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PAPER PRESENTED

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MANAGING RISK IN AFRICA: RESPONDING TO POLITICAL, SOCIAL AND
ECONOMIC CHALLENGES

NATIONAL DEVELOPMENT PERSPECTIVES -NAMIBIA

Honourable Lord Malloch-Brown, Minister of State, Foreign Commonwealth Office,
Mr Donald Kaberuka, President of the African Development Bank,
Ms Asha-Rose Migiro, Deputy-Secretary General, United Nations,
Ms Angele Luh, from the UNEP Regional office for Africa,
Ms Antoinette Sayeh, Director, African Department, IMF,
Mr Mo Ibrahim of the Mo Ibrahim Foundation,
Colleagues from national institutions and multilateral organizations,
Ladies and gentlemen...

It is my distinct honour and pleasure to have been invited to address you at this very auspicious occasion. I greatly welcome the opportunity to share with you some of the experiences of my country, Namibia, in meeting the demands of the 21st century in general and responding to the particular political, social and economic challenges arising from the current global economic developments and climatic changes we are witnessing presently.

1. BACKGROUND: SETTING NATIONAL DEVELOPMENT PERSPECTIVES

As you may well know, Namibia is a huge, semi-arid, ecologically fragile country, two and a half times the size of Britain, with a small population of around 2 million people. We became independent in 1990, after a long period under colonial control and South African administration and a protracted liberation struggle for freedom and self-determination. Apartheid policies and practices had left the country with as legacy of

economic under-development and social backlogs. Key political institutions, such a parliament, had to be created. The developmental challenges were enormous and complex. Within the parameters of our internationally acclaimed Constitution, governance structures had to be transformed and existing policies and legislative frameworks reviewed and re-written. I am pleased to say that through prudent stewardship of our resources and with the help of our development partners, we have achieved some remarkable successes in meeting the socio-economic and social requirements of our citizens and overcoming the detrimental legacy of apartheid.

In addressing the developmental needs of our country, we base our planning on Namibia's Vision 2030. It provides the medium to long-term perspective and sets out the goals for Namibia to become a prosperous and industrialized nation, developed by her human resources, enjoying peace, harmony and political stability. Five year National Development Plans (NDPs) are the main vehicle to translate the Vision into action. These documents are based on wide-ranging consultations with stakeholders from across the country, as well as input from international partners. The plans articulate the needs, priorities, opportunities and challenges facing our people in the way forward to sustainable economic growth and development.

We realize that we will only be able to achieve our development perspectives if we implement the Development Plans efficiently and effectively. In order to do so, it is essential that private investors - including Namibian and foreign business persons with large, medium and small companies -, traders, farmers, artisans, and ordinary citizens that account for about two-thirds of the total production in the country should participate and contribute to the development endeavors of the country.

The Government at the national and sub-national levels, with the assistance of our development partners, accounts for the balance, apart from creating and maintaining a favorable economic, social, environmental and political environment conducive to the implementation of the NDP3 and the achievement of the projected results. These include the effective delivery of public services to our citizens and realizing “value for money” in public expenditure.

In view of the foregoing, the NDP3 expects to increase equality in income distribution, sustain economic growth, and employment on the basis of a pro-poor, pro-agriculture and pro-growth approach. This is of utmost importance, as although the average per capita income in Namibia is about US\$3400, the top 2 per cent of households enjoy an average per capita income about US\$19,000, while the “poorest” households accounting for 25 per cent have an average per capita income of about US\$225 at their disposal. The Gini-coefficient of Namibia is 0.6, among the highest in the world, and can be compared to 0.43 average of the Middle-Income countries

2. NATIONAL DEVELOPMENT PERSPECTIVES AND PRIORITIES

Under the over-arching framework of Vision 2030, the NDP3, and taking into account the impact of the international financial and economic crisis on the Namibian economy, the medium-term Government priorities set within the Medium Term Expenditure Framework (MTEF), have been based on sustainable economic growth through investment in human resources and physical infrastructure, with increased attention on improved public service delivery, especially in crucial social services. Key spending priorities are:

- (a) **National Economy, Industrialization and Competitiveness:** The Government development budget is expansionary, focusing on infrastructure development, wealth creation and growth stimulus. This includes increasing investment in public utilities to spur economic activities, especially in rural areas. This development drive will be accompanied by measures for improving the business environment, in order to halt slippages and position the economy on a higher growth path and industrialization trajectory;
- (b) **Improving Access and Quality of Educational Outcomes:** Increased funding will continue to flow to the education sector in support of school feeding programs, the establishment of pre-primary education and the expansion of students loans facilities;
- (c) **Addressing Challenges in the Health and Social Sector, and Strengthening Social Safety Nets:** Funding is earmarked for the provision of health infrastructure, improved service delivery, and strengthening safety nets. Efforts are being made to roll out coverage of social safety nets to those not presently covered and to help create employment and lay the foundations for income-generating activities for especially vulnerable and marginalized people;
- (d) **National Food Security:** Budgetary support is foreseen for expanding and improving productivity, both in the commercial and subsistence subsectors, through increased allocations to labour-intensive Green Scheme irrigation projects, the expansion of agriculture extension services in communal areas, agriculture research, the application of science and technology and targeted training programs. In the same vein, budgetary support will be given to expanding aquaculture activities,

particularly outreach extension services for communal fish farmers; and lastly,

(e) **Safety and National Security:** Investments to enhance political stability, public safety, and good governance have been allocated.

3. Impact of the International Financial Crisis and Global Economic Slow Down on the National Development Perspectives of the Namibian Economy

Given the magnitude and depth of the current International Financial crisis and economic slowdown, and the fact that Namibia is a small open economy with a trade to GDP ratio of over 80 per cent, highly exposed to events taking place in the global economy, it comes as no surprise that these global economic developments have already impacted significantly upon the development perspectives of the Namibian economy. In essence, the basic challenges are that: economic growth is decelerating, unemployment is rising, and Government revenue is decreasing. I'm pleased to say that so far there has been no change in the commitments made by our Development Partners. In view of the above, the following are major issues confronting the government with regard to the development perspectives of the economy:

1. Sustaining the levels of economic growth recorded before crisis (i.e. 4.7 per cent GDP);
2. Maintaining Macroeconomic Stability;
3. Consolidating Government expenditure and ensuring fiscal sustainability;
4. Managing the Impact of natural disasters due to climate change;
5. Managing the continuing threats imposed by high level of HIV/AIDS;

6. Balancing volatile energy and food prices and inflationary pressures;
7. Taking advantage of opportunities presented by increasing regional integration and global trade liberalization

During the NDP2 (2001-2006) economic growth, on average 4.7 per cent each year, exceeded the target of 4.3 percent. It increased from 2.5 per cent in 2005 to 7.1 per cent in 2006. However, after this, growth started to decelerate and was 2.4 per cent in 2008. Preliminary indicators project economic growth to be less than one per cent in 2009.

In addition to the unfavorable global developments that negatively impacted on the export-oriented industries, this slowdown is also attributed to the weak output in the primary industry and deceleration consumption. Our diamond and copper mines especially have taken a hit, with immediate consequences for employment and grave implications for projected revenues. In this respect, it should be noted that Namibia's ability to significantly increase her economic output is hampered by high unemployment (36.7 per cent), supply-side constraints, poor educational outcomes, the challenges emanating from communicable diseases and a perpetually narrow economic base. Furthermore, since GDP growth is the benchmark on which most variable are calculated, it is expected to significantly impact on budget parameters such as revenue, expenditure and debt stock.

With decelerating economic growth, maintenance of stability for the main macroeconomic variables such as employment, price levels, exchange rates

and budget deficits pose significant challenges. With respect to unemployment, it is worth noting that Namibia's economic growth in the recent past has failed to generate a commensurate growth in new jobs, owing to the capital intensive nature of mining projects, which accounted for most of this growth.

Overall, it should be noted that, supported by prudent fiscal and monetary policies, the Namibian economy continued to enjoy macroeconomic stability during the period 2005 to 2008. The Government's fiscal policy stance in the past focused on promoting growth and welfare for all Namibians, while maintaining overall fiscal balance and stability through maintaining public expenditure on average at less than 30 per cent of GDP, public debt on average at 25 per cent of GDP and the budget deficit not exceeding 3 per cent.

However, sustaining adequate levels of public expending is essential to cope with the challenges imposed by the global crisis. Therefore, during the medium term (2009-10/2011-2012,) maintaining previous levels of fiscal consolidation will not be possible and we foresee that government expenditure will increase to more than 30 per cent of GDP, public debt will rise to an average of 28.8 per cent of GDP and the budget deficit to an average of 7.4 per cent.

4. THE CHALLENGES OF CLIMATE CHANGE

Apart from facing the challenges posed by the current financial and economic crises, Namibia is faced with the direct consequences of pending climate change.

In terms of its arid environment, recurrent drought and desertification, Namibia is extremely susceptible to the negative effects of climate change and the Government of the Republic of Namibia recognizes that this phenomenon is considered one of the most serious threats to the country's environment, human health and well-being, as well as its economic development, which is very dependent on agricultural production.

In anticipation of these developments, and in compliance with obligations to the UNFCCC, a Vulnerability and Adaptation assessment to climate change was recently carried out. These climate change-related vulnerabilities present an immense challenge to Namibia. This threat is immediate and grave, as recent events show:

As a result of changing weather patterns, North and North Eastern parts (six out of thirteen regions) of Namibia were devastated due to severe floods during 2008 and the first quarter of 2009, exacerbating the impact of the international financial and economic crisis on the economy. Preliminary assessment undertaken by a team of experts headed by the World Bank, and including the UN, EC, USAID, working closely with the Namibian government, estimated the damages and losses to be US\$241 million.

The most affected sectors include infrastructure, agriculture, and small and medium scale industries which are at heart of the affected regions. Recovery and reconstruction of damaged assets has commenced. In order to restore the situation to pre-disaster conditions requires US\$136 million. However, in order to plan pre-emptively for the longer-term and to re-

build sustainable or disaster- resilient infrastructure (to Build Back Better/Smarter) will require US\$463 million.

The effects of climate change and the resultant economic consequences for the rural population especially affect the most fragile sections of the community, compounding pre-existing conditions and exposing marginal groups to additional vulnerability :

For example, the effects of HIV/AIDS are reversing development gains and Namibia cannot hope to achieve sustainable growth and development without increased, comprehensive efforts to deal with the HIV/AIDS pandemic across all sub-sectors of the economy. Since this poses a major challenge, HIV/AIDS has been mainstreamed in the NDP3.

This situation has further been aggravated by poverty and food insecurity, since many households are vulnerable to chronic or acute food shortages, due to low agriculture production, recurrent drought, low incomes and limited off-farm employment opportunities.

Despite all the challenges we presently face due to the financial and economic crises, as well as the threats posed by climate change, it should be noted, however, that such challenges also present possible

opportunities for innovative investment and sustainable development. In this respect, access to markets in the SADC region and global trade liberalization will provide us with prospects for diversifying our production and exports and transforming our heavily primary-industry-based economy into manufacturing and service sectors. In order to be able to fully exploit these opportunities, we will, of course, have to invest in the human resources and infrastructure required for such transformation.

5. WEATHERING THE IMPACT OF THE GLOBAL DOWN TURN ON THE NATIONAL DEVELOPMENT PERSPECTIVES OF THE NAMIBUIAN ECONOMY: SOME MITIGATING FACTORS

5.1 Political Stability and Conducive Environment for Economic Growth

and Development: As indicated above, despite the present threats to our development perspectives, we are relying on the resilience and robustness of the economy to help us weather the impact of the global financial and economic crisis, based on the following:

- (a) Namibia is a living, multiparty democracy that enjoys political stability and respects the Rule of Law;
- (b) It has credible and dependable institutions and organizations, including a strong Judiciary;
- (c) It has a vibrant and diverse free press;
- (d) The government has created an environment conducive for business and private sector growth and expansion;
- (e) It enjoys a steady flow of revenue from investments in natural resources and the SACU¹ revenue pool; and

¹ In fact, receipts from the SACU Revenue Pool have been, and remain, a significant contributor to Government Revenue. However, SACU revenues are expected to decline due to trade liberalization and envisaged formation of the

(f) Namibia maintains adequate reserves, underpinning the stability of the Namibia dollar which is pegged to the SA Rand.

We believe that the above factors put Namibia in better position to withstand the impact of global economic down turn in order sustain its growth momentum and to shore up the substantial progress made with regard to poverty reduction and other MDGs.

5.2 Government Investment Budget

Building on these factors, the Government investment budget of NS\$ 13.6 billion, for the 2009/10-2011/12 Medium Term Expenditure will be spent on projects that have the potential for generating employment opportunities, such as those in the infrastructure and agriculture subsectors; investment in human development through Health and Educations subsectors; and maintenance of Peace and Security.

5.3 Fiscal Policy Interventions

Specific taxation intervention policies to lessen the burden of poverty, unequal distribution of wealth and create conducive business climate without adversely affecting revenue are being adopted. Among others they include:

- (a) Lowering the corporate tax rate from 35 to 34 per cent;
- (b) Adjustments in the schedule of personal income tax to provide relief to lower income earners ;
- (c) The adjustment of Transfer duty brackets applicable to communal farmers who purchase communal farm under the Affirmative Action Loan Scheme; and

SADC Customs Union by 2010. This will exert concerted pressure on revenue collection, and therefore an emanating risk

- (d) The lowering of tax rates for most brackets and the introduction of a new tax bracket for the highest earning individuals;

5.4 Monetary Policy Response to the Crisis Situation

As Namibia's Monetary Policy needs to accommodate the countercyclical fiscal policies that are being implemented to achieve the broader development perspectives of the economy, the Bank of Namibia has reduced its lending rate from 10.5 per cent in August 2008 to 7.0 per cent over the course of the last year. It is expected that this will stimulate investment in the construction industry and the property markets which, in turn, will help compel economic growth and development.

5.5 Long-term Development Programs

Apart from the medium term (2009/10-2011/12) priorities of the Government, certain long-term interventions and approaches have been identified as drivers of economic transformation. The following have been identified as being of vital importance:

- (a) Encouraging Public-Private Partnerships and cooperation;
- (b) Enhancing the competitiveness of the private sector through the development of capacity and infrastructure such as transport, energy, and water;
- (c) Investing in the broadening and deepening of appropriate skills at all levels;
- (d) Supporting Rural Development and Sanitation;

- (e) Investing in the Green Scheme (irrigated crop production), in order to increase agricultural productivity and achieve higher levels of self-sufficiency in food production;
- (f) Facilitating foreign investment, particularly in the non-mining sectors;
- (g) Enhancing Regional integration and trade expansion through aid for trade;
- (h) Structural Transformation; and
- (i) Enhancing aid effectiveness through the localization of the principles and guidelines of the Paris Declaration and working more constructively with our development partners.

6. Summary and Conclusion

In conclusion, may I state that I hope to have conveyed the following essential points to my esteemed audience:

- Over the course of the last nineteen years, and in an attempt to address the daunting challenges of its apartheid legacy, as well as the concurrent problems, the government of the Republic of Namibia has steered a course of economic prudence, while prioritizing economic transformation and social development for especially its most vulnerable sections of our society.
- Namibia's Development agenda and goals have been encompassed in key documents that express its development Vision, policies, strategies and plans that guide political actions, macro-economic and fiscal policy and the budgeting process and we have built the relevant institutional context that enables effective delivery of services;

- Namibia's exemplary record as a fully-functioning democracy has created the peace and political stability that underpins all our development-related efforts and has enabled us to attract support and cooperation from our development partners who complement our investments in key sectors and programmes;
- Namibia's relatively solid financial foundation and prudent management of its resources has helped the government to absorb at least some of the impacts of the present global financial and economic crises.
- However, the previously mentioned recent climate-change-related floods in large parts of the country has dealt a severe blow to our efforts at tackling rural poverty, broadening the economic base and closing income gaps;
- We are grateful to our development partners for extending a helping hand in addressing the immediate demands related to this natural disaster. We are hoping that they will be as generous in assisting us to "Build Back Better" during the process of recovery and reconstruction, in a way that allows us to prepare for and withstand future climate-change-related events, once we launch a round table meeting for donors, based on a recently completed needs assessment. In this connection, we look forward to the upcoming Conference on Climate change in Copenhagen at the end of the year, and we hope the international community will be able to find a consensus on the way forward that fully takes into account the concerns of developing countries.

- With regard to weathering the man-made economic storms, we are riding on the backs of our international friends. Our destinies are linked. If our development partners sneeze and catch a cold, we catch the bug and even if we use protective masks, and take corrective actions, we cannot avoid the spread of the virus. By the same token, global recovery and the resultant increased flow of capital and commodities, the increased demands for our resources and products, the improved flow of funds and goods, the resumption of investments, greater access to credit on favorable terms and larger amounts of aid for trade will enable us to regain our balance and strengthen our immune system.
- However, in this respect, even if global recovery does take place, as we all hope, and all of the above comes to pass, we are greatly concerned about the lack of progress on previous commitments on development assistance made by developed countries at occasions such as the Gleneagles summit in 2005, and reaffirmed at subsequent G8 meetings, including the most recent gathering in Italy. It is our fervent hope that the developed countries will accept the responsibility they have for honouring their pledges and for translating these commitments into concrete actions.

I'd like to end by thanking the Foreign Commonwealth Office and the British government and the organizers of this important conference for having facilitated our participation and given me the opportunity to share my country's development perspectives, experiences and views, and for giving us a platform to set out our needs and hopes for assistance to such an eminent gathering.

I thank you.