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Economic progress since Independence – Klaus Schade

Namibia's population is young. In 2011, 45 percent of the population was 18 years of age or younger and even 63 percent 27 years or younger. Hence, almost two out of three Namibians have hardly any memory of the country at the time of Independence. Therefore, our 27th Anniversary of Independence provides an opportunity to reflect on where we are coming from, what we have achieved in terms of socio-economic development and what still needs to be done.

The value added of goods and services produced in Namibia (the Gross Domestic Product) has tripled between 1990 and 2015 from NAD36,776 million to NAD108,257 million in constant 2010 prices. This is equal to an average annual growth rate of 4.5 percent over the 25-year period. In current prices, GDP increased from NAD7,061 to NAD147,315 million, but this includes inflationary effects.

Since population growth dropped from 3.6 percent per annum between 1981 and 1991 to 1.4 percent between 2001 and 2011 economic growth outpaced population growth, which resulted in an increased average per-capita income. Per-capita income rose from an average of NAD27,258 per person in 1991 to NAD47,358 in constant prices.

Economic growth was mainly driven by the tertiary sector (the service sector) that grew above average at 4.8 percent annually, while the primary sector increased below average at 3.0 percent. The secondary sector – manufacturing, electricity & water, construction – was on par with the average annual growth rate.

Economic diversification

The aggregate figures provided above hide changes at a more disaggregated level and therefore the diversification that has taken place in the economy. At independence, crop farming referred mainly to the production of maize, millet (mahangu) and wheat. Since then, the grape industry along the Orange river has emerged as an important employer and foreign exchange earner. About 20,000 tons of grapes are exported mainly to the European market up from virtually no exports in 1990. Grape exports account for the bulk of the NAD583 million Namibia earned in 2015 from the export of crops, vegetable and fruits. Furthermore, the domestic production of fruits and vegetable has increased substantially since the introduction of the Horticultural Marketing Scheme some 15 years ago, when about five percent of the domestic demand was met by domestic production. This share has risen to some 40 percent covering a wide range of horticultural produce including potatoes, butternuts, water melons, tomatoes, etc. Just recently, Namibia has started to harvest the first barley that is being used to brew beer. This has been the result of extensive investment into research and a close cooperation between the private sector (Namibian Breweries) and the public sector (Ministry of Agriculture, Water and Forestry and the University of Namibia).

More domestic value chains have been created or have been extended. Domestic value chains refer to the production of goods and services that are used by other domestic industries as inputs. Value chains ensure that industries are more strongly linked to the rest of the economy and create business opportunities in other

sectors. There are a number of successful examples in Namibia. Substantial investment was undertaken at the copper smelter in Tsumeb to extract sulphuric acid during the production process. The acid is used by other mining companies in their operations and replaces in part imported sulphuric acid. The investment not only created additional jobs in the local economy, but also reduces the outflow of scarce foreign exchange reserves. Another example is the cement industry that uses domestically mined gypsum and iron ore in the production process and replaces in part imported oil with locally harvested invader bush as a source of energy. This in turn benefits the agricultural sector, since de-bushing grazing areas increases the carrying capacity for livestock and hence increases the productivity of livestock farming.

The tourism sector has expanded greatly and emerged as the fourth largest foreign exchange earner after diamonds, uranium and prepared fish. Tourism is estimated to have contributed 15.5 percent to GDP and 19 percent to total employment directly and indirectly in 2012. The economic impact of tourism stretches beyond the provision of accommodation and serving of food in restaurants. Tourism benefits for instance the transport sector (air transport, car rental companies, service stations), financial sector (foreign exchange bureaus), retail trade and communication. It is an important employer in rural and remote areas that often do not offer other formal, paid employment opportunities. The number of tourists has increased from below 100,000 at Independence to some 1.4 million in 2015. However, it is not the number of tourist arrivals that determines the economic impact, but the length of stay in the country and the daily expenditure. In addition, the so-called carrying capacity of many areas is limited and if exceeded will result in the loss of biodiversity and aesthetic value. Hence, new tourism segments have to be developed, such as Business Travel and Conference Tourism, to attract more tourists without risking damage to the environment.

Government has supported the diversification of economic activities amongst others through the application of Infant Industry Protection (IIP) to a few industries. IIP is permitted under the Southern African Customs Union (SACU) Agreement and usually results in the application of tariffs on the importation of products from within and outside SACU. IIP was first approved for the long-life milk industry and later applied also to the pasta industry. Two companies benefitted from the IIP for pasta production and established their products successfully on the domestic and more recently also on export markets. The poultry and cement industries have also applied for IIP. These industries are further examples of creating value chains in the economy by expanding production lines of for instance the grain milling or dairy industry and, in the case of the poultry industry, creating additional demand for domestically produced animal feed and resulting in additional investment and employment creation. It is expected that the Retail Charter, launched in May 2016, will provide easier access for Namibian producers to shelf space in the country and hence can stimulate growth and diversification in the manufacturing sector.

Economic diversification has not been limited to the manufacturing sector. Other sectors are also more diversified now than at Independence. For instance, livestock farmers have complemented or replaced their business with game farming, while the mining sector is less dependent on diamond mining with the opening of new uranium, gold and other mines.

Social development

In line with economic growth, employment increased. The number of employed persons in Namibia increased by almost 330,000 from 388,014 in 1991 to 712,252 in 2014. However, the additional jobs were not enough to absorb the number of new entrants into the labour market. The overall unemployment rate stood at 28.1 percent in 2014, but was much higher for the youth (39.2 percent). The unemployment rate is one of the contributing factor to poverty. Although poverty levels have fallen since Independence, when 58

percent of households were regarded as poor, one out of five households were classified as poor and one out of ten households as severely poor in 2009/10. Likewise, income inequality as measured by the Gini-coefficient has decreased from 0.701 in 1993/94 to 0,572 in 2015, but Namibia remains one of the most unequal societies. The Gini-coefficient ranges between zero for complete equality and one for complete inequality.

Besides encouraging investment and job creation, government has expanded the social safety substantially since Independence in order to alleviate poverty. At Independence, the monthly amount of the social grant was determined by the ethnic group to which the beneficiary belonged. This was changed after Independence and all beneficiaries receive the same amount. The social safety net has been extended substantially. The amount of the old age grant was increased over time to NAD600 per month until it was raised substantially to NAD1,000 per month in 2015 and a year later to NAD1,100. The grants for orphans and vulnerable children remained unchanged between 2000 and 2013 at NAD200 per month before it was increased to NAD250. While the increase has not raised the real value of the grant that was eroded by inflation over time, the coverage of beneficiaries increased from some 4,000 in 2001/02 to more than 220,000 in July 2016. In addition, government introduced a number of support programmes for the War Veterans including a monthly allowance of currently NAD2,200.

Way forward

Despite the progress made over the past 27 years, challenges remain. Poverty, inequality and unemployment remain at unacceptable high levels. New business opportunities can be created through smart economic policies that encourage genuine entrepreneurship, award investment and employment creation and thus grow and diversify the economy. The public sector including State-owned enterprises and the private sector can use their procurement power to support the local production of supplies at the required level of quality and price, while mentorship programmes between existing businesses and start-ups can ease the access of new entrants into the market. More investment into Research, Development and Innovation and closer collaboration between the private sector, tertiary institutions and government institutions will help improving production and business processes and developing new products that can compete on the domestic and eventually the regional and international markets. Policies and strategies have to be implemented, their impacts monitored and evaluated and if necessary strategies have to be adapted in order to achieve the desired outcomes. Last but not least, education is key in forming a critical-minded, creative and innovative youth that is empowered to tackle the challenges, seize business opportunities, transform and grow the economy.

About the EAN

Klaus Schade is the Executive Director of the Economic Association of Namibia (EAN). EAN's mission is amongst others to provide evidence-based policy advice, stimulate public debate on issues of socio-economic importance and facilitate greater interaction between key stakeholders in the Namibian economy. EAN contributes to capacity development through internships provided to students studying economics. EAN can be contacted as follow: C: +264 81 155 9775, E: info@ean.org.na, W: www.ean.org.na

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