decades, the country was highly successful in boosting wealth accumulation, promoting long-term growth through human capital and capital investments. It built good institutions, recorded rapid poverty reduction, raised access to services, developed a modern financial system, and built high-quality infrastructure, especially roads, ports, and information and telecommunications technology. Namibia has also become a global leader in terms of environmental protection. Despite these advances, however, Namibia remains significantly below its upper middle-income counterparts in wealth accumulation. There is growing concern that the economy may be stuck in the “middle-income trap,” with slow productivity growth making it unlikely that the country will catch up with the top global economies in the near future.

1. Namibia's Success Story and Achievements since Independence

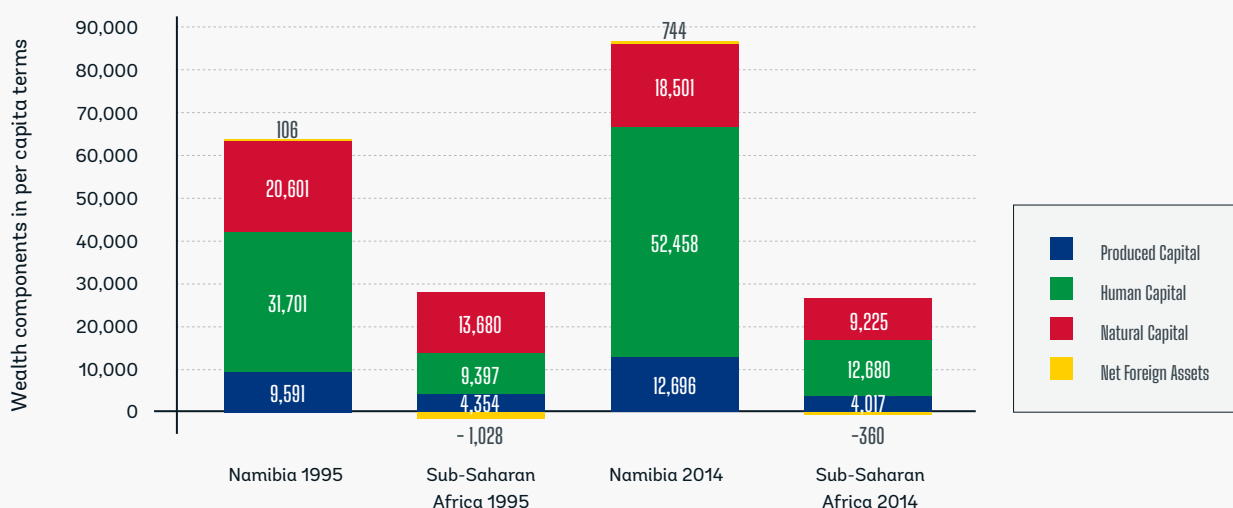
53. For all countries, national income and well-being are supported by assets or wealth, measured comprehensively to include produced capital, natural capital, human capital, and net foreign assets.⁷ Viewed through the lens of wealth, development is a process of building and managing a broad portfolio of assets.

A. National Wealth Has Increased

54. **Namibia effectively leveraged its natural capital to increase its wealth from 1995 to 2014.** During this period, Namibia disinvested in its natural capital, which dropped by 10.2 percent. However, it effectively used its resources to invest in other forms of capital. The result was a 36 percent increase in total wealth over 19 years (Figure 1).

55. **The share of human and physical produced capital has increased significantly in Namibia.** Human capital, the largest component, increased by 67 percent between 1995 and 2014, and produced capital rose by 35 percent. These gains were achieved at the cost of a decline in the share of total wealth accounted for by renewable natural capital, which declined from 32.4 percent in 1995 to 20.1 percent in 2014. By contrast, nonrenewable natural capital endowments made up only 1.8 percent of total wealth in 2014.

Figure 1: Namibia's wealth components per capita, 1995 and 2014



Source: Calculated from the database from Lange, Wodon, and Carey 2018.

Note: In constant 2014 US\$ per capita

7. In this document, wealth is defined as the sum of the following four asset categories: natural capital, produced capital and urban land, human capital, and net foreign assets. Natural capital comprises nonrenewable resources (14 types of minerals and fossil fuels) and renewable resources, including cropland, pastureland, forest timber, forest services (an estimate of non-timber forest products), watershed services, recreation values, and protected areas (value estimated as the opportunity cost of converting to agriculture). Produced capital and urban land comprise infrastructure, machinery, buildings, equipment, and urban land. (For the sake of brevity, we use the abbreviated term produced capital to include both). Human capital is measured as the total discounted value of lifetime earnings in a country. Net foreign assets are the sum of a country's external assets and liabilities.

B. Political Stability and Investment in Produced Capital Led to Rapid Economic Development

56. **Since independence, a remarkable political stability was built around a strong social contract.**

Policies implemented after independence were designed to promote economic growth and address social challenges by allocating a bigger share of the budget to the social sectors, especially education and health.

I. Prudent governance and capital accumulation in broad sectors provided the enabling environment for strong economic growth

57. **The social compact was constructed around SWAPO—the South West Africa People’s Organization.**⁸

Namibians prefer consensus building, which was illustrated following independence through early efforts to forge a sense of national unity under the ruling party’s umbrella. SWAPO inherited a functioning civil service and bulk infrastructure. The SWAPO Government chose an incremental approach to the policy changes required to address the legacy of apartheid. Although sometimes criticized for moving too slowly, particularly in relation to land reform, this incremental approach paid off in investor confidence and contributed to economic stability.

58. **A credible exchange rate peg, prudent fiscal and monetary policies, and the stable legal environment provided conditions for private sector development.**

GDP growth was fueled by the expansion of the services sector and private consumption. The adoption of new marine mining technologies in 2004 led to a significant increase in diamond production, helping the economy achieve

historically high growth of 12.3 percent. This robust growth performance continued until 2008, when the global financial crisis hit the economy. A commodity price super-cycle reversal turned the previous period of strong economic performance into a contraction, as external demand for minerals fell, pushing the output gap into negative territory. In 2009 and 2010, mining activity fell almost one-third below its 2008 level, with negative spillovers on the fiscal balance and external sector.

59. **The country has attracted significant amounts of FDI.**

As a proportion of GDP, FDI averaged 5.8 percent in 1995–99, 11.6 percent in 2001–05, and 9.0 percent in 2011–15. Mining has been the main attraction for FDI, followed by the financial sector. The main factors facilitating inward FDI have been political stability, a favorable macroeconomic environment, an independent judicial system, the protection of property and contractual rights, and good quality infrastructure.

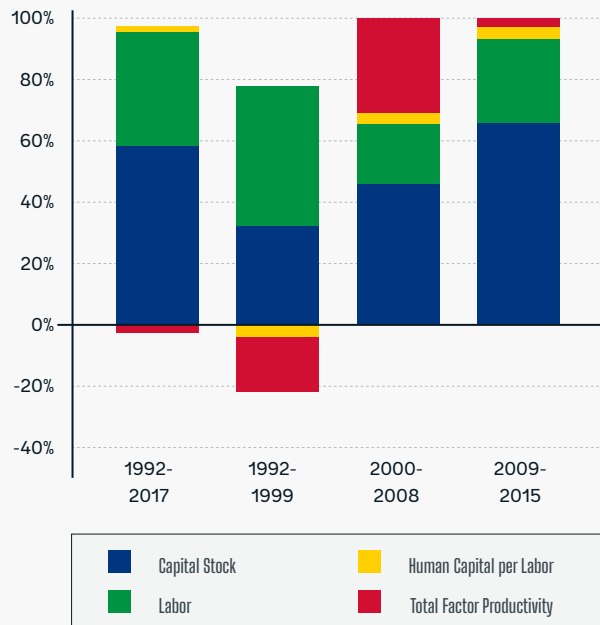
60. **Capital accumulation has been the main driver of growth over the past 25 years, followed by labor.**

Significant private investments in the mining sector and public investments in infrastructure have been the main drivers of capital accumulation, which contributed an average of 62 percent to GDP growth in the 1992–2017 period (Figure 2). Labor largely accounted for the remaining 38 percent, although private investment in labor-intensive production sectors has remained muted. Throughout the period, the average contribution to growth by total factor productivity (TFP) was mostly negative⁹, and human capital per labor was negligible.

8. Officially known as the SWAPO Party of Namibia, this is a political party and former liberation movement. SWAPO has held a majority in parliament since independence in 1990. Since November 2017, Namibian President Hage Geingob has served as SWAPO president after being elected to the position at the party’s congress.

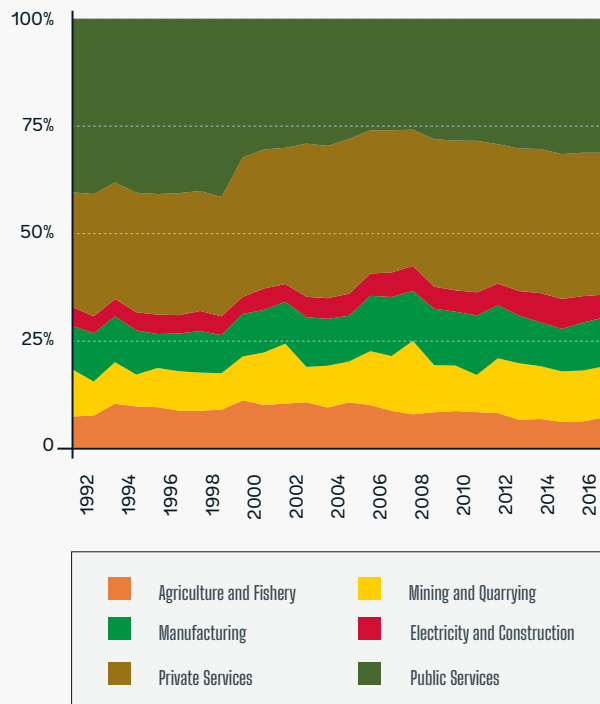
9. This average masks the high contribution to growth from TFP between 2000 and 2008 due to the adoption of new offshore diamond-mining technologies.

Figure 2: Factor of production average contribution to GDP growth, 1992–2017



Source: World Bank staff calculations.

Figure 3: Sector contribution to GDP growth, 1992–2017



Source: NSA 2018.

61. Goods exports have almost quadrupled since 2000, reaching US\$4 billion in 2017. The bulk of goods exports continued to be concentrated on mining products and agricultural raw materials in 2017. Pearls/precious stones made up 29 percent and ores and metals another 26 percent, together accounting for more than half of exports. Agricultural materials made up 27 percent, and manufactured products accounted for 17 percent. Excluding the mining sector, marine and agricultural products were the most important export product groups. Outside of SACU countries, Switzerland developed as the third-largest buyer (9.5 percent). Otherwise, export destinations were diversified, with Namibia selling its products to 163 countries.

II. Investment in a modern financial system boosted financial capital accumulation

62. The financial system has undergone some structural changes since independence, leading to an upgrade of legal and regulatory frameworks. Major changes sought to modernize the system, and guarantee safety and security. The Banking Institutions Act of 1998 provided the legal framework for banking operations, with the Bank of Namibia (the central bank) as the supervisory authority. One of the major achievements involved structural changes to the clearing and settlement of interbank transactions. Before independence and for several years thereafter, all clearing, and settlement of interbank transactions were performed as part of South Africa’s national payment system. In the early 2000s, Namibia introduced its modern payment system and established a clearinghouse to facilitate the settling of domestic interbank transactions.

63. Today, Namibia’s financial system is the second-largest in Southern Africa and relatively well-developed compared with regional peers. It includes several commercial banks and one branchless e-bank (recently taken over by one of the five commercial banks). The banking sector is sound, profitable, and adequately capitalized, with a low non-performing-loan ratio. The five main commercial banks hold more than 95 percent of assets and deposits. The Government adopted a “Namibia Financial Sector Strategy 2011–2021: Towards Achieving Vision 2030” to address the

weaknesses of the financial sector, offering a strategy focused on consumer financial literacy and protection, and access to financial services and products (particularly by SMEs).

64. Namibia has also taken steps to promote financial inclusion through financial literacy, and the regulation of bank fees and charges. The country has a high level of banked individuals, ranking third (after Mauritius and South Africa) among African countries, based on FinScope Surveys. The 2017 Namibia Financial Inclusion Survey (NFIS) put the proportion of financially included adults at 78.0 percent in 2017, an increase from 69 percent in 2011 and 49 percent in 2007. Several initiatives have been undertaken to further reduce financial exclusion. The Financial Literacy Initiative has been launched to enhance financial education for individuals and small businesses, with an emphasis on creating awareness of various financial services and products. The Bank of Namibia has been empowered to regulate bank fees and charges, which had previously discouraged segments of the population from participating in the formal financial system.

III. Investment and improvement in infrastructure and access to services

65. Progress has been made in developing high quality infrastructure. Namibia is linked by road to Angola, Botswana, South Africa, Zambia, and Zimbabwe. Two major highways, constructed immediately after independence, provide fast, comfortable road links. The Trans-Kalahari Highway links the Port of Walvis Bay to Botswana and the Gauteng province, the industrial heart of South Africa. The Trans-Caprivi Highway connects the port to Namibia's landlocked neighbors—Botswana, Zimbabwe, Zambia, and the Democratic Republic of Congo.

66. Information and telecommunications infrastructure has also been expanded to all major towns and cities across the country. The country has direct fiber-optic cable links with the neighboring countries of Botswana and South Africa, and between all towns. Since 1995, mobile-phone network infrastructure has expanded to all major towns and cities across the country, and mobile subscriptions are recorded at 119.16 per 100 inhabitants (NDP5).





67. Domestic energy production has increased due to the independent power producers (IPP), which generated additional capacity through the Renewable Energy Feed-In Tariffs (REFIT) program. According to the National Planning Commission's Economic Development Report (NPC 2018a), domestic energy-generation capacity increased from a baseline of 484 megawatts (MW) in 2016 to 517 MW in 2017. The additional capacity is attributed to IPPs that jointly generated about 33 MW through the REFIT program.

68. There has been steady progress in improving access to clean drinking water. According to the Namibia Household Income and Expenditure Survey (NHIES) report of 2016, about 91.9 percent of the population had access to clean drinking water, up from 75.6 percent in 2010 and 64 percent in 1990.¹⁰ In urban areas, 98 percent of households had access to clean drinking water, compared with 69 percent in rural areas. Greater disparity emerges when access is separated by income. The NHIES data indicate that access to clean drinking water and sanitation is positively correlated with income—97 percent of high-income households have access to clean drinking water in their homes, compared with 41 percent of low-income households.

69. The availability of modern toilet facilities has improved only modestly over the past few years. For households, toilet type is an important indicator of sanitation. The NHIES 2016 survey reported that 45 percent of households used flush toilets, 10 percent used pit latrines, less than 1 percent

used bucket toilets, and 45 percent used the bush/no toilet. Use of flush toilets was higher in urban households (70 percent) than in rural households (15 percent).

70. Steady progress has been made in increasing access to electricity. Before independence, most of Namibia's population did not have access to electricity, even in cities. In the ensuing decades, Namibia has made steady progress. In 2017, 52.5 percent of the population had access to electricity, up from 26.4 percent in 1992 (World Bank, WDI Database). Providing access to everyone, however, is complicated by the size of the country, the dispersion of the population, and the cost of infrastructure. Despite the large investments devoted to rural electrification since the mid-1990s, access in rural areas remains a challenge.

71. Increasing access to electricity requires increasing domestic generation capacity. To increase access to energy, the Government realizes that the country needs to reduce its reliance on imported electricity. It has, therefore, engaged private investors to help develop Namibia's energy infrastructure, especially in the renewable sector. To this end, a national renewable energy policy, which clearly signals the Government's commitment to developing a sustainable energy sector, has been developed. The Government has also committed to increasing the rural electrification rate from 34 percent in 2017 to 50 percent by 2020.

10. According to the survey, most households in Namibia (66 percent) reported that they have access to drinking water in their yards. Among urban households, more than three-quarters have access to drinking water in their yards, compared with 53.5 percent of rural households. In rural areas, 4.5 percent of households travel more than 60 minutes to and from their drinking water sources.

C. Investment in Human Capital Led to Strong Economic Performance, Fast Poverty Reduction and Better Access to Services

72. The Government has invested in people and developing their human capital, boosting productivity by enabling more people to realize their potential. This human capital investment has required investing in people through nutrition, health care, quality education, jobs, and skills.

IV. Investment in human capital has transformed the economy and led to poverty reduction

73. **Access to education has improved greatly.** Before independence, the educational system was based on apartheid-era policies of institutional racism. Since becoming independent in 1990, Namibia has made great strides in addressing the educational system's disparities and improving access to, and the quality of, education for all children. Free primary and secondary education was introduced on a phased basis; by 2018, the country had made primary and secondary education free and compulsory by law. Enrolment in primary schools increased from 60 percent in 1990 to 95 percent in 2000; the teaching workforce increased by 30 percent, and 3,000 new classrooms were built. According to a joint report by the Government of Namibia and the United Nations on the implementation of the Sustainable Development Goals, the country managed to attain the targets for universal access to primary education, literacy rates, and gender parity in terms of enrolment at all school levels. The report further shows that Namibia's tertiary-education gross enrolment rate (GER) of 16.2 percent in 2016 was above the Sub-Saharan Africa standard of 8.2 percent (NPC 2018b).

74. **Improvements in the educational system have made the largest contribution to poverty reduction, both from endowment and returns-to-endowment perspectives.** The overall change in education has lowered poverty rates by 5.53 percentage points in endowment accumulation and 4.5 percentage points in endowment returns. Both account for

more than 90 percent of the reduction. In addition, improvements in employment characteristics have had an important role in poverty reduction, and have translated through increased returns.

75. **Gradual progress has been made in the overall Human Development Index (HDI) ranking.**

According to the United Nations Development Program, Namibia's HDI value for 2017 was 0.647, ranking the country 129th among 189 nations and territories, and putting it in the medium human development category. (Namibia's score is above the average of 0.645 for countries in the medium human development group and above the average of 0.537 for countries in Sub-Saharan Africa.) Between 1990 and 2017, the HDI value increased from 0.579 to 0.647, an increase of 11.7 percent. Over the period, life expectancy at birth increased by 3.4 years; mean years of schooling increased by 1.2 years; and expected years of schooling increased by 1.2 years.

76. **Since independence, access to public health services has greatly increased, with more than 70 percent of the population now living within six miles of a health facility.**

Immunization programs for children are widely available across the country, and some diseases, such as measles, neonatal tetanus, and polio, have been nearly eradicated. Rates of malnutrition and diarrhea have declined, reflecting better education, nutrition, water supply, and sanitation. Access to health facilities is higher in urban areas. Over 90 percent of households have access to a hospital or clinic within six miles, in rural areas, where the comparable figure is 56 percent of rural households. In addition, significant progress has been reported toward reducing preventable mortalities.

77. **Great strides have also been made in the fight against HIV.**

The National Health Policy Framework 2010–2020 indicates that HIV/AIDS is “a major public health problem and the highest national



public health priority.” The HIV prevalence rate rose from 4.2 percent in 1992 to 22 percent in 2002, but it ebbed to 18.2 percent in 2012. The Namibia Population-Based HIV Impact Assessment, released at the 2018 International AIDS Conference, indicates that the HIV prevalence rate declined further to 12.6 percent in 2017. The results also show that 77 percent of all HIV-positive adults have achieved viral-load suppression—meaning an HIV-positive person cannot pass the virus on to someone else.

Namibia has already surpassed the Joint United Nations Program on HIV/AIDS (UNAIDS) target of 73 percent by 2020. Compared with the 2012 UNAIDS estimates, the country has reduced its adult HIV incidence rate by 50 percent in the past five years (Namibia Population-Based HIV Impact Assessment 2018). This achievement is attributed to political commitment, useful data, and community-centered HIV programs. However, the disease continues to affect women disproportionately.

78. Namibia has seen one of the fastest poverty reductions in Sub-Saharan Africa due to strong economic growth and robust social protection programs. The proportion of the population living below the poverty line declined from 69 percent in 1994 to 28.8 percent in 2010, and then to 17.4 percent in 2016 (NSA 2016). This achievement was partly the result of strong and stable economic growth, rising from an average rate of 2.5 percent in 1990–94, 3.6 percent in 1995–99, and 5.7 percent in 2010–15 (Bank of Namibia Annual Reports 1992, 2010, 2018). While a poverty decomposition analysis suggests that education and income growth in agriculture and self-employment jobs are the main drivers of poverty reduction, the Government’s social protection system has also proved to be an effective instrument in lifting people out of poverty.¹¹ The Old Age Grant (OAG) was introduced before independence, but the monthly allowance paid to beneficiaries was based on race. This was changed after independence, and all beneficiaries now receive the same amount. The social safety net was substantially expanded after independence to include monthly transfers to orphan children and people with disabilities, further contributing to the decline in poverty. Much progress has also been made in reducing income inequality. In the early 1990s, income inequality, as measured by the Gini coefficient, was estimated at around 70. Progress in reducing income disparities has been steady since then, with the Gini coefficient gradually declining to 60.0 in 2004 and to 57.6 in 2015.

11. *Based on the results of the analysis of decomposing poverty changes by income sources and by endowment accumulation and returns to endowments. In the former, the change in the poverty rates between 2009/10 and 2015/16 was decomposed into consumption/income ratio, household size, work income (wage and agriculture/business) and social protection. The largest contribution to poverty reduction came from income in agriculture/business (8.5 percentage points), while social protection made a 3.7-percentage-point contribution. In the poverty decomposition analysis by endowments and its returns, improvements in educational attainment and returns to education contributed the most to poverty reduction (5.3 percentage points and 4.5 percentage points, respectively).*

2. Low Human Capital Levels and Low Growth Potential Remain Challenges

79. There is a growing concern that Namibia may have fallen into a “middle-income trap” and cannot move on to achieve high levels of economic growth and rapid economic transformation. Relatively low capital accumulation and low wealth accumulation exacerbate this concern.

A. Wealth Remains Relatively Low Compared with Other Countries

80. **Despite improvement, Namibia’s wealth accumulation remains significantly below that of its upper middle-income counterparts.** Estimated wealth per capita in 2014 was US\$84,398—32 percent below the average for upper middle-income countries and 70 percent below the level of high-

income non-OECD countries (Figure 4). Namibia trails upper middle-income country averages in all components—produced capital, natural capital, and human capital. The disproportionately low share of produced capital reflects a relatively low level of complexity in the production process.

Figure 4: Wealth components, comparison

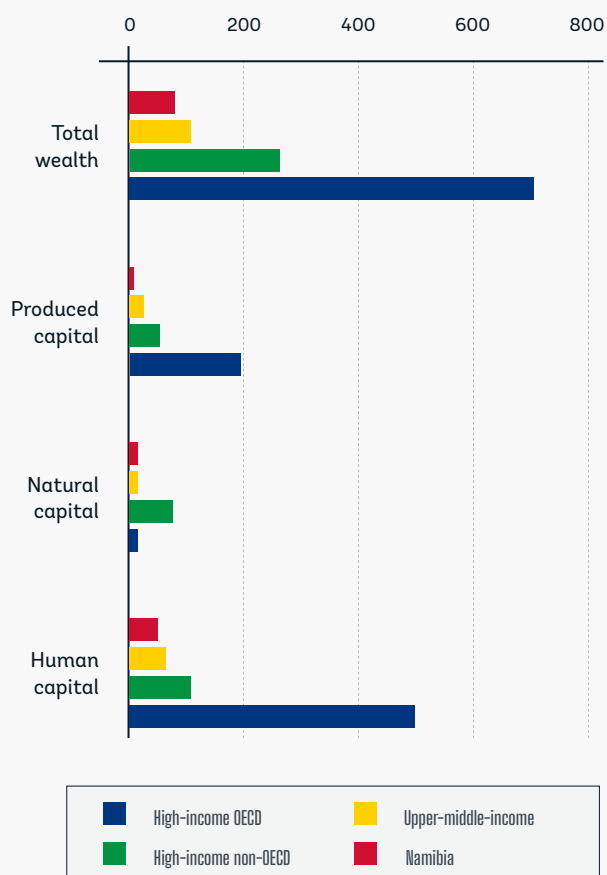
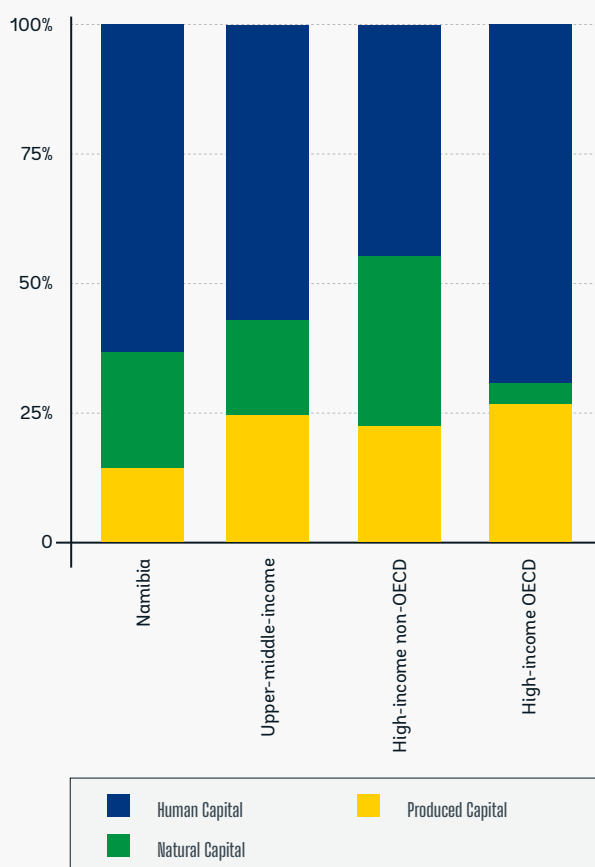


Figure 5: Composition of total wealth



Source: Changing Wealth of Nations 2018. In PPP US\$ per capita.

81 Nonrenewable natural capital endowments accounted only for 1.8 percent of wealth in 2014 (Figure 6). Over the 1995–2014 period, per capita value decreased by 34 percent for forests and 41 percent for pasturelands (Figure 7). Conversely,

average values surged by 69 percent for protected areas and 188 percent for cropland. The contribution of protected areas is linked to nature-based tourism, which has become increasing significantly.

Figure 6: Namibia’s wealth per capita components, in constant 2014 US\$ per capita, 1995–2014

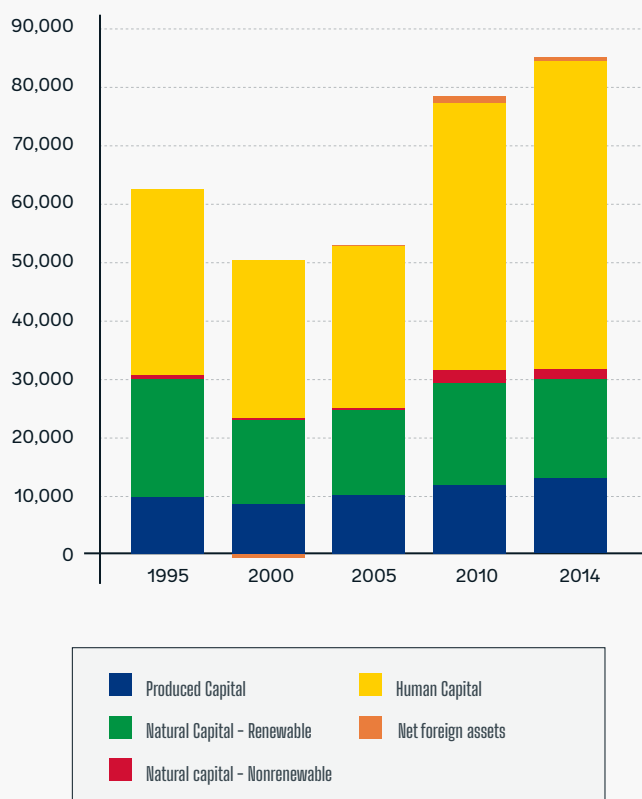
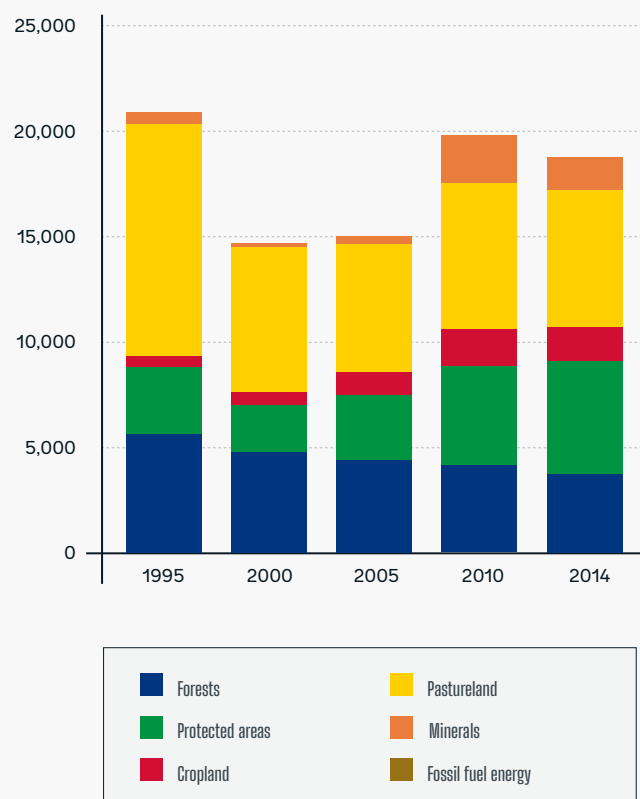


Figure 7: Namibia’s natural capital components, in constant 2014 US\$ per capita, 1995–2014



Source: Calculated from the database from Lange et al. 2018. Changing Wealth of Nations 2018.

B. The Middle-Income Trap: Myth or Reality for Namibia?

82. The negative economic growth recorded since 2016 has prompted a discussion about whether the country might be in a middle-income trap. GDP growth rates had been on an upward trajectory since independence, averaging 3.5 percent annually between 1990 and 1999, then rising to 4.3 percent between 2000 and 2009, and accelerating to 5.7

percent from 2010 to 2015. The factors behind the acceleration were mainly mining investments and expansionary fiscal policy. However, real GDP started to contract in 2016, reaching -1.1 percent in 2019. Could this slow growth be due to structural challenges, or is the country in a middle-income trap?

83. The middle-income trap (MIT) refers to the difficulty some low-income countries that have grown fast and made significant progress in reducing extreme poverty face in making the next step from middle-income to high-income status.

Only 13 of the 101 countries deemed middle-income in 1960 achieved high-income levels by 2011. As presented in several World Bank studies, GDP growth rates often slow down, and countries can struggle to build and maintain international competitiveness. Among the often discussed factors associated with MIT are rising labor costs, failure to invest in human capital and adopt technological changes, an inability to generate private sector-led innovations, institutional failures, problems in maintaining macroeconomic stability, and political economy issues. MIT is an important notion widely discussed among international and local policymakers, academics, media, and relevant stakeholders. The Bank of Namibia (BoN) annual symposium in 2019 was held under the theme “Escaping the Middle-Income Trap: A Perspective from Namibia,” a title that encapsulates the country’s concern.

84. MIT definitions differ and do not provide conclusive results. A recently published MIT analysis that presents alternative absolute definitions of the upper-income threshold were inconclusive in terms of the situation in Namibia (Zaaruka and Tjeriko 2019). According to the relative definition by Im and Rosenblatt (2013), at the current GDP per capita growth rate it will take Namibia 54 years to catch up with the US economy.

85. There is a clear consensus among stakeholders that transitioning Namibia to high-income status will not be easy and will require strong growth strategies. An extensive review provided by Larson et al. (2016) suggests that boosting productivity—a key element to support and preserve a long-term economic growth and wealth accumulation—is the best policy to overcome the middle-income trap. Researchers point to at least four fundamental components of long-term growth, which are especially relevant to any country transitioning out of middle-income status.

- **Strong macroeconomic stabilization policies.** Sound countercyclical fiscal, monetary, and financial policy-making supports long-term economic growth by helping to control inflation, avoid financial crises, and strengthen resilience to cyclical volatility.
- **Strong institutions, quality governance, and rule of law.** The quality of governance assumes public sector efficiency, control of corruption, and effective legal systems that support the enforcement of contracts, and civil and political rights. By contrast, an overburdening government that distorts markets or ineffectively interferes in the economy weakens the private sector and impedes growth.
- **Investment in human capital development.** Human capital makes up close to two-thirds of the rich countries’ wealth, indicating its importance for growth and wealth creation. The rates of productivity improvement and technological innovations largely depend on the presence of a highly skilled labor force.
- **Open and competitive markets.** They promote increased specialization, efficient resource allocation based on comparative advantage, improved productivity, and the diffusion of knowledge and technology.

All the above-mentioned factors could boost growth and wealth accumulation but might not increase shared prosperity. It is imperative to reduce income inequality by investing in human capital among the poor, enhancing social protection and services delivery, using targeted special interventions, and developing and supporting the middle class. Ultimately, each country’s growth story is unique and requires strong evidence-based backing of the proposed policies priorities. The main objective of subsequent chapters is to answer two related questions: What are the most critical binding constraints and opportunities in accelerating Namibia’s progress toward the goals of ending extreme poverty, promoting shared prosperity in a sustainable manner, and overcoming the middle-income trap? What policy measures will be most effective in addressing these issues?



The image features a stylized Indian flag (saffron, white, and green) in the top left corner, partially overlapping a background of light-colored wooden planks. A large, light grey abstract shape is on the right side. The number '3' is rendered in a large, red, outlined font, followed by a red equals sign.

3 =

CHALLENGES OF MAINTAINING SUSTAINABLE ECONOMIC GROWTH AND WEALTH ACCUMULATION

Capital accumulation has been driven by large private investments in the mining sector and public investments in infrastructure that did not lead to increases in TFP. The economy remains highly dependent on exports of primary products with little value added. Relatively high budget deficits and the rapid accumulation of public debt have resulted in a draining of domestic market liquidity. A narrow-base tax system and the fiscal deficit are obstacles to economic growth. The duality of the labor market and the lack of productive jobs have led to extremely high unemployment. Those who find employment, especially in the informal sector, have limited earnings despite working long hours. Productivity varies significantly across sectors, with agriculture being the lowest. Lack of competitiveness, poor access to financing, low integration in global value chains, and generally low levels of entrepreneurship are among the core challenges facing the private sector. Reforms in antitrust policy and the management of SOEs are pending. Energy dependency is an obstacle for economic growth and the status of the domestic energy supply remains a major infrastructure challenge.



1. Low TFP, Deterioration of Fiscal Liquidity, and High Macro Volatility

86. Sustainable economic growth is the most important factor influencing the speed of poverty reduction. Establishing conditions that facilitate private sector investment is a key objective for accelerating a country's growth and poverty reduction. Prudent macroeconomic and fiscal policies are cornerstones of private sector development, economic growth, and capital accumulation. This section explores the main challenges of macroeconomic and fiscal management in Namibia.

A. High Investment in Mining and Infrastructure but Weak Productivity and Inefficient Inter-sectoral Allocations

87. **The Namibian economy grew at a solid average annual 4 percent during 1992–2018, in line with the Sub-Saharan Africa average.** This performance has been around the midpoint among middle-income countries. Income per capita has significantly increased since independence, allowing Namibia to be reclassified to an upper middle-income country in 2009.

88. **Economic growth came to a halt in 2016 after a period of strong growth but rising macro imbalances.** After years of robust growth during 2010–15, growth in Namibia's economy halted in 2016 and contracted by 0.5 percent annually over 2017–19, driven by a correction in activities in the construction and mining sectors, as well as weak growth in neighboring countries that had additional adverse effects on demand for Namibia's exports. The rebalancing of the economy was accompanied by fiscal consolidation as the growth boom was

marked by rising public spending and public debt, contributing to the depressed economic activity.

89. **Structural transformation was evident, but not enough to significantly boost productivity.** The structure of Namibia's economy has remained stable over the past three decades, dominated by the services sector, both public and private. Overall, it accounted for around 63 percent of output in 2017; the industrial sector, including mining, contributed around 27 percent, and agriculture and fishing made up another 8 percent (NSA). Tourism and transport services were significant foreign-exchange earners, generating receipts of US\$260 million in 2017, and contributing 8.4 percent to Namibia's GDP.

90. **Namibia's manufacturing base lacks diversification.** Since independence, Namibia has had limited industrial development and continues to import most manufactured goods from South Africa. Manufacturing makes up a low share of national

output (11 percent), employment (7.3 percent), and exports (35 percent). The Government is committed to supporting broader-based industrialization. However, the challenge is to make Namibia—a small country adjacent to a large neighbor—an attractive destination for investors integrated into global and regional value chains in order to foster productivity and economic growth. The World Bank suggests that it can be achieved through: (i) institutional reforms that facilitate intraregional trade and factor mobility; and (ii) investment in infrastructure that links the region to major world markets (World Development Report 2009).

91. Agriculture retains its dualistic structure. There are two distinct farming systems in Namibia—a large-scale commercial sector that dominates output and a small-scale communal farming sector largely subsistence in nature. About 70 percent of the population relies on agricultural activities for its livelihood. The agriculture sector is dominated by livestock farming—cattle, sheep, goats, and pigs—although the share of livestock farming in the sector declined from 67 percent in 2007 to 57 percent in 2017. Meat contributed 90 percent of agricultural export earnings and 6 percent of total export earnings in 2017.

92. The economy relies heavily on the extraction and processing of minerals. Namibia is well endowed with nonrenewable natural resources, including gem-quality diamonds, uranium, copper, lead, zinc, arsenic, cadmium, antimony, pyrite, silver, gold, and semiprecious stones. Diamonds are the most important product in the mining sector, accounting for about 68 percent of mineral output and more than 45 percent of foreign-exchange earnings. The mining sector in Namibia, however, has not been a major contributor to employment and poverty reduction. The most recent Labor Force Survey for 2018 shows that mining employed 1.7 percent of the labor force, down from 2.2 percent in 2016 (Namibia Statistics Agency 2018). In more general terms, a World Bank Group study (World Bank Group

and Agence Française de Développement 2017) indicates that harnessing the returns from natural resources wealth and channeling them productively could contribute substantially to eradicating extreme poverty and enhancing shared prosperity. Success will depend on good decisions and sound implementation.

93. Capital accumulation has been driven by large private investments in the mining sector and public investments in infrastructure. Mining received close to one-third of the country's investment. Not much private investment has been directed to other productive sectors. Government investment has focused mostly on infrastructure projects, raising the issue of how to stimulate private investment activity that would raise productivity in other sectors. These investments could become the major growth engine because no new big projects are expected in the mining sector, and government sources for large capital projects are already exhausted.

94. Since 1990, little investment has taken place in labor-intensive production. Several factors explain investment sluggishness. First, the proximity of the more advanced South African market represents a key disincentive for investment in Namibia. Second, market incumbents can block new entrants—for instance, Namibia Breweries did this for decades (stories are similar in other industries). Third, a range of government policies and regulations discourage new firms from starting production.¹² In addition to the Doing Business-measured regulations, many trade-related policies introduce an anti-export bias, immigration policies prevent the use of skilled foreign labor, and labor policies generally raise the cost of hiring new workers. Although some private sector services industries have expanded since 1990, the structures of production, trade, and employment look very much like they did at independence. Boosting private investment in labor-intensive areas could result in job creation and have a lasting impact of growth (Box 3).

12. In 2018, Namibia ranked 107th among 190 economies in Ease of Doing Business, according to the latest World Bank report. The country's rank slipped from 106th in 2017. From 2008 until 2018, Namibia's average ranking was 90th, reaching an all-time low of 108 in 2016 and a record high of 54 in 2008 (Doing Business 2019).

BOX 3: Where to Invest to Generate more Jobs and Achieve Inclusive Growth

Private investments will generate different impacts on the economy depending on the sector. Figure 8 shows sectoral multiplier effects on GDP and employment in response to a US\$1 million increase in revenues across various sectors. These effects are computed using the Social Accounting Matrix (SAM) multiplier approach,¹³ which assumes that increases in revenues or output are driven by positive shocks related to investments or business-model improvements. These shocks generate direct, indirect, and induced effects throughout the economy that add up to a cumulative impact.¹⁴

The agriculture and services sectors are among the industries with the highest GDP multipliers, and these gains are driven by large direct effects. Figure 8 shows that low-productivity sectors, such as agriculture, have high GDP multipliers (above 1.4, top left corner). Agricultural sectors—such as animal products not elsewhere classified and vegetables, fruits, and nuts—generate large multiplier effects even though they do not have strong backward production linkages in the economy. Investments in trade, business services, communication, and dwellings (top left corner) have the strongest multiplier effects on both GDP and employment.



13. The main databases for this model are the Global Trade Analysis Project's GTAP 9 (see <https://www.gtap.agecon.purdue.edu/databases/v9/>) and the World Bank's World Development Indicators.
14. Direct effects pertain to the sectors immediately impacted by these shocks and measure the increase in output or revenue in that sector. Indirect effects arise from backward and forward production linkages in the economy, and induced effects are caused by consumption linkages that increase expenditure on goods and services in response to an increase in labor and capital income (through expanded employment and capital). It is important to note, though, that the SAM multiplier approach is based on strong assumptions, including unlimited resources and supply responses in the domestic economy, fixed prices, no substitution effects, and a static or unchanged structure of the economy with respect to technology. Reported results are rounded and should be interpreted as an approximation that reveals expected economic impacts as orders of magnitude.

95. Weak aggregate productivity reflects inefficient inter-sectoral allocation, with labor concentrated in the economy's lowest productivity sectors. In many cases, these inefficiencies are a legacy of the apartheid era. Shortly after democracy, capital was reallocated in response to changes in relative prices, reflecting the opening of the economy. However, the efficiency of capital has turned negative, suggesting it has not been allocated to the most productive uses.

96. Namibia's productivity levels are far behind the average for upper middle-income countries. Moreover, productivity growth has slowed substantially in recent years, with total factor productivity (TFP) contributing negatively to growth over the past 15 years (Figure 9).¹⁵ Part of the story is low productivity in agriculture and industry.

97. Strong growth has masked a deteriorating productivity performance in the country. The continuous increase in public expenditures on government consumption, the public workers' wage bill, and capital investment projects fueled the private consumption that has been the major driver of GDP growth. However, this has gradually crowded out SMEs and the private sector from many areas, including investment activity. In addition, this strong growth masked a deteriorating productivity performance in the country, with the current account deficit widening, and international reserve coverage falling below adequate levels. Rapid credit growth financed the economic expansion, but it also fueled fast-rising house prices and elevated private sector indebtedness.

98. This model has now exhausted its potential and the time has now come for Namibia to shift its growth model toward private sector-led development and productivity growth. World Bank simulations¹⁶ indicate that Namibia, based on its current growth model, has reached the peak of its growth potential. If the country continues with the same model—

Figure 9: Average contribution of each production factor to GDP growth, 1992–2017 (percent)

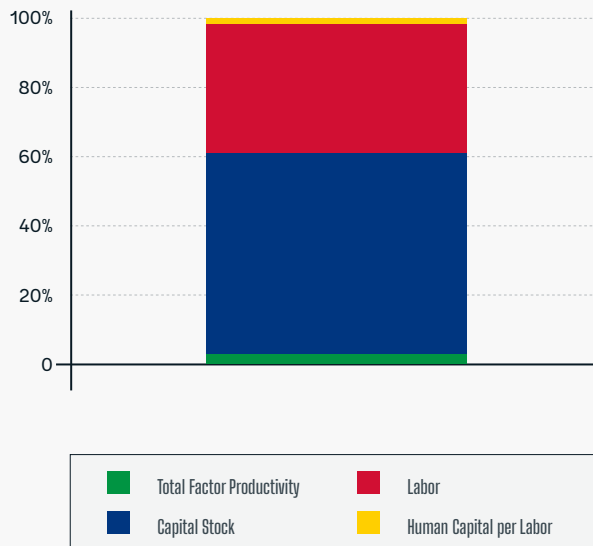
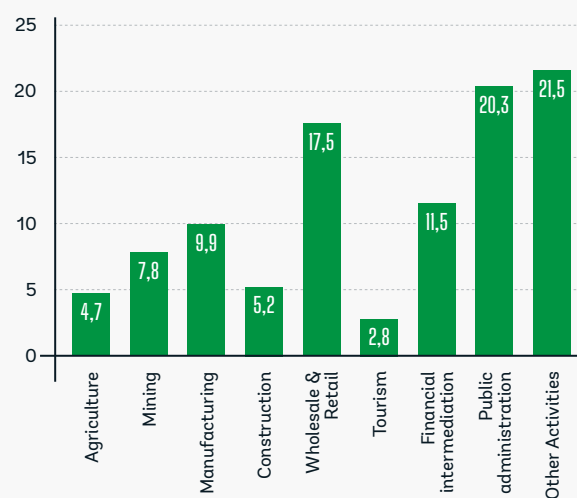


Figure 10: Contribution of economic sectors to value-added growth, 1992–2017 (percent)



Source: Authors' calculations based on WDI data.

15. Over the past 25 years, Namibia's GDP growth has been driven by capital accumulation and labor, with TFP growth's contribution mostly negligible. Capital-stock accumulation's average contribution to GDP growth was 62 percent in 1992–2017, with labor accounting for 39 percent. During the period, the TFP contribution was mostly negative, and the contribution of human capital per labor was very low, i.e., near zero.

16. "Loayza N and S Pennings, "The World Bank Long Term Growth Model (LTGM)", www.worldbank.org/LTGM

Figure 11: Growth Scenarios: Baseline, Boost TFP, and Increase in Investments



Source: Authors estimations based on the LTGM-PC model. The data are from Penn tables 9 and WDI.

without a significant boost in productivity growth, private sector development, or introduction of new production technology and know-how—the potential growth rate will increase only very gradually in the medium to longer run.

99. The World Bank estimates indicate potential growth of only 1.0 to 3.7 percent over the next five years as the economy recovers from a recession and low investment levels.

Potential growth will not exceed 3.5 percent thereafter, based on the gradual decline in the investment-to-GDP ratio, very small TFP gains, and a projected decline in population growth after 2023. GDP per capita will also grow at a low annual rate of around 1.5 percent in the medium to longer run. Shifting the model toward private sector-led development, inclusion, and boosting productivity will need to become the core government priority to improve growth prospects. For this strategy to succeed, the Government must increase the returns on its investments in education and health, improve the business environment, and promote good governance. Investment in technology to reap digital dividends in the form of faster growth, more jobs, and better services will also be critical.

100. To regain a 4 percent growth rate, Namibia needs to either boost productivity or increase investment.

We estimated the effect of increasing TFP growth to 1 percent in the medium to long term (by 2022), rather than the zero percent in the baseline scenario. The model suggests that a 1-percentage-point higher TFP growth rate achieves 4 percent growth over the period 2022–30. Alternatively, Namibia could try boosting growth through higher investment. Specifically, this scenario looks at increasing private investment from 10 percent of GDP in 2017 to 23.5 percent by 2022, with constant public investment as a share of GDP. This means that total investment increases from 16 percent of GDP to 29.5 percent of GDP (vs. 21 percent in the baseline). Figure 11 presents the resulting GDP growth associated with both the TFP and investment scenarios. As foreshadowed by the analytical results, the increase in growth from an

expansion of private investment is very similar to (but marginally larger than) the increase in growth from an expansion of public investment. As such, policymakers need not be concerned that public investment is unable to expand due to budgetary pressures, if private investment is able to take its place.

101. Although increases in average growth are the same with the higher TFP and investment simulations, the dynamics are quite different.

With the increasing investment, the highest growth rates are at the start (4.2 percent in 2023) and then growth falls off—by 2030, growth is only 3.8 percent. The reason is diminishing marginal returns to capital—that is, keeping other factors fixed, each new building or machine adds less to output than the previous one (as private capital becomes less scarce). Although both simulations lead to the same growth rates over 2023–30, higher productivity growth is the preferred path because it is both more feasible and more sustainable. The proposed 1 percent TFP growth target is between the 75th and 90th percentile across countries (Figure 11C), so it is achievable. In contrast, investment rates of around 30 percent of GDP are close to the 90th percentile across countries over a 20-year horizon, and so should be regarded as more ambitious (Figure 11D). In the Namibian context, recent high rates of investment are due to the construction of new mines. Once those mines have been completed, the prospect for rates of investment approaching 30 percent is limited.

102. TFP growth can be driven by increased efficiency of individual firms, the reallocation of factors of production to more efficient firms/industries, a more efficient allocation of credit, or better infrastructure.

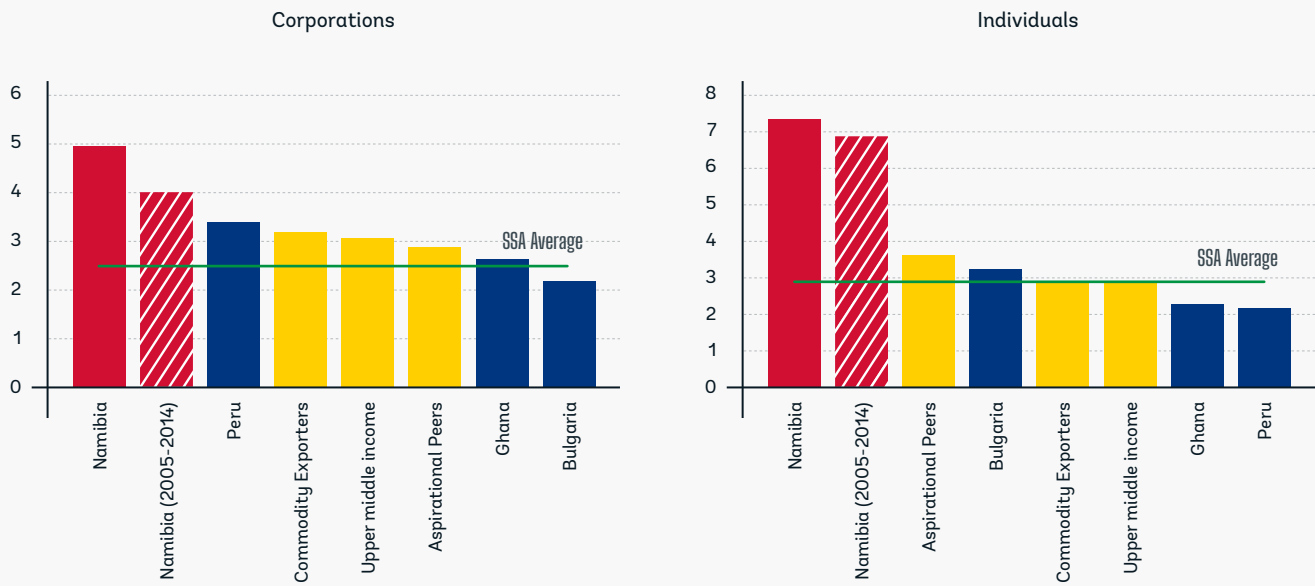
Improvements in the competitive environment usually encourage both higher efficiency of individual firms and allow factors of production to move from less-efficient to more-efficient firms and industries. Lower distortions—for example, those identified in the World Bank’s Doing Business indicators—have a similar effect.



B. Deterioration of Fiscal Situation and Liquidity Challenges

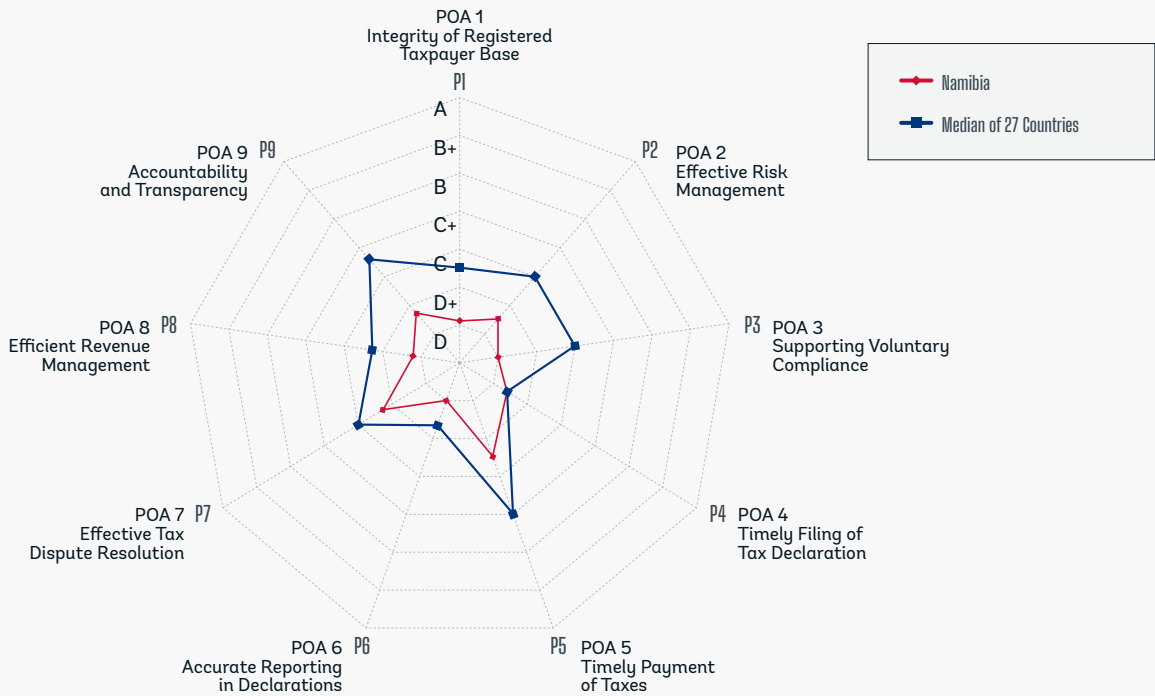
- 103. The role of fiscal policy will continue to be key in guiding Namibia's growth trajectory.** As a member of the Common Monetary Area, and with a currency pegged at par to the South African rand, inflation and interest rate developments have remained closely linked to those in South Africa because of the common framework for monetary and exchange-rate policies. As a result, fiscal policy is, and will continue to be, the main tool used for macroeconomic stabilization. To this end, a shift toward a countercyclical fiscal policy with more predictable government spending patterns will be essential for sustaining macroeconomic stability and providing a more encouraging environment for private investment.
- 104. Namibia's public debt levels and the associated debt service are a cause for concern.** Namibia's public and publicly guaranteed debt is expected to reach 76 percent of GDP in 2020 and interest payments 4.9 percent of GDP. These levels are expected to remain elevated in the near future, creating challenges for fiscal consolidation. Although the larger share of debt is in domestic currency, the country faces foreign-currency exposure through two Eurobonds, amounting to US\$1.3 billion with amortizations due over the next two years. Almost one-quarter of outstanding debt has a short-term maturity. In this context, the Government's gross borrowing requirements will remain high in the coming years, placing additional liquidity pressures on public finances.
- 105. The taxation system is not broad enough and may burden the private sector.** Total government tax revenues as a share of GDP are the largest among the comparable countries (structural and aspirational peers) and the upper middle-income countries. The collections are mostly from direct taxes rather than indirect ones. Especially high are direct taxes on income, profits, and capital gains of the business sector and individuals. This imposes a high burden on the business sector and impedes private sector development.
- 106. The erratic and narrow tax base is particularly worrisome in the context of the large debt stock and high fiscal deficits, which leads to concerns over rising debt-service costs and the unsustainability of public finances.** Although increasing revenues are usually not considered a pro-growth measure in fiscal consolidation, structuring the reform around broadening the tax base and reducing the informal economy could be both pro-growth and pro-poor. Namibia may not need to focus on collecting more revenues as a share of GDP, but it may find that broadening the tax base could reduce some of the higher statutory rates than those of most regional peers (Figure 12). The corporate tax rate in Namibia of 32 percent is higher than regional averages of around 27 to 28 percent. Improvements in tax administration would also be key to bringing about the needed change.

Figure 12: General Government Taxes on Income, Profits, and Capital Gains



Source: Based on the Find My Friends using the International Monetary Fund's World Economic Outlook Database, <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/>

Figure 13: Effectiveness of the revenue administration



Source: TADAT 2016.

Note: Median includes low- and middle-income countries. TADAT - Tax Administration Diagnostic Assessment Tool.

107. The changes in policy need to be supplemented by efficient tax administration. According to the 2016 TADAT assessment, the Namibia Revenue Administration (NRA) performs below most comparator countries (Figure 13). Most notably, registration of taxpayers is weak, which means that the NRA does not know who it should tax. Weak risk management, revenue accounting, and support to voluntary compliance also lead to considerable non-compliance issues. As a result of inefficiencies in tax administration, Namibia lags behind its regional peers in the ease of doing business. Namibia scores well on total tax and contribution rates and the profiling index. However, it still takes 302 hours to comply with taxes compared with 280 hours on average in Sub-Saharan Africa, 159 hours in OECD countries, or 49 hours in Singapore, which is the best performer on this dimension. The number of payments per year is also above the world average and could be reduced once online filing and payment systems are introduced.

108. Revenue collection efforts have not kept up with spending trends. As government expenditures increased from 28.1 percent of GDP in 2006 to the historic peak of 43.5 percent in 2015, revenue collection remained largely stable. Fiscal consolidation measures put in place over the past two years have contributed to a narrowing of this figure, but it remains high compared with peer countries. At an average of 14 percent of GDP between 2010 and 2016, spending on the wage bill was relatively high for the region. Consequently, recurrent spending has remained relatively rigid,

leaving the capital budget to bear the brunt of fiscal adjustment. Given Namibia's sizable infrastructure gaps, a continuation of this trend represents an important risk to the country's growth strategy.

109. Namibia's revenue streams are vulnerable because of the volatility of commodity prices and uncertainty over SACU receipts. The country's formal economy is based on farming and capital-intensive industry. It is heavily dependent on earnings generated from commodity exports of livestock, fish, and, most important, minerals, especially diamonds. The economy is integrated with the economy of South Africa, which supplies the bulk of Namibia's imports. Exposure to commodity price variations is also amplified by dependence on volatile Angolan demand for Namibian services (transport, housing, education).

110. Beyond the impact of the COVID-19 pandemic, the fiscal consolidation process will be challenged by the expected decline in SACU receipts and will be vulnerable to shocks in commodity markets. In addition, the space for further borrowing on international financial markets is limited due to recent downgrades in Namibia's sovereign credit rating. Although revenue sources have diversified over the past 10 years, the Government is still greatly dependent on SACU receipts. However, these are not growing. SACU's contribution to total government revenues declined substantially from 38 percent in 2006 to 29 percent in 2017. The decline was offset by increased contributions from indirect and direct taxes from a broadening of the tax base.

C. Country Dependence on the Global and Regional Context and Price Volatility

111. Namibia's economy remains highly dependent on international trade, with an average ratio of goods and services' exports and imports to GDP of over 80 percent. South Africa supplies the majority of imports. Export destinations, however, are more diversified than they were in the first 15 years after independence. In 2016, for example, the top merchandise export destinations were Switzerland (with a share of 18.8 percent), South Africa (16 percent), and Botswana (14.1 percent).

112. Namibia is heavily dependent on the global and regional contexts more broadly. Its location and regional interdependence mean that the country is heavily susceptible to, and influenced by, its neighbors to trade, cooperation, and regional stability. Similarly, the profitability and investment outlook for extractive industries is closely tied to international commodity prices (Figure 14). Falling prices risk undercutting mining operations. On the back of low global uranium prices, Rössing Uranium failed to turn a profit for several years after 2010, resulting in cost cuts and job shedding (World Nuclear Association 2019), and the Langer Heinrich Uranium Mine suspended operations in 2018 (Kaira 2018).

113. Channels for potential vulnerabilities from regional developments are many. As a member of the SACU area, fiscal revenues are closely related to South Africa's import levels. These levels are typically procyclical, exposing Namibia to South Africa's business cycles. A negative shock to the South African economy would have an adverse impact on flows to Namibia's budget—and this has already occurred with the COVID-19 pandemic. Trade linkages with South Africa, the SACU area, and the broader Southern African Development Community (SADC) area are also a source of spillovers through exports and imports. South Africa and Botswana—both partners in the SACU region—are Namibia's most important individual export markets, with export shares of 21.8 and 12.2 percent, respectively. The SADC, which includes SACU, has replaced the EU as Namibia's most

Figure 14: Namibia's exports and uranium price volatility

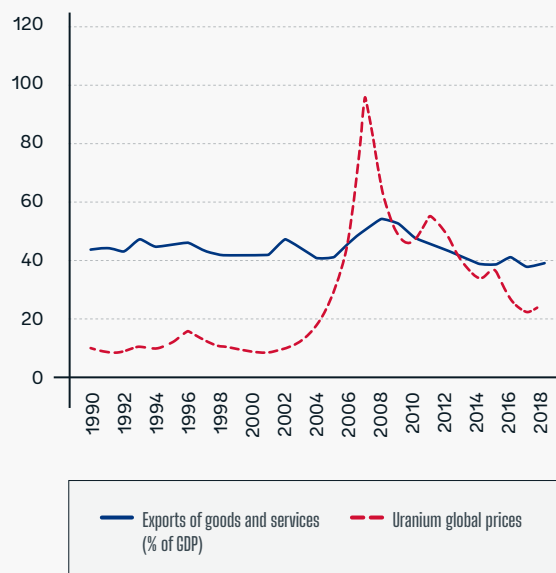
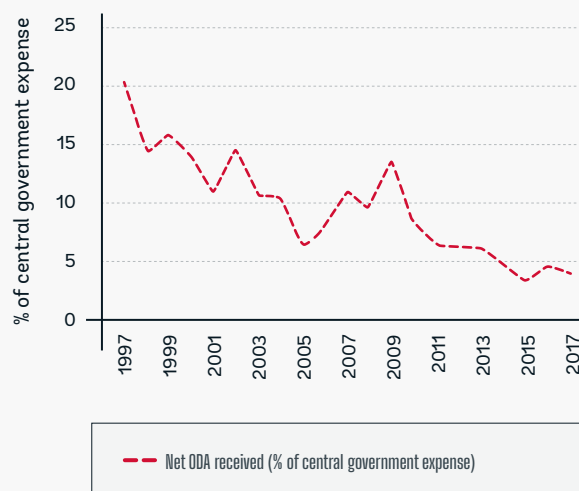


Figure 15: Net Official Development Assistance (ODA) received



Source: Authors' calculations based on World Development Indicators and the International Monetary Fund.

BOX 4: Economic and social impacts of the COVID-19 crisis - Lessons from abroad¹⁷

Several resource-rich countries have established funds in response to the challenges and complications that resources revenues pose to fiscal policy and asset management. In some of these countries, the fund is part of a fiscal framework that includes a fiscal rule or guideline. This box looks at stabilization mechanisms set up in the following resource-rich countries: Botswana, Chile, and Norway. A summary of the objectives, governance and ownership structure, sources of funding, and rules for withdrawal is provided below:

Insulating the budget against instability in mineral prices and production is a key objective. Botswana set up its Pula Fund (PF) in 1994 to shield the budget and foreign reserves from falling mineral prices. Similarly, the Economic and Social Stabilization Fund (ESSF) in Chile was set up to stabilize fiscal spending across economic cycles with low copper prices and production. The ESSF's assets may also be used to finance payments on public debt, freeing up revenue to finance productive expenditure. The main objective of Norway's Government Pension Fund-Global (GPFG)—the world's largest sovereign wealth fund—has been to create long-term savings and a stream of revenues for future generations. The approach has been to gradually phase petroleum revenues back into the local economy when oil reserves become depleted. Norges Bank, the central bank of Norway, is responsible for managing the fund's resources by investing in international financial markets, with the objective of maximizing returns. Similarly, the Central Bank of Mongolia is responsible for managing the fund's assets and for investing efficiently in international markets. Contrastingly, in Chile the minister of finance is responsible for managing his country's fund and its investments (asset eligibility, portfolio allocation, benchmarks for investment limits, and performance

evaluation), although an external advisory board composed of independent experts has been set up to advise the minister on the fund's long-term investment policy. Botswana takes a joint-management approach, where the Bank of Botswana is responsible for managing reserve accumulation, while the Ministry of Finance manages fiscal transfers.

Withdrawals typically follow the inverse of the deposit rules. If reserve levels in Botswana fall below the reserve's adequacy target, for example, then withdrawals from the PF are authorized. Often, countries place added restrictions on withdrawals to ensure that funds are used appropriately. In Botswana, where a more qualitative approach is taken toward withdrawals to support the fiscal balance, the authorities are not allowed to use the PF to finance quasi-fiscal or off-budget operations. For Norway's GPFG, government withdrawal is based on the annual real return on the fund's invested assets, capped to a maximum of 4 percent of the GPFG's overall asset value. Capping withdrawals has the two-fold effect of reigning in government expenditures while ensuring that existing buffers remain at prudent levels.

important export partner during the past decade. Its share in exports rose to 40 percent in 2017, up from 36.5 percent in 2010. Moreover, almost two-thirds of Namibia's imports originate in the SACU region, the largest part in South Africa (59 percent). Electricity is an example of a key intermediate goods imported from South Africa. Given electricity's importance for domestic economic activity, any disruption in supply or shortage is likely to have a negative impact on production.

114. Changing international relations and the reclassification of Namibia as an upper middle-income country in 2009 have resulted in lower ODA (NPC 2012, ix). Figure 17 shows the three-decade trend in the country's ODA. The reclassification has also contributed to a withdrawal of development partner support for civil society organizations, undermining the ability of alternative service providers to fill gaps in government services (USAID 2018, 155–57). Some organizations, such

17. Source: Developed based on Note on stabilization/wealth funds: a case study analysis, World Bank (2018).

as the Global Fund, which helps to combat HIV/AIDS, tuberculosis, and malaria, have had to shift assistance to countries categorized as being in greater need of financial assistance (Menges 2018).

115. Because it is pegged to the South African rand, Namibia's currency has been depreciating steeply relative to the US dollar in recent years.

To a considerable extent, this is due to the end of the commodity super-cycle, worsening the terms of trade for commodity exporters such as South Africa and Namibia. The phasing out of quantitative easing in the United States has also weakened the Namibian dollar relative to the US dollar. This may offer some openings for more manufacturing exports, as well as improved exports in other areas.

116. The COVID-19 pandemic is confronting every level of the Namibian economy with an unprecedented challenge.

The global slowdown caused by the COVID-19 outbreak and closure of economies is expected to result in a growth contraction of 7.1 percent in 2020. Growing spending pressures and rising debt levels have worsened the fiscal outlook, particularly as the decline in output and slowing trade constrain revenue collection. Regional developments, including the sharp decline in South Africa's economic activity, will further constrain the growth outlook and pose a threat to Namibia's SACU receipts. The poor and middle class are expected to bear the brunt of the crisis. The lockdown due to the pandemic is expected to increase the upper bound poverty rate by between 2.5 and 6.6 percentage points, depending on the length of the crisis. Box 5 summarizes the adverse socioeconomic impacts of the COVID-19 crisis.

I. Vulnerability to price volatility

117. The Government's revenue streams are vulnerable because of the volatility of commodity prices and uncertainty over SACU receipts.¹⁸

The country's formal economy is based on farming and capital-intensive industries. It is heavily dependent on earnings generated from exports of livestock, fish,

and minerals, especially diamonds. The economy is integrated with South Africa, which supplies the bulk of Namibia's imports. Exposure to commodity-price variations is also amplified by dependence on volatile Angolan demand for Namibian services (transport, housing, education, and retail, among others).

118. Vulnerability to commodity-price shocks is reinforced by the resource-intensive economic model.

Despite efforts to diversify exports, the country's export structure has remained broadly unchanged, and exports remain dominated by mineral products (around 60 percent of total exports), including diamonds, uranium, and gold, as well as processed metals such as copper blisters and refined zinc. Over the 1992–2017 period, minerals accounted for 11.4 percent of GDP and 44 percent of exports. The real impact of minerals goes even deeper because of the importance of government employment and spending in driving consumption—the second engine of the economy. Continued reliance on the mining sector means that the economy remains exposed to commodity-price shocks and trends in global demand. Low uranium prices will continue to adversely impact the prospects for expected uranium production in the country, and the weakening global demand for diamonds could lead to larger-than-anticipated reductions in diamond production. Moreover, mineral production is now well past its peak. Although new finds and improvements in extraction technology suggest that output is likely to continue beyond previously predicted estimates of 2030, the reality is that diamonds are a dwindling resource.

119. Heavy dependence on resources also implies that both export receipts and tax revenues are subject to fluctuations in international commodity prices.

This dominance of mineral products has come at the expense of progress toward developing sophisticated export goods, thus affecting the country's competitiveness. In its most recent Article IV staff report (2019), the IMF reports that the ongoing government strategy to add value to raw materials

18. SACU receipts are determined at the beginning of each fiscal year for each member country and are disbursed on a quarterly basis. For the five member countries, SACU receipts are determined by a revenue-sharing formula. According to the formula, the collected pool of excises and import duties is distributed by considering the relative share of intra-SACU trade, GDP, and GDP per capita. For more details, see Honda et al. 2017.

BOX 5: Economic and Social Impacts of the COVID-19 Crisis

The global slowdown caused by the COVID-19 outbreak is expected to result in a growth contraction of the Namibian economy by 7.1 percent in 2020. Downside risks to the outlook predominate, with both domestic and external factors weighing in. With trade largely concentrated to a few countries and commodities, real export growth is expected to narrow by 12 percent this year as demand falters in key export markets, including China, South Africa, Botswana and Spain. Demand for luxury commodities such as diamonds will likely come under further pressure, along with uranium. Gross domestic expenditure will also narrow as investment remains muted and the contraction in private consumption witnessed since the growth slowdown began in 2016 continues. On the production side, apart from the blow to mining activity, the demand slump is set to have adverse effects on tourism, retailers and service sectors, which could result in significant rising unemployment levels.

The poverty impact of the COVID-19 pandemic is significant. The lockdown due to the COVID-19 pandemic is expected to increase the upper bound poverty rate between 2.5 and 6.6 percentage points, depending on the length of the crisis. The poverty increase is equivalent to an 8.6 percent fall in consumption in the less severe scenario.

The poverty impact is not equally distributed. Male, younger workers, those with only primary education and those in larger households will experience larger poverty increases. Urban households will be affected more than rural households and the impact is unequally distributed across regions.

The crisis has hit everybody, but the middle class and the better off are affected the most. Those in higher expenditure percentiles have experienced larger decreases in consumption: in fact, 27 percent of those in affected households are in Q5.

However, the proposed mitigation measures are expected to cushion some of the impact on poverty. The Minister of Finance announced on April 1, 2020, the Economic Stimulus and Relief Package to mitigate the impact of the COVID-19 pandemic. The relief package amounting to N\$8.1 billion includes N\$5.9 billion in direct support to businesses and households and cashflow acceleration payments for services rendered to government; and N\$2.3 billion as loans guaranteed by government to further support loan uptake on preferential terms by business and individuals. Added expenditure pressures linked to strengthening the health system and increased social transfers could push the fiscal deficit to over 13 percent of GDP this year. Consequently, public debt levels are expected to increase to 76.2 percent of GDP in 2020 as the authorities resort to additional domestic borrowing to cover the budget financing gap.

Social protection programs can effectively offset the poverty impact of the pandemic. The emergency income grant (EIG) and employment protection schemes reduce poverty by between 3.85 and 5.72 percentage points depending on the length of the crisis. The EIG has stronger poverty mitigation impact.

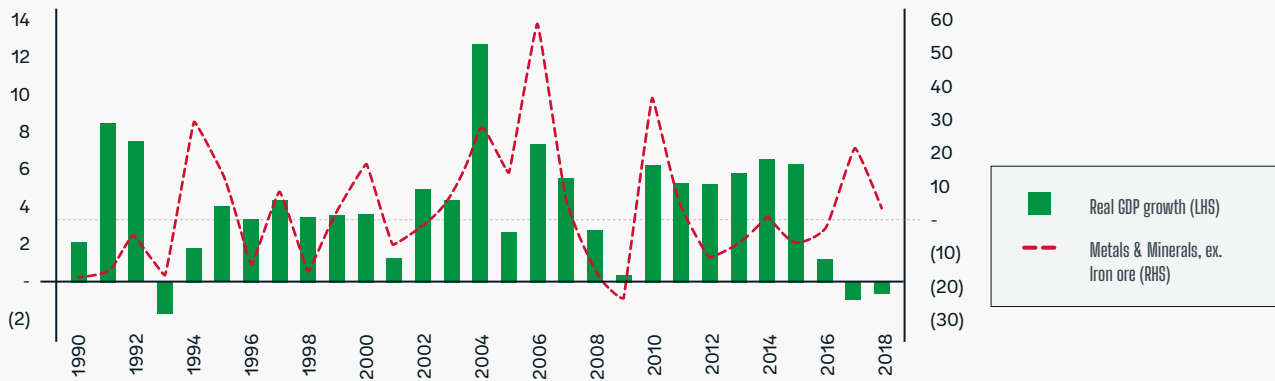
has so far had limited impact on developing general capabilities and more sophisticated industries. SACU revenues have proven volatile and largely pro-cyclical, raising further concerns over fiscal vulnerability. More important, the future of SACU revenues is highly uncertain because changes to the revenue-sharing formula appear imminent.

120. The current limited fiscal space suggests the impact of commodity-market volatility could be heightened even more. Expansionary fiscal policies in the aftermath of the commodity-price super-cycle reversal of 2009, which resulted in an output contraction due to the fall in external demand for minerals, played a key role in spurring economic

growth (Figure 16). Having narrowed to 0.3 percent in 2009 following an extended contraction in mining activity,¹⁹ GDP growth picked up to 6 percent in 2010 as the Government looked to invest in major infrastructure, including the road network. With this in mind, and as the Government consolidates its current spending levels to put public debt on a sustainable path, the economy will likely face deeper challenges when adjusting to external shocks

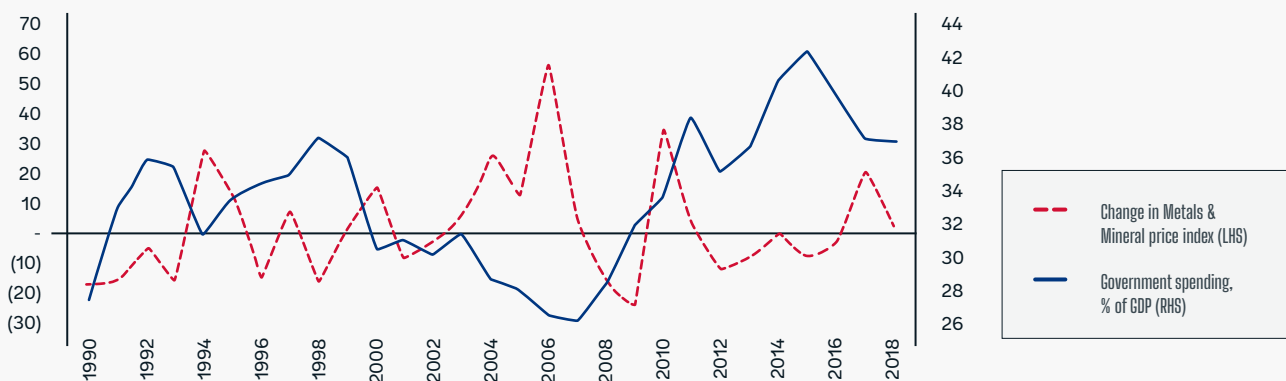
from commodity-market volatility. For example, the ongoing challenges in the diamond industry, including an oversupply of rough diamonds that has led to falling prices and cutbacks in production, have had a negative impact on tax revenues and export earnings. Looking forward, they are likely to have a more lasting impact on macroeconomic stability and growth in a period of limited fiscal space.

Figure 16: Change in commodity price index (minerals and metals excl. iron ore) and real GDP, 1990–2018



Source: Namibia Statistics Agency and World Bank Commodity Price data (Pink Sheet).

Figure 17: Change in commodity price index (minerals and metals excl. iron ore) and total government spending, 1990–2018



Source: IMF World Economic Outlook database and World Bank Commodity Price data (Pink Sheet).

19. Mining production in 2009 and 2010 declined by almost one-third of production in 2008.



2. Barriers to Input Markets and Technology Limit Growth Potential

121. A healthy economy can create jobs and reallocate workers to jobs needed to sustain growth. Barriers to entry are the obstacles or hindrances that make it difficult for new companies to enter a given market. These may include technology challenges, government regulations, patents, startup costs, or education and licensing requirements. Because of the lack of competition, monopolies tend to earn significant economic profits.

A. High Unemployment, Limited Jobs Opportunities, and Polarized Labor Market

122. Unemployment is high and a substantial percentage of the population remains idle. Looking at the broad measure of unemployment, Table 2 shows jobless rates of 27.5 to 33.4 percent between 2012 and 2018. Less than 50 percent of the adult population

has found work, even though roughly 70 percent of Namibians would like to be working. For those ages 25 to 59, roughly 60 percent of the population is employed, even though 80 percent would like to be working.

TABLE 2: Labor Force Participation and Unemployment Rates

	2012	2014	2016	2018
Labor force participation rate	41.8	56.1	69.4	71.2
Labor force absorption rate E/PWA	30.3	40.3	45.8	47.4
Unemployment rate UE/LF	27.5	28.1	34.0	33.4
Male unemployment rate	23.0	24.4	29.8	32.5
Female unemployment rate	31.9	31.8	38.3	34.3
Youth unemployment rate	50.2	53.6	58.5	60.0

Source: Authors' calculations based on the Namibian Labor Force Survey, 2012, 2014, 2016, 2018. E = employment, PWA = population in working age, UE = unemployed plus employed population, LF = labor force.

Note: Unemployment is measured based on the broad definition.

- 123. The impact of economic growth on unemployment has been disappointing.** Job creation has not been rapid enough to absorb lost agricultural jobs, which has led to an increase in unemployment, such that today Namibia reports the seventh-highest unemployment rate in the world. Unemployment is especially high among young people, reaching 60 percent in 2018. Structural factors result in mismatches between the skills demanded by employers and the skills offered by job seekers. Furthermore, the country's macro-fiscal outlook in the near to medium term is weak, stemming largely from the country's exposure to the sluggish South African economy and rising public debt. As a result, the modest employment growth of the past is under threat.
- 124. Labor productivity is almost 40 percent below international standards.** Productivity is significantly below the trend line established by peer countries. Our estimates show that labor productivity is about 40 percent below the average for countries at similar levels of development, measured by GDP per capita. Low labor productivity in relation to the country's level of GDP is particularly challenging in sectors where informality is high, including agriculture, hunting and forestry, wholesale and retail trade, hotels and restaurants, and other community, social, and personal activities. About 31 percent of employment is in agriculture, fishing, and forestry, where output per worker is low. Generally, low productivity characterizes the informal sector, which represents about 41 percent of employment and contributes to income insecurity and vulnerability.
- 125. Employment in formal sector firms is out of reach for many.** The formal sector employs only 42.3 percent of workers—a share only slightly higher than the informal sector. The 2017 report by the Ministry of Labor studied the status and challenges of the informal economy (Box 6). The study reports challenges related to the growing informal economy, including the lack of decent and secure jobs, and insufficient social protection for workers. Informal employment is much more prevalent in rural areas (78.9 percent) than in urban areas (41.8 percent). Informal workers are predominately employed in agriculture, private households, and construction; formal employees—who are more likely to be males—are predominantly employed in public administration, finance, education, and mining.

BOX 6: Namibia's Informal Economy -
a case study report by the Ministry of Labor

The study, based on the labor-force participation (LFP) survey conducted by the Namibia Statistics Agency in 2012–14, suggests that employment created in the informal economy sector is largely exploitive and insecure. Another reported challenge is the prevalence of insufficient and up-to-date information about the character of the informal sector.

Most of the own-account workers were in urban areas, with coverage as high as 76.8 percent. Most of them were young-adult females who had completed junior secondary education. Only 19 percent had business premises with a fixed location that was independent from home. Most businesses were sole-proprietorships (92.1 percent), and about 7 percent of them were in partnerships. Most of these enterprises were new only having been established in the five years prior to the survey date.

Nearly 70 percent of business owners had never received any training in running a business.

Access to credit and microfinance was limited, mostly because of lack of awareness of banks and microfinance services. Startup capital for the informal sector businesses were sourced either from own savings or relatives, friends, and neighbors.

A high number of informal enterprises were not registered (88.9 percent) with the Social Security Commission. Employment in the sector was without contracts for most employees, and they worked excessive hours, between nine and 13 hours a day. Sick leave was available to less than 40 percent of the employees and less than 30 percent had annual leave. Non-mandatory leave was mostly confined to food and transport allowances.

126. Wage employees in the formal sector have higher pay than similar workers in the informal sector.

Even after controlling for location, gender, education, and other variables, formal-sector wages were about double those in the informal sector. Individuals with tertiary education earned more than double (143 percent) the pay of those who had some senior secondary education. Compared with similar individuals with no education, those with some primary education averaged just 4 percent higher pay, those with junior secondary education earned 36 percent more, and those with senior secondary education earned a massive 139 percent more.

127. Women, people with disabilities, and sexual and gender minorities face difficulties in accessing and maintaining employment (OutRight Namibia 2013, 17).

The unemployment rate is higher for females than for males, and the gap has been widening (it was 8.5 percent in 2016). Unemployment levels for young people are exacerbated by a mismatch between their existing skills sets and the skills required for the opportunities at hand. Formal education has largely failed to deliver employment for this demographic group, and the types of practical and vocational skills that are in short supply and could offer a source of income are often stigmatized as being low-grade and lacking in prestige.

128. Women are excluded from industrial jobs, including mining and manufacturing.

Industry employs nearly one in four men and one in 20 women. Women are disproportionately employed in services work. Agricultural employment represents a relatively similar amount of employment for both men and women. Most workers are wage and salary workers, particularly in urban areas. Differences across gender clearly exist, with females less likely to be wage and salary workers, and more likely to be own-account operators. In addition, males are rarely unpaid family workers.

129. Domestic workers, who are predominately women, earned substantially less than other employees across most age groups.

In 2014, 41 percent of the economically active population was in informal employment, with rates of 38 percent for females and 44 percent for males. Between 2006 and 2013, about 33 percent of SMEs had female participation in ownership. An enterprise survey conducted in 2014/15 indicated that 41 percent of business enterprises had female participation in ownership, with majority female ownership at 26 percent. Moreover, 27 percent of firms had a female top manager, compared with 16 percent in Sub-Saharan Africa.



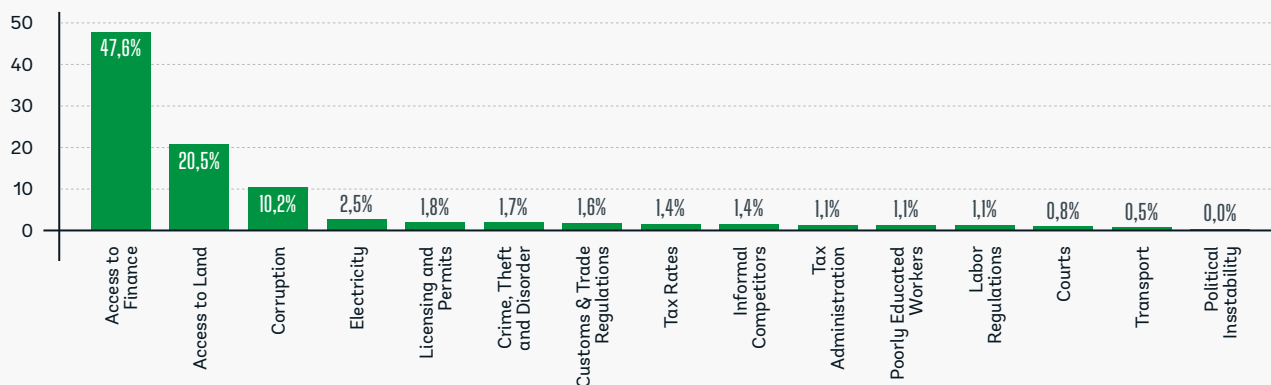
B. Poor Competition and Low Entrepreneurship

130. The strict business regulatory environment is a barrier to both domestic and foreign investment.

Substantial bureaucracy, which impacts business startups, issuing business permits, and access to key infrastructure, has been identified as a key barrier to private sector investments. Namibia has especially low rankings among 190 countries on the World Bank's Doing Business indicators for registering a property (ranked 175th), starting a business (172nd), and trading across borders (132nd). This contributes

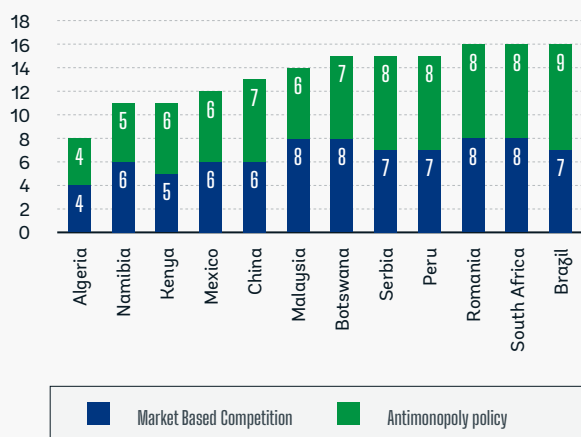
not only to lower domestic investment but also to the low levels of nonmineral FDI in the country. Overall, FDI (including the minerals sector) has averaged less than 6 percent of GDP since 2005, and it has fallen to below 4 percent since 2014. Moreover, entrepreneurship is still nascent in the country, with the domestic private sector still seen as reliant on the state (for example, government contracts) and concentrated in non-tradable sectors.

Figure 18: Factors constraining competitiveness—Enterprise Survey, 2014



Source: Reprint from Namibia 2014 Country Highlights (World Bank Group).

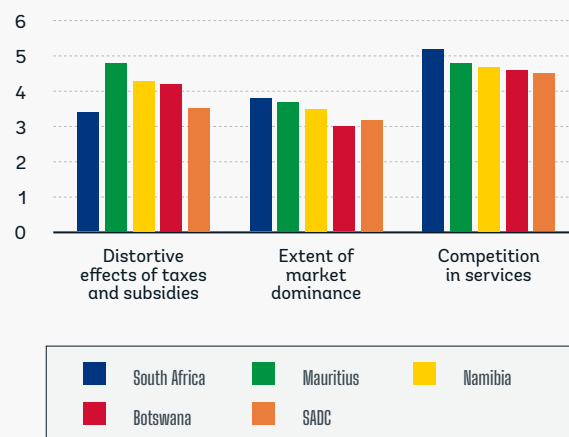
Figure 19: Bertelsmann Stiftung Transformation Index market economy indicators



Source: Bertelsmann Stiftung 2018.

Note: Higher value indicates stronger policy and/or higher competition.

Figure 20: Global Competitiveness Index: domestic competition indicators



Source: World Economic Forum 2018.

Note: Scale is 1-7 (best).

131. Lack of competition and competitiveness among companies is a serious issue for private sector development in Namibia. The market structure is mostly monopolistic, whereby several big players dominate and use their position to restrict market entry by new competitors, especially small- and medium-sized firms. For example, the big and well-established companies impose contracts that exclude competitors and inhibit private sector development. Furthermore, a large government sector, and its presence in the private sector space through state-owned enterprises (SOEs) and parastatals, increases market inefficiencies and crowds out the private sector. In areas where SOEs are present, this ultimately leads to less competition and lower competitiveness for the private sector. Further impeding the low competition of the market—and thus low competitiveness—are the high costs of production, including energy prices, taxes, and land.

✿ **Namibia ranks low on competitiveness, and several factors play an important role.** The *Global Competitiveness Report* and the Enterprise Survey (ES) identify the main constraints facing firms. According to the *Global Competitiveness Report 2017–2018*, Namibia is ranked 100th out of 140 countries, and its ranking has not improved over time. The 2014 ES provides valuable information on formal-sector firms and what they regard as the impediments in the local economy, in particular access to finance (Figure 18).²⁰ In general, Namibia falls behind comparable countries with regard to overall market economy indicators, scoring lower on the perception of the existence of market-based competition and the effectiveness of the antimonopoly policy. Furthermore, the country ranks 63rd out of 140 in the Global Competitiveness Index domestic

competition-perception indicators, which can be attributed to the extent of market dominance and the distortive effects of taxes and subsidies (Figure 20). This is corroborated by the Product Market Regulation (PMR)²¹ indicators, which show that the restrictiveness of product markets is brought about by state involvement in business operations through SOEs, controls on certain prices that may increase costs for final consumers, barriers to entry, trade, and investment, and the ineffective enforcement of the antimonopoly policy. These studies and surveys show that enhancing market competition is essential to increasing investment and productivity in Namibia, and meeting the NDP5 (NPC 2017) goal of raising the country's overall competitiveness by 2022.

✿ The entrepreneurship ecosystem is still nascent despite a relatively good level of entrepreneurship compared with other African countries. Namibia ranked 61st among 137 countries on the Global Entrepreneurship Index 2018—the third-best country in Africa after Botswana and South Africa. Despite being a relatively better-positioned country in terms of entrepreneurship, Namibia scores low in startup skills, technology absorption, and risk of capital. Institutional factors play an adverse role in entrepreneurship.

132. Barriers to entrepreneurship, trade, and investment inhibit businesses entry and expansion in Namibia. Company registration remains lengthy and cumbersome, with the average number of days stagnating at 66 since 2010 (Brandt 2018).²² The lack of progress is disappointing given the establishment of the Business and Intellectual Property Authority (BIPA), designed to reduce

20. The data come from firms randomly selected from nonagricultural firms registered with local municipalities in a country's three most active economic regions. The hope is that learning more from direct responses from firms can identify ways to increase firm profitability and spur hiring (i.e., increase labor demand). In Namibia, highly sophisticated enterprises with world-class expertise exist side by side with informal activities. Statistical averages (for example, findings from the ES, *Doing Business*, etc.) need to be treated carefully.

21. The Organisation for Economic Co-operation and Development's PMR indicators focus on key sectors regarding SOE presence, price controls, international standards and certification, and national treatment principles. They include nonmanufacturing sectors, such as network sectors (telecoms, electricity, gas, post, rail, air-passenger transport, and road freight) and retail and professional services (accounting, legal, engineering, and architectural services) in more detail.

22. Data in this section are taken from "Starting a Business in Namibia" in the *Doing Business* (database), World Bank, Washington, DC (accessed October 27, 2019), http://www.doingbusiness.org/en/data/exploreconomies/namibia#DB_sb

BOX 7: Progress in Eliminating Barriers to Entrepreneurship, Trade, and Investment in Key Sectors



CIVIL AVIATION

An International Air Transport Association report revealed that liberalization of the South Africa-Namibia route would lead to a 55 percent increase in passenger traffic, the highest among the routes reviews in the report (InterVISTAS 2014).²³ Subsequently, the bilateral air service agreement between Namibia and South Africa was reviewed, allowing some South African airlines to operate unlimited flights for passengers and overnight express cargo (Department of Transport 2016).



ELECTRICITY

The cabinet revised the single-buyer model for electricity, allowing entry of independent power producers (IPPs). They were expected to invest over N\$1.6 billion in the sector (Brandt 2019). However, some restrictions that still exist might limit expansion because IPPs still need to sell to NamPower, which dictates prices, and the Electricity Control Board, which generates tariffs, is involved in negotiating the power purchase agreements.



TELECOMMUNICATION

Competition in the telecommunication market has been enhanced through the entry of a new player in the provision of LTE services (Paratus Telecom), the licensing of the mobile virtual network operators Demshi Investments and MTN (BuddeComm. n.d.), and the development of the spectrum assignment strategy by the Communications Regulatory Authority.

turnaround times by serving as a one-stop shop for business and intellectual property registrations.²⁴ Restrictions in certain markets also limit entry and expansion. Bilateral agreements on the provision of air transport services restrict entry into the markets for passengers and cargo. In road transport, the application process for backhaul is onerous, limiting the full development of a regional transport market. Restrictions on the sale of government shares in the reinsurance sector also restrict entry.²⁵ Nonetheless, some progress has been made in remedying the restrictive regulations (Box 7).

I. Monopolization and state control through SOEs are significant

133. Namibian SOEs operate in a wide range of markets.

The potential for anticompetitive effects may be substantial due to the SOEs' various advantages, and sometimes monopolistic and privileged positions. As a result, SOEs may negatively affect competition; to prevent this outcome, it is important to ensure that they are subject to competition disciplines similar to private companies.

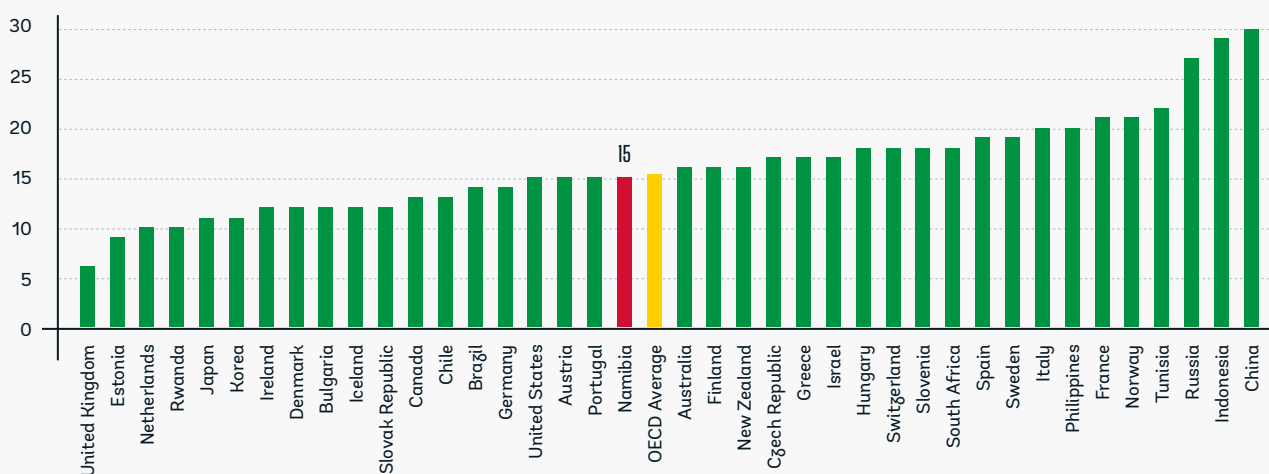
23. The report also indicated that liberalization of the Namibian air passenger market would result in a 25 percent reduction in average fares, a total savings of US\$28.1 million for existing users, and an increase of US\$85.9 million in consumer surplus.
24. BIPA was established after passage of the BIPA Act in 2016 (Act No. 8 of 2016), but its effectiveness has been limited because the number of days for business registrations has not changed. Namibia has even declined in the overall Ease of Doing Business Index from 106th to 107th out of 190 countries; it ranked 172nd in the starting a business indicator.
25. Current regulations restrict the sale of more than 50 percent of shares of NamibRE, an SOE in the reinsurance sector.

134. SOEs played a significant role in services delivery and post-apartheid development. The post-independence Namibian Government started with relatively few inherited SOEs. However, the number soon increased as the Government adopted a policy of economic empowerment and active participation in the country's economic reconstruction and development. The Government was also keen on commercializing certain functions performed by government ministries to improve services delivery. Over the years, SOEs were critical in the development of essential infrastructure and services for economic growth and development across the country, including roads, rural electrification, water supplies, and mobile telecommunication infrastructure.

135. State control and participation in commercial activities are significant. State participation is sometimes necessary in capital-intensive markets—for example, a natural monopoly or fulfilling certain social functions, such as job creation and reducing

inequality. However, government ownership may have negative effects on markets, especially when there is an imbalance between economic and social/political objectives. In Namibia, as in many other countries, SOEs are present and dominant in infrastructure sectors, but they are also in sectors where private sector participation has proven to be viable and more efficient. According to the Ministry of Public Enterprises (MPE), there are 22 commercial SOEs in Namibia²⁶ and they are involved in at least 15 sectors of the economy. This is in line with the Organisation for Economic Co-operation and Development (OECD) average (Figure 21). SOEs hold 90 to 100 percent of markets in electricity generation and import, fixed-line telecommunication services, postal services (other than couriers), air operation infrastructure (and 50 to 90 percent in air services), maritime transport infrastructure, railway transportation, road infrastructure, water supply, and mobile telecommunication.

Figure 21: Number of sectors with at least one SOE



Source: OECD Product Market Regulation database, OECD-WBG Product Market Regulation database.

Note: This is the latest information available as of March 2019. It does capture answers to the 2013 OECD regulatory questionnaire for OECD, EU, and BRICS countries.

26. Air Namibia, Epangelo Mining Company, Henties Bay Waterfront (Propriety) Limited, Luderitz Waterfront Company (Propriety) Limited, Meat Corporation of Namibia (Meatco), Mobile and Telecommunications Limited, Namib Desert Diamonds (Propriety) Limited (NAMDIA), Namibia Airports Company, Namibia Development Corporation, Namibia Institute of Pathology, Namibia Post, Namibia Power Corporation, Namibia Wildlife Resorts Company, Namibia Ports Authority (Namport), National Fishing Corporation of Namibia (under the Seaflower Group of Companies), National Petroleum Corporation of Namibia (Propriety) Limited, Offshore Development Company, Road Authority, Roads Contractor Company, Telecom Namibia, TransNamib Holdings, and Zambezi Waterfront (Propriety) Limited. A detailed listing is available from the Ministry of Public Enterprises, <https://mpe.gov.na/public-enterprises-commercial>

- 136. SOEs receive government support for their activities that goes beyond normal equity financing.** The Government funds SOE operations through various instruments, with subsidies and grants constituting almost 80 percent of the main funding sources. The share of donor funding is just over 30 percent. Some SOEs combine operating and regulatory functions, which may create an uneven playing field for the private sector. In the tourism sector, the regulatory framework limits private sector access to certain areas of Namibia, which are assigned through a concession to the Namibia Wildlife Resort.²⁷ Private sector operators are put in a disadvantaged competitive position.
- 137. Undue competitive advantages for SOEs and a lack of competitive neutrality principles have contributed to the crowding out of efficient private sector investments in key sectors.** The presence of SOEs that enjoy privileges and immunities not applied across the board to the private sector leads to market distortions that restrict entry or the ability of the private sector to participate and compete. The key drivers of this inequality include: (i) *a lack of separation between operating and regulatory functions*, which often provides incumbents with incentives to preclude potential competitors by raising barriers to entry; (ii) *the unstructured granting of state support measures*,²⁸ which can have significant negative impacts on markets and needs to be granted systematically with clear objectives and monitoring (whether promoting commercial activities or social policy objectives), avoiding preferential treatment of firms; and (iii) *decision-making processes that limit transparency*, which combine government-owned incumbents dealing with new entrants and line ministries heavily involved in final decision-making. These factors have contributed to competition obstacles in several key sectors:

- **Maritime transport.** Namport is both the operator and regulator of ports infrastructure and maritime services, including the setting of port tariffs. As more countries open their port operations and infrastructure markets to private players through longer-term operation contracts (landlord model), Namport has begun to experience the effects of its closed port operations. Enabling private sector participation in port infrastructure would enhance efficiency and increase the attractiveness of Namibia as a preferred port of call (Namport 2017). This has prompted Namport to consider the viability of a PPP with a private operator for the new container terminal.²⁹ However, line-ministry involvement in Namport's decision-making processes may limit transparency and create uncertainty for potential investors.
- **Civil aviation.** Air Namibia is one of the beneficiaries of recurrent state support despite constant losses and poor efficiency. Although it is one of the largest recipients of government subsidies (Kahiurika and Shikongo 2019), the airline has failed to produce the expected results, even with restrictive entry regulations limiting competition. Air Namibia's continued poor financial performance has a significant impact on the financial viability of the Namibia Airports Company, which derives about 40 percent of its total revenue from passenger and landing charges from Air Namibia (ALG Group 2018), as well as ground handling operations³⁰ at the Hosea Kutako International Airport. The cabinet is mulling the liquidation of the national carrier.
- **Road rehabilitation and construction.** Entry into the construction and road maintenance industry has been limited due to preferential access given to the Roads Contractor Company (RCC) to government-financed infrastructure projects.³¹ The RCC has, since its establishment in 1998, gradually lost its market share in road maintenance to small- and medium-sized private

27. *The Namibia Wildlife Resort is an SOE established in 1998; it has extensive tourism facilities across Namibia.*

28. *State support measures include subsidies, debt write-offs or takeover of losses, exemptions, reductions or deferrals of fee and tax payments, guarantees, and preferential granting of loans. The Namibian government has granted state support to attract foreign investment, promote small and medium enterprises and exports, and encourage agriculture development.*

29. *According to Namport's Group Annual Report 2017/18, "Namport, through the channel of the Ministry of Finance, has approached the World Bank to investigate the feasibility of appointing a private sector operator to maximize the utilization of the new container terminal, simultaneously boosting the country's economy" (Namport 2017, 21). This should be further facilitated by the Public-Private Partnerships Act, which once implemented will promote strategic alliances and improve public enterprises' efficiency.*

30. *The Namibia Airports Company will not renew the ground-handling agreement with Air Namibia for Hosea Kutako International Airport.*

31. *For example, the Roads Authority of Namibia aims to assist the RCC in landing new government contracts as part of the entity's reform process after significant losses (NBC 2014).*

sector companies through competition. The preferential access to infrastructure projects led the RCC to subcontract significant amounts of work to private sector contractors, thereby further reducing its capacity.

- **Electricity.** Despite the Electricity Control Board (ECB) being the overall regulator of the electricity sector, the line ministry has the power to direct long-term strategies for the sector, as well as overturn the ECB's decisions, bringing into question its independence.

II. Lack of effectiveness of the antitrust framework

138. The current Namibian Competition Act was adopted in 2003 to facilitate efficient markets following the 2002 SACU agreement. In line with international best practices, the act prohibits cartels, proscribes abuses of dominance, establishes a suspensory merger control system, grants independent status to Namibian Competition Commission (NaCC), and deals with concurrent jurisdictional issues between the NaCC and other sector regulators with competition powers. In fulfilling its mandate, the NaCC has handled more than 400 mergers since 2009, and it has conducted numerous investigations into restricted business practices, including handing out the first cartel fine in 2016. In addition, the NaCC has signed several memoranda of understanding with sector regulators and government agencies, such as the Bank of Namibia, the Anticorruption Agency, the ECB, the Communications Regulatory Authority, and the Namibia Statistics Agency. It is currently exploring collaboration with the newly established public procurement body. In the international sphere, the NaCC collaborates with other competition agencies through the Africa Competition Forum,³² and it has signed a memorandum of understanding with the Competition Commission of South Africa.

139. The dynamic nature of markets has limited the ability of the current competition framework to effectively regulate the market and prevent anticompetitive practices. The NaCC has addressed some of these concerns by: (i) drafting a new competition bill;³³ (ii) developing internal manuals covering the merger review process and restrictive business practices; (iii) publishing guidelines for mergers, enforcement exemptions, and cartels for external stakeholders, including some clarification of its methodology for fines;³⁴ (v) reviewing merger thresholds in line with the current market conditions; and (v) developing a National Competition Policy.

140. Several loopholes that still exist threaten to undermine the effectiveness of the antitrust framework. The general power granted to the Minister of Industrialization, Trade, and SME Development—in concurrence with the NaCC—to exempt any good or service from application of the Competition Act affects legal certainty for the private sector and potentially increases the cost of doing business. A broad legal basis to exempt anticompetitive conduct may also undermine the application of the Competition Act. Although the draft bill differentiates between horizontal agreements as per se violations (hard-core cartels are considered the most harmful violation of competition law) and other types of agreements (which may be efficient under some circumstances). Furthermore, the determination of dominance still relies heavily on structural measures, namely market shares. Unnecessary exemptions from the merger review process to specific industries or categories of undertakings are also maintained.

32. NaCC has collaborated with the Africa Competition Forum in conducting a study in the construction market in Namibia.

33. The commission is in the process of incorporating comments into the draft bill.

34. The commission has developed a model for calculating pecuniary penalties that takes the following into consideration: (i) maximum of 10 percent of global turnover, (ii) 10 percent of affected turnover, and (iii) duration of the contravening conduct. However, it has received pushback on the use of global turnover during settlement proceedings, especially given that fines should have a local nexus to the Namibian economy.



C. Poor Access to Financing

141. Access to finance was unquestionably the main hindrance to firms' growth and market entry, with 48 percent of responding firms citing it as their main obstacle. More than half of small firms (one to 19 employees) and just over 30 percent of medium-sized firms (20 to 99 employees) identified access to finance as their leading constraint. For large firms (100 employees or more), finance was not among their top three obstacles. The percentage of firms with checking or savings accounts was on a par with, or better than, the average across upper middle-income countries. However, the share with bank loans or lines of credit (20 percent of firms) was roughly half the average for upper middle-income countries.

142. Despite Namibia's large and sophisticated financial system, a significant share of the low-income and rural population is excluded from formal financial services (IMF 2018a). A highly concentrated banking sector has resulted in reduced competition and innovation because banks have little incentive to invest in new ways to extend services. The Financial Sector Assessment Program (FSAP) has proposed promoting financial inclusion through digitization of social transfers, with appropriate safeguards, and an improved regulatory framework for microfinance institutions. An improved credit information system for micro, small, and medium enterprises (MSMEs), a secured transactions framework for movable assets, and a modernized insolvency regime would facilitate financial access for MSMEs. The mandates of state-sponsored financial institutions need to be reassessed, and some restructuring is needed, especially in housing and agriculture, two areas with poor performance and difficult financial situations. Box 8 summarizes FSAP's recommendations.

143. Moreover, many Namibians have limited access to bank credit, and quality banking and insurance services. The 2017 Namibia Financial Inclusion Survey (NFIS) put the proportion of financially included adults at 78.0 percent in 2017, an increase from 69 percent in 2011 and 49 percent in 2007. Of this financially included population, 72.6 percent were formally served—67.7 percent by commercial banks and 52.8 percent by non-bank formal institutions. Another 23.9 percent made use of informal financial mechanisms. The portion of adults who borrowed money stood at 42.1 percent, an increase of 10 percentage points from 32 percent in 2011. However, more than half of the eligible population reported not borrowing money (57.8 percent), with a vast majority (95.1 percent) citing their fear of debt. The use of debt counselors was almost nonexistent, at only 0.4 percent. The uptake of insurance was low, reported at 30.1 percent across all insurance forms—30.0 percent in the formal market and only 0.1 percent using informal means. Among adults, 69.9 percent did not have any insurance products or services, with the majority stating that this was a matter of affordability. Bank branches were still concentrated in urban areas, where 90 percent of people needed an hour or less to reach a bank. By contrast, more than 40 percent of people needed an hour or more to reach banks in rural areas. Mobile banking was a promising option given the high level of access to mobile phones.

BOX 8: Key Findings and Recommendations of the Financial Sector Assessment Program

The development of MSME financing and easing MSMEs' financial constraints remain key government priorities under the National Financial Sector Strategy. The FSAP, update in 2018, highlighted numerous initiatives to support MSME development but acknowledged that these companies still face significant barriers to financing because of the following:

High collateral requirements and the inability of MSMEs to collateralize their movable assets, given the lack of secured transactions and collateral registry regime;

- Limited coverage of MSMEs by credit bureaus, resulting in information asymmetries;
- Outdated insolvency regime creates uncertainty for debtors due to the lack of an exit mechanism in cases of default; and
- Uncertainty over the Government's role in MSME financing following the failure of the SME Bank of Namibia in 2017.

Key FSAP recommendations to improve MSME access to finance:

- Provide the Development Bank of Namibia with a specific and clear mandate on MSME financing as part of the bank's expanded role in implementing the partial credit guarantee scheme and venture capital fund;
- Enact comprehensive modernized insolvency legislation with cross-border treatment in line with the United Nations Commission on International Trade Law;
- Establish a credit information system for MSMEs to reduce information asymmetries; and
- Pursue secured transactions reform and establish an online movable registry.

D. Skewed Access to Land and Low Affordability in the Housing Market

144. Access to land was identified as their main obstacle by roughly 20 percent of firms.³⁵ This constraint was the second-leading obstacle for firms of all sizes—small, medium, and large. However, the percentage naming it as their top constraint was highest among medium-sized firms (almost 30 percent). Land scarcity, inadequate financial resources, and the political sensitivity of land acquisition presents challenges for the Government in achieving a more

equitable distribution of landownership. The current system to acquire land is cumbersome, requiring several approval processes by local authorities and the central government. Besides prohibitive prices, given the slow rate of new supply of serviced land it often takes ages for applicants to be allocated plots by local authorities. This problem is compounded by bureaucratic inefficiency.

35. *Landownership in Namibia is highly unequal and land redistribution has been slow. The unequal distribution of agricultural land has historical origins. Most arable and productive land in the country's southern and central parts was taken from black Namibians and allocated exclusively to white European settlers and their descendants. As a result, 70 percent of Namibia's 39.7 million hectares of commercial farmland are still owned by Namibians of European descent. Only 16 percent of commercial farmland is owned by black Namibians, and the Government owns 14 percent. The state essentially owns all agricultural land, creating obstacles to farmers investing in the land. Unequal distribution of landownership reduces small farmers' access to land, raising their costs of production and ultimately impeding the sector's development.*

BOX 9: Key Challenges of Housing

Recent Institute for Public Policy Research (IPPR) studies (2018) analyzed the housing sector in depth, addressing the progress and challenges of the housing market.³⁶

The country has made a progress in terms of addressing the many challenges around housing and land provision:

(i) the Mass Housing Initiative focuses on providing affordably priced housing units in selected towns and the servicing of municipal land for residential purposes; (ii) local authorities have improved control over the expansion of informal settlements by various means, including the relaxation of specific building codes, making allowances for higher density zoning/planning/building; (iii) unserviced land has been demarcated and allocated prior to the legal formalization of townships; and (iv) the Government has introduced a new Urban and Rural Planning Bill, which offers the opportunity to improve spatial planning and establish a more enabling regulatory framework for urban planning.

Among the main challenges of the housing market were: slow delivery of housing units, limited availability of serviced land, gaps in housing supply, limited use of alternative and local materials, slow adoption of innovative technologies within the construction industry,

lack of integrative housing projects, insufficient use of private sector expertise and resources, lack of clear data on key programs, and lack of information on access to banking and mortgages.

Key IPPR recommendations to improve the housing market:

- Ensure that the timely development of the national spatial planning framework under the Urban and Rural Planning Bill.
- Allocate more funding to the housing sector and urban-land development, focusing on low-income groups.
- Actively improve communication among industry, agencies and the public.
- Ensure that urban building standards and town planning regulations enable and incentivize integrated, flexible, cost-effective, and sustainable housing developments.
- Provide local authorities with more tangible resources and practical support regarding land surveying and servicing, town planning, and housing initiatives.

145. Affordable housing for the working class is another problem related to land. Namibia has a significant shortage of accommodation for working-class families, especially in urban areas. This is due to a combination of rapid urbanization, changes in family size, and unequal access to land and financing. Between 1990 and 2018, the urban share of the population grew from 25 percent to almost 50 percent. Average household size shrank from 5.7 persons in 1995 to 4.4 persons in 2016, so the overall number of households rose significantly during the period. The key challenges of the housing market are presented in Box 9.

146. Many Namibians cannot buy or rent decent houses. This is because the housing shortage has made the existing stock too expensive and barriers in access to mortgage finance has raised the demand for cheaper houses. House prices have risen sharply in recent years, and low incomes make it impossible for many families to afford decent accommodations. Moreover, over 90 percent of households would not qualify for a mortgage from any commercial bank for an average-priced house (Chiripanhura 2018). Commercial banks' lending policies are openly discriminatory, generally targeting formally employed persons and making mortgage finance available mainly to high-income groups.

36. Dietrich Remmert and Pauline Ndhlovu, 2018. *Housing in Namibia Rights, Challenges and Opportunities*. IPPR.

147. The Shack Dwellers Federation estimates that more than 500,000 people live in shacks erected in informal settlements. In recent years, the number of shacks rose four times faster than the supply of formal brick houses. The informal settlements are limited by no provision of electricity, potable water, or toilet facilities. The problem is exacerbated by the lack of building-ready land on which people can build their own houses. In response to this housing shortage, the Government

held the Second Land Conference in October 2018 to address these challenges and propose a way forward. A key outcome was the decision to abolish the “willing seller, willing buyer” policy as the primary method of land acquisition, replacing it with other means of land expropriation within the confines of the constitution. It is not clear, however, what the alternative methods will be and whether they will be market based.



E. Low Use of Digital Technology

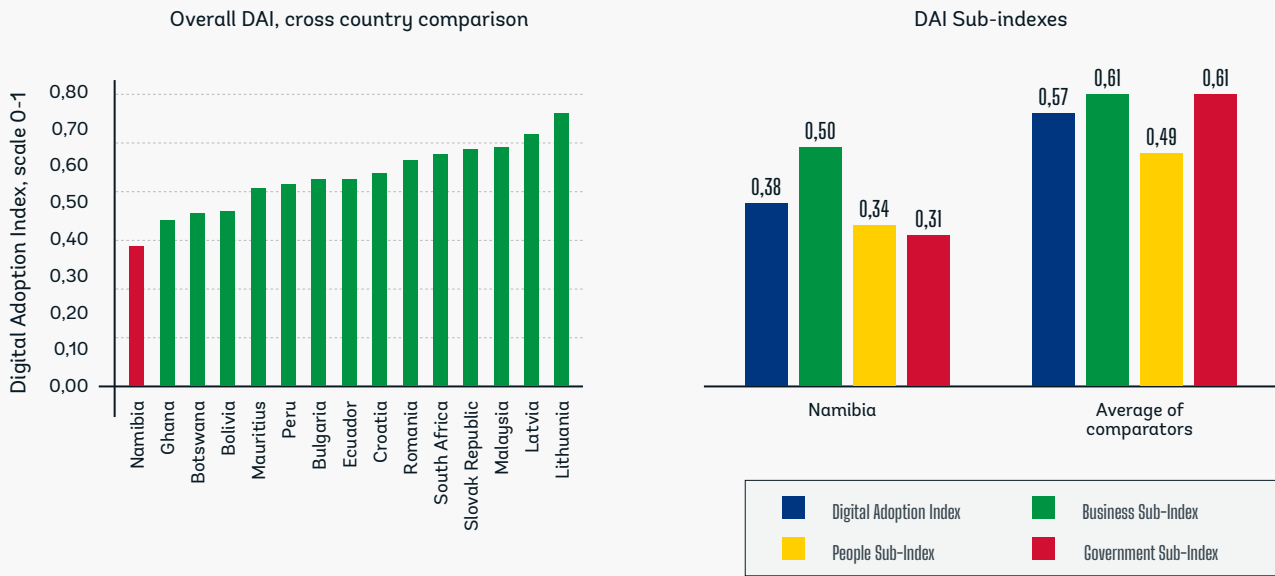
148. Namibia has been one of the information and communications technology (ICT) development frontrunners in Africa. It was one of the first countries on the continent to launch both commercial 3G and LTE networks, resulting in high levels of access to mobile telecommunication services.³⁷ Namibia's Fifth National Development Plan envisions a country that provides universal access to information, affordable communication and technology infrastructure, and services. It has encouraged the development of adequate ICT infrastructure to facilitate economic development and competitiveness, including the creation of a knowledge-based economy.

149. However, the adoption and use of digital technology are lagging, and the private sector makes only limited use of digital technologies. This is demonstrated by the low standing of Namibia on the World Bank Digital Adoption Index, measuring

ICT use by businesses, governments, and citizens (Figure 22). Weak competition in the broadband market remains a challenge, and contributes to low internet use by businesses and consumers. The cost for internet services is significantly higher in Namibia than in other SACU countries. In the private sector, digital technology can change how economies of scale are achieved, particularly through e-commerce and digital payments. Digital skills constitute a clear bottleneck in Namibia, and policy and institutional reforms are needed. Measures to improve digital skills need to be backed up by a strategic focus and improved data. A more reliable internet will also help businesses connect to markets and improve productivity. Market entry could be facilitated by enforcing stronger regulation of wholesale prices, lowering the price of interconnection fees for smaller competitors, and promoting infrastructure sharing.

37. *Measuring the Information Society Report 2018—Volume 2: Available at: <https://www.itu.int/en/ITU-D/Statistics/Documents/publications/misr2018/MISR-2018-Vol-2-E.pdf>*

Figure 22: Digital Adoption Index (DAI), 2016



Source: Digital Adoption Index Database (DAI).

Note: The DAI is a worldwide index that measures countries' digital adoption across three dimensions of the economy: people, government, and business. The index has a 0-1 scale. The overall DAI is the simple average of three sub-indices. Each sub-index includes technologies necessary for the respective agent to promote development in the digital era: increasing productivity and accelerating broad-based growth for business, expanding opportunities and improving welfare for people, and increasing the efficiency and accountability of service delivery for government. <https://www.worldbank.org/en/publication/wdr2016/Digital-Adoption-Index>

150. The telecommunications market in Namibia is relatively well-developed compared with other African countries, but its cost is high.³⁸ Namibia's mobile market is estimated to have a population penetration rate of 115 percent, well above the estimated 83 percent regional average for Africa. However, both the mobile and fixed-line telephony markets are dominated by SOEs. Despite the relative progress made in people's ability to access internet and broadband services, the cost of access remains high. When it comes to affordability, which refers to the cost of access relative to income and the level of competition in the marketplace, Namibia is ranked 85th among 100 countries.³⁹

151. Mobile money penetration stands at 45 percent, which signals room for further growth. Digital financial services are important because they provide an opportunity to increase financial inclusion, which is critical to the achievement of poverty reduction and inclusive economic growth.⁴⁰ While the high mobile subscription density bodes well for the future of mobile money, other elements of the FinTech ecosystem may prove challenging.

38. *Namibia and Botswana Telecommunications Report – 2019: Available at: https://www-emis-com.libproxy-wb.imf.org/php/search/docpdf?pc=BW&sv=EMIS&doc_id=655925001&numresult=2*

39. *Inclusive Internet Index: Available at: <https://theinclusiveinternet.eiu.com/explore/countries/performance?category=affordability>*

40. *Global Findex Database 2017: Available at: <https://globalfindex.worldbank.org/>*

152. Namibia faces an urgent need to overcome policy inconsistencies, unevenly distributed access to internet services, content that is not relevant, and capability deficits to realize the outcomes and associated benefits of its e-government strategy.

The e-Government Readiness Model was used to measure how ready various levels of government, businesses, and communities are for participation in e-government. The model focuses on five main categories of readiness for e-government, and Namibia was classified as having an “average” level of e-government readiness.⁴¹ Concerted efforts to modernize began in 2014 with the launch of the e-Government Strategic Action Plan for the Public Service of Namibia (2014–18).

153. Entrepreneurship in the digital ecosystem also needs to be improved.

According to the Global Entrepreneurship Index Study, efforts to improve the entrepreneurship ecosystem should be distributed as follows: 44 percent to developing startup skills (those necessary to start a business based on their own perceptions and the availability of tertiary education); 19 percent to technology absorption (enlarging the technology sector and enabling businesses to rapidly absorb new technology); 19 percent to process innovation (ensuring businesses use new technology and that they are able access high quality human capital in STEM fields); and 17 percent to risk capital (ensuring capital is available from both individual and institutional investors).

154. However, Namibia’s technical skills are not high enough to drive the digital transformation initiatives that the country aspires to roll out.

A country with adequate technical skills, particularly where the youth are concerned, is a precondition for becoming an industrialized nation and creating the

necessary demand to grow a vibrant digital economy. Namibia has a large pool of young workers who could contribute to the economic transformation agenda. The challenge is that many of them are unskilled. Given the importance of technical and vocational education and training (TVET) in addressing this challenge, the current TVET enrolment represents half of the enrolment of Namibia’s three universities. Furthermore, almost 70 percent of government schools—590 out of 1,897—are still not connected to the internet.⁴²

155. Likewise, access to university educational opportunities continues to be low, especially among poor, rural students from marginalized and special-needs groups.

Public and private sector employers have expressed concern over the quality and relevance of Namibia’s universities. Post-graduate education continues to be underdeveloped, and its contribution to research and innovation remains small. The Government has an ambitious plan to increase the ICT literacy and skills of its population as part of its vision to create a knowledge-based society. Investments in quality technical skills development is one of five game-changers that the Fifth National Development Plan identifies as key to building a high-performing economy.⁴³ Fair competition facilitates ICT-driven economic growth and job creation, marked by broadband access and use extending geographically in terms of quality and applications. Speed and quality of service of end-user connectivity are key product differentiators, both national and internationally. New efforts from policymakers and legislators are required to attract the private investment that drives social inclusion and economic growth.

41. *E-Government Strategic Action Plan for the Public Service of Namibia*: Available at: <https://www.gov.na/documents/10181/18040/e-Gov+Strategic+Plan+for+the+Public+Service+2014+to+2018/cce8facc-309d-43cd-ab3d-e5ce714eaf69>

42. *70% of Government Schools without Internet*: Available at: <https://neweralive.na/posts/70-of-govt-schools-without-internet>

43. *Namibia’s 5th National Development Plan*: Available at: <https://www.gov.na/documents/10181/14226/NDP+5/5a0620ab-4f8f-4606-a449-ea0c810898cc?version=1.0>



F. Challenges of Low Productivity in Agriculture

156. A large share of Namibia's population and most of its poor rely on agriculture for their livelihoods. Although the sector accounts for 4 percent of GDP, it is the second-largest employer, with 33 percent of the country's workforce. In rural areas, where over 50 percent of the population resides, residents depend on agriculture for their livelihoods. The livestock industry dominates the rural economy, accounting for 60 percent of agricultural GDP. The main agricultural outputs include: livestock products; live cattle, sheep, goats, and pigs; processed meats, hides, and skin; and fish. Local grain production includes maize, wheat, and pear millet, and horticulture products include grapes, cabbages, watermelons, potatoes, onions, and dates.

157. Today's unequal distribution of agricultural land has historical origins. Most arable and productive land in the southern and central parts of the country was taken from black Namibians and allocated exclusively to white European settlers and their descendants. As a result, 70 percent of Namibia's 39.7 million hectares of commercial farmland is owned by Namibians of European descent.⁴⁴ This amounts to 27.8 million hectares, with 1.2 million hectares owned by foreign nationals. At the other extreme, only 16 percent of commercial farmland is owned by black Namibians, while the Government owns 14 percent. There are about 7,000 commercial white Namibian farmers in the country. The majority of smallholder producers farm on communally

44. Land statistics are based on NSA 2018.

owned land, which is highly degraded, overgrazed, and exposed to bush encroachment. Farmers on communal land do not have land titles, which makes it difficult to access finance from commercial banks.

158. Gender gaps are also evident in land and housing ownership.

The 2013 Demographic and Health Survey analyzed women's ownership of houses and land. Ownership was sub-categorized by sole ownership, joint ownership, and both sole and joint ownership. Overall, only about 31 percent of women owned a house and just 21 percent owned land at the time of the survey. House ownership by women was slightly higher in urban areas (32 percent) than in rural areas (29 percent), while land ownership was higher in rural areas (24 percent) than in urban areas (19 percent). As was the case with women, men were more likely to own property with increasing age, with male house ownership being higher in urban areas and male land ownership being higher in rural areas.

159. To address the historical issue of unequal land distribution, the Government implemented a land reform policy in 1991.

The policy is based in the "willing seller, willing buyer" market-based approach. Over the past 26 years, the Government has acquired 496 farms (totaling about 3 million hectares at a cost of about N\$1.9 billion) and resettled 5,352 beneficiaries.

160. Lack of access to credit and innovative financial products limits value addition in the agriculture sector.

A key binding constraint to many value-chain actors—a common thread to the above-mentioned challenges—is the lack of access to credit. This is an especially serious constraint for small-to-medium communal and emerging producers. It hinders the ability of producers and other actors to: add value to their enterprises; meet other household demands, such as buying feed, supplements, and veterinary drugs and services; and invest in needed infrastructure.

161. Most commercial banks are reluctant to lend to smallholder communal farmers due to the lack of landownership, infrastructure, and other assets.

The requirement for collateral is a major problem for the many producers who farm on communal lands because they lack land titles. Emerging livestock farmers on commercial land or those who

have been resettled and hold land titles also face major constraints when it comes to borrowing from commercial banks. Taken together, the communal and emerging commercial farmers hold the largest share of the national livestock herd. Agribank is the only bank that offers loans to all farmers, including communal and emerging farmers. Overall, there is unmet demand for finance and access to credit by smallholder and emerging producers, partly because there are insufficient innovative financial lending products targeting the diverse needs of value-chain actors.

162. Creating more and better jobs requires economic transformation or moving workers from lower to higher productivity activities.

A two-pronged focus involves developing rural productivity while supporting internal migration and agglomeration. It also means a spatial transformation while pulling people from rural to urban areas. This shift will need to be led by the private sector, the main engine of job growth. Beyond these traditionally important sectors, it is essential to harness the technological innovation and entrepreneurship that the digital age has unleashed. However, it is clear that a large proportion of the poor will remain in rural areas due to the rural population's high fertility rates.

163. Technology adoption is relatively low and raising agricultural productivity is critical in catalyzing growth and economic transformation.

The WDR 2009 and the recent WDR 2019 on "The Future of Work in Africa" support the notion of fast agglomeration and adoption of productivity changes associated with technology (Box 10). Namibia has a small manufacturing base, so automation is not likely to displace many workers in the coming years. Most rural workers have limited education and tend to do informal work, so usable technologies designed to meet their productive needs have the potential to help them learn more and earn more. Digital technologies have the potential to help build skills for those with low education and limited opportunities—and to boost productivity and create better jobs in all enterprises, including informal ones.

BOX 10: Developing policy priorities based on World Development Reports 2009 and 2019

The World Development Report 2009 sets policy priorities for special development in rapidly urbanizing economies. The main principles are universal:

- In places rapidly urbanizing, governments with good institutions in place can focus on connective infrastructure, so that the benefits of rising economic density are more widely shared. A good example is Chongqing, China.
- Where institutions and infrastructure are in place, targeted interventions may still be necessary to deal with slums/townships. These interventions will not work unless institutions for land and basic services are reasonably effective and transport infrastructure is in place. A good example is Bogotá, Colombia.
- In some countries, lagging areas are sparsely populated. It does not make much sense to spread expensive infrastructure into these places, or to give firms incentives to move to them. What makes much more sense is to provide basic services everywhere, even if it costs more to reach distant areas. Encouraging mobility of people is the priority, and institutions that make land markets work better and provide security, schools, streets, and sanitation should be the mainstay of integration policy.

According to the recent flagship World Bank report “The Future of Work in Africa,” digital technology adoption has the potential, if harnessed effectively, to transform the nature of work for all Africans. The policy priorities could be emphasized in three E’s.

- First, enable entrepreneurship: let good ideas flourish no matter where they come from, so that African entrepreneurs build apps that enable Africa’s workers to build their skills as they work.
- Second, enhance the productivity of the informal sector: create a business environment that helps boost the productivity of informal businesses and workers, rather than focusing on trying to formalize them.
- Third, extend social protection coverage: improve revenue collection, rebalance government spending, and more effectively coordinate development assistance. The future of work in Africa could be bright.

3. Incomplete Structural Transformation and Infrastructure Gaps

A. Growing Imbalances between Sectors

164. The share of GDP from agriculture and mining has decreased over time, while the share from services has increased. Data from the Bank of Namibia (Bank of Namibia Annual Reports 1992, 2010, 2017) show agriculture’s share of gross value added declined from 9.8 percent in 1990 to 5.1 percent in 2012 and to 4.5 percent in 2017. This was mainly due to unfavorable climatic conditions but also reflected the rapid expansion of other sectors, such as manufacturing and services. The contribution of the manufacturing

sector to GDP increased from 4.5 percent in 1990 to 9.7 percent in 2015 and 10.8 percent in 2017, primarily because of the rapid expansion of fish and meat processing, and some mineral operations—the two areas that currently constitute the bulk of manufacturing activities. Services also expanded from 48 percent of the economy in 1990 to 59 percent in 2015. This increase can be attributed to the expansion of government services after independence, particularly education and health. By

contrast, mining decreased from a high of 20 percent of the economy at independence to 16.1 percent in 2008 and to 11.3 percent in 2012.

165. Activity in the tertiary sector has played a key role in spurring growth, particularly after 2004.

Since independence, the tertiary sector (services) has typically accounted for more than 50 percent of annual output with services, on average, contributing to more than 72.4 percent to total growth (Figure 3). Within the tertiary sector, public administration contributed the most to services' value-added growth with 20.3 percent, driven by the continuous increase in government expenditures; it was followed by trade (17.5 percent) and financial intermediation services (11.5 percent). The contribution of the secondary sector (manufacturing, construction, and utilities) was an average of 15.7 percent during 1992–2017, with manufacturing and construction having the largest contributions. The mining sector's contribution to growth was less than 10 percent during this period. Its contribution has increased gradually since 2004, with the start of offshore diamond extraction, and it further intensified in 2017, driven by the opening of the Husab mine operation. Given its capital-intensive nature, the mining sector has done very little for job creation.

166. However, there is an evident, and growing, imbalance between the sectors' labor-force shares and contributions to growth, which largely reflects investment patterns.

A large share of the population lives off subsistence agricultural activities, and one-third are employed in the agriculture sector. Despite this, the sector only accounts for 10 percent of national output. This imbalance in the share of employment and output implies the absence of productivity growth in the sector. A similar imbalance

is found in mining: the sector employs less than 2 percent of the population despite accounting for more than 10 percent of output. Investment patterns to date, which have focused on a largely capital-intensive mining sector, have been a key driver of this trend. During 2007–17, gross fixed capital formation (GFCF) in agriculture accounted for a mere 5 percent of the overall level.⁴⁵

167. Agriculture's prominence in the economy has faltered, despite its relative importance.

The agriculture sector's average contribution to growth has been a marginal 4.1 percent, despite employing a large proportion of the labor force. Growth in agricultural output has averaged a mere 2 percent, and its share in output has narrowed from its peak of 13 percent in 1993 to 7 percent in 2018. The sector is also characterized by low wages: average wages for 1995–2016 are almost 120 times higher in mining, 50 times higher in services, and 23 times higher in manufacturing.⁴⁶ The authorities have taken strides to improve agricultural production through the implementation of the Green Scheme⁴⁷ but, due to increasing vulnerability to climate change, Namibia has seen a reversal in the gains made in the agriculture sector. The persistent occurrence of droughts and floods in recent years has reduced food production in the country, increasing food scarcity.⁴⁸

45. During 2007–17, average GFCF was highest in private services (30 percent) and mining and quarrying (28 percent), followed by public services (17 percent).

46. Figure based on average wage per sector expressed in 2010 constant prices.

47. A Ministry of Agriculture, Water and Forestry initiative to encourage the development of irrigation-based production with the aim of increasing agriculture's contribution to GDP while providing opportunities for community and skills development.

48. For example, provisional crop harvest estimates for 2018/19 indicate that the whole country is expecting a reduction of at least 53 percent below last season's harvest and more than 42 percent below 20-year average production.

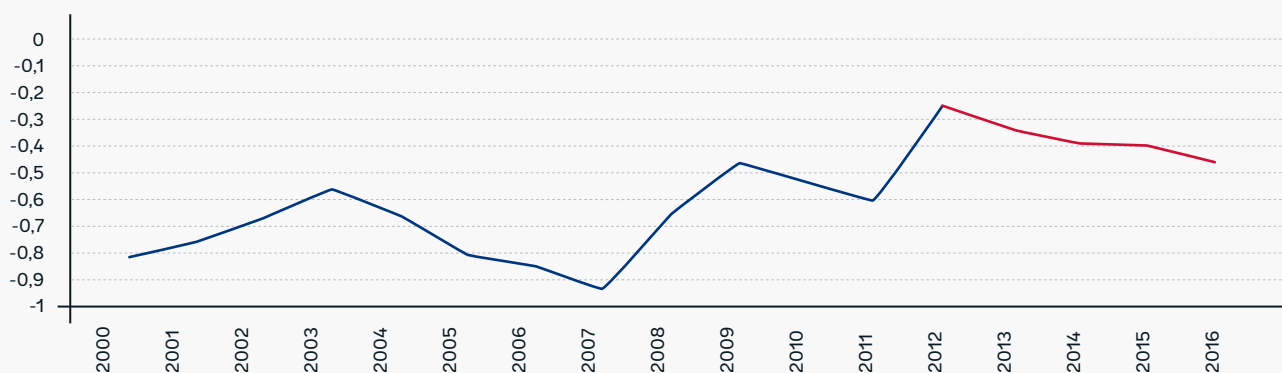
B. Declining Trade Fitness and Low Export Complexity

168. Exports have been growing, but their complexity is low, compromising future growth potential.

The membership in SACU and SADC provides the framework for Namibia's trade regime. The country has historically relied on primary sector outputs for export earnings, particularly diamonds, uranium, gold, meat, fish, and grapes. Product complexity is therefore low because the level of value added in these goods is typically minimal. The country's Economic Complexity Index—a measure that estimates the level of sophistication of an economy's export basket—has worsened in recent years (Figure 23); in 2016 Namibia ranked 78th out of 127 countries. Typically, economies with a concentration in primary commodities tend to suffer from more unequal distribution of wealth because of their limited potential to expand into more diverse, sophisticated products. This is because the goods produced in a country influence the volume and types of jobs available, the skills in the economy, and the opportunities for technology—all of which influence the potential for diversification into higher value-added goods. In Namibia, most exported products are low complexity, and they exacerbate inequality.

169. Namibia's fitness⁴⁹ has been declining.⁵⁰ Between 2008 and 2016, the country raised GDP but lost fitness—that is, it decreased the diversity and complexity of its capability stock. The position in the fitness-GDP per capita plane indicates that Namibia has reached the level of GDP per capita that is expected for its level of fitness (Figure 24). The fitness-GDP per capita plane defines a space to capture poverty trap dynamics beyond a country's level of wealth, helps predict future growth trajectories, and compares Namibia with other countries. Since fitness is predictive of long-term growth in GDP per capita, further income growth is likely to be sustained with the development of productive capabilities. The fitness decline over the past years is also visible at the sectoral level. Although some sectors maintained their level of fitness from 2011 until 2016—for example, chemicals, petroleum/coal, and mining—most sectors experienced a decline. Sectors with the highest losses include apparel, furniture, crops, and processed minerals. Overall, Namibia follows a relatively broad diversification strategy, with strong capabilities in both low- and high-complexity sectors.

Figure 23: Namibia's Economic Complexity Index, 2000–16



Source: Center for International Development 2016.

49. Fitness is both a measure of a country's diversification and ability to produce complex goods on a globally competitive basis.

50. The term economic complexity refers to a new line of research that portrays economic growth as the evolution of an ecosystem of technologies and industrial capabilities. Analytical approaches offer new opportunities to empirically map these ecosystems within countries and industries to understand their dynamics and measure their fitness. Economic fitness predicts long-term growth in GDP per capita.

C. Fast Urbanization and Poor Urban Infrastructure

171. Namibia has one of the world's fastest urbanization rates. Back in the early 1990s, only about one-quarter of Namibians lived in cities. Today, close to half of the population is urbanized. Based on UN population projections, this trend will continue and almost three-quarters of Namibians will be living in cities within next 30 years. Cities are attracting human capital, talent, and investment. Urban areas are becoming major growth engines, generating larger shares of GDP and helping many people rise out of poverty. However, the speed and scale of urbanization also brings challenges. Housing crises and widening income gaps are defining Namibian cities, which are struggling to keep up with their fast-growing populations.

172. As cities grow, so does their exposure and vulnerability to natural disasters. Natural hazards are becoming more frequent, intense, and severe due to climate change. It is important to build resilience to climate change and disaster risks, connecting investors with bankable projects and keeping millions of people safer. Urban resilience goes hand-in-hand with environmental sustainability. The World Bank's Global Platform for Sustainable Cities works with mayors in developing countries to transform cities into inclusive and resilient hubs of growth.

173. Urban population growth gives rise to both opportunities and challenges. As the urbanization process unfolds, Namibia will soon face unprecedented growth in the number of people residing in Windhoek and other cities. Because agglomeration in cities stimulates trade and

productivity gains, this major demographic shift has the potential to boost the economy toward faster growth and economic development. Namibia should prepare for massive urban population growth and ensure that it occurs in efficient and sustainable ways. This will entail: (i) mobilizing lessons from urban economics and economic geography; and (ii) assessing the feasibility and efficiency of policies designed to reap the benefits of agglomeration, with an emphasis on land, services delivery, and transport issues.

174. Unmanaged urbanization is a growing concern and, as in other unequal countries, this could pose a risk for urban violence and crime. This so-called "urban dilemma" connotes the paradoxical challenge of urbanization as an engine of development, as well as an accelerator of the risk of violence, especially for the urban poor. A rapidly growing urban population puts pressure on land availability, employment opportunities, and the delivery of basic services, including security. These issues are especially troubling if local governments do not have the capacity and the know-how to cater to their growing populations.

175. Promoting territorial development is an important area of further investment. Promoting territorial development, developing a new urban agenda, and supporting urban resilience to climate change and disaster risks should be core government priorities in the years to come. There is urgent need to support sustainable economic growth in urban spaces.⁵¹

51. This section is based on the World Bank's publication "Three Big Ideas to Achieve Sustainable Cities and Communities" (World Bank 2018c). The World Bank Group provides support as a knowledge partner to the Urban 20 initiative, which encourages cities to share their experiences and develop collective messages to enrich the G20 debates on the global issues of climate action, sustainable development, and their socioeconomic ramifications. The World Bank's "East Asia and Pacific Cities: Expanding Opportunities for the Urban Poor" report encourages cities in the region to ensure inclusive, equitable urban growth through a multidimensional approach to planning. The report "Africa's Cities: Opening Doors to the World" encourages improving conditions for people and businesses in African cities by aggressively investing in infrastructure and reforming land markets to accelerate economic growth, add jobs, and improve city competitiveness. The World Bank is launching the North and Northeastern Development Initiative, a multisectoral program consisting of projects in transport, water, energy, agriculture, livelihoods, and social protection to connect the region to national and global markets. These efforts focus on strengthening institutions for land management and territorial planning, as well as improving subnational financial management and investment prioritization.



D. Economic Transformation Is Held Back by Remaining Infrastructure Gaps

176. Outside of diamonds, several sectors identified as having the best potential to accelerate growth remain undeveloped due in part to gaps in critical infrastructure. Namibia also has several renewable energy resources it could develop to increase the domestic power supply. The country's solar irradiation is the best in Africa, yet minimal solar-based power generation has been developed.⁵² Developing this resource deserves serious consideration because of its potential to bridge demand/supply gaps, as well as increase exports. The country could move from being a net power importer to a major exporter in the Southern African Power Pool (SAPP). Solar power could also facilitate energy access to sparse populations through off-grid electrification. Similarly, the vision to develop as a logistics hub requires significant efforts to develop the three regional corridors into multimodal corridors that can both compete with other regional corridors and support the development of growth opportunities along them. These gaps exist in the rail, civil aviation, and road subsectors.

177. Namibia promulgated a PPP law in 2017, but it has yet to unlock the benefits of private sector financing to support infrastructure development. The country has to date used public financing to fund the delivery of government programs. Given the country's relative political stability and well-established rule of law, the 2017 PPP Law provides the regulatory basis to supplement public financing

with private sector funds for necessary infrastructure developments. These include additional generation capacity through solar power (both on- and off-grid), expansion of the international airport's capacity, and improving safe, reliable, and efficient operations in the port, rail, and road subsectors.

I. The energy sector is a major infrastructure challenge

178. The status of the domestic energy supply remains a major infrastructure challenge. Domestic generation capacity is inadequate to meet domestic demand. Namibia currently imports 73 percent of its electricity; about half of these imports come from South Africa, with one-third being purchased from the SAPP market. At peak times, imports can rise to as much as 90 percent. This creates a high level of dependence on the availability and reliability of foreign generators, also placing a burden on the balance of payments and budget. Recent events in the energy sector in South Africa, as well as pressure on domestic hydro resources due to prolonged drought, could potentially undermine the security of supply. In its National Integrated Resource Plan (NIRP), the Government has prioritized security of supply, access to appropriate, affordable energy, and sustainability as the underlying objectives of its energy policy framework (Namibia Electricity Supply Industry 2016).

52. Namibia's 2016 Integrated Resource Plan (IRP) prioritized coal-based generation, some concentrating solar power and biomass. Over the past decade, the cost of solar technologies has fallen rapidly as technologies matured, and the trend has continued since the IRP was completed in 2016.

- 179. Based on World Development Indicators data, less than half of Namibia's population has access to electricity.** Namibia has an overall access rate of 45.4 percent. This figure is considerably higher in urban areas (83 percent) than in the inadequately served rural areas (21 percent). Access is mostly grid connected, leaving roughly 200,000 households without access in rural areas and about 50,000 households without it in urban areas. This poses a key constraint to reducing rural poverty, improving economic opportunities, and accessing social services, including health and education.⁵³
- 180. Namibia needs to address many energy-sector challenges and obstacles.** These include centrality infrastructure (the electricity grid and the connectedness of remote areas), power generation gaps, and energy prices. A stable and accessible electricity supply is one of the foremost preconditions for starting and operating a business. According to the 2018 Ease of Doing Business Index, Namibia has gaps in electricity production and is dependent on imports from South Africa (around 50 percent of electricity consumption). Domestic electricity production depends mostly on the Ruacana Hydropower Station, where annual electricity production is vulnerable to climate conditions.
- 181. On a positive note, Namibia has one of the highest solar irradiation regimes in the world, but it has yet to benefit from utility-scale renewables to the extent made possible by cost trends in recent years.** The potential for low-cost, renewable energy is substantial given advances in renewable energy

and battery storage technologies in the past five years.⁵⁴ In meeting its renewable energy goals under its NIRP, the Government has committed to bringing online 170 megawatts (MW) of renewable (solar and wind) power projects.⁵⁵ Given the high-quality solar and wind resources in the country and dramatic cost declines of renewable technologies in recent years, the country could benefit greatly from its excellent renewable resources. The challenges posed by small power systems, however, have led to the suboptimal development of a few small renewable energy projects. This market imperfection prevents the country from developing its gigawatts of potential solar and wind projects (Box 11).

- 182. Investment in renewable energy could eliminate Namibia's energy dependency.** The Nationally Determined Contributions (NDC) and national climate strategies place a high priority on adaptation to climate change.⁵⁶ Based on the NDC, implementation of this INDC⁵⁷ represents a challenge to the Government. Multiple shortcomings and constraints will have to be overcome while fulfilling the needs for systemic, individual, and institutional capacity-building, as well as access to the latest environmentally friendly and clean production technologies. As a signatory to the 2015 Paris Agreement on Climate Change, Namibia is expected to submit an updated NDC in 2020. It is intended to be more ambitious in terms of increasing both adaptation and mitigation measures in line with the Paris Agreement's goal of reaching net-zero emissions and climate resilience by 2050.

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53. *The Government has launched a technical assistance program funded by the Energy Sector Management Assistance Program, with support from the World Bank, to prepare a nationwide geospatial least-cost grid expansion and off-grid complement plan. The results are meant to aid the revision of the Rural Electrification Distribution Master Plan and promote efficient scale-up of electricity access.*
54. *The cost of solar photovoltaic has declined by 80 percent, concentrated solar power by 70 percent, and battery storage by 60 percent.*
55. *This objective and commitment under NIRP have largely been met with 150 MW of solar already connected to the national grid and with another 100 MW of priority projects (solar, wind, and biomass) being sequentially deployed by NamPower.*
56. *Namibia's NDC:*
<https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Namibia%20First/INDC%20of%20Namibia%20Final%20pdf.pdf>
Namibia Climate Change Strategy and Action Plan (NCCSAP):
<http://www.met.gov.na/files/files/National%20Climate%20Change%20Strategy%20&%20Action%20Plan%202013%20-%202020.pdf>
National Policy on Climate Change for Namibia 2011:
[http://www.met.gov.na/files/files/National%20Policy%20on%20Climate%20Change%20for%20Namibia%202011\(1\).pdf](http://www.met.gov.na/files/files/National%20Policy%20on%20Climate%20Change%20for%20Namibia%202011(1).pdf)
57. *INDC Intended Nationally Determined Contributions of The Republic of Namibia to the United Nations Framework Convention on Climate Change.* <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Namibia%20First/INDC%20of%20Namibia%20Final%20pdf.pdf>

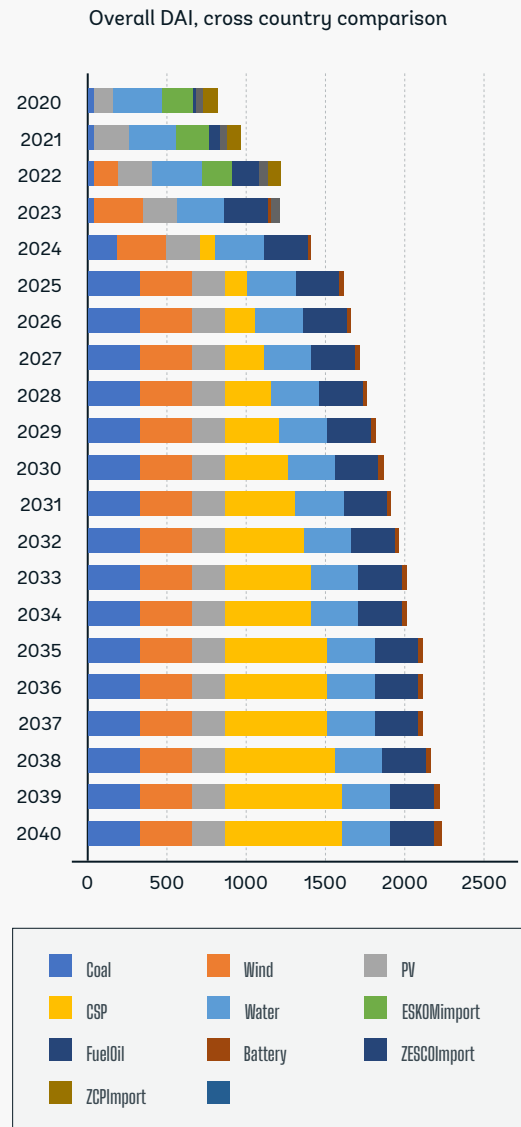
BOX 11: Toward Cleaner, Less Expensive Solar Energy

Energy diversification through a shift toward a cleaner, less expensive energy mix will increase energy security and reduce the cost of supply. The Government has set a target of supplying 100 percent of peak demand and at least 80 percent of electricity demand from internal resources. In effect, the Government wants to improve energy security by harnessing Namibia’s solar and other renewable energy resources. In the longer term, renewable energy can offer surplus capacity to meet regional electricity demand using primarily renewable energy resources.

The World Bank conducted a preliminary analysis under a long-term (2040) least-cost capacity-expansion model. The objective was to assess Namibia’s renewable energy potential and highlight which generation options could optimally meet the policy goal of reducing heavy reliance on imports. Other questions included how access to an export market might affect system expansion and how NDC targets affect its choice of generation options.⁵⁸ The base case leads to very high imports, around 50 percent of power in 2040. In two other scenarios where imports are limited to less than 20 percent, modeling leads to a higher installed capacity with much more concentrated solar power (CSP). A scenario with reduced dependence on imports with some exports produces the following capacity additions by 2040: 800 MW CSP, 475 MW CSP, 205 MW wind, and 100 MW battery storage (Figure 25).⁵⁹

Solar could therefore deliver low-cost electricity if development risks and risks during operation are adequately allocated and mitigated through planning and risk coverage. Without proactive government action to mitigate development risks and operational risks, projects require higher tariffs or are not built at all. As a result, achieving low-cost solar requires more robust front-end planning, strong all-of-government leadership, and a dedicated multi-stakeholder working-level team. Comprehensive planning is required for smooth implementation and to harvest the economic benefits that accompany low-cost electricity, such as local industrial development and job creation.

Figure 25: Investment in removable energy will reduce dependence on imports



Source: Authors’ calculation.

58. However, it is important to note the limitations of the preliminary results. These results require further robustness checks and sensitivity analysis.

59. Countries with inferior solar resources are achieving electricity costs from photovoltaic of between US\$0.03/kWh and US\$0.06/kWh.

II. Challenges of the transport sector

183. Recent government funding constraints have negatively impacted the execution of road works. The quality of road infrastructure is ranked 21st by the Global Competitiveness Report 2019.

Nevertheless, several infrastructure projects have been delayed, increasing costs. The road reform of 1998 resulted in the establishment of the Road Fund Administration (RFA), responsible for providing financing for a safe and efficient national road network, the Roads Authority, responsible for managing the national road network, and the Roads Contractor Company (RCC), responsible for maintaining the road network, for a limited time, under contract. The respective pieces of enabling legislation intended that the RFA would generate enough funds for both the provision and maintenance of the road network. However, currency depreciation, inflation, and increasing demand for road upgrading resulted in lower revenue collections (Runji 2003). In later years, the Government has contributed significant financing for these investments.

184. Road safety is a growing concern. The road-injury fatality rate has been reported to be considerably higher than the African average by more than four fatalities per 100,000 (NRSC 2015).⁶⁰ The costs extend far beyond the families and communities of those directly affected and are ultimately borne by the wider society and government. Hundreds of millions of Namibian dollars are spent each year

in the aftermath of road accidents, and the total figure has been estimated at a staggering 3 percent of annual GDP. This huge financial burden places avoidable strain on important public services, reducing the capacity of emergency, health, and welfare providers. The private sector is also affected, and employers can suffer a considerable loss of productivity and insurance companies are burdened with high payouts in compensation for the lives lost (LAC 2016).

185. The rail network provides an ideal opportunity to establish safe, reliable multimodal transport options along the three regional corridors.

Currently, the rail links between Windhoek and South Africa, and between Keetmanshoop and Gobabis carry very little traffic, and the focus of Transnamib Holdings, the rail operator, is to establish improved services on the Walvis Bay–Windhoek, as well as the Walvis Bay–Tsumeb, links. A viable railway system could potentially connect coastal areas (ports) with target destinations. Reliable, safe rail services connecting ports with inland markets could both boost internal freight and provide multimodal options along regional corridors, linking Angola, Botswana, and Zambia. The Government is currently investing in track infrastructure rehabilitation (with the assistance of a loan from the African Development Bank, or AfDB) along the section between Walvis Bay and Karibib. Parallel improvements in operations will require further support.

60. According to the National Road Safety Council (NRSC), Namibia's road injury fatality rate exceeds the African continental average of 26.6 per 100 000 at 31 per 100 000. Also, Statistics from the Motor Vehicle Accident Fund (MVA) of Namibia show that in 2018 Namibia ranked on of the first in Africa in road accidents with more than 19,000 accidents occurring every year.





CHALLENGES OF INCLUSIVENESS AND SERVICES DELIVERY

Namibia's robust economic growth, democratic progress, and political stability mask deep inequalities in the distribution of resources, opportunities, income, and access to services that trace back to the colonial era. Despite rapid development, growth has not been inclusive. Economic advantage has remained in the hands of a relatively small elite group. This lack of inclusiveness and vast disparities are manifested in three main socioeconomic challenges that define the economy today: extremely high inequality in all income and social dimensions; low levels of human capital, especially among the poor; and a lack of productive jobs, resulting in extremely high levels of unemployment. Exclusion and lack of opportunities are evident for large segments of the population. High spending on social protection, health, and education has produced meager outcomes, especially for the poor.



1. Relative High Poverty and Low Human Capital

186. Namibia’s human capital wealth is growing rapidly, but it is still behind other upper middle-income countries. According to the “Changing Wealth of Nations” 2018 report, human capital is the largest component of global wealth, accounting for two-thirds of the total.⁶¹ This points to the need to invest in people for wealth creation and future income generation. For Namibia, human capital wealth was close to 60 percent, a relatively high share in comparison to other upper middle-income countries (Figure 5). However, this relatively high share is attributed to small production capital, and in absolute terms the country is behind its upper middle-income counterparts (Figure 4).

187. Both monetary and non-monetary indicators show significant progress over time. Between 1990 and 2017, Namibia’s life expectancy at birth increased by 3.4 years, mean years of schooling increased by 1.2 years, and expected years of schooling increased by 1.2 year (Figure 26). In 2017, the Human Development Index (HDI)⁶² ranked Namibia 129th among 189 countries and territories, placing the country in the medium human-development category. Namibia’s HDI of 0.647 is above the average of 0.645 for countries in the medium human-development group⁶³ and above the average of 0.537 for countries in Sub-Saharan Africa (see country ranking, Figure 27).

61. The “Changing Wealth of Nations” report defines human capital wealth as the present value of the labor force’s future earnings. The estimates suggest human capital accounts for the largest share of a country’s wealth and typically a higher share in upper middle-income and high-income countries than in poorer countries.

62. The HDI is a summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge, and a decent standard of living. A long and healthy life is measured by life expectancy. Knowledge level is measured by mean years of education among the adult population (the average number of years of education received in a life-time by people aged 25 years and older); and access to learning and knowledge by expected years of schooling for children of school-entry age (the total number of years of schooling a child of school-entry age can expect to receive if prevailing patterns of age-specific enrolment rates stay the same throughout the child’s life). Standard of living is measured by gross national income (GNI) per capita expressed in constant 2011 international US dollars converted using purchasing power parity (PPP) rates (from UNDP publication).

63. Countries fall into four broad human development categories: Very High Human Development, High Human Development, Medium Human Development and Low Human Development. Medium Human Development includes countries ranked between 113 and 132: the Philippines, Egypt, Indonesia, Vietnam, Bolivia, Palestine, Iraq, El Salvador, Kyrgyzstan, Morocco, Nicaragua, Cape Verde, Guyana, Guatemala, Tajikistan, Namibia, India, Micronesia and Timor Leste.

Figure 26: Trends in Namibia's Human Development Index component indices, 1990–2017

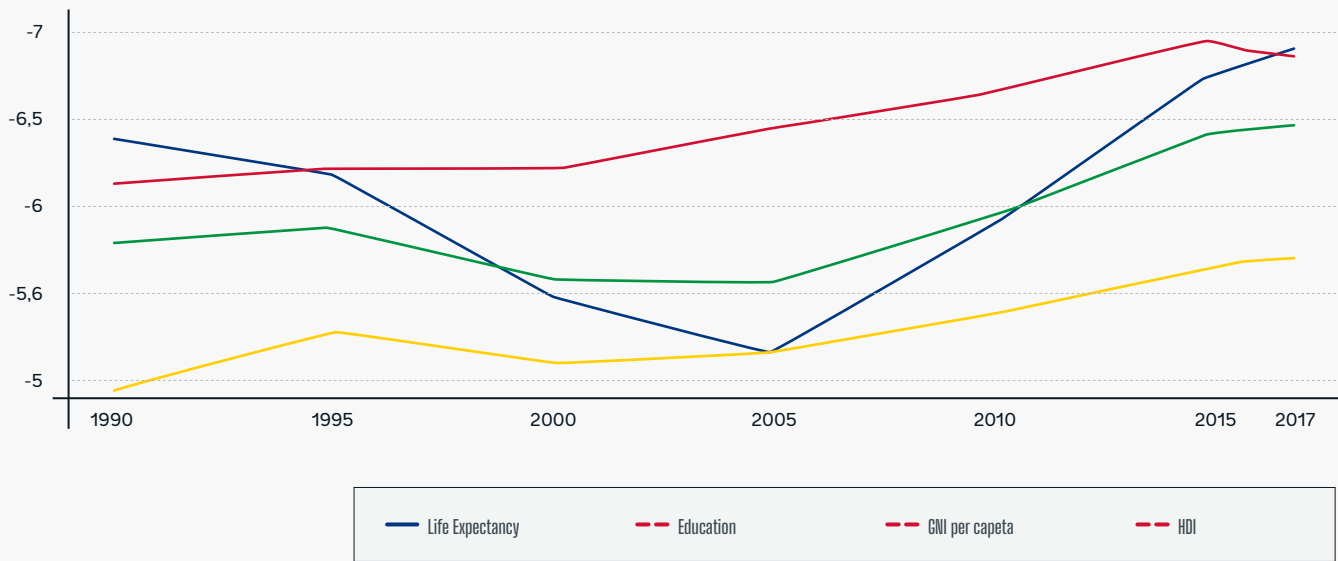
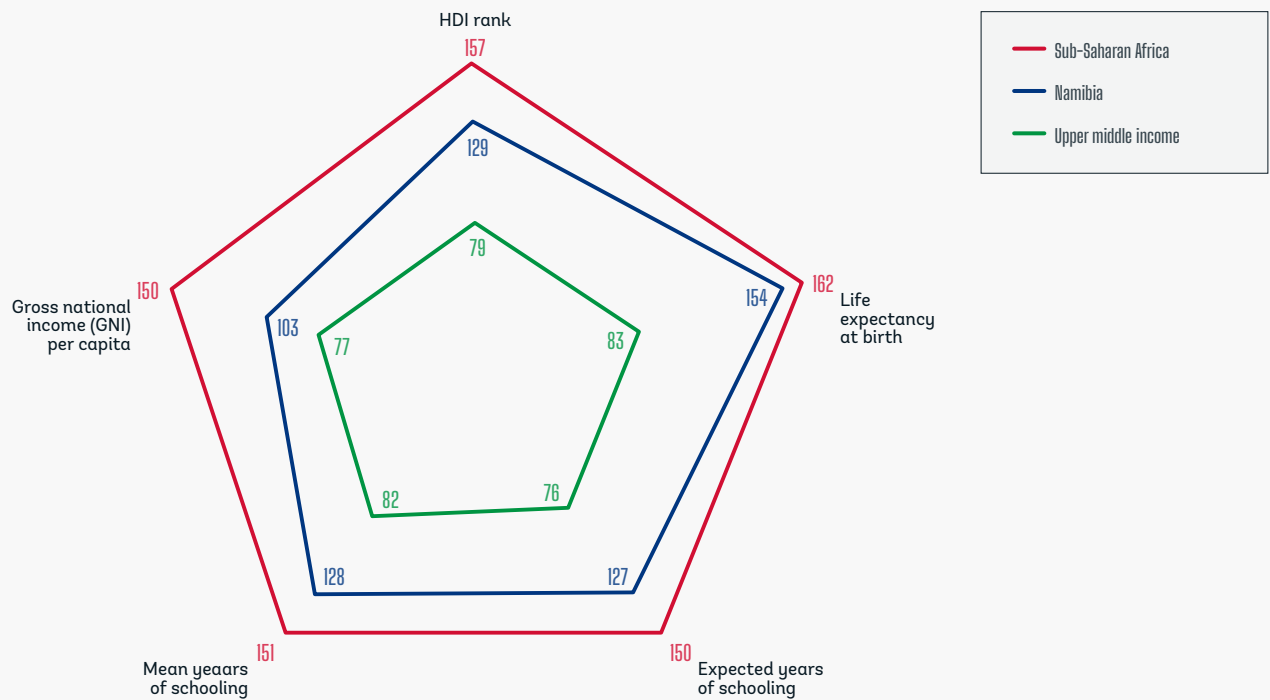


Figure 27: Human Development Index country ranking, 2017



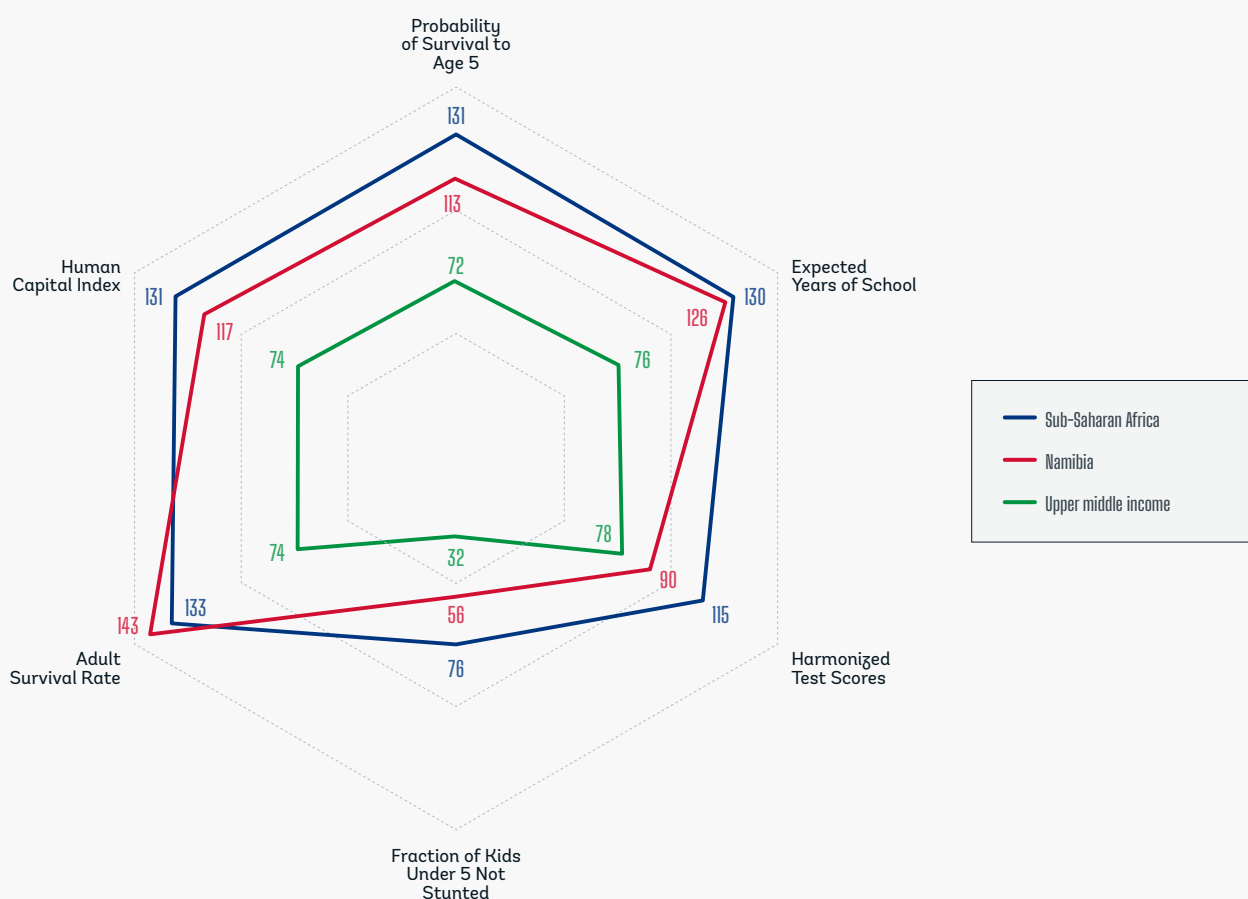
Source: UNDP 2018.

Note: Human Development Index (HDI) trends for Namibia, Botswana, and South Africa, 1990–2017; respective rankings out of 189 countries is presented in Figure 4.

188. Namibia ranks behind other upper middle-income countries on most human capital indicators. The country ranked 117th among 157 countries on the World Bank's Human Capital Index (HCI).⁶⁴ Children born in Namibia today will be only 43 percent as productive when they grow up as they could be if they enjoyed complete education and full health. Namibia ranks below other upper middle-income countries on HCI components, and it fares only slightly better than the average HCI for countries in Sub-Saharan Africa (Figure 28). Namibian children who start school at age 4 can expect to complete 8.9 years of school by

their 18th birthdays, a figure significantly lower than the comparable countries. Only 71 percent of 15-year-olds will survive to age 60. Twenty-three out of 100 children are stunted and at risk for cognitive and physical limitations that can last a lifetime. Students have poor learning outcomes: on harmonized tests, they score only 407 on a scale where 625 represents advanced learning attainment and 300 represents minimum attainment. Factoring in what children learn, expected years of school is only 5.8, indicating a learning gap of 3.1 years.

Figure 28 Human Capital Index rankings



Source: Human Capital Index 2017.

Note: Respective rankings out of 157 countries is presented in the chart. The stunting ranking (fraction of children under age 5 who are not stunted) is out of 109 countries with available data.

64. The HCI measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers, measured against a benchmark of complete education and full health. It is made up of five indicators: the probability of survival to age 5, a child's expected years of schooling, harmonized test scores as a measure of learning quality, adult survival rate (fraction of 15-year-olds who will survive to age 60), and the proportion of children who are not stunted.

189. A rapid demographic transition is in progress.

Namibia's population has risen by 64 percent since independence in 1990. The steady increase was driven by previously high fertility rates and rapid declines in mortality rates. Annual population growth slowed from 2.6 percent in 2001 to 1.9 percent in 2016. Average household size fell from 5.2 persons in 1991 to 3.9 in 2016. Rapid urbanization is evident. In 1991, close to 72 percent of the population lived in rural areas; as of 2016, only about half of the population resided in rural areas.

190. Poverty declined rapidly between 1993/94 and 2015/16, but it remains high for the country's level of development.

The post-apartheid period saw the national poverty head count rate decline from 69.3 to 17.4 percent (Figure 29). Despite the reduction, poverty levels are higher than peer countries with similar income levels. Figure 30 compares international poverty rates, expressed by the US\$1.90 per day standard, for Namibia and other countries for which data are available (specifically, other upper middle-income countries).

Figure 29: Upper-bound national poverty rates, 1993–2015

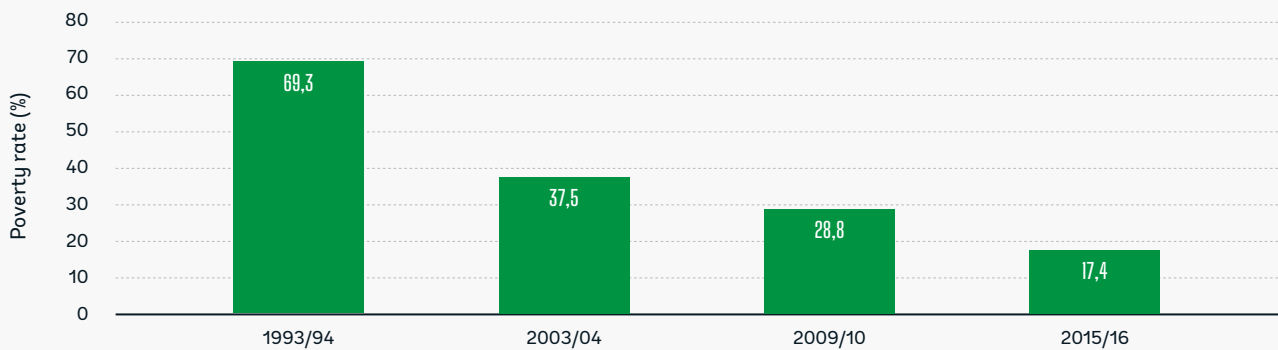
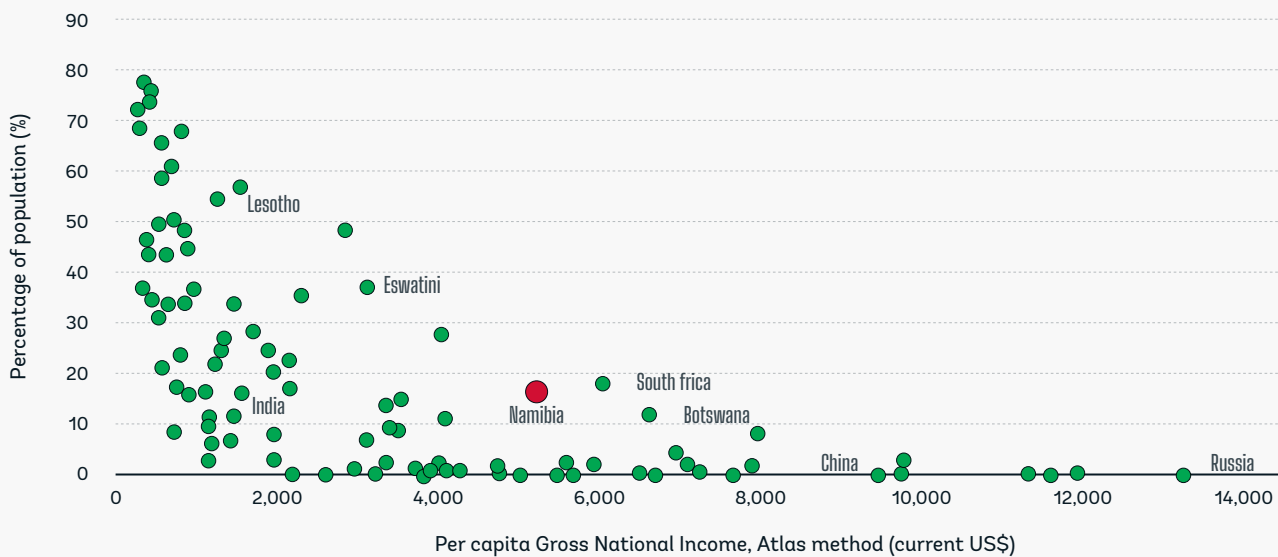
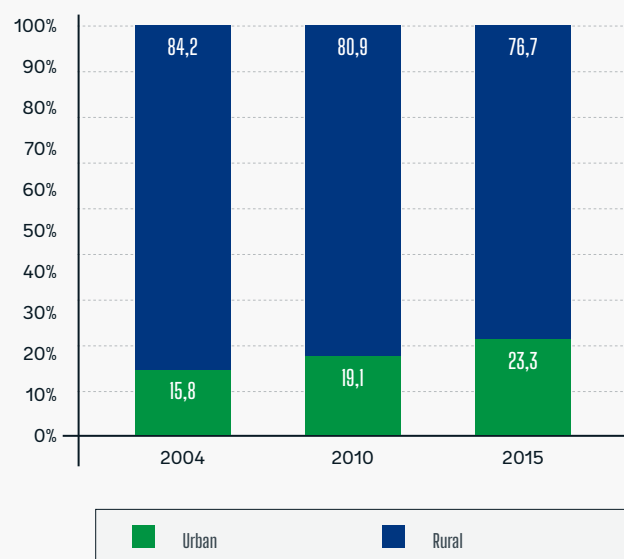


Figure 30: Overall changes in US\$1.90/day international poverty rates, 2014/15



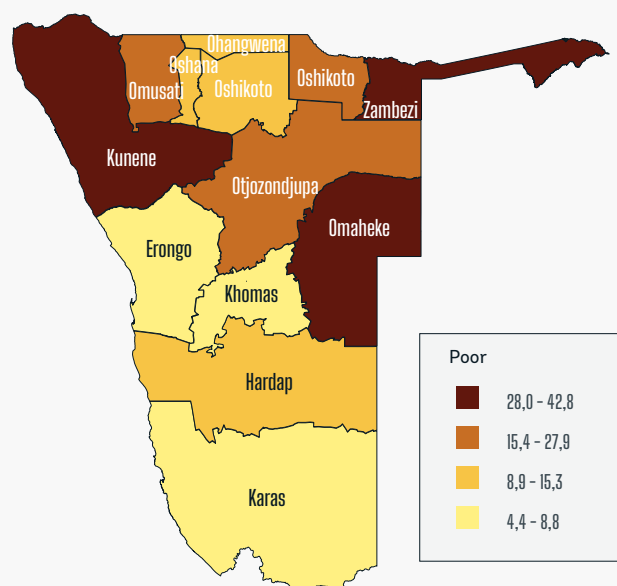
Source: Authors' calculations based on the Namibia Household Income and Expenditure Survey, 1993/94, 2003/04, 2009/10, and 2014/15.

Figure 31: Distribution of the poor, urban-rural, 2003/04 to 2015/16



Source: Authors' calculations based on the NHIES 2003/4, 2009/10, and 2015/16.
 Note: Changes in the distribution of the poor are calculated at the upper-bound poverty line.

Figure 32: Distribution of poverty by regions, 2015/16



Source: NSA 2016b.

In 2015/16, 13.4 percent of Namibians were living below the international poverty line, higher than other upper middle-income countries such as Georgia, Botswana, Gabon, the Russian Federation, and China. Although the country has achieved upper middle-income status, its poverty levels remain closer to lower middle-income countries.

191. Poorest groups consist mainly of female-headed households, the least educated, the economically inactive, children, and the elderly.

Poverty rates are higher for female-headed households than for male-headed ones, although rates for both have been falling. In 2015/16, 19.2 percent of the population living in female-headed households was poor, compared with 15.8 percent among people living in male-headed households. The poverty rate was 40 percent for male-headed households in 2004, and it fell to 32 percent in 2009/10 and 15.8 percent in 2015/16. The incidence of poverty among female-headed households was 35.8 percent in 2004, 26.2 percent in 2009/10, and 19.2 percent in 2015/16. The highest poverty rate of 22.1 percent in 2015 was among children ages 6 to 14, followed by 20.5 percent in the 0 to 5 age group. Overall, those under 14 constituted 45 percent of the poor but only 36.4 percent of the entire population. Poverty among the elderly was also high: 20 percent of those 65 and older lived below the upper-bound poverty line in 2015/16. By contrast, poverty in the 25 to 29 age bracket was 11 percent in 2015/16, following a reduction of 16.5 percentage points from 2003/04.

192. Despite the gains, poverty remains concentrated in rural areas.

Figure 31 presents the distribution of the Namibian poor between urban and rural areas. In 2004, 84.5 percent of the poor resided in rural areas, and the figure fell to 80.9 percent in 2009/10 and 76.7 percent in 2015/16. This downward trend is partly explained by rising urbanization rates; 46.9 percent of the population lived in urban areas in 2015/16, compared with 34.9 percent in 2003/04. This migration also partly explains the faster decline in rural poverty. Subsistence farmers registered the highest rates of poverty in 2015/16. Close to 15 percent of the poor were in the subsistence farming sector in 2015/16, but this group made up only 5.7 percent of the total population.

193. The poorest regions are in the north. Figure 32 shows the distribution of poverty across the country. The dark colors represent regions with higher poverty levels, and the lighter colors represent the regions with lower poverty levels. There are very high levels of poverty in the Kavango East, Kunene, Omaheke, and Zambezi regions - all have poverty levels above the national average of 17.4 percent. Lower levels of poverty are observed in the Erongo, ||Karas, and Khomas regions.

194. Despite a high development level in terms of GDP, many people in Namibia lack access to basic services.

As presented in Figure 33, Namibia is behind compared with the other upper middle-income countries in terms of access to basic services. Only 52.5 percent of the population has access to electricity, compared with almost universal access in other countries (recent WDI data). Only 29.3 percent of Namibia's rural population are connected to the grid. Access to standard sanitation is limited to 42.4 percent of the population (NHIES 2015/16). The country is characterized by an extremely high level of stunting, with 23.1 percent of the children under 5 years old are considered stunted. The comparable figure in the upper middle-income countries is 6.4 percent. Namibia's poor are deprived across multiple fronts.

195. The multidimensional nature of poverty poses critical development challenges.

High levels of stunting, the high prevalence of HIV/AIDS, and noncommunicable diseases (NCDs) carry economic and social costs. Significant geographical differences persist in all dimensions of well-being—income, access to basic services, quality of services, quality of health, and education. They have been widening in terms of both economic opportunities and access to services in areas with low population density.

196. Access to water is high, but progress in improving sanitation has been slow.

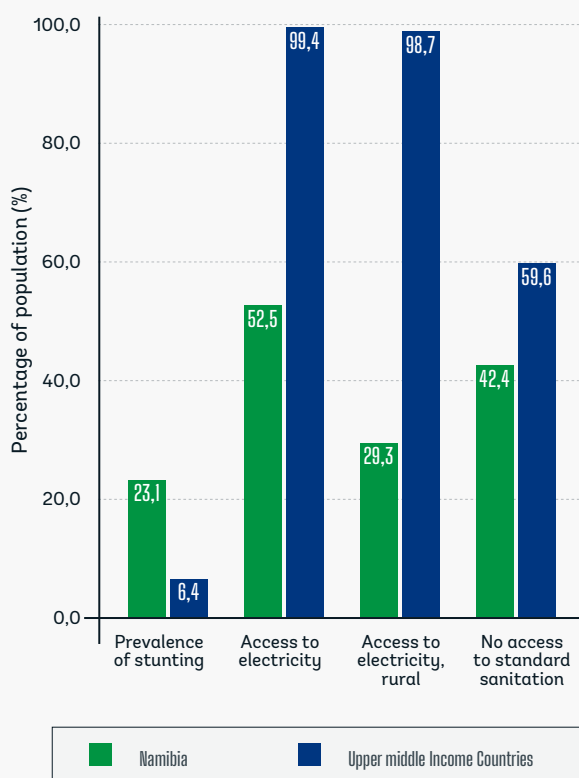
According to the Ministry of Agriculture's Directorate of Water Supply and Sanitation Coordination, access to potable water during 2015 was above 98 percent in urban areas and more than 89 percent in rural parts of the country. However, improved sanitation standards lagged, with less than 19 percent of the rural population having access to decent sanitation facilities in 2015 and 30 percent of urban households lacking access to decent toilet facilities. Open defecation is widely practiced, by

60 percent in urban areas and as much as 96 percent in rural areas.

197. In Namibia, close to 24 percent of children under age 5 were stunted (short for their age, an indicator of malnutrition) and 8 percent were severely stunted.

Male children are less well-nourished than female children. According to the 2013 Demographic and Health Survey, male children were more likely to be stunted (27 versus 21 percent of female children), wasted (9 versus 4 percent) or underweight (15 versus 11 percent). Undernutrition also leads to lower performance in school and negative effects on national productivity. A mother's body mass index had an inverse relationship with stunting: 28 percent of children whose mothers were thin were stunted, while only 15 percent of children whose mothers were overweight or obese were stunted.

Figure 33: Access to basic services and the prevalence of stunting



Source: Authors' calculations based on the WDI database (most recent year).
Note: Prevalence of stunting, height for age (% of children under 5); Access to electricity (% of population); Access to electricity, rural (% of rural population); No access to standard sanitation (% of population).

2. Namibia Is the Second Most Unequal Country in the World

198. Regardless of the measure of economic inequality used, Namibia ranks as one of the most unequal countries in the world. Namibia recorded a Gini coefficient of 57.6 in 2015, following declines from 64.6 in 1993/94, 60.0 in 2004, and 59.7 in 2010 (Figure 34). The post-independence perpetuation of previous inequalities, as well as the creation of new ones, has resulted in Namibia being ranked as the second-most-unequal country in the world after South Africa (Figure 35). The country is one of the most lucrative and better places to live for the top end of the income distribution, but high levels of extreme poverty define life for a large proportion of the population. Rates of access to basic services are among the lowest of any upper middle-income country.

199. The inequalities of income and wealth are staggering, and striking disparities affect all aspects of well-being and economic development. Net wealth inequality is even higher than consumption inequality and has been growing over time. The household balance sheet data required for direct calculation of wealth inequality is not available, but estimations based on a regression analysis resulted in a Namibian wealth Gini of 0.847—the highest in the world.⁶⁵ There is a strong correlation between levels of inequality in consumption and wealth, with wealth remaining an important source of long-run inequality. Landownership is an example of the high concentration of wealth. During the colonial era, much of the arable, productive land was allocated exclusively to white European settlers and their descendants. As a result, 70 percent of Namibia's 39.7 million hectares of commercial farmland is owned by Namibians of European descent, with only 16 percent of commercial farmland owned by Namibians of

African descent. There have been growing calls for ancestral lands to be returned to Namibia's tribes, and the Government faces significant pressure to reduce the vast inequalities in the country's landownership.

- 200. Despite the general improvement in welfare, structural inequalities have not been addressed.** As a result, growth has not been shared equally, a fact made evident by the consumption expenditure growth between 2004 and 2015. Nationally, evidence suggests that the poor did not benefit overall from consumption growth. Nor did growth translate into commensurate employment opportunities, leaving unemployment rates high and increasing inequality.
- 201. High levels of inequality of opportunity and low intergenerational mobility are linked to the extremely high inequality in the distribution of productive assets.** Inequality of opportunity is measured by the influence of race, parents' education, parents' occupation, place of birth, and gender—it is high in Namibia. The inequality is further compounded by low intergenerational mobility, indicating an enduring link between life outcomes for a today's generation and those of previous generations.
- 202. High inequality of opportunity results in labor market polarization, splitting it into two extreme job types.** At one extreme are the few people in high-skilled, high-productivity, and high-paid jobs, mostly in formal sectors and larger enterprises; at the other extreme is the rest of the population, working in low-skilled, low-productivity, and low-paid jobs that are often informal. This duality has in part resulted in high wage inequality that has been steadily rising, reflecting a highly polarized labor market.

65. <https://www.nber.org/papers/w15508.pdf> Daviel J., Sandström S, Shorrocks A, Wolff E. "The level and distribution of global household wealth." NBER Working Paper 2009.

Figure 34: Gini coefficients, 1993/94–2015/16

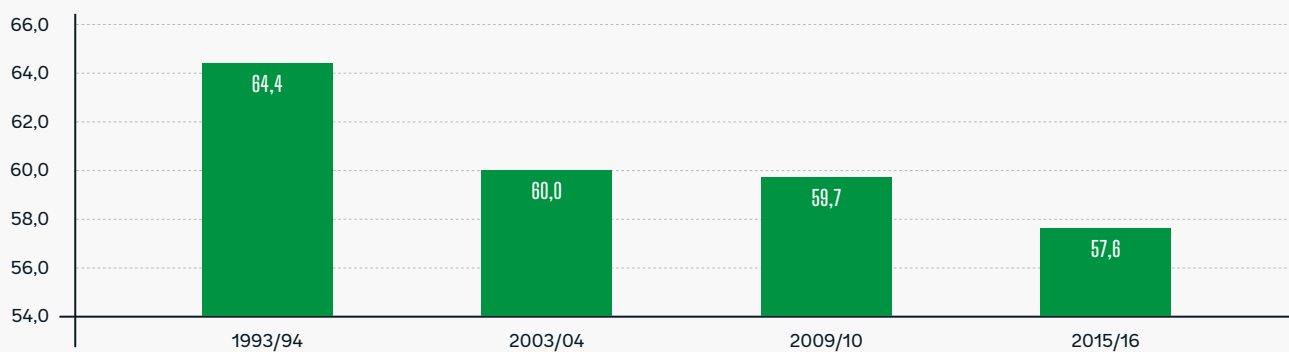
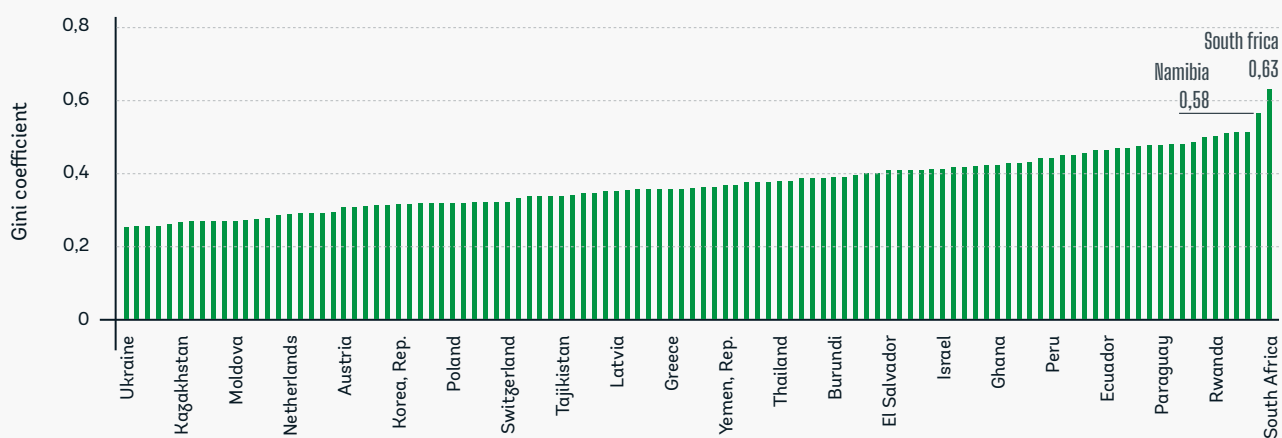


Figure 35: Gini coefficients—international comparison



Source: PovCalNet and World Development Indicators 2018. <http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx>

203. Disparities are evident in access to basic public services across income groups, as well as across geographical locations. Despite the country’s progress, access to basic public services remains low among the poorest segments of the population. The poor are less likely to have access to improved drinking water sources, improved sanitation facilities, health facilities, and electricity connections. The poor tend to live in overcrowded housing conditions and their educational outcomes are meager compared with those who are better off.

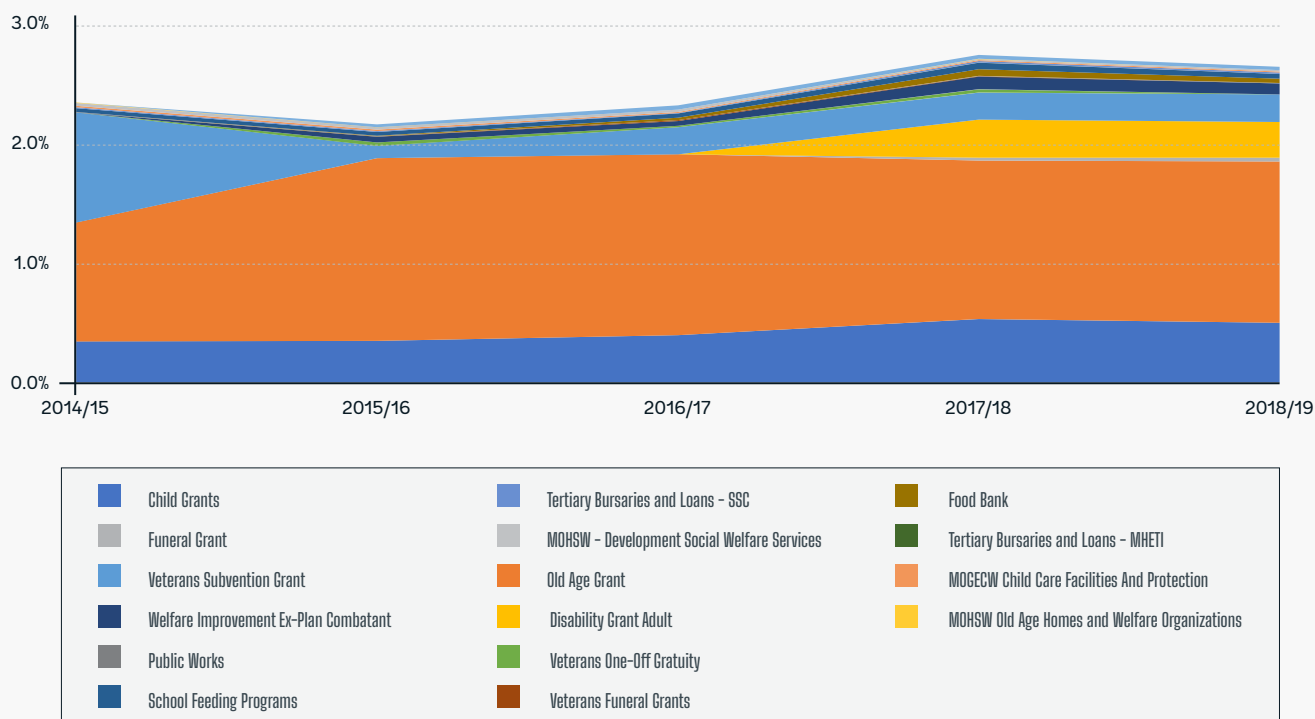
204. Extremely high inequalities are an obstacle to faster economic growth and poverty reduction. The robust economic growth, democratic progress, and political stability mask deep inequalities in the distribution of resources, opportunities, and incomes. The legacy of apartheid and separate development continues to result in marginalized communities, and certain ethnic groups are excluded from economic opportunities and access to services. This has undermined state legitimacy and the social contract between the state and citizens. Wide economic disparities between whites and blacks, and within the black Namibian population, are a major source of tension and grievance.

3. Low Efficiency of the Social Protection System

205. Namibia has a well-established and comprehensive social protection system.⁶⁶ Sizable resources are allocated to social protection, indicating the Government's commitment to delivering important public services. Total spending on social protection, including noncontributory assistance programs and the contributory civil-service pension scheme, was 4.6 percent of GDP in 2018/19. Expenditures on social assistance were estimated at 2.7 percent

of GDP in 2018/18 (not including administrative expenditures), up from 2.3 percent in 2014/15. At this level, social assistance spending was higher than the average of 1.2 percent of GDP for other African countries, as well as the global average of 1.6 percent of GDP (Beegle, Coudouel, and Monsalve Montiel 2018). More than half of social assistance spending (1.4 percent of GDP) is allocated to the Old Age Grant (OAG) (Figure 36).

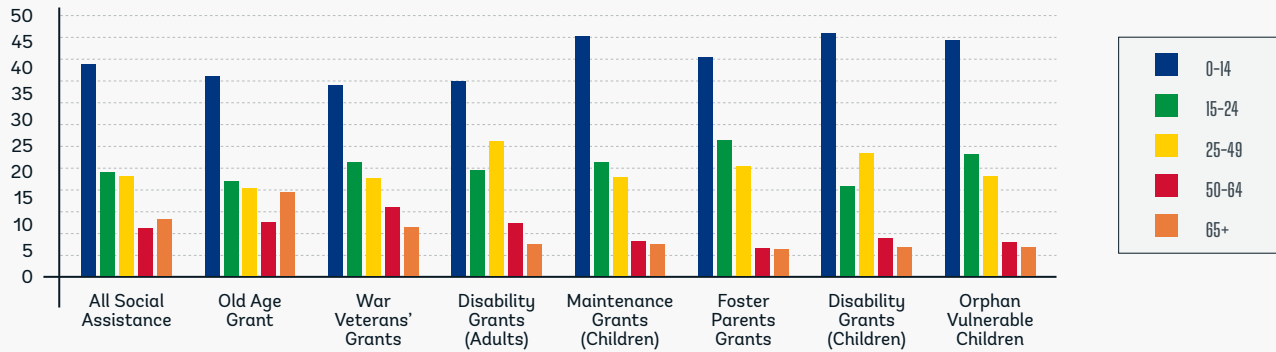
Figure 36: Social assistance expenditures as a share of GDP (%)



Source: Authors' calculations based on the Ministry of Finance's estimates of expenditure and data supplied by ministries. Presented figures are estimated excluding administration.

66. The social protection system is composed of noncontributory social assistance and contributory social insurance. Social assistance (also referred to as social safety net) programs include a universal social pension; war veteran benefits; cash and in-kind programs targeted to foster children, children with disabilities, and children in low-income single parent households; social care services, including residential and nonresidential services; a public works program; a community-based program; and disaster relief. Social insurance consists of three schemes run by the Social Security Commission: The Maternity, Sick Leave and Death Benefit Fund, the Employees' Compensation Fund, and the Motor Vehicle Accident Fund. There is also a contributory social insurance scheme for civil servants.

Figure 37: Distribution of Social Assistance Beneficiaries by Age



Source: World Bank ADePT calculations based on the Namibia Household Income and Expenditure Survey 2015/16.

Note: Direct and indirect beneficiaries included.

206. Overall, social protection makes important contributions to the well-being of Namibians.

In 2015/16, social assistance programs covered 45.6 percent of the population, including direct beneficiaries and their household members. Over 62 percent of poor were covered by at least one safety-net program in 2015/16. With 45.2 percent of the poor benefiting, the OAG has the broadest reach.

207. Social assistance outlays are skewed toward adults, particularly the elderly.

Although children are the main beneficiaries of social assistance when both direct and indirect beneficiaries are considered (Figure 37), about 75 percent of social assistance expenditures are directed to elderly persons, veterans, and other adults. The OAG is the most expensive program and absorbs 1.4 percent of GDP, which is slightly over 50 percent of the social assistance budget. In contrast, child grants garner only 0.5 percent of GDP, or 18.4 percent of the social assistance budget. This raises questions regarding the ability of the safety net to promote human capital development of children and the intergenerational equity of social protection.

208. The social safety net contributes to a substantial reduction in poverty and inequality.

In the absence of all social assistance transfers, the poverty head count would rise from 17.9 to 25.1 percent, a 40 percent increase, while the poverty gap, a measure

of the depth of poverty, would increase from 6.3 to 13.9 percent, an increase of more than 120 percent. Similarly, the Gini coefficient would increase by 7 percent to 61.4. Because of its broad reach, the OAG makes the largest contribution to poverty reduction of any social assistance program; in its absence, poverty would rise to an estimated 22.8 percent, a 27 percent increase. Child grants make a much smaller contribution to poverty reduction, with a cumulative reduction in poverty of about 2 percentage points, or about 9 percent.

209. Despite having an impact on poverty, a sizable share of benefits leaks to the non-poor, diluting social protection's poverty impact.

As expected for a universal program, about 74 percent of OAG beneficiaries are non-poor, absorbing about 80 percent of total outlays to the non-poor. War veterans' grants cover only 1.9 percent of the poor, with 91 percent of benefits received by the non-poor. Despite being means tested, between 69 and 77 percent of benefits in the four child grants are received by the non-poor.⁶⁷ Some leakages could emerge because programs do not recertify beneficiaries due to administrative challenges. In combination, every Namibian dollar spent on social assistance yields a N\$0.35 reduction in the poverty gap. The returns to programs targeted to adults are lower than those for children.

67. There are four types of grants for children: maintenance grants, foster parent grants, disability grants, and grants for orphan-vulnerable children.

TABLE 3: Impact of Programs on Poverty and Inequality Measures

Indicators without listed transfer:	Poverty Headcount	Poverty Gap	Gini Coefficient
Current – With all social protection transfers	17.9	6.3	57.4
All Social Assistance	25.1	13.9	61.4
Old Age Grant	22.8	11.4	60.1
War Veterans' Grants	18.1	6.6	57.6
Disability Grants (Adults)	18.6	7.1	57.9
Maintenance Grants (Children)	18.6	6.9	57.8
Foster Parents Grant	18.3	6.6	57.6
Disability Grants (Children)	17.9	6.3	57.5
Orphan Vulnerable Children	18.5	6.7	57.7

Source: World Bank ADePT calculations based on NHIES 2015/16.

Note: (Based on Post-Transfer Income), Direct and Indirect Beneficiaries.

210. The social protection system is fragmented, leading to inefficiencies. Despite the wide range of programs designed to address most risks facing poor families, system fragmentation and program design cause significant gaps and overlaps. Currently, 21 social assistance programs are implemented by nine agencies. Food bank, a recently introduced in-kind program, is rapidly expanding to cover all districts. Automation in the systems is limited to payment systems of several programs, and application processing is mainly paper-based and eligibility determination is manual. If applicants want to be considered for multiple benefits, they need to visit the offices of each ministry separately with the necessary documentation. These diseconomies of scale lead to gaps in monitoring and evaluation, oversight, coordination, accountability, and transparency.

211. Improving labor-market productivity among the poor and social protection for the poor should resolve the challenges of poverty and inequality. According to the World Bank's "Does Fiscal Policy Benefit the Poor and Reduce Inequality in Namibia?"⁶⁸ report, a generous and progressive social-spending system benefits low-income earners and the poor, but its coverage and efficiency could be further improved. The most progressive programs are direct transfers, especially the OAG. Fiscal policy does reduce poverty and inequality, but its impact is relatively modest compared with similar countries studied with a similar methodology. Looking ahead, further reductions in poverty and inequality will require additional improvements in the efficiency of social spending through better targeting and consolidation of social programs, and reduced leakages from existing programs. However, social protection alone is not sufficient. Ultimately, higher and more inclusive economic growth that creates more productive jobs for society's poorest members is needed.

68. *The Commitment to Equity (CEQ) methodology analyzes the progressivity of the main components of tax and social spending programs and quantifies their impacts on poverty and inequality.*
<http://documents.worldbank.org/curated/en/991551497258273367/pdf/116029-WP-P148652-PUBLIC-NamibiaCEQReport.pdf>

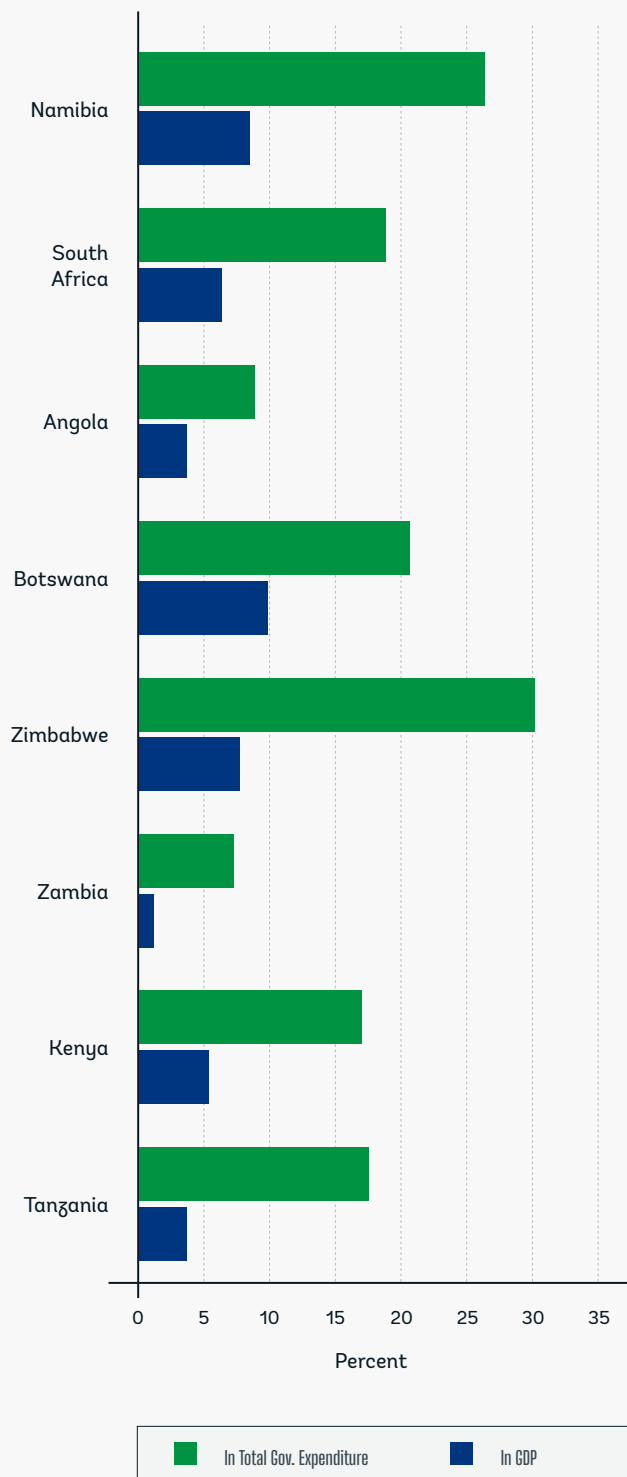


4. High Spending on Education and Health Care Produces Poor Outcomes

- 212. Since independence, Namibia has placed a high priority on using public resources to address poverty, inequality, and other social policy objectives.** More than half of government spending routinely goes to education, health, social security, housing, and other social programs. Despite external shocks caused by global economic forces since the 1990s, Namibia has sharply increased social spending as a share of GDP, bringing it to record levels (UNICEF Social Protection Study 2016). A progressive income tax schedule and VAT exemptions for goods the poor consume complement public spending on poverty reduction.
- 213. Access to education and health care has been critical in reducing inequalities, but the disparities that remain in educational outcomes continue to impact labor markets.** The educational system has come a long way. The increased investments in education, including universal primary and high school, have doubled the rates of secondary enrolment and virtually eliminated illiteracy among the working-age population (PER on Education, UNDP 2017).⁶⁹ In doing so, Namibia has long led among African nations in ensuring equal access to education for girls and women. Even so, gender disparities remain. Despite equal access to education, females have a 25-percentage-point lower employment rate than males. Significant disparities in educational outcomes are also apparent based on socioeconomic status.

69. https://www.unicef.org/namibia/na.Budget_Brief_SocAss.pdf

Figure 38: Share of Government Education Expenditure



Source: World Bank calculations based on DataBank and MoEAC 2017
<https://databank.worldbank.org>; MoEAC 2017.

Note: Figures are from the latest available year for respective countries.

A. High Spending but Low Outcomes of the Educational System

I. High educational spending, good access while inadequate outcomes

214. During its short history since independence, Namibia has prioritized education among all other social sector spending. Education and training are featured prominently in the Government’s Vision 2030. Public investment in education has been more than 8 percent of GDP since 2010—a ratio higher than other countries in the region (Figure 38). In terms of share of public expenditures, the Government has been allocating around 25 percent of the state budget to education—a significant amount in the context of developing countries.

215. Access to education has expanded to a wider segment of the population in Namibia. Primary education has achieved near universal access, with a net enrolment rate (NER) of 97 percent in 2017. Secondary education’s gross enrolment rate (GER) rose from 38 percent in 1990 to 64 percent by 2007. Student enrolment expanded rapidly at the junior secondary level, where GER improved from around 70 percent in 1995 to 92 percent in 2013. In more recent years, increasingly greater shares of the young population are receiving tertiary education. The tertiary-level GER jumped from just 6 percent in 1995 to around 20 percent in 2015.

216. Gender disparity in education access is largely in favor of female students. For instance, the junior secondary education GER is 99 percent for females and 93 percent for males. Significantly larger shares of female youths are studying in tertiary education (tertiary education GER of 26 percent for females, and only 15 percent for males).

217. The educational system is often characterized by overaged enrolment, weak learning outcomes, high repetition and early dropout rates, and inadequate educational services provision in remote rural areas. Equity in education opportunities is always a tall order and presents unique challenges for a country such as Namibia, where accessibility to all forms of social services is limited in sparsely populated rural areas. Even if students gain access to

BOX 12: Brief Background on the Evolution of Education Policy

At the time of independence in 1990, Namibia inherited an educational system that was segregated and highly unequal, and it instituted sweeping, comprehensive reforms. Prior to independence, the system known as Bantu Education was defined by apartheid's entrenched racism and segregation across all levels. With independence came a sweeping educational reform initiated through various policies. For instance, the new Government set up one unified structure for education administration, replacing the previous 11 fragmented and ethnically-based departments, and replaced Afrikaans with English as the medium of instruction in schools and other education institutions. In addition, the Government immediately initiated a holistic revision of school curriculum to make it learner-centered and relevant to the needs of the Namibian people (UNESCO 2010). The full cycle of curriculum revision for grades 1 to 12 was completed in 1999.

Currently, the education system consists of five broad schooling cycles. Early childhood development and education lasts six years and covers ages 0 to 6 years. Primary education lasts seven years (ages 6 to 12), and it is further subdivided into lower primary, lasting four years (ages 6 to 9), and upper primary, lasting three years (ages 10 to 12). Junior secondary education lasts three years (ages 13 to 15), and senior secondary education last two years (ages 16 to 17 years). Tertiary education includes vocational education, universities, colleges, and polytechnic institutes. The Ministry of Education, Arts and Culture looks after preprimary, primary, and secondary education. The Ministry of Higher Education, Training and Innovation is responsible for tertiary education and technical and vocational education and training.

schooling, student retention in school is often weak. Internal efficiency is generally poor, characterized by high dropout rates and frequent grade repetition. For instance, only half of students who start first grade reach 12th grade. Furthermore, the quality and relevance of education are questionable at schools.

218. Multiple factors influence learners' attitudes, behaviors, and performance prior to dropping out.

The analysis conducted by University of Namibia⁷⁰ revealed the underlying causes behind learners' decisions to drop out. The study analyzed the Education Management Information System (EMIS) reports from 2005 to 2009. The findings revealed that the Kavango, Kunene and Omaheke regions had the highest dropout rates in the country. For all the learners interviewed, 50 percent of learners dropped out due to pregnancy, 20 percent dropped

out due to economic factors,⁷¹ 15 percent due to system factors,⁷² 11 percent due to lack of parental involvement, and 4 percent due to cultural factors.

219. Namibia's teachers are not well trained in pedagogy and subject knowledge.

The contents of education and training have a mismatch with labor market needs. Student learning outcomes are disappointing in many cases. For instance, the Namibian Standardized Achievement Test (SAT) continues to reveal poor learning performance among primary school students. In 2015, 87 percent of 7th graders who took the English test were classified as either at, or below, the basic achievement category, as were 84 percent of 7th graders who took the mathematics test. The supply of TVET programs and higher education is not adequate to meet the demand for high-level academic studies and skills training.

70. "Investigating factors that lead to school dropout in Namibia", Haaveshe Nekongo-Nielsen, Nchindo R Mbukusa, Emmy Tjiramba and Florida Beukes. Department of Student Support Centre for External Studies and Department of Lifelong Learning and Community Education, Faculty of Education, University of Namibia. <http://journals.unam.edu.na/index.php/NCPDJE/article/download/1282/1109/>

71. *Economic factors: child labor, Poverty as a cause of child labor and dropout, Absence of feeding schemes at lower primary schools Family mobility and seasonal migration.*

72. *System factors include: Being absent from school for twenty (20) consecutive days, academic reasons, learning resources and teaching approaches, Lack of motivation and/or care guidance, Long distances to school.*

II. Provision of early childhood development and basic education is inadequate in rural areas and among the poor

220. The provision and affordability of quality education for young Namibians are still inadequate in many parts of the country, specifically for the poor segments of society. Early childhood development and education (ECDE) is increasingly recognized as a crucial first stage for cognitive and socioemotional development for children, and it has significantly expanded in recent years. Preprimary enrolment has been increasing sharply, a clear indication of the strong demand for ECDE programs. It is important that more resources be allocated to ECDE to keep up with demand from communities. At the same time, it is critical that measures are put in place to ensure the provision of quality ECDE programs in the face of the supply surge.

221. Overall, students in basic education demonstrate poor learning outcomes. On average, Namibian children can expect to complete 8.9 years of schooling by their 18th birthdays. However, once student learning performance is factored in (i.e., learning adjusted years of schooling), it goes down to only 5.8 years (Human Capital Index 2018). In other words, students lose an average of three years' worth of learning, compared with an optimal learning system, due to a range of obstacles in teaching and learning. In fact, the learning outcomes have been well documented. Namibia participated in four rounds of the Southern and Eastern Africa Consortium for Monitoring Education Quality survey. Students perform far below the regional average for mathematics and below average in reading (UNESCO 2016).

222. School facilities are not yet up to the mark in many regions. Key school facilities—such as access to electricity, teacher housing, computer rooms, and laboratories—are inadequate, especially in some disadvantaged regions. Nationally, electricity is available at more than 80 percent of schools; however, electrification of schools is lagging far behind in regions such as Kavango and Oshikoto. Teacher housing is unavailable in most schools; nationally, it is available at only 37 percent of schools. The scarcity is significantly worse in the northern

regions. Other essential teaching and learning facilities, such as laboratories and computer rooms, are only sporadically available at schools, especially so in the northern part of the country.

223. Gaps in learning outcomes are a serious concern. There are significant socioeconomic and spatial disparities in learning outcomes among the population. In the national student assessments, primary school students in the central regions, especially Khomas and Erongo, consistently demonstrate higher learning achievements in all subjects. Poorer northern regions, on the contrary, perform far less well. For instance, around 62 percent of 7th graders in the Kavango and Kunene regions were lower performers in science in the 2015 national SAT assessment; by contrast, the Khomas and Erongo regions had only around 32 percent of their students falling into that category. Looking back, there were some noteworthy improvements in student learning over time, although the gaps are persistent.

224. Internal efficiency is low due to high repetition and dropout rates. Despite the remarkable achievement in broadening access to education, basic education still suffers from significant inefficiencies. Many students leave school or have to repeat grades due to poor performance. Frequent repetition leads to over-aged enrolment and subsequently to dropping out. According to annual education statistics for 2016, an average of about 15 percent of students repeated a grade, and 8 percent of students left school. Repetition seems most frequent during the first years of the schooling cycles for upper primary and junior secondary, namely 5th grade and 8th grade. Dropouts are most frequent during secondary education, and they spike in 10th grade, the last year of junior secondary. Poor internal efficiency in basic education points to the low quality of education provision and the poor learning attainment of students. Huge education resources are being wasted as students take more years than they should to finish school, or leave school without attaining basic skills.

III. TVET achievements are mixed

225. A diverse mix of public and private providers comprises Namibia's TVET system.

The main public training providers are seven vocational training centers (VTCs) that operate under the Namibia Training Authority (NTA). These VTCs provide courses at levels one through three of the National Qualification Framework for a range of trades. Some other line ministries have their own centers that offer training for work in their respective sectors. The Namibian College of Open Learning offers technical training in four trades to out-of-school youths and unemployed adults. Higher levels of technical education are being offered at Namibia University of Science and Technology (NUST) as part of the higher education program. Private providers are much more diverse, including for-profit, non-profit, and community-based institutions, and they often focus on the human resources needs of specific industries.

226. A training levy was introduced to finance skills training provision and encourage employer participation in workplace-based training.

All employers operating with an annual payroll of N\$1 million or more are required to pay a training levy equivalent to 1 percent of their total payroll. The NTA is mandated to handle the training levy and manage the program operation. Funds from the levy are used to finance public TVET provision by the NTA, but companies can reclaim some of the money. Employers can receive a training grant of up to 50 percent of their paid-in levy based on submission of evidence of training provided in their workplaces. According to the NTA, however, take-up of the company training grant has been slow, with only around 20 percent of employers claiming the grant. A lack of awareness and complex application requirements seem to discourage employers from making a claim.

227. There is inadequate access to skills-development opportunities, especially in rural areas and for the less-educated population.

Compared with human resource needs, the capacity of the TVET system remains insufficient. As of 2016, roughly 25,000 students were enrolled with public and private

training providers. The NTA plans to increase the capacity up to 89,000 by 2032, mostly by expanding public TVET education. Interviews at VTCs also point to a highly competitive selection process for entrance to VTCs due to high demand and low supply. This raises concerns about the lack of access for young people who have not completed secondary education. (Most formal training centers require completion of 10th or 12th grade as a minimum requirement.) This requirement and the competitive screening process make it extremely difficult for less-educated youth to gain substantive skills training. Moreover, formal training centers are mostly concentrated in Windhoek and other urban areas, and they are far scarcer in rural parts of the country, where a majority of the poor population resides. Many VTC trainees also benefit from government loans through the Namibia Students Financial Assistance Fund (NSFAF).

228. The capacity for providing quality and relevant skills training is weak at the system level and in training institutions.

Namibia faces a myriad of challenges related to TVET quality and relevance. First, quality assurance is not fully enforced because not all training providers are officially certified by the NTA, the accrediting agency for TVET institutions. Second, the teaching and learning environment, including instructors' skills, are outdated and need significant revamping. VTCs struggle with teacher shortages, and professional development opportunities for teachers are limited.

229. The curriculum and teaching methods need to be updated in close consultation with potential employers in industries.

Trades at VTCs may need to be more diversified to meet industry needs. To improve post-graduation employability, graduate tracer studies should be regularly conducted centrally and by institutions as feedback mechanisms from the labor market. Enterprise-based training and apprenticeship programs need to be strengthened in partnership with potential employers to offer informal practical skills-training opportunities. Labor market information needs to be established and updated regularly with support

from Industry Skills Committees (ISCs). In the current economic context, entrepreneurship skills are greatly needed for technical graduates; however, provision of entrepreneurship training has been largely ineffective.

230. Governance, financing, and coordination of the TVET system need further strengthening. A key systemic issue is integration of TVET with general education and higher education. In terms of its linkages with basic education, the current secondary education system offers little scope for technical education. As a result, technology-oriented students who enroll in VTCs and other TVET institutions are deprived of exposure to technical skills during basic education. More problematic is the absence of a pathway to higher education. Once enrolled in the TVET track under the current framework, students are unable to progress to higher education due to the qualifications gap between TVET and tertiary schools. Coordination and mutual recognition across TVET institutions are poor. There is no entity tasked with oversight of the entire TVET system. Some of the trades offered by public and private institutions are overlapping, without proper coordination or mutual recognition. Coherent performance-management systems and performance accountability are lacking, and financing mechanisms for rewarding performance are missing. Monitoring of TVET delivery and utilization are fragmented.

IV. Higher education is highly unequal and lacks a systematic mechanism to address employability of students

231. The higher education system is very young, with universities established only after 1990. Currently, the country is home two public universities and a private one: the University of Namibia (UNAM) was formally established in 1992; the Polytechnic of Namibia was converted into NUST in 2015; and the International University of Management, the sole private university, was formally accredited as a university in 2002. According to the 2017 Public Expenditure Review (PER), around 16 percent of education expenditures in FY2014/15 went toward higher education and the NSFAF. Four colleges of education and three colleges of agriculture also offer tertiary-level education and training. People are increasingly entering the labor force with higher

education degrees. As of 2016, the labor force survey estimates that around 15 percent of the employed population held some postsecondary education qualification (diploma, bachelor's, master's, or PhD).

232. Enrolment in tertiary education has increased sharply over the past decade, reaching the same level as South Africa. In 2012, a total of 41,200 students were enrolled in tertiary education institutions (TEIs). Enrolment continued to expand and, by 2016, the number of students in universities and other TEIs had reached 53,600 (Figure 39), a significant increase of 30 percent over five years. Females consistently account for more than 60 percent of students in tertiary education. The share of the youth population studying in TEIs also rose explosively. GER for tertiary education was only 7 percent in 2006. By 2016, tertiary GER rose to 21 percent, a level equivalent to that of South Africa (Figure 40).

233. Many university students come from modest socioeconomic backgrounds and achieve upward social mobility. According to the national tracer study on graduates from the 2012–13 cohort, commissioned by National Council for Higher Education, only 23 percent of mothers and fathers of university graduates had higher education qualifications themselves. Many parents are far less well educated. Around 28 percent of fathers had no education, and 49 percent had only primary or secondary certificates. It is evident that many of today's university students are the first generation of university goers in their families. In addition, the UNAM and NUST operate bridging programs—the Science Foundation Program at UNAM; the STEM program at NUST—where students who may not qualify for acceptance into undergraduate courses are given a chance to take short courses to upgrade their academic skills. Regional campuses and bridging programs have been playing an important role in accepting more students from rural parts of the country.

234. Geographically, around 40 percent of graduates completed secondary education in rural areas. Although urban bias is clearly apparent, it should be highlighted that universities are receiving a substantial number of students from poor rural communities. To finance higher education, many

rely on government student loans. Around half of the graduates took out government loans, while 7 percent received bursaries.

235. Universities lack systematic mechanisms to address employability of students and the incorporation of labor-market needs into program contents. The employment outlook for university graduates is bright, but most graduates find jobs in the public sector. The national graduate tracking survey found that four out of five graduates were employed a few years after completing their studies, mostly in permanent jobs. In addition, 2 percent were self-employed. The employment rate was lower for graduates from diploma courses (64 percent). Employers appeared less diverse. More than half (59 percent) of graduates worked in public government jobs, and an additional 14 percent worked for public enterprises. Combined, seven out of 10 graduates worked in public entities. It is evident that the public sector was a very common destination for university graduates. Private sector employment was far more limited, and only one in five graduates worked in private companies. In terms of economic sector of employment, social services such as education and health and administration took on more than half of graduates. Among other key

productive sectors, university graduates found jobs in finance (17 percent), ICT (8 percent), and mining (5 percent).

236. Currently, universities are grappling with serious shortages of qualified faculty members to teach the growing number of students. As of 2016, the higher education statistical yearbook reports, the UNAM had around 25,000 enrolled students supported by 1,423 academic and support staff. The student-teacher ratio (STR) was calculated at 17.6 students per every teacher, which appears generally acceptable by international standards. The STR for the NUST is even lower at 12 students per teacher. However, one major caveat is the prevalence of part-time teachers. They make up as much as 33 percent of the academic staff at the UNAM and 64 percent at the NUST. The effective STRs in Namibia's universities would be considerably higher. Particularly worrisome is the serious shortage of qualified academic staff, especially those with doctoral degrees. Only 16 percent of academic staff in public universities hold doctoral degrees. Around one-third have only master's degrees, and 26 percent just have bachelor's/honors degrees.

Figure 39: Tertiary education enrolment

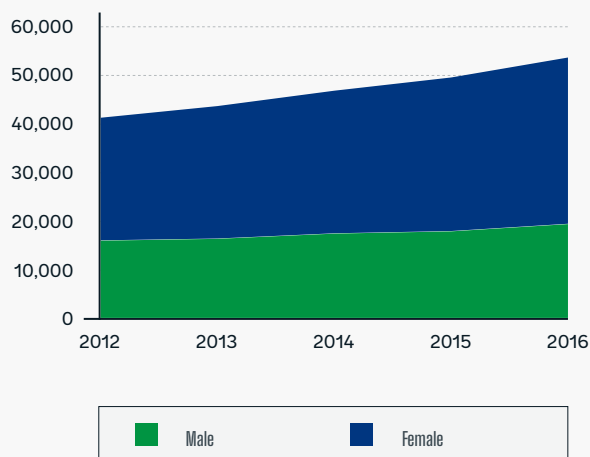
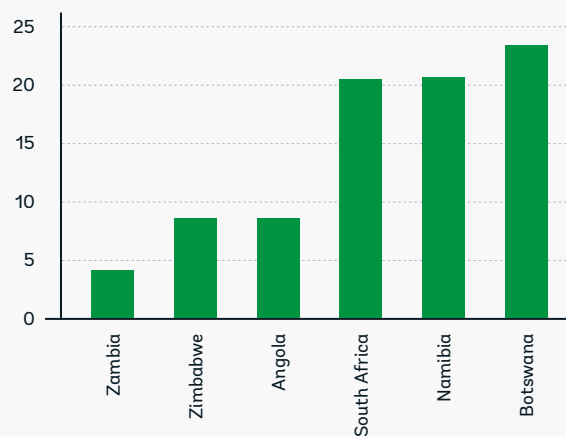


Figure 40: Tertiary gross enrolment rate



Source: NCHE 2017.

237. Financial assistance and bridging programs have been key policy tools to promote more equitable and accessible higher education. The NSFAP provides eligible university and TVET students with government-supported loans to pay their education costs. The NSFAP extends its support to a large share of tertiary-education students. According to the NSFAP annual report, it awarded loans to 15,317 students in academic year 2017—3,248 TVET, 10,888 undergraduates, and 1,181 postgraduates. A worrying trend is declining expected repayment and potentially weak sustainability. Out of more than 25,000 debtors, only 587 are currently repaying their loans. The rest are not honoring their loan repayment obligations.

238. Research and innovation capacity are weak. Namibian universities possess only limited research capacity and resources. Shortages of PhD holders place a serious damper on the ability of universities to conduct research and train researchers. Access to research funding is severely limited. For instance, the UNAM's Center for Research and Publication awarded research funding to only seven projects in 2016. As in other African countries, much of output from Namibian researchers is produced with external funding from international research collaborations. In 2017, around 80 percent of citable publications by Namibian researchers were published under international collaboration, according to Scimago data.

B. High Spending on the Health System but Outcomes Could Be Improved

239. Total health spending is high compared with other countries.⁷³ In 2015, the Government allocated almost 13 percent of general government expenditures to health, or 5.6 percent of GDP. The Government accounts for about 64 percent of total health expenditures (THE). Employers contribute another 20 percent of THE, with development partners at 6 percent and households at 10 percent.⁷⁴ Development partner funding mainly finances HIV/AIDS care. Household out-of-pocket expenditures are below the WHO threshold of 20 percent; however, low household spending can also be a sign of people not seeking care, pointing to an access problem. About 80 percent of the population seeks care in the government-funded public health sector; the remaining 20 percent has access to private sector care through the Public Service Employee Medical Aid Scheme (PSEMAS) or private medical-aid funds.

240. Despite rising health spending, poor health outcomes are evident, particularly for low-income groups. Life expectancy is lower in Namibia than in countries with similar levels of health spending (Figure 41). At the same time, Namibia performs poorly on health outcomes compared with the average for upper middle-income countries (Figure 42). Namibia is experiencing a major demographic transition; by 2050, about 65 percent of the population is expected

to be working age. Non-communicable diseases (NCDs) will become more prevalent as the population ages. At the same time, the stunting rate among children, maternal mortality, and adolescent fertility are still much higher than the average for upper middle-income countries. The HIV prevalence of 14 percent is extremely high, and even higher among women. HIV/AIDS, diarrhea, respiratory infections, tuberculosis, and road injuries are the main reasons for premature death. The key risk factors that drive most deaths include unsafe sex, malnutrition, and alcohol and drug use (IHME, n.d.).

241. These risks are higher for the poor but also preventable. Increased support to maternal health care and the prevention of risk factors will enable low-income children and adults to enjoy better health, perform better in school, and participate more fully in the economy. Investing in the health system to improve prevention and early detection of NCDs will contribute to a healthy workforce. Moreover, there is need to strengthen the system of accountability for health outcomes. This means greater investment in M&E mechanisms that capture disparities in health. Experience from Latin America, Asia, and several countries in West Africa shows that health services can improve outcomes for even the poorest groups—if those services are well delivered (World Bank 2003).

73. This chapter is based on World Bank 2018: *Health Public Expenditure Review*.

74. World Bank 2018: *Health Public Expenditure Review*.

242. In this context, the NDP5 for 2017–22 aims to provide access to quality health care for Namibia’s population, increase Health Adjusted Life Expectancy from its current 59 years to 67.5 years, and reduce mortality for mothers and children. To achieve this goal, MoHSS has identified three strategic pillars for the health sector (World Bank 2019a): (i) improved public health through prevention and treatment programs for communicable diseases and NCDs; (ii) effective governance, better communication with stakeholders, improved infrastructure, and efficient resource management; and (iii) a quality health workforce. With these strategic directions, the Government aims to address concerns regarding unequal access to health care across regions and socioeconomic groups, inadequate quality of care in public health facilities, and insufficient financial protection (World Bank 2019a).

243. Poor child-health outcomes are a critical barrier to inclusion over time. For children under age 5, the chronic undernutrition rate—or “stunting,” as measured by height for age—is 31.4 percent, a rate 40 percent higher than in South Africa and around six times higher than peer countries in Latin America. As pointed out in the Social Protection Assessment, this is strongly linked to poverty: the incidence of stunting among families in the bottom 20 percent of the income distribution is double the level among families in the top 20 percent. This has serious implications for the persistence of poverty

because childhood malnutrition has lifelong impacts on health and educational outcomes. Poor health outcomes are linked to the epidemic of HIV/AIDS and its burden on the health-care system (UNICEF child poverty study 2017/18).

244. Access is low and unequal, raising concerns regarding productivity and idle capacity. Namibia has enough hospital beds and a vibrant private health sector; however, the latter mainly caters for higher-income groups. The rapid scale-up of HIV/AIDS testing and antiretroviral services has substantially reduced hospitalization and prolonged life for those impacted. However, access to care remains unequal across regions and wealth quintiles. Despite long average stays, public hospitals in most regions report low occupancy rates. The resulting idle resources are costly for a government that spends about 60 percent of its health budget on hospitals, twice as much as Chile or Mexico. It also raises concerns about access and the availability of quality care.

245. Namibia’s health workforce is inadequate to address the growing medical challenges it faces. MoHSS does not have the necessary management tools to ensure the effective planning, deployment, and monitoring of health staff. Health workforce planning is outdated and based on the number of patients recorded in 2003. Based on these data, Namibia has a shortage of nurses and physicians in the public sector, with some regions disproportionately affected.

Figure 41: Life expectancy is lower than in countries with similar levels of health spending

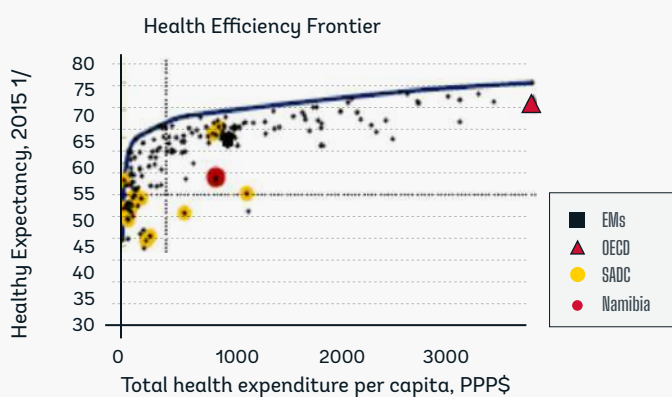
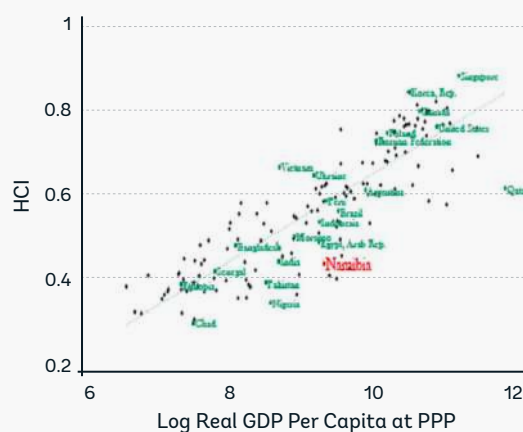


Figure 42: Human Capital Index versus GDP per capita



Source: World Development Indicators and World Bank Human Capital project.
 Note: 1/ Healthy life expectancy is a measure of health expectancy that applies disability weights to compute years of life expected.

5. Institutional Gaps and Challenges of Services Delivery

A. Socioeconomic Inequalities Have Not Been Substantially Reduced

246. The socioeconomic discrepancies that continue to exclude large segments of the population from opportunities are linked to very high and persistent inequality and slow progress in addressing the legacy of apartheid. Based on the World Bank's Risk and Resilience Assessment (RRA),⁷⁵ the Government has been advancing structural transformation since independence to tackle the challenges of exclusion. It is promoting policies of inclusion and an economic growth model in its National Vision 2030 and the Harambee Prosperity Plan. However, implementation of these reforms has been slow and has not met expectations for rapid improvements to livelihoods and income-generating opportunities. The economy is now contracting, and Namibia exhibits stark inequality as it relates to income generation, as well as access to quality social services and meaningful job opportunities.

247. Gender inequalities are acute. Women have limited voice in the political sphere and are more likely to be negatively impacted by socioeconomic and political issues, as well as by environmental shocks. They are underrepresented in senior government positions.⁷⁶ Women have in recent years comprised about one-fifth to one-quarter of all cabinet positions. Female representation in senior government positions below the level of minister and deputy minister ranges from one-quarter to one-third (SAD Gender and Development Monitor 2016). Despite these numbers, Namibia ranks well globally and regionally in terms of women's representation.⁷⁷ Women's access to land has been a tremendously contentious issue in the debate over redefining land tenure because it raises issues that impact their ability to

participate in commercial agriculture and the export economy. Although representation of women is comparable to men at a regional level, women use their political voices and access less than their male peers to raise critical questions or contribute to government oversight.

248. A raft of social ills, such as gender-based violence (GBV), are becoming more common, many of them linked to factors such as poverty, changing social norms, and the perceived emasculation of men. Despite efforts to counter GBV, incidents appear to be on the rise. The 2014 DHS survey found that 32 percent of all women aged 15 to 49 had experienced physical violence since age 15, and that 14 percent had experienced physical violence in the 12 months prior to the survey. Looking at sexual violence specifically, 7 percent of women aged 15 to 49 had experienced sexual violence since age 15, and 4 percent had experienced such violence in the 12 months prior to the survey. About 6 percent of the women surveyed reported experiencing physical violence during a pregnancy, and 15 percent of women who had experienced violence never sought help or told anyone about it. The Afrobarometer survey found that about 14 percent of women and 8 percent of men said they or their family members were victims of GBV in the past year, with 7 percent of women and 2 percent of men saying that it occurred two or more times. In addition, 48 percent of women and 37 percent of men reported feeling unsafe walking in their neighborhoods during the past year, while 34 percent of women and 27 percent of men reported that they feared crime in their home during the past year.

75. This section is based on the Namibia Risk and Resilience Assessment (RRA); Wee Asbjorn 2019.

76. A total of 43 women and 61 men were elected to the National Assembly (41.3 percent women overall), while there were 10 women compared to 32 men in the National Council (23.8 percent).

77. Women are represented relatively well in government and in politics. As of 2017, Namibia was ranked 11th in the world on female representation in the larger house of Parliament. It is now the fourth best in Africa on this score behind Rwanda, Senegal, and South Africa.

249. Land ownership is highly unequal, with a mismatch between the availability of, and demand for, commercial arable land. The distribution of arable agricultural land that favored white European settlers and their descendants during colonialism has skewed ownership rights, and the Government faces significant pressure to reduce this vast inequality. The efforts have not kept pace with high expectations for land reform and the delivery of productive land to previously disadvantaged citizens. The Government aims to transfer 52 percent, or 15 million hectares, of the country's arable commercial agricultural land to previously disadvantaged citizens. Traditional authorities hold nominal control over land allocation. However, these powers are increasingly being challenged by institutions set up by government entities to provide services such as registering land rights, managing water points, or administering peri-urban areas.⁷⁸

250. Marginalized communities are particularly land insecure, which exacerbates their socioeconomic vulnerabilities and reinforces inequality. Remoteness and discrimination against the San and Himba groups often aggravate their vulnerabilities with regard to education and health care, and extreme poverty makes it difficult for San children in particular to attend and stay in school.⁷⁹ Indigenous communities also face systemic and structural barriers to political representation and participation and responsive governance. They are also largely excluded from decision-making and/or from benefiting from activities that take place on or near their lands—for instance, mining, hydroelectric dams, and resource development.

B. The Mixed Picture of Institutional and Governance Progress

251. Since its independence in 1990, Namibia has staked out its place on the African continent as an example of good governance, political rights, and civil liberties. These characteristics represent a fundamental pillar of the country's development progress. Namibia consistently stands above most African countries with respect to key dimensions of governance (Figure 43). The country outperforms its income-group average on several other governance indicators, including the rule of law (Global Integrity 2007; Mo Ibrahim Foundation 2018), democratic stability and commitment (Bertelsmann Stiftung 2018; Freedom House 2018), and anticorruption (Bertelsmann Stiftung 2018).

252. However, the governance story is more complex than a cursory look at the indicators might imply. Namibia has enjoyed free and fair elections at the national and local levels. Similar to many other postcolonial countries in Africa and Asia,

however, democratic transitions of government have never been tested because the same party has been in power since independence. According to Afrobarometer (2018), citizens seem to have high trust in the president (64 percent), but declining trust in local politicians (44 percent), and low trust in the opposition party (32 percent). This affects the environment for open political debate and democratic competition, even while political stability remains high. In that sense, political stability is a mixed blessing: although providing continuity, the elites become entrenched, which leads to growing discontent among the population.

253. Although most aggregate indicators suggest that Namibia is relatively free of corruption, citizens perceive the problem to be on the rise. Citizens also believe that the Government is not doing enough to combat it. Afrobarometer (2018) reports that 78 percent of Namibians believe corruption

78. Mendelsohn 2008.

79. It is estimated that over 80 percent of San live more than 80 kilometers away from any type of health facility. San children experience some of the worst education indicators: 62 percent of San-speaking children are enrolled in lower primary school, 23 percent in upper primary school, 7 percent in junior secondary school, and less than 1 percent in senior secondary school.

in the country has increased, and that corruption exists at all levels of government. About 65 percent believe that the Government is mishandling the anticorruption fight. The “BTI 2018: Namibia Country Report” (Bertelsmann Stiftung 2018) describes financial scandals involving high-level officials and government tenders, the auditor general’s office being underfunded and understaffed, and various anticorruption initiatives that remain poorly enforced.

254. The machinery of government is relatively weak.

The low indicators of regulatory governance (WBG, n.d.) point to poor private sector development policies. Decreasing indicators related to policy and interagency coordination (Bertelsmann Stiftung 2018) and policy evaluations (Institutional Profiles Database 2016) suggest fundamental weaknesses in how the Government is organized, undermining its ability to stimulate equitable growth (Figure 44). This is compounded by structural constraints (Bertelsmann Stiftung 2018): large territory, small population, arid or semi-arid climate, the legacy of colonial rule (including an export economy), and low educational attainment of most of the population at the time of independence.

255. The relationship between the Government and civil society also appears to be deteriorating.

According to the IPD (2016), population participation at both local and national levels was below the income-group average, along with political and social expression. Civil society organizations have become weak, scarce, and generally ineffective. The inability of civil society interest groups to organize open debates around government shortcomings is an important constraint. This is related to the relative opaqueness of the Government. As the Afrobarometer (2018) survey shows, citizens lack access to information about the basic workings of the Government and do not believe they would obtain it if they were to inquire with the relevant authorities. In the survey, the shares of people who thought they were not very likely or unlikely to receive information were 62 percent on how to register a business, 70 percent on landownership, and 72 percent on the school budget. There is also a concern about government surveillance of citizens, leading to fears of expressing their opinions freely. On the positive side, the country has traditionally enjoyed

a relatively free press. In 2019, Reporters without Borders ranked Namibia 23rd out of 180 countries, the highest ranking of any country in Africa. This is due to a vibrant print media landscape and some quality investigative journalism; however, the state broadcaster rarely challenges the point of view of the Government (Bertelsmann Stiftung 2018).

256. Namibia has a tradition of national development planning, although the implementation of the long- and medium-term plans is a persistent challenge.

The Government drafted its Vision 2030, a long-term aspirational plan, in 1998 under its first president, Samuel Nujoma. The medium-term planning is governed by a series of five-year NDPs; Namibia is currently implementing its fifth NDP (NDP5, 2017–22). In addition, the Harambee Prosperity Plan (2016–20) envisions the goal of “prosperity for all.” Despite the existence of, and high-level support for, these well-formulated documents, implementation has been uneven, and the goals remain largely on paper. Generally, the stakeholders report an overreliance on international consultants to draft these plans; this outside assistance often circumvents or replaces a labor-intensive iterative process of bottom-up submissions from ministries, departments, and agencies (MDAs) and prioritization by the center of government and the National Planning Commission (NPC). As a result, the MDAs do not own the NDP, which is also not properly underpinned by the budget.

257. Implementation capacity is weak, and the M&E function of the national development planning is at its infancy.

To implement the NDP, a proper results framework with key performance indicators (KPIs) and targets should be developed along with the implementing MDAs, who must develop capacity and be incentivized to track the indicators and regularly report on them. However, the NPC has only recently established an M&E Department. There is limited or no institutionalized interface between the MDAs and the NPC (that is, no ministerial-level M&E units, very few staff trained in M&E, let alone any dedicated M&E specialists), resulting in low capacity to collect, track, and report the data. In addition, there are few institutional incentives from MDAs to report on the KPIs in a timely manner because the KPIs of the NDP are not part of performance agreements

Figure 43: Selection of governance indicators:
Namibia scores ABOVE income-group average

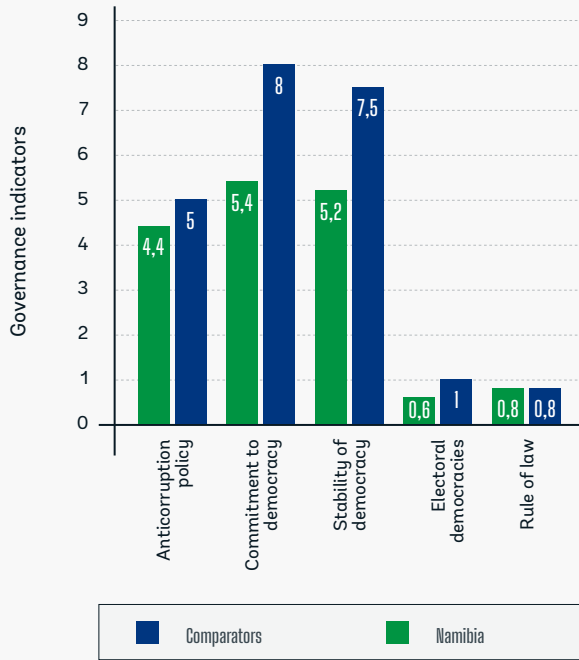


Figure 44: Selection of governance indicators:
Namibia scores BELOW income-group average

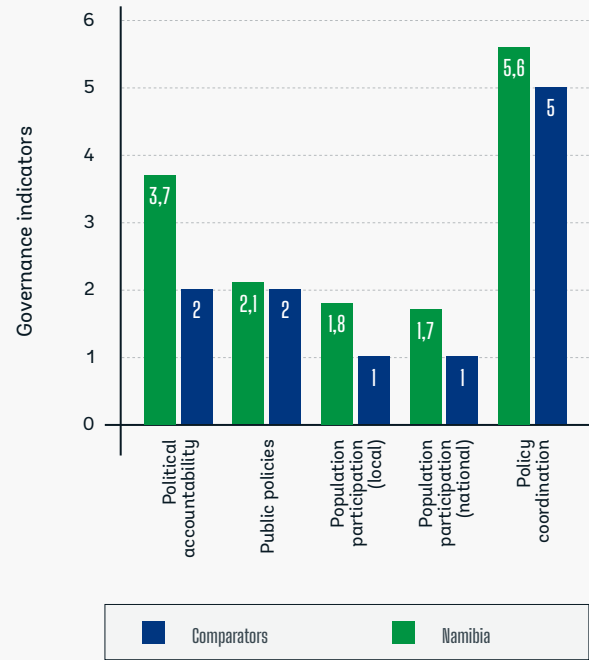


Figure 45: Services delivery: challenges of the territorial coverage

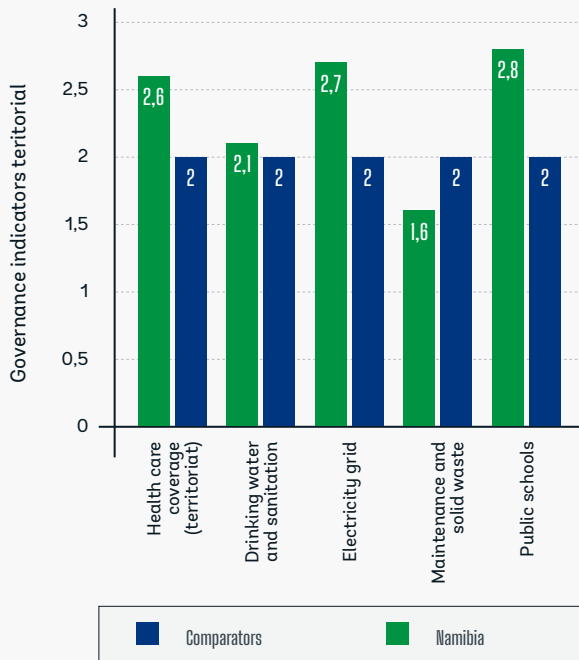
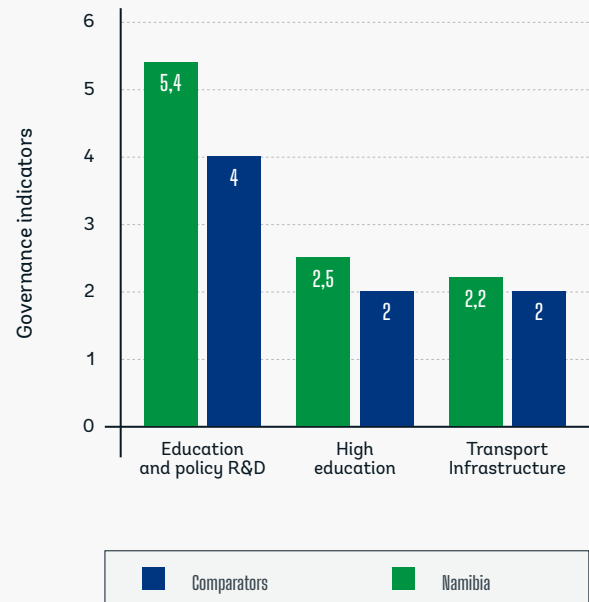


Figure 46: Challenges across services delivery sectors



Source: Governance databases such as: Bertelsmann Stiftung Transformation Index, Freedom House, Global Integrity index, Intuition Profiled Database, AfroBarometer.

of ministers or high-level civil servants. There are some initial steps in the right direction. President Geingob has introduced some initial delivery targets for ministers; however, the critics report that the results remain disappointing. Targets are often weak and poorly resourced, decisions are personalized, and urgent “firefighting” often replaces the focus on medium-term goals without any consequences (Bertelsmann Stiftung 2018).

258. Overall, coordination at the center of government is ineffectual. There is limited institutional capacity for either policy coordination (such as the formulation of high-level strategy horizontally across MDAs, and vertically through levels of national and subnational government) or interagency coordination (such as coordinating the implementation of such strategic decisions). There are no designated organs in the

prime minister’s office specifically mandated to carry out such high-level tasks. As a result, most coordination is ad hoc or a by-product of other processes, such as the planning process or budget process. Consequently, bodies such as the NPC and the Ministry of Finance play a key role in coordination efforts; however, they are not always empowered to do so. Horizontal coordination is rendered difficult by inter-ministerial rivalries and the inability of agencies such as the NPC to meaningfully enforce their decisions or incentivize the MDAs. Vertical policy and interagency coordination are particularly challenging, given the gap between the de jure and de facto decentralization efforts. Overall, the coordination capacity seems to be declining over time: the BTI Policy Coordination score dropped from 7 out of 10 (2007) to 5 out of 10 (2016).

C. Significant Spatial Inequality in Services Delivery

259. Namibia’s sheer size and low population density make targeted services delivery extremely challenging but critically important for achieving the twin goals. The population living in remote and isolated regions is also the poorest, most marginalized, and most excluded. Yet the provision of basic services in a sparsely populated country with large desert and semidesert areas is also more difficult and expensive for the Government. This is reflected in the IPD (2016) indicators of territorial coverage of public services, where scores are significantly lower than the income-group average on the territorial coverage of public schools, basic health-care services, water, sanitation, and electricity. Only the solid waste disposal score is higher than its income-group average.

260. As described in earlier chapters, the services delivery challenges have their roots in the structural legacy of apartheid. Before 1990, Namibia was divided into “homelands.” Homeland government systems were segregated along racial lines, resulting in inequitable services provision. In the areas occupied by non-whites, basic services and infrastructure were minimal or nonexistent

(Totemeyer 2010). After independence, the new country inherited the spatial inequities in services delivery and infrastructure, exacerbated by population growth. Du Pisani (2010) identifies the regions with indigenous populations that were affected most: the Owambo, Herero, Damara, Nama, Kavango, and Zambezi. In particular, the northern regions of Kavango, Oshikoto, Zambezi, Kunene, and Ohangwena are the poorest in the country, with one-third of the population living below the poverty line. The rural population in these areas had minimal or no access to electricity, drinking water, sanitation, health care, or education. Since independence, the Government has been struggling to address these structural inequities through decentralization policies and targeted services delivery.

261. Poor coverage, limited access, low quality, and insufficient public resources are among the additional services delivery challenges. Territorial coverage is only one of the issues reflected in the indicators. Access to, and coverage of, public services for Namibians are uniformly lower than the income-group average across most available indicators; the same holds for the quality of health

care and education. (The only exceptions are the quality of transport infrastructure, including ports, airports, and public transport, where the country scores above its income-group average.) Related to the deteriorating government effectiveness, Namibia scores lower than its income-group average on the ability to reform services in health care and education (IPD 2016) and policy research and development (Bertelsmann Stiftung 2018). The proportion of public spending on most public services also seems to be below the standard for upper middle-income countries (IPD 2016).

262. Although the Government has made progress since independence, the current state of services delivery requires a careful strategic policy approach, as well as more efficient spending to reduce the existing inequities. Spatial inequities are obvious in access to water, sanitation, and electricity: 78 percent of urban residents live in electrified areas, compared with only 14 percent of rural residents (Helao and Naidoo 2016). Access to health facilities is also more difficult in the rural areas. The education sector faces similar challenges. In 2016, Namibians had one year less of education on average than residents of other upper middle-income countries, and 19 percent of Namibian students had to repeat a grade (EMIS 2017).

263. Many service delivery bottlenecks may be related to delayed, inefficient, or leaky public procurement systems. Although evidence of this issue is not available, one can speculate on a number of possible bottlenecks in the system. For example, funds may not be released on time by the responsible ministry or they may be diverted; contracts may not be awarded based on competitive practices, leading to higher prices; the procurement process can be long and cumbersome due to new frameworks or restructuring; or the responsible staff may lack knowledge and experience in quality-assurance measures. Procurement obstacles may result in school supplies not reaching classrooms or medicines not arriving in the clinics on time or in the quantity required. Worse still, public funds may be squandered or outright misappropriated in the process.

264. Public procurement reform is underway. The new Public Procurement Law passed two years ago, addresses several grievances and the loss of legitimacy of the previous decentralized and opaque procurement system. The law has been hailed as a major policy improvement by centralizing large procurements under the Central Procurement Board (CPB). However, the implementation has been difficult due to capacity constraints. This applies both to the newly established CPB and to the public entities that lack an understanding of the new law. Paradoxically, even though the law has been a policy improvement over the previous procurement regime, its implementation has been difficult and has led to temporary but dramatic increases in procurement times for large contracts. These now take up to 12 months (as opposed to three to four months in the past); there are also reported shortages of medical supplies and other items critical to delivering services.

265. The digital economy offers potential for enhanced services delivery in the public sector, but the Government's efforts in this field appear fragmented and slow moving. Namibia's consumers have been rapid adopters of new technology in the form of mobile phones and mobile payments. However, limited digital skills hold back the adoption and use of digital products and services, restricting digital businesses' growth potential. Improved digital infrastructure can only achieve the desired transformational impact if combined with a capable public sector, investments in digital skills and literacy, increased access to digital financial services, and a ramp-up of support for digital startups and existing businesses.





5

CLIMATE CHANGE AND ENVIRONMENTAL VULNERABILITIES

Namibia's wealth relies heavily on renewable natural capital. Namibia is the driest Sub-Saharan African country and the most vulnerable to climate change. The water and agriculture sectors are particularly vulnerable to climate change, and the poor are the most affected by water shortages or pollution. Forests, fisheries, and tourism play important roles in offsetting losses in agricultural income. Namibia's globally acknowledged water reclamation achievements, especially in Windhoek, demonstrate the commitment and know-how needed for diversifying water sources. Improved, sustainable water production is critical for several sectors in both rural and urban contexts.



1. Climate Change and Its Economic Impact

A. Renewable Natural Resources Are of Critical Importance

266. Namibia is the driest Sub-Sahara African country and the most vulnerable to climate change.

The predicted higher temperatures, evaporation increases, and greater rainfall variability could exacerbate the existing challenges facing the region's driest country. Namibia faces high risk of climate-related impacts due to a combination of its exposure to climate-related hazards and its vulnerability to climate shocks. The potential effects of these climatic changes could prove detrimental to communities, the population, and the economy at large.

267. The agriculture sector supports the livelihoods of a large segment of the population, much of which engages in low-productivity subsistence farming.

However, the sector's contribution to GDP has been declining in recent years. Current projections indicate that a steady increase in the number of days with high temperatures will shorten the growing season and delay the onset of rains. In the long term, this will significantly damage grain production and the availability of grazing land for livestock (Mapaure 2016). Deforestation and overgrazing are also contributing to environmental degradation and placing further pressure on the water table. This has had the effect of decreasing agricultural yields and is worsening the impact of droughts and floods (Willemse 2018).

268. The country's poorest population and its indigenous people are particularly vulnerable to climate change.

As in most African countries, including Namibia's neighbors Angola, Malawi, Mozambique, Zambia, and Zimbabwe, Namibia's poor population is more exposed to higher temperatures than the non-poor population. In recent years, the most destructive and frequent climate risks have been long-lasting floods and droughts. These events impact the population heavily and directly, and they have indirect consequences for human activities and resources, such as water, agriculture, livestock, natural ecosystems, the coastal zone, biodiversity, and health.

269. Renewable natural resources are of critical importance not only to the economy but also to its population, especially the poor.

Challenges in sectors such as agriculture, forestry, and tourism, which depend heavily on renewable natural resources, will be highlighted. Although the World Bank's wealth/natural capital model does not currently account for marine or water resources, the fisheries sector should also be considered because it is vital to the country's economy. In fact, the contribution from sectors relying on renewable natural resources accounts for over 35 percent of GDP, and around 70 percent of the population is directly dependent on natural resources for income, food, medicinal and health needs, fuel, and shelter (MET 2014). It is therefore necessary that renewable natural resources and the ecosystem services they provide be maintained and enhanced to support sustainable development.

B. A Perennial Quest for Sustained Water Availability

270. The water sector is particularly vulnerable to climate change, and the poor are the most affected by water shortages or pollution. The three areas of Namibia that are the most water stressed and vulnerable to climate change and rising water demand are the central area, the Walvis Bay–Swakopmund coastal area, and the Cuvelai area with its high density of rural people in north-central Namibia. The northern regions (especially Kavango East and West, Ohangwena, Omusati, and Zambezi) have the highest shares of people lacking access to safe water and adequate sanitation.

271. Droughts pose substantial risks for the agriculture sector, the mainstay of the vulnerable, rural population. Large parts of the country are extremely arid, with scarce, unpredictable rainfall. Although substantial water resources exist in the country's north, Namibia is, for the most part, poorly endowed with water. In this context, the country is clearly vulnerable to volatile rainfall patterns, with recurrent droughts having a significant impact on poverty. Given the strong link between poverty and rural households reliant on agriculture, vulnerability to water shortfalls represents a substantial risk.

272. Water runs through the narrative of putting Namibia on a sustainable growth and development path. The most arid country in Sub-Saharan Africa, Namibia is marked by highly variable and low precipitation rates: from a maximum rainfall of about 650 millimeters a year in the northeast to less than 50 millimeters a year along the coast. The mean annual rainfall is less than 100 millimeters. About 70 percent of Namibia's land surface is arid and semi-arid, and 22 percent is desert. It is estimated that only 2 percent of the rainfall ends up as surface runoff, and a mere 1 percent becomes available to recharge groundwater.⁸⁰ The balance of 97 percent is lost through evaporation (83 percent) and evapotranspiration (14 percent). There is also a shortage of natural water resources. Groundwater

is the largest natural source of water and provides about 40 percent of freshwater. The Ministry of Agriculture, Water and Forestry reported an extreme drought prevailing in the country in 2018/19 as Namibia received less than 50 percent of its average seasonal rainfall.

273. Global modeling has shown that water scarcity often acts as a brake on economic growth, so the economic ramifications of such water challenges require systematic mitigation. The World Bank's 2016 report "High and Dry: Climate Change, Water and the Economy," showed that the effects of water scarcity on GDP and well-being can vary across regions. In Sub-Saharan Africa, these losses might amount to 0.2 percent by 2050, close to the global average. Since Namibia is more water stressed than most other parts of Sub-Saharan Africa, the impacts will be considerably higher; therefore, the country will likely experience even more stress, which will be exacerbated by rising demand combined with increasing variability of rainfall and runoff.

274. A lack of water and sanitation causes stunting. About 23 out of 100 children are stunted in Namibia, and therefore at risk of cognitive and physical limitations that can last a lifetime. Access to adequate water and sanitation services is known to play a role in reducing stunting. JMP⁸¹ data from 2015 showed that access to safe drinking water among the poorest varies from urban areas (86.46 percent) to rural areas (47.66 percent). Open defecation is widely practiced: 60 percent in urban areas and as high as 96 percent in rural areas. In addition to poor access to water and sanitation services, rainfall shocks can also impact the health of children and their later-life productivity. Because human growth and development occurs nonlinearly, a "shock" or deprivation experienced by a young child may have devastating short- and long-term impacts. This is particularly true when water shocks cause nutritional deficiencies or health impacts in young children or

80. Data from this section are from the Water Global Practice (database), World Bank, Washington, DC (accessed October 28, 2019), <https://www.globalwaters.org/resources/assets/world-bank-water-global-practice>

81. Joint Monitoring Programme for Water Supply, Sanitation and Hygiene (JMP)

when income shocks prevent families from investing in their children. Early childhood is a critical time for determining whether children will grow up stunted. Using Demographic and Health Survey data along with detailed weather data shows that children younger than age 5 who are exposed to more dry rainfall shocks since birth have significantly lower height-for-age scores. Evidence from the 2018 World Bank report *Uncharted Waters* extends these results to adult women in Sub-Saharan Africa, finding that women born during periods of below-average rainfall grow up to be significantly shorter, less educated, and less wealthy.

275. Namibia is severely water stressed and is highly vulnerable to the impacts of water scarcity on agriculture, human capital, and overall economic growth. A drought state of emergency was declared in 2018. This introduced drought contingency measures but also underscored that addressing water availability is critical for long-term sustainable development. Water scarcity is an underlying constraint across the main economic sectors, impacting industrial production, employment generation, and the significant agribusiness sector. In October 2019, the Government reported spending N\$131 million (about US\$14 million) on drought-relief efforts in the past year and called for an extension of at least six months of the drought state of emergency.

276. Namibia's globally acknowledged water-reclamation achievements, especially in Windhoek, demonstrate the commitment and know-how needed for diversifying water sources. The Government has made efforts to draw together stakeholders to strengthen the existing—but weakened—Namibia Water Partnership to collaborate on a strategy for water management. Despite its high capacity, especially when compared with the rest of Sub-Saharan Africa, challenges of this scale require a concerted effort to overhaul an aged bulk water and distribution infrastructure, increase financial and human resources to effectively manage water supply and sanitation facilities and services, and develop coherent policies to deal with

growing scarcity and uncertainty. There have been many calls for new approaches to managing water resources, especially for integrated water resources management. The challenge is to access the best knowledge and adapt it to the Namibian context while securing political momentum for sweeping policies—all at a time when drought and water scarcity conditions continue to intensify due to climate change.

277. To sustain development, Namibia is striving to preserve and augment its water resources. While dire drought conditions persist, the country is seeking to scale up its globally recognized innovative solutions to manage demand and maximize reuse of water. Perhaps the best-known innovation has been in Windhoek, one of a few cities in the world where wastewater recycling for direct potable water supply has been implemented. The city's managed aquifer scheme has also enabled significant artificial recharge of its water table, augmenting its water resources by up to 40 percent, according to its estimates. The water department has also adopted a diligent metering strategy, including prepaid meters. Moving forward, Namibia requires investments in water conservation and storage, groundwater preservation, and the development of new water resources, as well as cost-reflective pricing to encourage conservation and reallocation to more productive sectors. The balance between supply and demand needs to be improved and water tariffs adjusted; however, this comes at the risk of additional costs to firms that may make them less competitive—especially given the high costs of innovations such as desalination—so that it is important that careful pricing policies and pricing formulas are developed. In Swakopmund on the Atlantic coast, for example, a relatively new, highly automated, and energy efficient desalination plant has a capacity of 57 million liters per day. The water is mostly used to supply uranium mines in the desert, but there is potential to expand the scale and client base of desalination as part of a national, as well as regional, augmentation strategy.

C. Agriculture Challenges

278. Food insecurity is a critical challenge for Namibia.

Recurrent and prolonged droughts in recent years, worsening an already water-stressed production system, have resulted in a declining yields and productivity. An estimated 16 percent of the population were food insecure and in urgent need of food support, and 578,480 people were affected by food shortages and experienced a significant reduction in food and water availability due to the 2014/15 drought (IFRC 2018). Namibia is a net food importer and has run an agriculture trade deficit for the past five years.

279. Structural water deficits are felt most acutely in the agriculture sector.

About 70 percent of Namibia's people rely on agriculture for their livelihoods. The agriculture sector is dominated by livestock farming—cattle, sheep, goats, and pigs—but its share of GDP declined from 67 percent in 2007 to 57 percent in 2017. Meat, a water-intensive product, contributed 90 percent to agricultural export earnings and 6 percent of total export earnings in 2017. Statistical evidence shows that the impact of dry rainfall episodes on agricultural productivity is stark. As measured by net primary productivity, a satellite-based metric, agricultural yields decrease by 6 to 7 percent for the full Sub-Saharan Africa sample and a staggering 41 to 58 percent for Namibia, an order of magnitude higher than the rest of the region and at the high end of global results, too. This suggests that climate smart agriculture (CSA) strategies will be fundamental to maintaining productivity in Namibia. Ultimately, the limits of agriculture will need to be recognized with a stronger focus on diversification of basic livelihoods for the poor and keeping people out of poverty. Hydrological monitoring and planning are also going to be very important for addressing water scarcity for agriculture productivity. Good hydrological and meteorological (hydromet) services will be of great help when preparing for extreme weather conditions. This becomes even more important when considering the impacts of climate change.

280. The negative impacts of climate change are worsening an already low agricultural productivity capacity.

Droughts are more frequent, intense, and prolonged, with severe impacts. For example, the recent consecutive droughts (2013/14, 2015/16, 2018/19) resulted in losses of thousands of livestock animals, water and food shortages for households, and a reduction in domestic grain production by more than 50 percent.

281. Drought is particularly burdensome for women.

Large number of the subsistence farmers are women, and this source of livelihood is particularly vulnerable to the increasing frequency of drought. During the droughts, women tend to remain responsible for households' food production and management, while men tend to leave to seek work in other industries or in urban areas. Drought conditions also force women to travel longer distances to seek water.

282. Land degradation has deteriorated grazing conditions for livestock.

A lack of feed limits agricultural productivity and the raising of large and small ruminants (primarily local and mixed breeds) for many smallholder livestock producers on communal lands. Poor grazing results in inferior animals, resulting in livestock that fetch lower prices. As a result, many smallholder producers in communal areas prefer to sell weaners⁸² and older cows to minimize losing cattle due to wasting and reduce the costs related to cattle feed and supplements, especially during prolonged droughts. Overgrazing and poor land management practices diminish the quantity and quality of grass. Securing land management and planning of settlements (urban and rural) will help Namibia improve living conditions for the poor.

283. Bush encroachment is a critical challenge.

The invasion and thickening of aggressive woody species results in an imbalance in the bush-to-grass ratio and reduces agricultural productivity by decreasing the land's carrying capacity. Bush encroachment also decreases underground water supplies because of

82. In Namibia, the term weaner producer refers to a cattle farmer who predominantly produces and markets young calves (aged 6 to 10 months), which are called weaners

high extraction of groundwater. In addition, a large amount of water is intercepted and transpired back into the atmosphere without producing fodder. The results are economic losses that reduce livelihoods in many rural areas. Bush encroachment is estimated to affect up to 45 million hectares of Namibian land (Namibia Economist 2015). Bush control was declared a priority in the country's NDP5.

284. Meeting animal health and welfare standards is necessary to penetrate international and regional markets for livestock and livestock products.

Controlling animal disease outbreaks is a challenge, particularly because transboundary diseases, including foot-and-mouth disease and contagious bovine pleuropneumonia, are present. Although

Namibia has a control strategy for goat plague (pestes de petits ruminants), the disease is present in the SADC region, and the Northern Communal Area remains at risk due to porous borders with Angola, Zambia, and Zimbabwe.

285. The delivery of agricultural extension services is challenging.

There are few extension-service workers; it is estimated that one extension worker serves more than 2,500 farmers and must travel long distances between farms, making services delivery difficult. In addition, there are few resources available to extension workers. There is a need for innovative solutions to enhance effective extension services delivery and reach more farmers (Box 13).

D. Natural Resources Degradation Is an Eminent Threat to Rural Communities

286. Deforestation poses a serious threat to the habitats of rural communities, reducing the capacity for carbon sequestration, as well as hydrological and nutrient-cycling functions.

Originally, about 20 percent of Namibia's surface area (16 million hectares) was covered by dryland forests and woodlands (MET 2014); today, an estimated 8.4 percent remains under forest cover.⁸³ The annual deforestation rate averaged an estimated 0.84 percent from 2000 to 2010. In parallel, land-productivity dynamics showed the summer vegetation productivity potential on 44,816 km²—6 percent of total national surface area—decreased between 1998 and 2013.⁸⁴ Deforestation is most prevalent in the north and north-central regions—particularly in the Kavango, Ohangwena, and Zambezi regions—and is due largely to small-scale agriculture, fuelwood collection, and unsuitable fire management. Forests also suffer from illegal harvesting for firewood and timber (including harvesting of the valuable slow-growing miombo species). All else being equal, it may be estimated that deforestation over the 1995–2014 period

represented a loss of 2.2 percent of the country's wealth, or US\$1,872 per capita.⁸⁵

287. Forests play an important role in offsetting losses in agricultural income due to weather shocks or changes in commodity prices.

According to the Poverty and Environment Network findings,⁸⁶ an estimated 9 percent of the rural population is lifted above the extreme poverty line because of income from forest resources. The wooded areas represent an important safety net for rural people in times of economic distress, with many households responding to an income shock by seeking additional resources from forests (Noack et al. 2015).

288. Namibia has significant room to improve on adequately monitoring its forests, and understanding the basic dynamics related to its forests.

The scarcity of available data and limited understanding of the situation combine to alert Namibia about the need to develop improved monitoring systems, tapping into earth-observation technologies and techniques.

83. Forest area (as a percentage of land area) in Namibia was last measured at 8.4 percent in 2015, according to the World Bank. Forest area is land under natural or planted stands of trees of at least five meters in situ. See "Forest area (% of Land Area)" in the World Bank database, <http://data.worldbank.org/indicator/AG.LND.FRST.ZS>

84. Joint Research Centre of the European Union (JRC-EU), 2011.

85. Calculated from the database from Lange, Wodon, and Carey (2018), assuming that no forest depletion would have occurred from 1995 to 2014.

86. The Poverty and Environment Network survey covers about 8,000 households in 24 countries across Sub-Saharan Africa, South and East Asia, and Latin America and represents smallholder-dominated communities living close to forests (with access to forest resources).

BOX 13: Israel – Achieving Agricultural Transformation in a Desert

Similar to Namibia, Israel is one of the most water-scarce countries in the world. A significant part of the country (66 percent) is semi-arid with poor soil quality. Yet Israel has a flourishing agriculture sector in desert conditions. It records high productivity rates in several crops, including citrus fruits and tomatoes. Its citrus yield is 262 tons per hectare (compared with 243 tons per hectare in North America), and its tomato yield is 300 tons per hectare (versus the world average of 50 tons per hectare). Below are the key ingredients of Israel's agricultural success.



INNOVATIVE AND EFFECTIVE WATER MANAGEMENT

- Five huge seawater desalination plants supply 95 percent of household and industry water consumption (four via public-private partnership investments).
- Effluent wastewater recycling—86 percent of sewage water is reused for agriculture.
- Efficient low-volume irrigation technologies: drip, mini-sprinklers, moisture-sensitive automated drips, etc.



EFFECTIVE PROBLEM SOLVING AND WELL-FUNDED AGRICULTURAL R&D

- Close relationship/accessibility between researchers, extension agents, and farmers.
- Regional R&D centers adapt solutions to local conditions.
- Innovative technologies: drought-resistant seeds, stem water sensors, heat-stress-resistant tomato varieties, greenhouses, precision agriculture, and other low-tech, low-cost solutions.
- High government investment in agricultural research—a US\$37 million per year budget in addition to some private sector funding.



EXTENSION SERVICES ARE PRIORITIZED

- Government made extension a priority with sufficient funding.
- One extension worker serves 50 to 80 farmers versus an average of 2,500 in Namibia.
- Extension workers are strongly connected to research.
- One consultant crop specialist serves every 110 farmers.



STRONG FARMER COOPERATIVES

- Robust and well-managed farmer cooperatives increase economies of scale, bargaining power, and market linkages for Israeli farmers.
- Various cooperative models allow effective aggregation for different farmers.



GOVERNMENT COMMITMENT AND LEADERSHIP

- Clear policies/programs—especially on enabling infrastructure—to support farmers.
- Policy consistency and continuity to support a clear agricultural vision.
- Effective prioritization, planning, and coordination.

Source: Abraham et al. 2019.

E. The Tourism Sector Depends on the Climate Change

289. Growing tourism demand is highly beneficial because it creates direct and indirect income and employment effects to host regions that tend to emphasize community involvement and community-based tourism initiatives. Growth of the biodiversity economy through the encouragement of the Community-Based Natural Resources Management (CBNRM) program is essential for the development of the tourism sector and rural communities, renewable natural resources conservation, and income generation. The CBNRM program devolves rights and responsibilities over natural resources to local communities, leading over the past two decades to the formation of 83 communal conservancies (38 are directly involved in tourism activities), 32 community forests, and a community association living within a national park's boundaries. Together, these endeavors cover almost 20 percent of the land and empower 10 percent of the population as conservation stewards.

290. Nevertheless, the tourism sector faces environmental challenges. Due to the rise in wildlife population numbers, human-wildlife conflict has increased, including encounters with lions,

leopards, elephants, and hippos. Between 2011 and 2016, Namibia faced an average of 100 incidents per conservancy caused by the increase in wildlife populations and the different migration patterns of humans and wildlife in response to drought. In the Zambezi region, human-wildlife conflict resulted in a loss of US\$770,000 to the national economy (WWF 2008). In addition, more frequent episodes of drought have forced people to move into conservancy areas previously reserved for wildlife. Another issue that needs combating is the rising threats from commercial poaching and trafficking, which has dramatically increased in southern Africa. Moreover, irresponsible tourism may result in severe economic consequences. For instance, off-road driving in dunes may destroy key desert habitats, further affecting the rural poor. Pollution and waste generated by the development of tourism facilities, transportation, and tourist activities themselves are also major causes of environmental impacts. As these impacts accumulate, they destroy the very foundation on which tourism thrives and may impede growth.

F. The Fisheries Sector Is Vulnerable to Oceanographic Conditions

291. Namibia has one of the most productive fishing grounds in the world—primarily because of the Benguela Current—and the fisheries sector is the third-largest income earner after mining and tourism, contributing to job creation, remittances, and about 15 percent of total exports. The annual catches of about 550,000 tons are valued at an average of N\$7 billion (about US\$800 million) and constitute about 4.5 percent of GDP. About 14,000 people are directly employed in the fisheries sector, and about three times as many are indirectly employed in supporting industries, such as stevedoring services, fishery-related supplies, and logistics. Many fishing-industry employees come from the northern parts of the country, but the sector's economic importance reaches far beyond the Erongo and Karas regions, as workers send resources to their families residing in home regions,

especially the Oshana, Oshikoto, and Zambezi regions.

292. The fisheries sector is facing many challenges, particularly from competition for the use of ocean resources by different sectors. Mining activities such as seismic exploration and diamond mining in the south are likely to have negative impacts on the catches of highly migratory tuna and rock lobsters. What is more, a lack of zoned land and access to water for mariculture projects along the coast hamper the expansion of mariculture production. The oceanographic conditions, such as the recurrent hydrogen sulfide eruptions along the coast and the unprotected high energy coastline, are additional limiting factors to marine aquaculture production (FAO 2013).

2. Adverse Impact of Environmental Shocks

293. Namibia has been hit by several severe environmental shocks in recent years. A devastating drought in 2013 left 35 percent of the population food insecure (Willemse 2018). In 2009, flooding in the north and northeastern parts of Namibia affected about 700,000 people and resulted in damage and losses estimated at 1 percent of GDP. Meteorological data and community reports indicate an increase in the frequency of droughts and floods in recent times (Mapaure 2016). The two most recent droughts, the 2015/16 El Niño drought and the 2018/19 drought, have had particularly strong impacts. The 2015/16 El Niño episode peaked between December 2016 and March 2017, and has been called the region's worst drought in 35 years (UNICEF 2017). As a result, the Government declared a state of emergency in June 2016, which ended in March 2017, and it offered drought-relief food assistance between May and July 2016 (FAO 2016). This drought was also followed by floods that peaked in April 2017. The 2015/16 El Niño drought largely affected the south and east of the country, while the 2018/19 drought that followed hit more heavily in the north. Both droughts caused severe damage to agricultural productivity. The

2018/19 drought, for example, resulted in the deaths of more than 30,000 cattle between October 2018 and April 2019, according to SADC reports. These droughts crippled farming and livestock livelihoods in the country, hampered socioeconomic development, and put pressure on the national disaster risk response budgets.

294. Research has shown that climate change is likely to exacerbate the intensity and frequency of extreme weather events in Namibia (Reid et al. 2008). Droughts may be expected to worsen with climate change. In a recent Afrobarometer survey, 34 percent of Namibians felt that climate change had worsened their agricultural conditions over the past 10 years, and 38 percent believed that droughts had become more severe over the past 10 years. Meanwhile, 63 percent stated that climate change was making life worse or much worse for them. However, only 16 percent are what Afrobarometer calls "climate change literate," meaning they had heard of climate change, believe it is caused in part by human activity, and associate it with negative changes (Selormey et al. 2019).

G. Natural Resources Degradation Is an Eminent Threat to Rural Communities

295. Households were significantly harmed by the 2015/16 drought, with the most severely hit households losing up to 28 percent of their consumption. In the basic simulation model, areas affected by the 2015/16 drought were predicted to experience an average decrease of N\$12,500 in per capita income, amounting to an average 3.5 percent decrease and, among the worst hit, a 28.8 percent decrease. In a simulation that also included the floods, households affected by the drought were predicted to experience a 4.1 percent average income loss, and those in flooded areas were predicted to experience substantial losses.

296. Households affected by the 2018/19 drought appear quite different from those households unaffected by the drought, and quite different from those households that were affected by the 2015/16 drought. Drought-affected households were 14 percentage points more likely than non-drought-affected households to be headed by a female. On average, they had one more household member and about 60 percent of the average per capita income. They were 12.4 percentage points more likely to be food insecure. They were also more likely to depend on agriculture: nearly 40 percent had grown crops in the past year (compared with 11.2 percent for non-drought-affected households), and they were 10 percentage points more likely to earn their main income from agriculture, 21 percentage points more likely to use subsistence farming, and 17.7 percentage points more likely to keep livestock.

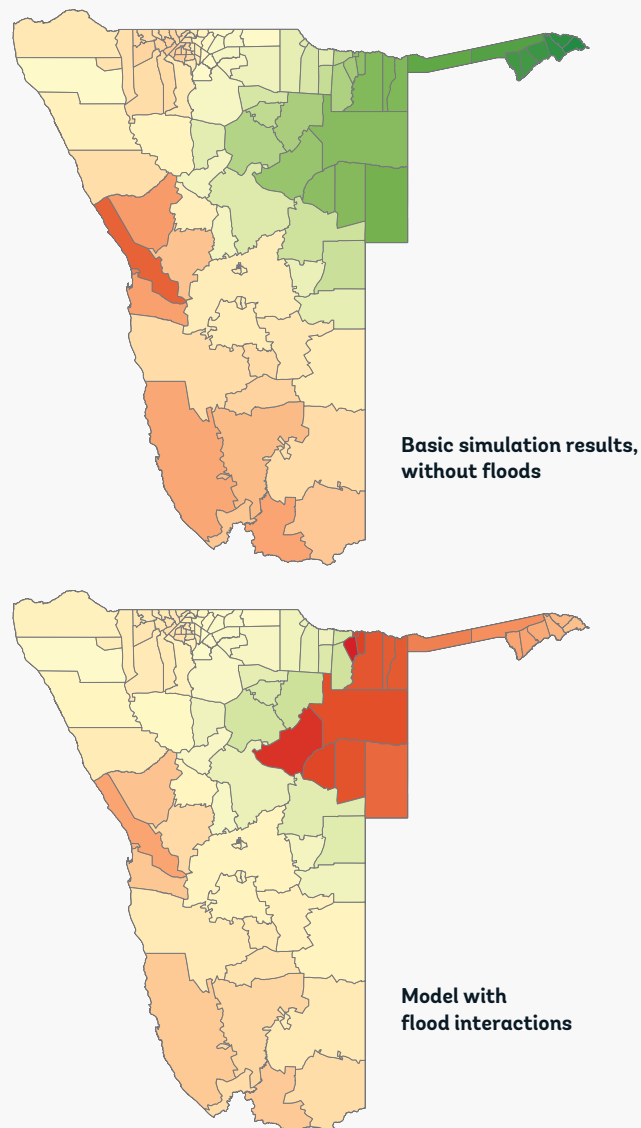
BOX 14: Estimating Distributional Impact of the Climate Shocks in Namibia

In this section we estimate the income loss due to the climate shocks in Namibia due to the droughts and floods. The 2015/16 drought peaked in late 2016. The NHIES survey was collected in late 2015 and early 2016. Because of this, we cannot use the survey directly to estimate the effect of the drought; instead, this analysis attempts to simulate potential income impacts of the drought using a baseline regression of income on precipitation.⁸⁷

We tested two models. The first follows the most basic specification of household income per capita depending on the SPI index. As expected, this model predicts a positive association between income and precipitation—the higher the SPI index, the less drought, and the more income. To account for this, we define flooding as an area with an SPI index greater than 1, meaning that precipitation was more than 1 standard deviation higher than the long-run (pre-2013) average level. Then we considered a model of household income per capita depending on SPI index interacted with the binary variable for flood.

In the most basic simulation model, areas in 2015/16 drought were predicted to experience on average a N\$12,500 decrease in per capita income, amounting to a 3.5 percent decrease on average and among the worst-hit, a 28.8 percent decrease. In a simulation that also includes floods, households affected by the drought were predicted to experience a 4.1 percent loss in income on average, while those in flooded areas also were predicted to experience substantial losses, with an average loss greater than a 44 percent decrease in the worst-hit areas. The impact of the climate shocks differs significantly across the regions, having a greater impact on vulnerable and poor areas of the country.

FIGURE 47: Estimated income loss by region



Source: Authors' estimations based on the NHIES baseline data.

87. A regression model was estimated on a household per capita income from the 2016 NHIES (reflecting income from early 2016, when the interviews were conducted) on the precipitation index for the period from September 1, 2015 to December 31, 2015. The coefficients from this model used to predict the potential income changes due to the 2016 drought, using the precipitation index corresponding to this drought period.

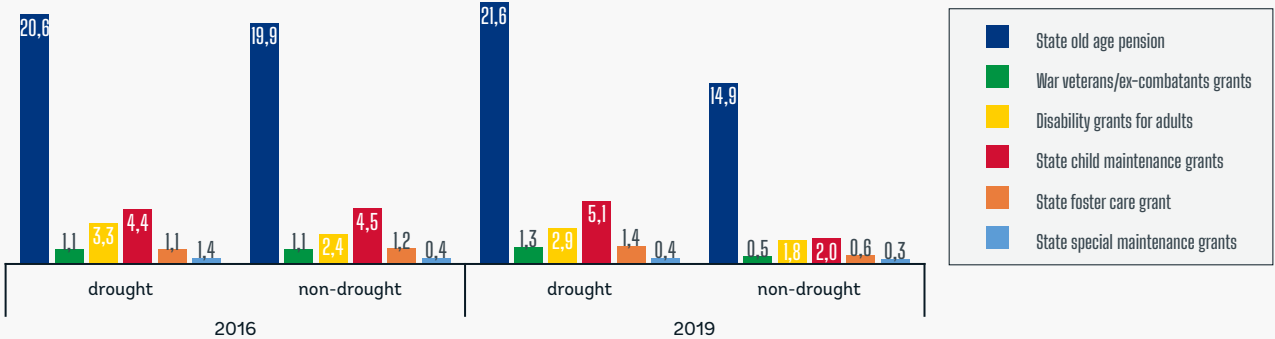
297. Analysis shows that, except for pensions, existing social protection programs are limited in how well they help households mitigate the impact of shocks. Old age pensions were the most common social assistance received, covering 20.6 percent of the 2015/16 drought-affected population and 21.6 percent of the 2018/19 drought-affected population (Figure 48). Comparing the coverage between drought-affected and non-drought-affected populations, it appears that those affected by the 2015/16 drought were almost equally as likely to receive all types of social assistance as non-drought-affected people. The areas affected by the 2018/19 drought were somewhat more likely to receive assistance than non-drought-affected populations. In 2015/16, most social assistance went to those who were not affected by the drought, meaning that these mechanisms might not be an effective way to target people affected by droughts similar in scope to the 2015/16 drought. Considering the 2018/19 drought, however, most social assistance went to those who were in drought-affected areas, suggesting a potential use of these mechanisms to soften the impact of the drought.

298. Households face significant environmental and economic shocks, and targeted assistance should be adjusted for different drought events. In rural areas, a higher prevalence of shocks with large impacts on welfare results in poorer households being exposed to greater risk. In many instances, households do not have good coping mechanisms to manage shocks, so consumption (or income) is often

reduced. Recent droughts had a significant impact on poverty, with income losses of up to 28 percent in some affected areas. Social protection only partly helps mitigate the impact of weather on consumption or income, leaving beneficiaries very susceptible to weather risk. Nearly 70 percent of those who received drought-relief assistance were not in areas hit by the 2015/16 drought, suggesting substantial leakage. In contrast, 93.3 percent of those who received drought relief were in areas hit by the 2018/19 drought. This might seem to indicate better targeting performance; in fact, it is solely due to the 2018/19 drought being more widespread.

299. Although the Government has scaled up support in the most recent crisis, the response was limited in its ability to reduce consumption risk. Further reforms to social protection systems, such as improving coverage and being ready to scale up in the time of a shock, can help. Being ready to scale up requires having all potential beneficiaries in a national database, an early warning system that provides accurate information on when and where the scale-up is required, and available financing to increase support to households. However, sometimes the most cost-effective way to reduce vulnerability to poverty is to reduce exposure to shocks. Further analysis is required in this area. Possibly, improved irrigation could reduce the impact of scarce rainfall on agricultural output, and education could increase the ability of an individual to earn income in other sectors that are less rainfall dependent, either before or in response to a shock.

Figure 48: Social assistance prevalence



Source: Authors' estimations based on the NHIES baseline data.





**PRIORITY INTERVENTIONS TO
ENSURE STRONG, INCLUSIVE,
AND SUSTAINABLE
DEVELOPMENT**

1. Binding Constraints to Wealth Creation and Sustainable Economic Development

300. The analysis presented in previous chapters identified a wide range of development constraints. The aim of this SCD is to identify key binding constraints for inclusive economic growth and broad policy priorities. The overarching conclusion of the analysis is that private sector-led economic growth is critical for achieving Namibia's sustainable development, improving human capital, and raising people's living standards. The analysis builds on four key binding constraints summarized as follows:

✱ **Highly segmented input and output markets and dependency on low-productivity sectors.** The labor market is characterized by a significant gap between those in high-productivity, high-paying jobs and those in low-productivity, low-paying jobs. Similarly, high levels of inequality in land, financial, and product markets play an important role in markets' segmentation, hampering productivity. Both supply and demand factors explain this inequality. State intervention and monopolistic practices are relatively common. SOEs remain dominant, and their inefficiency hurts the economy's competitiveness. This situation is exacerbated by low entrepreneurship rates and relatively thin competition. The financial sector, dominated by South African banks, caters to large formal companies. Namibia's economic growth is largely dependent on the global and regional context, underscoring its vulnerability to commodity prices and financial shocks. Economic dependence on low-productivity sectors and a low complexity of exports strain TFP. The adverse effects of price shocks distress revenue streams and impact efficient resource exploitation. Namibia is highly dependent on South Africa's product markets, which have high barriers to entry, and firms miss out on opportunities to tap into high-value-added global markets and grow through technology transfers. The country is extremely vulnerable to climate change and environmental shocks.

✱ **Poor-quality educational and health systems.**

Lack of skills is an important binding constraint on economic development. High spending on inefficient, poor quality education has resulted in widespread skills mismatches. The educational system is often characterized by overaged enrolment, weak learning outcomes, high repetition and early dropout rates, and inadequate educational services in remote rural areas. There is an excess supply of low-skilled laborers but a lack of demand for them. The returns on postsecondary education are very high. Shortages of skilled labor limit the capacity to apply knowledge and technology, constrain productivity growth, lower profitability and investment returns, and reduce international competitiveness. Despite rising spending, poor health outcomes are evident, particularly among low-income groups. Poor children's health outcomes present a critical barrier to inclusion over time.

✱ **Highly skewed distribution of productive assets and land.** Property rights are weak, and wealth and land are still held by very few Namibians. Such inequality strains socially acceptable standards of fairness. As in neighboring South Africa, weak titling—especially in poorer, more informal areas—limits the value of property. It is a major source of policy uncertainty, especially in agriculture. At the same time, the legacy of apartheid is reflected in limited or expensive connectivity, underserved historically disadvantaged settlements, and development of the northern parts of the country. Although many Namibians continue to live far away from job opportunities, migration has been significant from rural areas in pursuit of jobs in cities. This migration can help reduce poverty, but it also can put pressure on the sustainability of existing public services. Access to electricity, water and sanitation, flush toilets, and good public clinics and schools remains much weaker in historically disadvantaged communities.

✱ **Extreme vulnerabilities to climate change and vulnerabilities arising from markets and technology.** The country is exposed to prolonged droughts and intensifying water insecurities, and urbanization and economic growth continue to increase demand for water. Namibia is the driest Sub-Sahara African country and the most vulnerable to climate change. The country's poorest population and its indigenous people are particularly vulnerable to climate change and weather shocks. Renewable natural resources are of critical importance not only to the economy but also to Namibia's population,

especially the poor. Structural water deficits are felt acutely in the agriculture, tourism, and fisheries sectors. Households face significant environmental and economic shocks, and targeted assistance and mitigation strategies should be adjusted to meet the challenges of different types of drought events. Namibia is also highly dependent on South Africa's product markets, which have high barriers to entry, and firms miss out on opportunities to tap into high-value-added global markets and growth through technology transfers.





2. Pathways to Lifting Binding Constraints

301. This report’s “Changing Wealth of Nations” approach suggests that the level of economic development is strongly related to the composition of national wealth. In Namibia, the main source for wealth accumulation and rapid economic development has been human capital, while natural resources capital has been depleted. The country effectively leveraged its natural capital to increase its national wealth from 1995 to 2014, and the value and share of human- and physical-produced capital increased significantly. Despite improvements, wealth accumulation remains significantly below that of Namibia’s upper middle-income counterparts. The development of a country’s wealth is a holistic approach combining several key elements. Human capital is one of them. Renewable resources—agricultural land and forests and protected areas—can also produce benefits if managed sustainably.

302. Despite investment in human and physical capital, economic growth that Namibia achieved in the post-independence period has not been enough to overcome structural challenges. The recent deterioration in the macro-fiscal framework indicates that the country’s vulnerabilities and imbalances have been accumulating over time. The growth model has not been inclusive enough; it has been unable to address stark levels of inequality and has failed to create enough new jobs. Going forward,

Namibia needs a greater emphasis on broadening the sources of growth and increasing TFP.

303. Addressing the above-identified binding constraints requires making progress along four key development pathways. They involve: (i) establishing an environment for private sector-led, job-creating growth through better economic management, enhanced competition, and a better entrepreneurship ecosystem; (ii) building human capital and increasing the productive potential of the labor force by improving quality and relevance of education, workers’ skills and health outcomes; (iii) reducing inequalities through better services delivery brought about by improved governance and upgraded quality, especially for marginalized communities and those living in remote areas where population density is low and the cost of delivering services high; and (iv) reducing vulnerabilities to climate change and environmental shocks through investments that can mitigate adverse consequences. These development pathways will work together to lift the binding constraints and move Namibia toward boosting economic growth and becoming a more inclusive economy. Given the aim of this SCD to identify broad policy priorities, more specific interventions will be highlighted by the follow-up sectoral work.

A. Establishing an environment for private sector-led, job-creating growth

- 304. Strengthening fiscal buffers is key to shielding Namibia from commodity market volatility and declining SACU receipts.** The instability of commodity prices and SACU receipts contributes to widening fiscal deficits and growing debt levels. Automatic stabilizers should be introduced to mitigate the adverse impacts. Wealth funds, for example, would provide cushioning for erratic mineral prices. In the short term, they would reduce the impact of volatile revenues on the economy and provide a funding source for countercyclical spending. In the long term, the funds provide an intergenerational impact as they spread the financial benefits of resources more evenly over time. Fiscal consolidation should continue through FY2021/22, when further cuts in government spending are projected but the fiscal outlook will remain weak as SACU revenues are expected to decline, leading the budget deficit staying above 10 percent of GDP. Public debt should peak in 2020 and return to below 70 percent of GDP by 2022. Beyond increased domestic borrowing and use of the Contingency Fund savings, Namibia has auctioned fishing quotas to obtain much-needed forex to reduce the financing gap. The authorities have also approached the IMF for support through a Rapid Financing Instrument.
- 305. The Doing Business indicators suggest that regulatory processes may be overly burdensome and could be made more efficient for firms.** The business regulatory environment is a barrier to both domestic and foreign investment. The Doing Business areas highlighted in the analysis include starting a legal business, registering property, trading across borders, and resolving insolvency. Company registration in Namibia is a lengthy, cumbersome process, taking an average of 66 days to complete. Price controls and restrictive regulations for professional services facilitate coordinated behavior and increase overall costs, limiting consumer welfare. FDI barriers also impede entry and investment in key infrastructure sectors by restricting foreign ownership in telecommunication services, the operation of water and airport infrastructure, and water collection, treatment and supply.
- 306. A broad set of actions would improve the entrepreneurship ecosystem.** This SCD calls for accelerating entrepreneurship by upgrading skills, networks, and hubs for startups. Policy efforts need to provide a path for innovative ventures to scale up regionally, creating opportunities for entrepreneurs to develop experience and knowledge of how to tap into global networks and markets. The Government should strengthen coordination among multiple stakeholders to support the entrepreneurship ecosystem, expanding connectivity and coordination of private and public action.
- 307. Investing in the digital economy would foster productivity.** Adopting these new technologies could be an integral part of entrepreneurship, supporting the development of digital incubators, accelerators, and early-stage funding programs.
- 308. Expanding access to financing would boost SME entrepreneurship.** The country can promote financial inclusion through the digitization of social transfers, with appropriate safeguards, and an improved regulatory framework for microfinance institutions. A better credit-information system, a secured transactions framework for movable assets, and a modernized insolvency regime would facilitate financial access for MSMEs.
- 309. Addressing the weaknesses of the trade-enabling environment and regional integration should help foster cross-border business.** While maintaining its traditional export sectors, Namibia should continue to diversify its foreign sales, focusing on products with higher technological content. Developing the regional corridors to their full potential will require additional investments and an expansion of services. Namibia's manufacturing base is one of Africa's least diversified, and its composition has remained largely unchanged since independence. Services deserve political attention because of their solid potential for increasing export revenues and strengthening the productivity of other sectors. The country needs to better exploit the preferences under its free trade agreements. Sales to the SADC region (including SACU), the EU, and the EFTA countries account for three-quarters of total exports.

- 310. Improving the antitrust framework would boost competition.** This SCD proposes to facilitate competitive neutrality in markets by reducing support measures that may cause market distortions and inefficiencies. Specific measures include streamlining newly implemented legal frameworks, processes, and institutions, including the Public Procurement Framework, and operationalizing its implementing body. Other measures include shortening the turnaround time for business registrations and the application process for backhaul transportation. The SCE recommends a review of statutory restrictions, including those that limit FDI competition in professional services, as well as investments in certain sectors, such as tourism and reinsurance. The country should separate regulatory and operations functions and limit line ministry involvement in making decisions.
- 311. It is important to boost reforms of SOEs.** The institutional arrangement governing SOEs in the post-independence period took an important step forward in 2006 with the enactment of the State-Owned Enterprises Governance Act. Strengthening the role and performance of SOEs is a key component in addressing the challenges facing Namibia, including infrastructure delivery.
- 312. Boosting private investment, even in the informal sector, creates jobs.** Increasing the number and quality of jobs is an important goal. Informal sector firms—despite their lower incomes for employees and owners alike—should be encouraged rather than discouraged. Informal sector workers, even the owner-operators, tend to be disproportionately in the lowest income brackets. Any increased earnings in these households can reduce rates of poverty and inequality. Those currently unemployed also tend to come from households that are disproportionately poor. Expanding employment among members of these households—even through in low-paying jobs—

would also improve poverty and inequality outcomes. The goal becomes finding ways to expand the overall number of such firms—that is, increasing the number of individuals that choose self-employment over unemployment—and to increase profits for those engaged in such self-employment.

- 313. An enhanced PPP framework would support the development of a bankable PPP program.** The framework should include the identification, preparation, structuring, and execution of competitive tenders and the implementation of PPP projects. It would also encompass legal, regulatory, institutional, policy and procedural issues. Namibia should develop institutional capacity and regulations to bring infrastructure projects to market—for example, by having clear project data requirements and more competitive tenders. This could include a centralized resource center or dedicated PPP unit to promote global best practices, efficient decision-making and planning, process integrity, pipeline development, and downstream support.
- 314. Given high unemployment rates, the priority is to increase the number of quality private sector jobs, especially among Namibia's youth.** The SCD offers some avenues to explore—some first steps in both mindset and action—to create an environment in which more jobs can develop. Programs targeting youth unemployment can take various forms. One common version focuses on the matching process. It assumes an informational problem between the employers who have unmet vacancies and the potential workers with the appropriate skills to fill those jobs. The goal is to reduce frictional unemployment by helping to match employers with employees. Depending on how it is structured, the program may also reduce structural unemployment based on differences in skills and needs across various locations in the country.

B. Building Human Capital and Increasing the Productive Potential

315. The challenges of limited provision and affordability of quality ECDE programs should be resolved. The key interventions would include: (i) provision of strategically located ECDE centers catering to the poorest segments of society; (ii) increased provision of ECDE teacher training and support; and (iii) strengthening the ministerial capacity to implement and support ECDE centers.

316. It is imperative to improve the quality and relevance of basic education, addressing regional inequities to enhance student learning outcomes. Possible priority solutions would include: (i) implementing curriculum reform, including a greater emphasis on technical education; (ii) improving classroom and standardized student assessments; (iii) enriching teacher training programs, both pre-service and in-service; (iv) enhancing the teacher management system and policy for recruitment, deployment, performance incentives, and continuous professional development; (v) addressing the shortage of teacher housing; (vi) developing teaching and learning materials in local languages; and (vii) broadening and improving ECDE.

317. Opportunities for skills development need to be broadened substantially to generate human capital for economic modernization while making investments to beef up TVET quality, relevance, and efficiency. Possible solutions would include: (i) modernizing facilities and equipment at VTCs and other training providers; (ii) upgrading teachers' technical and pedagogical skills with national and international partners; (iii) deepening links with industries for job market-driven training and job placement; (iv) improving coordination within the TVET system; (v) promoting workplace-based training and apprenticeship; (vi) strengthening ISCs; and (vii) expanding TVET in rural areas.

318. Long-term investment is needed to improve the quality of higher education provision to keep up with increases in student enrolments. The country has only two public universities, and the shortage of well-qualified academic staff is a crippling challenge that severely impacts both the quality of education and the capacity for research and innovation. Possible solutions would include: (i) strengthening faculty development for pedagogy and research skills; (ii) accelerating the upgrading of faculty-member qualifications; (iii) improving the curriculum's job-market relevance to enhance graduate employability through industry partnerships; (iv) boosting industry collaboration for research and innovation; and (v) enhancing research grants through a competitive grant scheme.

319. A single-payer system would help address affordability and quality issues in health care. Despite high spending in Namibia, poor health outcomes are a critical barrier to inclusion over time. Setting up a single-payer reform requires a health financing strategy with operational plans, the necessary legal framework and governance system, and a national dialogue with all stakeholders. Establishing a successful program would entail: (i) increasing domestic resources and strengthening public sector management; (ii) ensuring the regulatory framework is in place for health services delivery in the private and public sectors; (iii) striving for operational excellence in health; and (iv) revisiting the organization and structure of the health workforce. Additional steps would include conducting analysis and continuing to M&E efforts for health-sector performance in the public and private sectors.

C. Reducing inequalities through better services delivery

320. The Government should improve the quality of services, especially for marginalized communities and the remote areas where population density is low and the cost of delivering services high. A large share of government spending routinely goes to social programs. Despite this, Namibia performs poorly in the provision of social services, including education and health care. Delivering services in areas of low population density can pose significant challenges, yet failure to do so can have especially dire consequences for marginalized and vulnerable population groups and rural communities. Several innovative approaches have been tested successfully in other countries with similar population densities.

321. Development of an integrated social registry, improved program coordination, and better targeting would upgrade the social protection system's efficiency. The system has extensive coverage and has substantively reduced poverty, but fragmentation and gaps in targeting have diluted its impact. Namibia's social protection needs to be modernized to enhance efficiency and policy coordination, improve the targeting efficiency of means-tested programs, and redirect resources to children. Social protection programs can help build human capital by connecting children from poor households with ECDE services.

322. The priority for Namibia is to modernize its social protection system and improve policy coordination among different ministries. To achieve this, Namibia can build a social registry to facilitate all steps related to the management of social protection programs to create a standardization in end-to-end processes, support eligibility and eligibility functions, calculating benefit levels, validating information collected using different methods and sources, assessing potential demand for interventions, planning and costing of interventions deepening on projected coverage rates, monitoring and evaluation and other analytics purposes thereby supporting coordination across all social protection programs, as well as supporting accountability and transparency in service delivery. All of these would also serve as key ingredients to serve the basis for policy coordination which is very much needed in Namibia given the multiple

institutions and ministries involved in the social protection sector. There is consensus in Namibia on the need for a social registry and initial steps are being taken to develop one. As a first step, it is important for Namibia to ensure that these initial steps taken are compatible with the vision for an integrated social registry.

323. It is also critical for Namibia to improve the targeting of its programs to ensure that benefits reach the intended beneficiaries. The fact that a significant share of benefits goes to the non-poor indicates challenges to the means test used to identify beneficiaries. This could be related to the gaps in the means test itself or to implementation capacity of institutions. In order to better understand these challenges, there is a need to review the means test for child grants and war veterans' programs, as well as the gaps in implementation capacity. Moving forward, the means test for the newly introduced food bank should also be monitored. A social registry with its automated databases and improved service delivery should be able to address some of the implementation challenges. An improved targeting mechanism with support of a social registry would improve targeting outcomes toward the more effective use of resources.

324. Pension testing of the OAG could be considered to enhance the overall impact of the social safety net. There are about 42,000 pensioners in receipt of a contributory civil service pension while at the same time receiving the OAG. This means that they receive two pensions from the Government—their civil service pension and their OAG social pension. Under a pension tested scheme, beneficiaries of the contributory civil service pension scheme would not receive an OAG. Pension testing would provide a relatively easy way to target the OAG. The OAG contributes little to the welfare of Namibia's wealthiest elderly (6.8 percent of consumption of households in the wealthiest quintile) which suggests that eliminating the OAP for those in receipt of a civil service pension (who are likely to be among the wealthiest) would not place an undue burden on these households. Restricting pensioners to one government pension, i.e., pension testing,

could free resources for spending on children in need. Eliminating the OAG for those in receipt of a civil service pension) would free about N\$630 million per year in current Namibian dollars, or about 23 percent of 2018/19 OAG expenditures and 11 percent of total safety net expenditures.

325. Poverty and inequality could be reduced in a budget neutral way by allocating a greater share of safety net resources to children.

Current benefits to children (N\$250/month) are 20 percent of the value of the OAG benefit (N\$1,250) and 11 percent of the Veterans Monthly Subvention (N\$2,200). Increasing coverage and increasing the value of child benefits could be achieved with resources saved by pension testing of the OAG and these resources would have greater impact on poverty. As the returns from programs targeted to children are higher than those to adults, this re-directing of resources would bring benefits. However, targeting supported by social registry would need to improve for cost effectiveness to increase. Therefore, concomitant improvements in means-testing procedures would also be required along with re-allocation of resources within the safety net. Regular increases in the child grant to maintain the value of the benefit in real terms would be required to maintain these gains.

326. Namibia could strengthen the links between social protection and human capital development.

Social protection can help build human capital by helping to link children from poor households to early childhood development services. Namibia invests in child grants and in early childhood development (ECD) services, both implemented by the MGECW but could go one step further by developing greater synergies between these critical investments, particularly by improving parents' ability to provide stimulation and quality interactions by linking parents and caregivers to parenting information, including nutrition education and cognitive stimulation.

327. The country should create emergency programs focusing on those most affected by social exclusion.

Visible programs should be implemented where the population is feeling increasingly marginalized, as well as in urban centers' lagging regions and peripheral areas, where the Government is struggling to provide services and its presence is scarce. In addition, it would be important to put

in place a legal framework to regulate the use of urban and peri-urban land to address the specific vulnerabilities of rural-urban migrants and broaden access to opportunities, income, and services for populations living in these contexts.

328. For better services delivery, it is important to conduct planning, coordination, and M&E across agencies.

Efficient and timely public procurement systems can ensure the availability of key services delivery inputs—for example, medicines, school supplies, water pumps, and electricity meters. At the same time, improving the training and management of public employees and building the institutional capacity of various government bodies should further optimize services delivery. These recommendations include: (i) strengthening the capacity of the prime minister's office to help align planning, budget, and M&E processes; (ii) investing in the institutional capacity of existing bodies, such as the NPC; (iii) building implementation capacity and incentives within the MDAs; (iv) strengthening the MPE, especially its ability to monitor the performance of public enterprises; (v) building capacity within the CPB and the Procurement Policy Unit at the Ministry of Finance to implement the new procurement law and roll out the e-GP system; and (vi) strengthening the DPSM's ability to manage public employees, including developing a new HRMIS.

329. Tenure security and the capacity for land reform need to be strengthened.

This can be accomplished by: (i) streamlining the application process for plots allocated by local authorities; (ii) enlarging communal lands to create more space for grazing and agricultural production; (iii) developing legal provisions for group land tenure in communal areas; (iv) increasing the ability of communities to manage their land sustainably; and (v) abolishing the willing seller, willing buyer policy as the primary method of land acquisition, while developing an alternative system.

330. Supporting urbanization that increases productivity can contribute to sustainable growth if well-managed.

Building cities that are inclusive, safe, resilient, and sustainable requires policy coordination and investment choices. National and

local governments have an important role to play in creating opportunities for urbanization. They should establish a coherent institutional foundation. Good land policies are central, and so are policies to provide basic services to everyone. With Namibia urbanizing rapidly, the Government should put in place connective infrastructure. In addition, institutionally targeted interventions are necessary to deal with townships and overcoming housing crises.

331. Investment in climate smart agriculture (CSA) should boost rural productivity. The negative effects of climate change, including recurrent droughts, are expected to increase and intensify.

Building resilience by adopting CSA technologies and practices is critical. The key steps involve: (i) restoring degraded land; (ii) disseminating innovative CSA technologies, including the adoption of drought- and heat-resistant seed varieties and rotational grazing; and (iii) building knowledge and local capacity. De-bushing can create jobs in rural areas, turning a negative into a marketable good; this invasive bush clearing is important to support better grazing conditions and groundwater recharging. Both private and public investment is needed to build capacity for clearing invasive bush species in an environmentally sustainable manner. Scaling up current efforts in communal smallholder areas is important.





D. Reducing vulnerabilities to climate change and environmental shocks

332. Investments in effective water management are

key. Water stress and scarcity remain fundamental challenges for agricultural production. Improved, sustainable water production is critical for several sectors in both rural and urban contexts. Investment is required in: (i) improving information and data management for water security; (ii) promoting water conservation, saving, and utilization; (iii) enhancing adequate water pricing; (iv) converting food production to CSA; (v) fostering more water cooperation with regional neighbors; and (vi) developing sound system to collect and manage hydro data.

333. Namibia is in a favorable position to work on enhancing water production through renewable energy and reusing water.

Within Southern Africa, and even more widely on the continent, Namibia is acknowledged as a leader in diversifying water sources, and its being ahead of the curve could be used to great effect to the benefit of the entire African region.

334. Smallholder access to the market would support forest conservation and restoration, as well as boost tourism.⁸⁸

Critical areas for forest and land restoration need to be identified, and community forest management should be promoted along with development opportunities in the tourism sector. Once established, a CBNRM fund should raise and manage money to support essential long-term

services to local communities and promote joint ventures between communities and the private sector. As part of the five-nation Kavango-Zambesi Transfrontier Conservation Area, Namibia may fully seize the potential of cross-border tourism, linking some of the world's premier tourism destinations, including Victoria Falls in Zimbabwe and the Okavango Delta in Botswana.

335. Energy diversification through a shift to cleaner, less-expensive power sources will increase energy security and reduce costs.

Investment in renewable energy will eliminate the country's dependency on fossil fuels. Solar could deliver low-cost electricity if developmental and operational risks are adequately allocated and mitigated through planning and risk coverage.

336. Drought-relief assistance targeting should be adjusted for different types of episodes.

Mechanisms used in the past may not work without modification to reach the victims of future droughts. Social protection policies are one means by which governments can help households manage these risks. A sustainable approach requires efficient infrastructure networks, and institutional and financial incentives, as well as communications to guide the demand-management program, financial sustainability, and an institutional role assignment and coherence.

88. *Most of Namibia's excluded communities were dispossessed of their traditional lands either by private parties for the creation of farms or by colonial and apartheid governments, sometimes for the purpose of creating national parks or other protected areas (Special Rapporteur on the right of indigenous peoples, 2013). In this regard, the development of the tourism industry and private sector initiatives need to be accomplished in a way that does not further disenfranchise already marginalized groups.*



3. Prioritization Criteria and Summary of the Proposed Reforms

337. This SCD was developed and refined in workshops with the Ministry of Finance, the NPC, the Bank of Namibia, and policymakers. The workshops were organized around the main issues discussed in the analysis. Hypotheses developed for this SCD focus on the key constraints to achieving the twin goals, and on areas that can generate jobs and improve people's well-being. Potential areas of policy intervention have been identified and ranked for each pathway according to their potential impacts. The systematic diagnostic of the identified binding constraints revealed 33 potential areas of intervention that could be considered by policymakers and other national and international stakeholders. The areas of intervention can be grouped by the development pathways and ranked according to the potential impacts they could have in lifting the identified binding constraints.

338. In prioritizing constraints, the following criteria were used:

- **Magnitude of direct impacts for achieving the twin goals.** Under this criterion, we estimated the likely magnitudes of the proposed actions on (i) boosting growth, (ii) reducing poverty, and (iii) the sustainability of the intervention.

- **Time horizon of impacts (4).** This criterion looked at the expected time frame to realize the impacts, seeking to balance short- and longer-term considerations.
- **Complementarities for achieving the twin goals (5).** Not only direct impacts but also indirect impacts were considered. This criterion asked whether addressing a constraint would cut across different domains (growth, inequality, sustainability) and/or magnify the positive impact of addressing other constraints.

339. The prioritization process attempts to balance medium- and long-term objectives. All the interventions were divided into Tier 1 and Tier 2 categories. The proposed ranking assessed the impact of each of these on binding constraints on growth, inclusion, sustainability, time horizon, and complementarity. A map was then used to illustrate the relative importance of each of the binding constraints. The detailed results of the analysis are presented in the Annex 2. The ratings were converted into scores to prioritize the constraints. The results of the prioritization are presented in Table 4.

TABLE 4: Prioritization of the Proposed Interventions

TIER 1: PRIORITY REFORMS	TIER 2: LONGER-TERM INVESTMENT
Establishing an environment for private sector-led, job-creating growth	
<ul style="list-style-type: none"> ✿ Ensure macro-fiscal stability, focusing on debt reduction through reprioritization of spending and broadening of the tax base. ✿ Ease burdensome regulatory processes and improve the antitrust framework. ✿ Expand access to financing and implement FSAP recommendations. ✿ Improve the entrepreneurship ecosystem and invest in the digital economy. ✿ Focus on youth- and gender-related labor market programs. 	<ul style="list-style-type: none"> ✿ Broaden the tax base and revise tax administration. ✿ Deepen integration into global value chains, improving overall fitness and boosting trade-enabling environmental reforms. ✿ Support the development of a bankable PPP program and develop institutional capacity and regulation to bring infrastructure projects to market.
Building human capital and increasing the productive potential of the labor force	
<ul style="list-style-type: none"> ✿ Improve quality ECDE programs, focusing on the poorest. ✿ Strengthen basic education, with an emphasis on addressing regional inequities to enhance student learning outcomes. ✿ Invest in pharmaceutical management systems and a regulatory framework for health services delivery. ✿ Strengthen routine primary care and prevention against health risks. 	<ul style="list-style-type: none"> ✿ Improve quality and relevance of skills training, as well as efficiency of the TVET system and higher education provision to keep up with increasing student enrolments. ✿ Set up a single-payer health reform, which requires a health-financing strategy with operational plans, the necessary legal framework, and a governance system.
Reducing inequalities through better services delivery	
<ul style="list-style-type: none"> ✿ Diversify energy sources through a shift toward cleaner, less expensive solar energy. ✿ Improve targeting of social protection. ✿ Invest in CSA and de-bushing⁸⁹ for rural jobs creation. ✿ Strengthen tenure security and capacity for land reform. ✿ Strengthen the MPE and public procurement, especially its ability to monitor the performance of public enterprises. 	<ul style="list-style-type: none"> ✿ Support urbanization and increasing productivity that can contribute to sustainable growth if well-managed. ✿ Improve coordination, planning, M&E. ✿ Strengthen the Department of Public Service Management's ability to manage public employees. ✿ Create incentive system for the public enterprises to track and report on key indicators.
Reducing vulnerabilities to climate change and environmental shocks	
<ul style="list-style-type: none"> ✿ Invest in effective water management and improve sanitation. ✿ Support forest conservation and forest restoration. 	<ul style="list-style-type: none"> ✿ Target of drought-relief assistance must be modified for different drought events. ✿ Improve social insurance schemes to protect against adverse shocks. ✿ Foster the Blue Economy approach.⁹⁰

89. *Bush encroachment is defined as the invasion or thickening of aggressive undesired woody species resulting in an imbalance of the grass to bush ratio.* <http://www.dasnamibia.org/wp-content/uploads/2016/07/De-Klerk-Bush-Encoachment-in-Namibia-2004.pdf>

90. *Blue economy is the range of economic sectors and related policies that together determine whether the use of oceanic resources is sustainable.* <https://openknowledge.worldbank.org/bitstream/handle/10986/26843/115545.pdf?sequence=1&isAllowed=y>

4. New-Knowledge Gaps

340. Throughout this report, key knowledge gaps have been identified. These are topics critical to understanding the challenges facing Namibia; in some cases, however, we have limited evidence to establish a clear position on how well a required intervention addresses a particular challenge. It can be viewed as a set of research priorities for government, development partners, academics, and research institutions over the next few years.

341. Labor Market, Private Sector, Gender and Human Capital Development:

- **Skills premium and mismatches.** A better measure of skill shortage is the skills premium that employers are willing to offer in specific industries. To do such analysis should combine a strong labor-force survey on labor demand with government data.
- **Analysis of the informal economy.** There is very little information on the informal sector of the economy outside subsistence agriculture. Labor market data come infrequently and only provide a broad snapshot of this part of the economy. It will be important to analyze key issues in more detail.
- **Analysis of the private sector's development challenges.** Systematic research of the incentives to boost employment in the private sector will require a much deeper analysis. How big is it? How is it structured (firm size, sectors, formal/informal)? How much is it dependent on government contracts? This analysis will help identify specific opportunities that may be available based on location and endowments.
- **Digital assessment.** There is demand for a comprehensive assessment of digital government reforms. The World Bank has been designing several approaches and methodologies that could provide a broad summary about the status and perspectives of support for the Government in digital transformation.

- **Childhood malnutrition.** Despite several government interventions, childhood malnutrition lingers as an important issue. Given its potential impacts on long-term outcomes, further research is needed.
- **Gender assessment.** The SCD finds gender-related gaps in earning and in labor market outcomes. A further analysis is required to shed light on the origins of the differences.

342. Agriculture and Rural Development and Shocks

- **Agriculture sector and irrigation.** It would be particularly useful to have gender-disaggregated data on smallholders' access to inputs (land, labor, fertilizer, etc.) and their resulting agricultural yields. This would allow an analysis of specific constraints to agricultural productivity.
- **Focus on climate smart agriculture.** The agriculture sector's inability to make a strong contribution to poverty reduction is due to many factors, including low uptake of modern production technologies (embodied in inputs), low labor productivity, low irrigation use, and land degradation. But what is lacking is good analysis on what conditions and policies underlie these factors and clear recommendations on how they could be addressed.
- **Agriculture public expenditure review.** One tool for helping to fill this gap would be an agriculture public expenditure review to identify whether current spending patterns correspond to the major problems. While most of these problems will ultimately need to be addressed by on-farm private investment, smart public spending is needed to create an enabling environment. This gap could be filled by a good analytical study of domestic resource production costs for various products.

- ✿ **Economic impact of the climate change and shocks.** Understanding of how climate change impacts an economy and its effects on vulnerable rural communities is limited, along with the implications for migration and urbanization.
- ✿ **Resilience to the effects of climate change in the transport sector.** The solutions available to building resilience in new road construction and improvements should be analyzed.
- ✿ **Droughts and electricity supply.** To what extent could increasingly severe and prolonged droughts affect future for hydropower expansion and consequently the national electricity supply? Overcoming the knowledge gap may add further support the call for opportunities in the expansion of other renewable energy sources.

343. Social Development

- ✿ **Energy sector needs assessment.** Namibia has a good understanding of its power needs but relatively limited information now on how to address them. Currently, a feasibility study is being conducted on solar power. However, there is a clear need for extending the study to include solar generation plants.
- ✿ **Public expenditure review in water sector.** Namibia has conducted extensive reviews of the health (World Bank 2019) and education sectors (UNICEF). A public expenditure review for water and sanitation could analyze the efficiency and effectiveness of government outlays in a range of areas, including water services, household water and sanitation, household sewerage and wastewater treatment, irrigation, catchment management, environmental protection and water quality, and pollution control. To review the impact of spending on budgetary outcomes, economic growth, poverty reduction, and asset maintenance, additional issues might include the level and composition of public expenditures, structures of governance, and the functioning of public institutions.







A ≡ ANNEXES

Annex 1. Summary of Policy Proposals

A. Reforms for Establishing an Environment for Private Sector-led, Job-creating Growth

I. Overcoming the challenges of lack of competition and low entrepreneurship

Improve the entrepreneurship ecosystem. This SCD calls for accelerating entrepreneurship by upgrading skills, networks, and hubs for startups. Developing startup skills also should be a priority. Policy efforts need to provide a path for innovative ventures to scale up regionally, creating opportunities for entrepreneurs to develop their experiences and knowledge of how to tap into global networks and markets. The Government should strengthen coordination among multiple stakeholders to support the ecosystem of entrepreneurship, and expand the connectivity and coordination of private and public action.

- ✳ **Foster productivity by investing in the digital economy.** Adopting new technologies and focusing on the digital economy will increase productivity. Investing in the digital economy could be an integral part of development entrepreneurship, supporting the development of digital incubators, accelerators, and early-stage funding programs.
- ✳ **Expand access to financing.** Promote financial inclusion through digitization of social transfers, with appropriate safeguards, and an improved regulatory framework for microfinance institutions. An improved credit-information system for MSMEs, a secured transactions framework for movable assets, and a modernized insolvency regime would facilitate financial access for MSMEs.
- ✳ **Implement key FSAP recommendations.** Provide a specific and clear mandate for the Development Bank of Namibia with respect to MSME financing, given the bank's expanded role in implementing the partial credit guarantee scheme and venture capital fund. Enact comprehensive modernized insolvency legislation with cross-border treatment in line with the United Nations Commission on International Trade Law. Establish a credit information system for MSMEs to reduce information asymmetries. Pursue secured transactions reform and establish an online movable registry.
- ✳ **Reform land administration and resolve the housing crisis.** Streamline the process for applicants to be allocated plots by local authorities. Enlarge communal lands to create more space for grazing and agricultural production. Develop a legal provision for group land tenure in communal areas, increasing the ability of communities to manage their land sustainably.
- ✳ **Solve the urban housing question.** This is an issue important to a growing number of citizens and central to addressing the overall problem of poverty. Low- and middle-income groups are hardest hit by the housing shortage. In addition, shack fires are a daily occurrence, and countless shack dwellers have tragically lost their lives in recent years, and the quality of life for the majority has been decimated by the dire conditions in the shantytowns.
- ✳ **Enhance the PPP framework to support the development of a bankable PPP program.** Such a framework should include the identification, preparation, structuring, and execution of competitive tenders and the implementation of PPP projects. The country should develop institutional capacity and regulations to bring infrastructure projects to market.

II. Resolving the challenges of trade and low export complexity

Deepen integration into global value chains, improving overall fitness and boosting trade-enabling environmental reforms. External trade is crucial for development and should form part of any development strategy.

- ✳ **To improve its overall fitness, Namibia can continue this broad diversification pattern** or focus its capability development in strategic sectors.
- ✳ **The country should build on the positive development in some product groups with higher technological content.**
- ✳ **Including services in trade negotiations should be used as an instrument to strengthen value added and knowledge creation.** Services deserve special attention because they bear a high potential for increasing export revenues and strengthening the productivity of other sectors.
- ✳ Namibia needs to better exploit the preferences under its **free trade agreements**.
- ✳ **The country should use the possibilities of trade policy and negotiations** to further increase value added and technological content in exports.

III. Overcoming the challenges and restrictiveness of PMR

- ✳ **Fast track the enacting into law of the draft national competition policy and the draft competition bill.** This will facilitate competitive neutrality in markets, control support measures that may cause market distortions, and promote efficient markets.
- ✳ **Streamline newly implemented legal frameworks, processes, and institutions.** This includes the Public Procurement Framework and operationalizing its implementing body, as well as the BIPA, reducing turnaround time for business registration and the application process for backhaul transportation.
- ✳ **Review statutory restrictions to competition,** including those that limit FDI, competition in professional services, and investment in certain sectors, such as tourism and reinsurance.
- ✳ **Separate regulatory and operational functions and limit line-ministry involvement in decision-making.** The separation of Namport's regulatory responsibilities from its development and operations functions should be considered to increase efficiency. Limiting line-ministry involvement in decision-making in electricity, maritime transport, and implementation of the competition framework would promote independence and transparency.
- ✳ **Increase the transparency of the analysis motivating NaCC decisions** to enhance predictability and ensure compliance; implement a training program targeting the needs of NaCC, as well as the judiciary.
- ✳ **Further improvements to the competition law framework and its implementation include the following:**
 - ▶ **Exemptions.** Define and implement exemption provisions by developing guidelines to offer objective and transparent criteria; limit the ability of the Minister of Industrialization, Trade and SME Development to grant general exclusions to the application of the act; exclude hard-core cartels from the general exemptions of the Competition Act; and prohibit granting general exemptions from the merger review to specific industries or categories of undertakings.
 - ▶ **Dominance.** Avoid relying heavily on market shares to establish market dominance
 - ▶ **Fines.** Publish fining guidelines, including a clear methodology for the quantification of fines, to enhance predictability and deterrence.

IV. Overcoming the challenges of fiscal and macroeconomic management

- ✿ **Ensure macro-fiscal stability by focusing on debt reduction.**
- ✿ **Broaden the tax base to help reduce some statutory rates, which are higher than most regional peers.**
 - ▶ Realign the tax system to ensure a broad tax base and simple tax instruments' structure;
 - ▶ Reduce risks of tax-base erosion from international taxation;
 - ▶ Comprehensively modernize the tax administration to generate both efficiency gains and improve compliance; and
 - ▶ Supplement the changes in policy with efficient tax administration.

V. Mitigating the macro-fiscal vulnerabilities

- ✿ In the medium term, the fiscal consolidation's continuation will be crucial but very challenging for further public debt reduction. Fiscal consolidation should continue over the medium term but will be challenged by projected low SACU revenues from the COVID-19 shock. As a result, the budget deficit is projected to remain high in 2021/22 and 2022/23 at 12.6 and 9.7 percent of GDP, respectively, despite further cuts in government spending.
- ✿ Strengthening fiscal buffers (stabilization fund) and domestic revenue mobilization is key to shielding the country from commodity market volatility and declining SACU receipts.
- ✿ Public debt is expected to peak at 76.2 percent of GDP in 2020 and to gradually decrease in the next years, returning below 70 percent of GDP by 2022. The domestic capital market is expected to remain the main source financing, complemented by cash reserve and development financial institutions' financing (AfDB, IMF). The increase of the public debt should be undertaken mostly through domestic borrowing.
- ✿ The World Bank and the IMF welcomed the fiscal adjustment efforts and emphasized that additional adjustment and possible consolidation is needed to ensure debt sustainability.

VI. Investment in urban development and improving agricultural productivity

Supporting urbanization that focuses on job creation, infrastructure development, and reducing vulnerabilities is key for territorial development.

CSA to increase resilience and productivity and overcome the negative effects of climate change, including recurrent droughts.

- ✿ Building resilience through the adoption of CSA technologies and practices is critical.
- ✿ Restoring degraded land, disseminating innovative CSA technologies, including the adoption of drought- and heat-resistant seed varieties and rotational grazing, and building knowledge and local capacity are important.
- ✿ De-bushing can create jobs in rural areas and turn a negative into a marketable good; invasive-bush clearing is important to improve grazing conditions and groundwater recharge.
- ✿ Both private and public investment are needed to build capacity for clearing invasive bush species in an environmentally sustainable manner. Scaling up current efforts in communal smallholder areas is important.
- ✿ Effective water management for agriculture production remains a fundamental challenge due to water stress and scarcity.

B. Building Human Capital and Increasing Productive Potential

VII. Overcoming the challenges of the education system

ECDE. To build a strong foundation of cognitive and socioemotional development for children, it is critical that the Government overcome the challenges of limited provision and affordability of quality ECDE programs, especially for the poorest sections of society. The key interventions include:

- Provision of strategically located ECDE centers catering to the poorest sections of society;
- Increased provision of ECDE teacher training and support; and
- Strengthening the ministerial capacity to implement and support ECDE centers.

Basic education. It is imperative for the country to improve the quality and relevance of basic education, addressing regional inequities to enhance student learning outcomes. Priority solutions include:

- Implementing curriculum reform, including incorporating technical education;
- Improving classroom and standardized student assessment;
- Enhancing teacher training programs both pre-service and in-service;
- Improving the teacher management system and policy for recruitment, deployment, performance incentives, and continuous professional development;
- Addressing the shortage of teacher housing;
- Developing teaching and learning materials in local languages; and
- Broadening and improving early childhood education.

TVET. Skills development opportunities need to be broadened substantially to generate human capital for economic modernization, and make investments in the quality and relevance of skills training, as well as the efficiency of the TVET system. Possible solutions include:

- Modernizing facilities and equipment at VTCs and other training providers;
- Upgrading teachers' technical and pedagogical skills with national and international partners, deepening links with industries for job market-driven trainings and job placement, and better coordination within the TVET system;
- Promoting workplace-based training and apprenticeship; and
- Strengthening ISCs and expanding TVET in rural areas.

Higher education. Long-term investment is needed to improve the quality of higher education to keep up with student increases. Although the country has only two public universities, the shortage of well-qualified academic staff is a crippling challenge that severely impacts both the quality of education and the capacity of research and innovation. Possible solutions include:

- Strengthening faculty development for pedagogy and research skills;
- Accelerating the upgrading of faculty member qualifications;
- Improving the job market relevance of the curriculum to enhance graduate employability through industry partnership; and
- Boosting industry collaboration for research and innovation and enhancing research grants through a competitive scheme.

VIII. Overcoming the challenges of the health system

Long-term goal:

- ✿ Setting up a single-payer reform requires a health financing strategy with operational plans, the necessary legal framework and governance system, and a national dialogue with all stakeholders.

Medium-term goals:

- ✿ Conduct analysis and continue to monitor and evaluate health-sector performance in the public and private sectors;
- ✿ Support efforts to strengthen routine primary care and prevention against health risks;
- ✿ Ensure regulatory framework for health services delivery in the private and public sectors;
- ✿ Invest in pharmaceutical management systems; and
- ✿ Revisit the organization and structure of the health workforce.

C. Reduce Inequalities through Better Services Delivery, Improving Targeting Efficiency, and Better Governance

IX. Investment in energy and transport to boost economic growth

Invest in PPPs to unlock the benefits of private sector financing to support infrastructure development.

- ✿ **Investment in renewable energy** will help eliminate country dependency. Solar power could deliver low-cost electricity if development and operational risks are adequately allocated and mitigated through planning and risk coverage.
- ✿ **Improving terminals' efficiency by targeting key facilities.** Expand the capacity of Hosea Kutako International Airport including a new passenger terminal. Improve operational efficiency of the new container terminal at the Port of Walvis Bay.
- ✿ **Road safety should be improved.**
- ✿ **The rail network** provides an ideal opportunity to establish safe, reliable multimodal transport options along the three regional corridors.
 - ▶ Improved regional trade facilitation and freight logistics for imports and exports would fully utilize the capacity of the new container terminal at the Port of Walvis Bay.

X. Improving social protection

The social protection system provides reasonable coverage and has significantly reduced poverty and inequality, but fragmentation and gaps in the targeting of programs have diluted its impact.

- ✿ At the policy level, to reprioritizing allocations where they can be most effective in reducing poverty:
 - ▶ The OAG makes a significant contribution to poverty reduction, but pension testing of the OAG would enhance the overall impact of the social safety net.
 - ▶ Namibia could reduce poverty and inequality in a budget neutral way by allocating a greater share of safety net resources to children.

- * At the administrative level, to improve basic business processes, including means testing and beneficiary selection, payment, information management, and the organization of services:
 - ▶ **Modernize Information Management.** Ministries have their own independent information systems, with most data coming from paper forms that are generated in district offices. This results in slow processing of data, difficulties in verifying information, difficulties in updating data, and data duplication. Developing an integrated service delivery platform for social assistance programs would improve the efficiency and effectiveness of these programs.
 - ▶ **Build a Social Registry.** A social registry is an archive of structured and systematized information about beneficiaries and potential beneficiaries of different social protection programs. It provides information about household socioeconomic status that provides a mechanism for targeting social benefits and deciding who is not eligible under the eligibility rules. A social registry also provides information on the services and social benefits that individuals and households receive.
 - ▶ **Establish a single harmonized application process for all social grants that includes a single means-testing system for all means-tested programs.** Social assistance programs each have their own application and eligibility criteria, although they are often directed to the same households and collect the same information. This absorbs considerable staff resources and imposes an undue burden on the poor who must apply at different offices. A single application process for all social assistance programs would increase the efficiency, effectiveness and transparency of the safety net. It would streamline the application process and would apply objective criteria, screening instruments and procedures to all programs.
 - ▶ **Establish one-stop shops.** Namibia has vast distances and low population density, and this speaks to the need for administrative efficiency in the delivery of the social safety net. Applicants and beneficiaries travel long distances to apply, make enquiries, or update personal information and may need to do this at multiple offices. One-stop shops would help to reduce fragmentation of service delivery and lower the burden on applicants. The objectives would be to: provide citizen friendly access to a range of safety net services in a single location; improve coverage of services by linking a variety of services to individual needs and eligibility; and strengthen the capacity of the Government to provide safety net services in a coordinated manner. One-stop shops could work in tandem with the single social registry by serving as the local face to the registry. One-stop shop would have multiple functions including: provision of information, case management, assessment, registration and enrolment, updating of beneficiary records, service transaction, referral services, registration, and reregistering grievances.
 - ▶ **Introduce more efficient payment systems.** Payment mechanisms are fragmented. The OAG, the Disability Grant, and Child Grants rely on multiple payment mechanism, including direct deposit to banks and NamPost and cash payment at designated pay points. All veterans benefits are paid via direct deposit to banks. Despite long waits at cash pay points, beneficiaries seem to prefer collecting there because of fees incurred at banks and NamPost. However, it would be possible to negotiate contracts with banks and NamPost to waive fees and minimum balances for social grant recipients. This would likely encourage more beneficiaries to move to direct deposit of benefits.

- * At the program level, to exploit synergies between programs and fill gaps in programming. Social protection programs can help build human capital by connecting children from poor households with ECDE services.
 - ▶ Strengthen the links between social protection and human capital development. Social protection can help build human capital by helping to link children from poor households to early childhood development (ECD) services.
 - ▶ Develop a graduation strategy for child grant beneficiaries, including the child and their parents.
 - ▶ Plan social care services for an aging population.
 - ▶ Position the social protection system to address climate change.

XI. Improving services delivery by strengthening governance efficiency

*** Public enterprises.**

- ▶ Strengthen MPE, especially the ability to monitor the performance of public enterprises.
- ▶ Ensure that the indicators in the centralized monitoring database are well designed to track both the enterprises' financial health and potential issues with services delivery.
- ▶ Strengthen the institutional capacity of the MPE, as well as the capacity of its staff.
- ▶ Create the right incentive system for the public enterprises to track and report on these indicators with sufficient frequency.

*** Public procurement.**

- ▶ Build capacity within the CPB, as well as the Procurement Policy Unit at the Ministry of Finance, for the implementation of the law.
- ▶ Roll out the electronic procurement (e-GP) system.
- ▶ Systematically build capacity within the MDAs and public enterprises to apply the new procurement framework.

*** Coordination, planning, and M&E.**

- ▶ Strengthen the capacity of the Prime Minister's department to help align the planning, budget, and M&E processes (consider establishing a dedicated policy coordination unit at the center of government).
- ▶ Invest in the institutional capacity of the existing bodies, such as the NPC, to:
 - Provide them with the authority relative to the MDAs; and
 - Create and sustain enough technical and M&E capacity within these structures.
- ▶ Build the implementation capacity and incentives within the implementing MDAs to:
 - Create delivery incentives (for example, performance contracts for ministers and high-level civil servants that include KPIs); and
 - Establish an institutional interface for the NPC within MDAs (for example, a small implementation unit that would also track the KPIs and report on them).

*** Public employment management.** Strengthen the DPSM's ability to manage public employees and:

- ▶ Develop a modern HRMIS;
- ▶ Perform an evidence-based analysis of the wage bill;
- ▶ Perform a rigorous analysis of services delivery assignments; and
- ▶ Strengthen and track performance management.

D. Reducing Vulnerabilities to Climate Change and Environmental Shocks

XII. Supporting investment in forestry, tourism, and fisheries

- ✿ **Forestry.** Enhance conservation and restoration by:
 - ▶ Supporting SMEs and smallholders;
 - ▶ Identifying critical areas for forest and land restoration using earth-observation data and participatory methodologies;
 - ▶ Promoting community forest management; and
 - ▶ Promoting the training of forest management professionals.
- ✿ **Tourism.** Opportunities in the development of the tourism sector include:
 - ▶ Establishing a CBNRM fund to raise and manage funds to support essential long-term services to local communities and promote joint ventures between communities and the private sector;
 - ▶ Promoting sustainable value chains that would also support the deepening of the CBNRM implementation, while conservancies could add value to various local crafts and nontimber forest products; and
 - ▶ Establishing partnerships with private entities to operate campsites, eco-lodges, and wildlife activities such as game drives or trails.
- ✿ **Fisheries.** Opportunities in the development of the fisheries sector include:
 - ▶ Fostering the Blue Economy approach and preparing for Marine Spatial Planning will mainstream marine resources sustainability; and
 - ▶ Promoting market diversification and value addition of fisheries products via, for instance, eco-labeling and a microgeneration certification scheme, should improve the industry.

XIII. Mitigating environmental shocks and their economic impact

- ✿ The targeting of drought-relief assistance must be adjusted for different drought events, and mechanisms that were used in the past may not work without modification for reaching the victims of future droughts.
- ✿ Social protection policies are one way in which governments can help households manage these risks.
- ✿ Drought needs to be acknowledged as a high risk for which clear protocols are needed for different responses, prepared through consensus-building on using and costing different sources clearly and through mechanisms for the reallocation of resources among various users in the basins, cities, and other locations.
- ✿ A sustainable approach requires efficient infrastructure networks, institutional and financial incentives, and communication to guide demand management, financial sustainability, and institutions' role assignment and coherence.

XIV. Improving and sustainable water production

Improved and sustainable water production is critical for several sectors in both rural and urban contexts. Investments are required to:

- ✿ Improve information and data management for water security, particularly the effective monitoring of surface and groundwater resources, and the development of hydrological modeling for surface water and groundwater;
- ✿ Help with water conservation, saving, and utilization, especially to improve livestock management to decrease its vulnerability to rainfall shortages and to offer crop and livestock insurance; and
- ✿ Enhance adequate water pricing and elimination subsidies.

Annex 2. Ranking of Policy Proposals

Binding Constraint	Proposed Key Reforms	Growth	Poverty	Sustainability	Time	Complementarity	Total Score
Highly segmented inputs and output markets and dependency on low productivity sectors	Ease burdensome regulatory processes	1	1	1	1		4
	Improve the antitrust framework	1	1			1	3
	Expand access to financing and implement FSAP recommendations	1	1	1		1	4
	Improve the entrepreneurship ecosystem	1		1			2
	Invest in the digital economy	1	1	1	1	1	5
	Focus on youth- and gender-related labor market programs	1	1		1	1	4
	Broaden the tax base and revise tax administration	1				1	2
	Ensure macro-fiscal stability, focusing on debt reduction and broaden tax base	1	1	1		1	4
	Deepen integration into global value chains, improving overall fitness and boosting trade-enabling environmental reforms	1				1	2
Poor quality of education and health systems	Improve quality ECDE programs, focusing on the poorest.		1	1	1	1	4
	Strengthen basic education, with an emphasis on addressing regional inequity to enhance student learning outcomes	1	1	1	1	1	5
	Invest in pharmaceutical management systems and a regulatory framework for health service delivery	1	1	1		1	4
	Strengthen routine primary care and prevention against health risks	1	1	1		1	4
	Improve quality and relevance of skills training as well as efficiency of TVET system and higher education provision to keep up with student increase	1		1		1	3
	Set up a single-payer health reform, which requires a health financing strategy with operational plans, the necessary legal framework, and a governance system	1	1				2

Binding Constraint	Proposed Key Reforms	Growth	Poverty	Sustainability	Time	Comple-mentarity	Total Score
Highly skewed distribution of productive assets and land	Diversify energy sources through a shift toward cleaner, less expensive solar energy	1	1	1	1	1	5
	Improve targeting of social protections		1	1	1	1	4
	Invest in CSA and de-bushing for rural jobs creation	1	1	1	1	1	5
	Strengthen the MPE, especially its ability to monitor the performance of public enterprises	1				1	2
	Improve public procurement	1	1		1		3
	Strengthen tenure security and capacity for land reform	1	1		1	1	4
	Support urbanization that can contribute to sustainable growth if managed well by increasing productivity	1	1				2
	Improve Coordination, Planning, M&E				1	1	2
	Strengthen the Department of Public Service Management's ability to manage public employees		1			1	2
	Create incentive system for the public enterprises to track and report on key indicators	1				1	2
Lack of shocks mitigation system	Invest in effective water management and improve sanitation	1	1	1	1	1	5
	Support forest conservation and forest restoration	1	1	1		1	4
	The targeting of drought-relief assistance must be adjusted for different drought events		1	1		1	3
	Improve social insurance schemes to protect against adverse shocks		1	1		1	3
	Foster the Blue Economy approach	1	1				2

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