economic association of namibia

Hanns Seidel Foundation

RMB

July 2022

Namibia Futures

A Study Report

by the Economic Association of Namibia

Background

The scenario planning exercises sets out to map various future scenarios for Namibia, plotted around the central question:

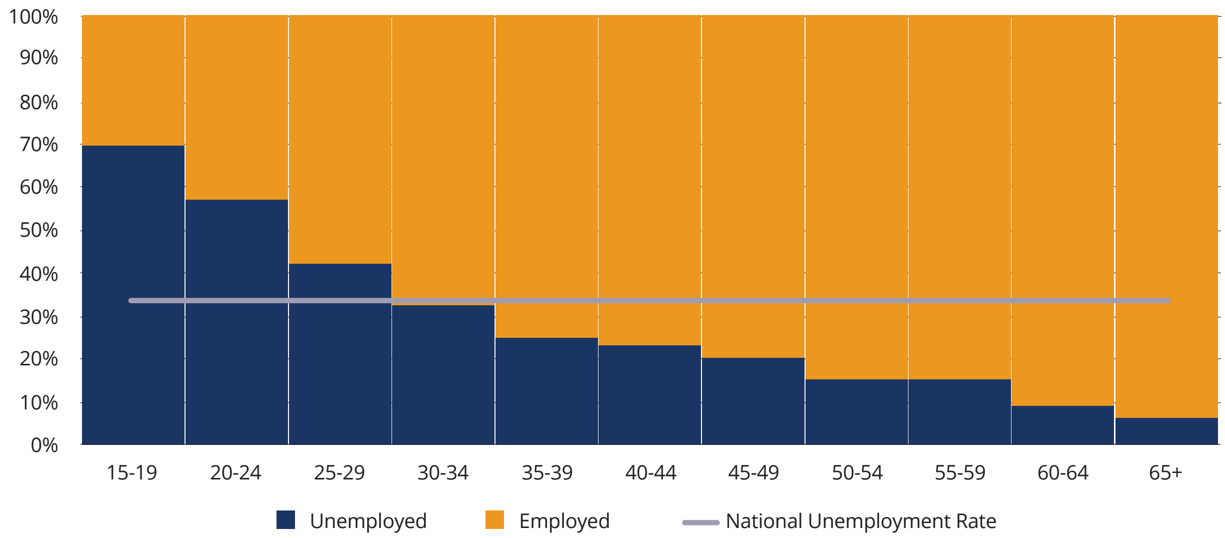
Will 90% of Namibians* be in gainful employment by 2030?

*economically active population

Namibia's unemployment rate is abnormally high by global standards. Since 2000, the rate of unemployment has been around or above 30% - an undoubtedly unsustainable level. The only time during this 20-year period that unemployment dropped marginally below 30% was in the 2012-2014 period when economic growth exceeded five percent per year for a five-year period. The unemployment rate, while unsustainably high, also belies the quality of employment. Fewer than half of Namibia's employed persons earn their living in the formal sector, and over a third of those that do, are employed by Government (whether directly or through parastatals). Much of Namibia's employment comes from subsistence agriculture, or are persons considered employed due to receipt of "in kind" income, meaning that much of the officially "employed" population is not earning cash incomes, and remains highly vulnerable, both to crop failure, and the support or largess of others. Over the past half decade, pre-COVID-19, an abrupt swing from strong growth to contraction has not only caused unemployment to rise, but the quality of employment to deteriorate as well. The COVID-19 pandemic, and health measures introduced to manage the early-phase-perceived risk of such, have added further fuel to this fire.

This high unemployment rate, as well as the worrying trend of increasing unemployment, is unlikely to be materially reversed in the near term, and indeed, the continued languishing of the local economy may well see formal sector jobs shed, not created, over coming years. At the same time, the labour force continues to grow. This increase in unemployment drives a degree of hopelessness amongst the population and will continue to foment discontent – especially amongst the educated, unemployed youth.

2018 Namibia Labour Force Survey



These high unemployment levels mean that large tracts of the population are disenfranchised, economically "excluded" to a high degree and are highly reliant on social safety nets (public and private) for basic survival. Moreover, these high levels of unemployment perpetuate poverty, exacerbate inequality, and enhance a feeling and situation of "disempowerment" amongst much of the population.

The impact of unemployment on socioeconomic development metrics is material, and thus, an assessment of the cause thereof, and the solution thereto, is occasioned.

The Cause:

While the cause of high levels of unemployment is undoubtedly complex, it is indicative of an economy that is not creating sufficient employment for its population (and particularly for the skillset of its population), and thus should be considered a "crisis of job creators", resulting in a "crisis of unemployment".

There are likely to be many reasons for this "crisis of job creators", however at its core the challenge can be defined as one of general cost vs. general output. Where economic activity is able to generate output in excess of the related input cost, sustainable incomes for enterprises and thus parties to those enterprises, can be seen. However, where this is not possible, these enterprises tend to cease, or fail, to exist – taking with them their employment or potential employment.

There are a number of factors that can affect the ability of economic activity to meet or miss this tipping point, both with regard to output and with regard to cost.

From an output perspective, there are several core considerations:

- Market size and availability
  - o Including: Growth in consumer demand for final products.
    Growth in producer demand for inputs.
- Product relevance and competition

From an input cost perspective, additional factors include:

- Relevant skills availability (skills mismatch)
- Cost of relevant skills
- Labour output (together, unit labour costs)
- General input costs – land, water, electricity, etc. costs
- General bureaucracy costs and business decision interference (regulation, licensing, certification, registration - level and implementation efficiency, etc.)
- Taxation rates
- Movement of capital

The story, of course, does not stop at employment. As discussed, high levels of unemployment result in poor socioeconomic metrics and constrained human development. These socioeconomic metrics, and the trend in such, stand at the very heart of politics. Without progressive improvement in and throughout people's lives, which is directly related to household incomes and employment, the public can be expected to become dissatisfied with political leadership, and as a result, seek alternatives better able to improve their lives and the outlook for such. This trend is already highly visible in Namibia, where the aspirations of a young population are not being met is resulting in a material political shift, threatening to unseat incumbent politicians and parties.

With a major slide in political support for the incumbent party in national elections in 2019, and again in local and regional elections in 2020, and with only a deterioration in economic circumstances subsequently (expedited by COVID-19), it appears that political change is inevitable, should the status quo continue. At the same time, true reform takes time. While promises of paradise and shortcuts to it are easily made, in reality, as the saying goes, you can only fool some of the people some of the time. Material change in voter habits will therefore likely require material changes in people's living conditions, which living condition changes can only be sustainably achieved through sustainable household income generation, which requires long-term job creation, which requires long-term job creators.

Thus, the meta question of Namibia's future can be summed up as **"Will 90% of Namibians[1] be in gainful employment by 2030?"** This question is a *de facto* assessment of Namibia's ability to serve the needs of her people, meet their aspirations and attain overarching development objectives.

The target of 90% of the population is considered to be a realistic target, as all nations have a degree of structural unemployment. 10% structural unemployment is relatively high, however, where a nation is coming from employment levels of under 70%, and with formal sector employment just over 30% of the population, a target of 90% in a period of under 10 years, is ambitious.

The target timeline aligns with the country's long-term vision, Vision 2030. While it appears that many of the targets in the Vision are unlikely to be attained, this is based on analysis of the status quo and current trends. Indeed, when assessed in this manner, the Vision is more of a dream than a vision, and one the nation's voters will soon awake from.

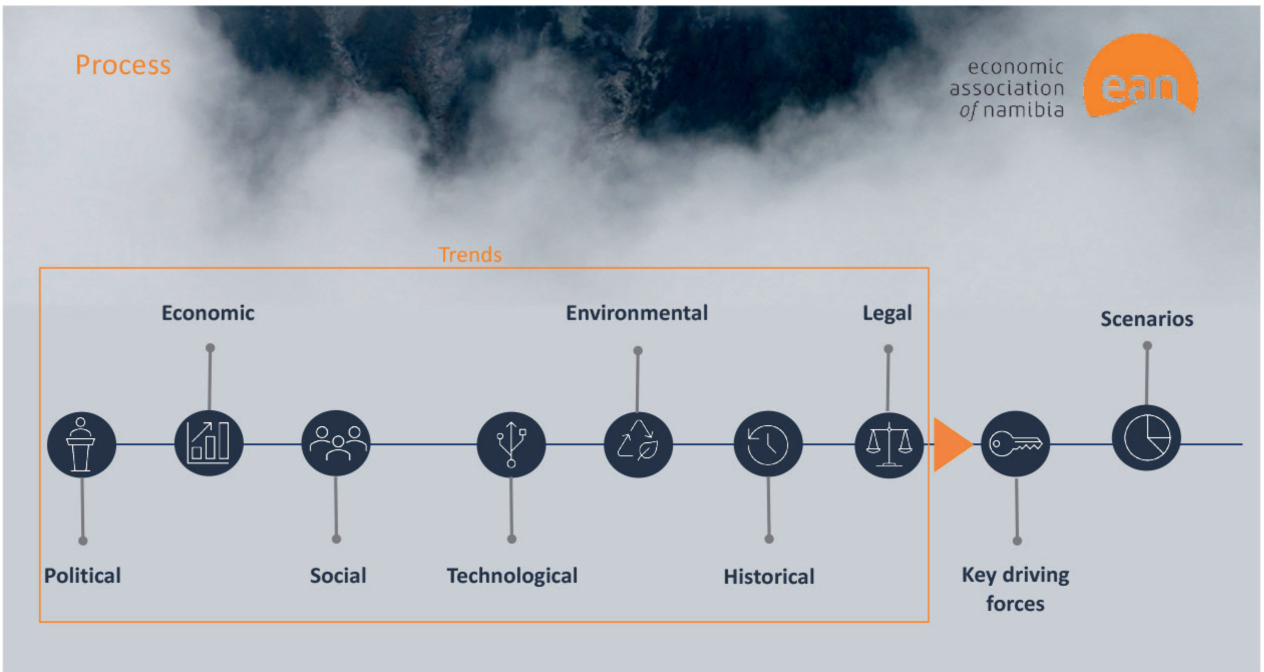
However, as illustrated in the scenarios that follow, a period of rapid and deep-cutting reform could, quite plausibly, deliver the approximate 1.2 million jobs that Namibia needs to reach this unemployment target, and could do so as soon as 2030. For many, this will seem as implausible as a prediction in 2008 that a certain Mr. Trump may replace the recently elected Barack Obama. However, strange, and seemingly implausible things, as we now know, happen.

The Scenarios:

The scenarios that follow are the result of an extensive research exercise, the skeleton of which can be sketched in four parts:

1. The identification of all the major Political, Economic, Social, Technological, Environmental, Historical and Legal (PESTEHL) trends that have shaped, are shaping or will shape Namibia's future.
2. Grouping these trends into related groups of "key driving forces" (KDFs).
3. Ranking of the KDFs by impact and uncertainty.
4. Plotting the trends with the greatest uncertainty and impact on a matrix, creating the four scenarios.

Through this process, 148 PESTEHL trends were identified, and grouped into 12 KDFs. These 12 KDFs were each ranked according to their impact on the focal question and the uncertainty associated with that impact. The results of this exercise are tabulated below:



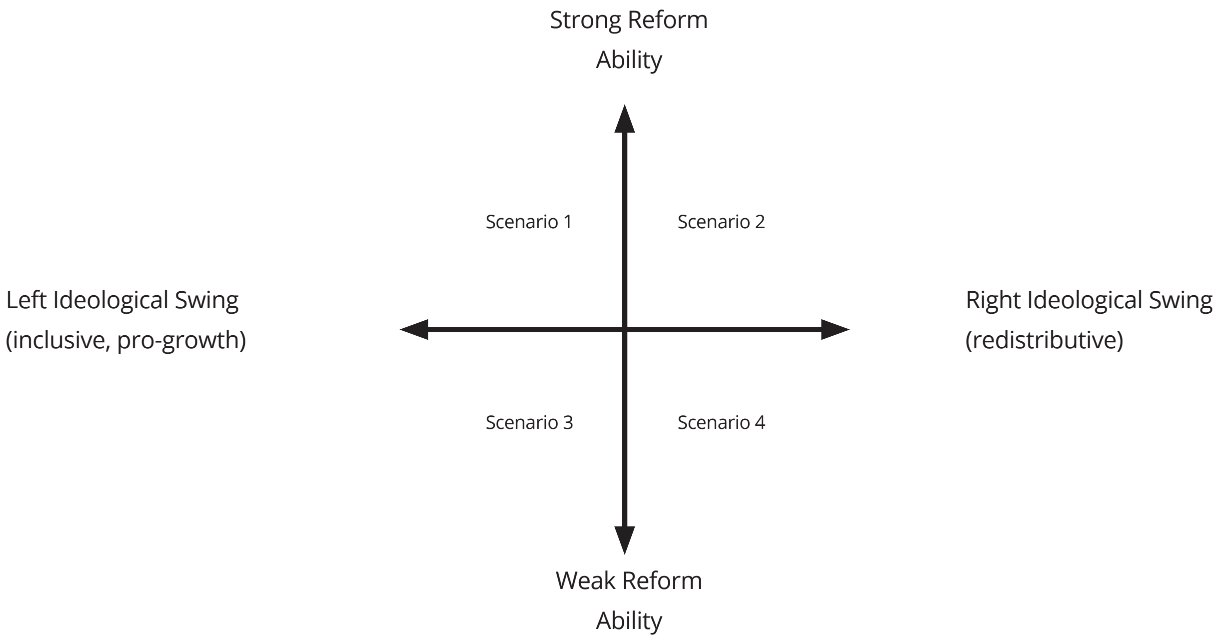
[1] economically active population.

Ranking: Impact & Uncertainty

Impact:
1. Ability to reform
2. National psyche
3. Left/Right ideological "battle" (Inclusive growth vs. redistribution)
4. Youth aspirations
5. Skills
6. Debt trap
7. Regional head/tailwind
8. Oil Discovery
9. Natural disaster
10. Currency peg
11. Internal vs external locus of control
12. Green development

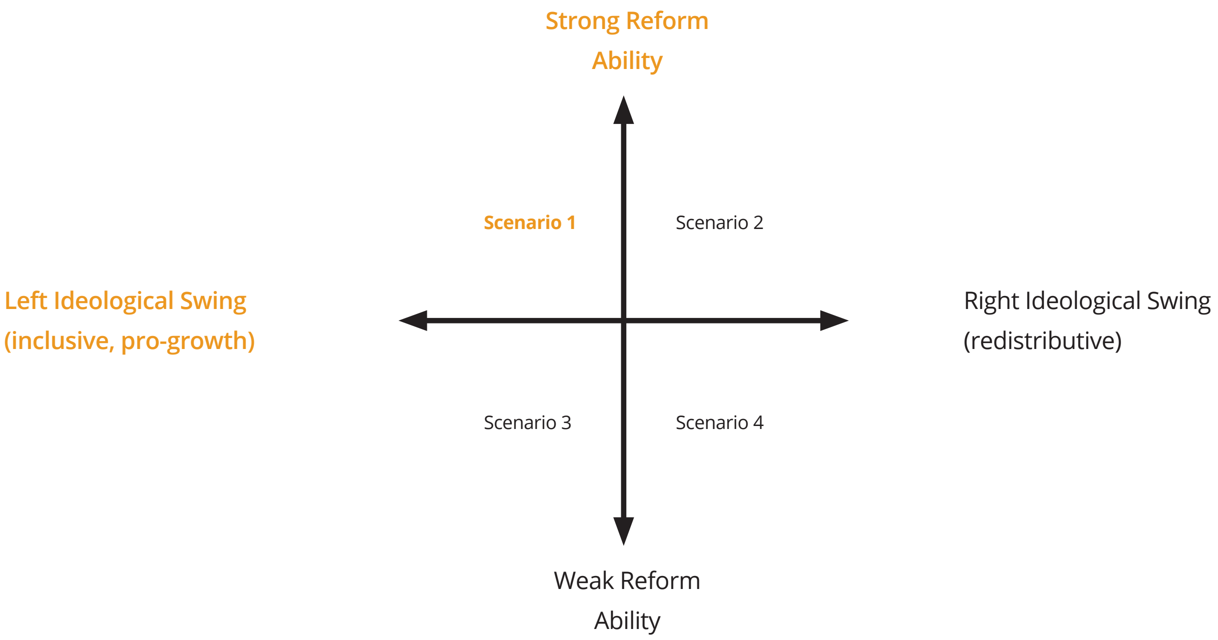
Uncertainty:
1. Left/Right ideological "battle" (Inclusive growth vs. redistribution)
2. Natural disaster
3. Oil Discovery
4. National psyche
5. Ability to reform
6. Currency peg
7. Youth aspirations
8. Internal vs external locus of control
9. Debt trap
10. Skills
11. Regional head/tailwind
12. Green development

Once the ranking was completed, a matrix of two axes was formed: the horizontal axis measuring impact (i.e. ability to reform) and the vertical axis measuring uncertainty (i.e. the ideological orientation of redistribution or inclusive, pro-growth policy). This formed the basis of the scenarios. Each scenario was populated and described using the KDFs as guidelines. Once each scenario was complete, five to ten markers (or "flags") were identified for each scenario, which serve as indicators as to a shift towards this scenario.



The scenarios are narrated as a situational review conducted at the end of the period over which they are assessed. In this instance, this means the scenarios take the form of a review being conducted in the immediate wake of the year 2030. The scenarios are animated – a story of what may be.

Scenario 1: Strong ability to reform; left/redistributive ideological victory



N$ Millions

The economy lies in ruins. Individual liberties have progressively declined. Following years of weak growth, formal sector job losses, increased poverty, and inequality, anger and outrage with the existing administration intensified. Despite promises of change and improvement, an ineffective and slow to react government was unable to recreate the improvement of living standards that Namibia had reported in earlier years. Amidst the growing discontent, a charismatic new leader emerges who taps into this anger. This new leader, a 'man of the people', has an acute skill at diagnosing society's ongoing challenges and lays the blame squarely at the feet of incumbents – as well as broadly grouped "apartheid and colonialism beneficiaries". Proffered solutions to society's challenges focus on redistributing existing wealth, sharing the nation's resources between her people, and that the rich must pay their fair share – the haves must provide for the have-nots who have been side-lined for many years.

This new leader quickly grows in popularity amongst the largely unemployed and frustrated youth, who make up the bulk of the electorate. With the promise of a better tomorrow as well as promises of state hand-outs and free ownership of industry and resources, support for the emerging leader rockets. The incumbents lose their grip on power, ushering a new age for Namibia and her government. The drive for change behind new leadership is encouraged by a growing sense of nationalism and a Namibian identity, underpinned in the rebranding of Namibian socialism.

As is characteristic of a left ideological swing, the leadership fast becomes autocratic, and in order to effect new changes, the capacity of the state is improved, and decisions are made rapidly and implemented through strategically deployed cadres. Accountability for failure to do the bidding of leadership is introduced. Incompetence and malfeasance are punished, while those reluctant to the sudden change of pace are replaced. These changes buy favour with much of the population, who believe they are seeing real and meaningful change for the first time in many years. The redistributive focus with an autocratic leader is reminiscent of Luis Martin (former Governor of Puerto Rico, 1949-1965, who proclaimed: "you can have justice, or you can have two dollars. But you can't have both."

With a refreshed and effective state apparatus, the government is able to introduce much of the promised redistributive policy which saw it elected to power. Seeing promises being met, much of the populace rally behind the change and eagerly obey the new changes that are introduced. This, they are told, requires some encroachment on civil liberties to ensure that promises are met, and the changes can be affected quickly and easily. This includes a watering down of property rights, where possible, to effectively introduce redistribution of the nation's wealth. With the new nationalist fervour, it is believed that the nation's resources, which belong to her people, should not be operated by outside entities or those who would exploit it for profit – but rather the benevolent state who serves their interests. As such, the nation's extractive industries are nationalized to ensure the wealth remains within her borders.

Growing discomfort with the nationalist and redistributive rhetoric sees foreign investment initially slow before drying up entirely. To offset this, it is said the nation's own resources should be put to use in her development – rather than relying on investment from outsiders. This sees the country's large domestic savings pool repatriated. Initially, this drives economic growth in the short-term, until the funds are fully repatriated. In order to direct growth and investment, the state takes a larger and more hands-on role in the economy, eroding the private sector.

With a larger state and reduced investment, focus shifts from a foreign enemy to a local one - to domestic capitalists "who profit at the expense of their poorer countrymen". This justifies greater state control of the economy (increased regulation) and/or higher taxes – to ensure that those who make profits share this wealth with those who have little.

The lack of catalytic capital in the country sees domestic value addition decline and unemployment start to rise again. Greater state involvement in the day-to-day running of the economy sees the erosion of the profit motive, with the exception of the affiliates of the new political incumbents. This results in increased leakages, as opportunities for corruption escalate and the large network of political allies, fed from their connections to this affiliate class. This is accelerated by access to the country's nationalized resources. Entrepreneurs and skilled workers find greener pastures outside of the country, turning Namibia into a net exporter of skills, including those who create jobs.

The education system is improved through greater accountability; however, standards remain inadequate for the needs of the economy. Domestic conditions worsen and the standard of living falls rapidly as those who created jobs flee an ever more controlling government. Dissidence is avoided owing to the encroachment of civil liberties which has since become commonplace. Critics of the ruling class are silenced, and the flow of information is heavily controlled to ensure that awareness of growing problems does not spread. Rather, small successes are homed in on and celebrated well beyond proportion, to manufacture a better image. The state remains in firm control of the country and partners with autocratic regimes to seek assistance and guarantee control.

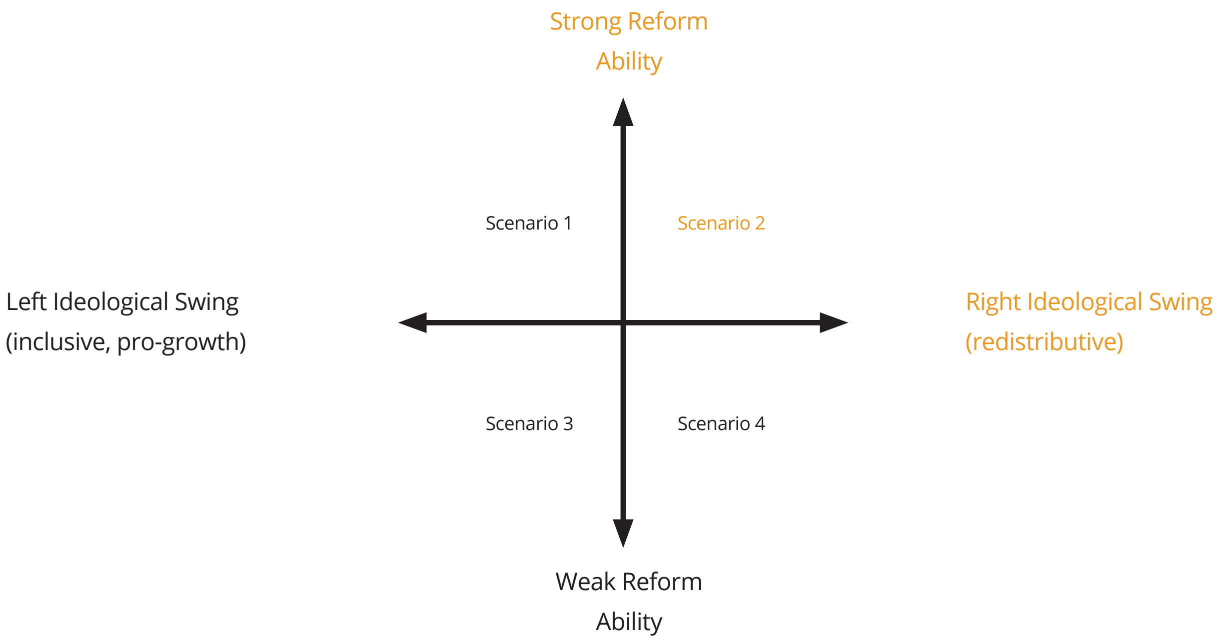
With worsening economic conditions, public revenue declines. However, the largely redistributive nature of government makes it difficult to reduce expenditure without severely worsening the situation and risking a revolt. As such, the state finds increasing justification and means to seize private savings 'for the sake of the people', thereby monetizing the deficit. A large trade deficit and collapse in foreign investment mean that the country quickly erodes her hard currency reserves, jeopardising the currency peg. However, the inability to cut the large wage bill and extensive social transfers, as well as the nationalization of industry, do little to boost confidence that hard currency reserves can be stabilized – let alone increased. As such, the currency peg is lost.

The loss of the fixed exchange rate results in rapid inflation, which had already been on the rise thanks to protectionism for Namibian industries, an expensive localization drive, and the exodus of skilled producers. Rapid inflation causes an overnight collapse in living standards, as savings become worthless and the poorest struggle to afford necessities. The worsening crisis sees more power concentrated in the government's hands, supposedly to address the challenges, but rather is done to suppress the flow of information. Reduced press freedom helps achieve this and legal challenges against this are unsuccessful, owing to carefully selected (and aligned) judicial appointments.
With growing poverty and high inflation, the state and households have little resources to withstand a shock. This leaves the nation incredibly vulnerable to external shocks, such as adverse weather conditions or pandemics. As drought threatens the country, famine breaks out and many of the population face starvation. While the gravity of

the situation is initially downplayed, the reality soon becomes inescapable. Growing desperate, the previously deferential youth realise that the once benevolent state is the source of their despair and triggers a 'Namibian Spring' that is unknown to an independent Namibia. As the leadership is deposed, Namibia enters a period of uncertainty as it takes decades to undo the damage done in the preceding decade. Namibia not only falls far short of seeing 90% of her economically active population in gainful employment, but rather sees an extended period of worsening unemployment and uncertainty.

	Winners		Losers	
	Short Term	Long Term	Short Term	Long Term
Incumbent Political Class			x	x
Other Politicians	x	x		
Civil Servants	x			
Private Sector Employees			x	x
Unemployed Youth				x
Unemployed Elders				x
Entrepreneurs			x	x
Voters			x	x
Established Businesses			x	x
Civil Society				x
Media				x

Scenario 2: Strong reform ability; win for right, pro-growth inclusive ideology



Namibia has become the crown jewel of the region and the continent. The Namibia of 2030 is almost unrecognizable when compared to the nation of a decade before. Significant progress has been made across many fronts, seeing the small nation become a shining star regionally and globally. Two key changes underpin the transformation: there has been a notable shift to inclusive, pro-growth policy; and the will to reform has been translated into definitive and decisive action.

The initiating force behind the change was the emergence of a leadership unincumbered by ideology and blind political affiliation, and able to ignore the business and profit scepticism that had swept the country in earlier years. The changes are not immediate, but the leadership surrounds themselves with a small set of action-focused and experienced advisors and begins implementing key reforms, oblivious to political and social popularity (or the lack thereof) in the short term. Strong accountability is introduced, prioritising the execution of core government functions and service delivery.

Key amongst the reform is a harmonised focus on rapid reduction in general red-tape, de-personalisation of all bureaucratic and licensing decisions, and vast decrease in implementation time of remaining net-positive regulation. The reduction in bureaucracy and increase in efficiency goes side-by-side with a material reduction in the size of the civil service, with a number of institutions being replaced by electronic systems. The capacity of the state improves gradually, as employees and appointments are (re)focused on delivery with swift consequences for poor performance. This is partially achieved through a reduction in the state over time, anchoring key areas for state involvement with a focus on quality and efficiency of services.

This ties in with a swing to a pro-growth policy agenda, stressing grassroots, local and foreign investment-led economic growth, and employment creation. The state is refocused on core areas of public service provision and equality of opportunity, all with increased efficiency. This refocusing of state efforts frees up resources for provision of basic services, and in a few short years, material changes are seen with regards to access to housing and utilities. At the same time, increases in accountability and educational reforms (giving more power to local communities to hold educators accountable for educational outcomes) have seen a swing for the better with regards to education. A strong push for investment sees a scrapping of a series of policies that allow government a strong say in the business decisions of companies. This is accompanied by four critical reforms:

1. Exchange control regulations are materially reduced, making it easy to move money into and out of the country;
2. The work permit regime is changed entirely, making it easy for skilled persons, and inventors, to enter and become resident in the country, with little or no challenge;
3. The tax regime is changed to become competitive, with the rate of corporate tax dropped to the low 20%s, with extensive tax breaks for small and new businesses; and
4. While restitutive processes for historical dispossession remain, redistribution outside of the tax system is done away with in its entirety.

With these changes in the back-pocket, the investment promotion board garners investment from the region (taking advantage of the failing southern neighbour) and then the world.

The approach to inclusive pro-growth policy and change in investor sentiment has resulted in a markedly improved economic performance, a distinct change from the economic malaise after 2015. Increasing employment and improved service delivery create a widespread belief in a materially better, shared future.

After a period of unpopularity as the country swings away from a redistributive narrative, discontent amongst the public – and particularly the youth – subsides and growing employment opportunities and better provision of public services (including land availability) result in rapid improvements in living standards. The improved economic opportunities and quality provision of basic services results in a sharp drop in poverty, as well as reduces the starkly contrasting inequality that has marked much of Namibia's history. The reformed business environment has significantly eased the ability to start, run and grow a business. Increased foreign and domestic investment, and the improved business environment, drive the job creation that reduced youth unemployment and improved household incomes.

The rapidly growing economy presents opportunities for many, including entrepreneurs and skilled workers. The pace of growth attracts skills from across the globe, which has been complimented by eased visa regulations. Not only is talent attracted from various parts of the globe, but skilled Namibians prefer to remain in the country and build a shared prosperity, rather than looking for opportunities outside the country's borders.

The improvement in economic growth, employment and investment benefits the fiscus as well. Domestic sources of revenue increase over the years, and with a leaner and more efficient state, budget deficits are reduced materially and any concerns around a debt trap are erased. The sovereignty of the nation is maintained, and the plethora of opportunity drives stronger ties with global economies. The growing economy and influx of investment have provided ample hard currency reserves, creating a position where the currency peg is now optional.

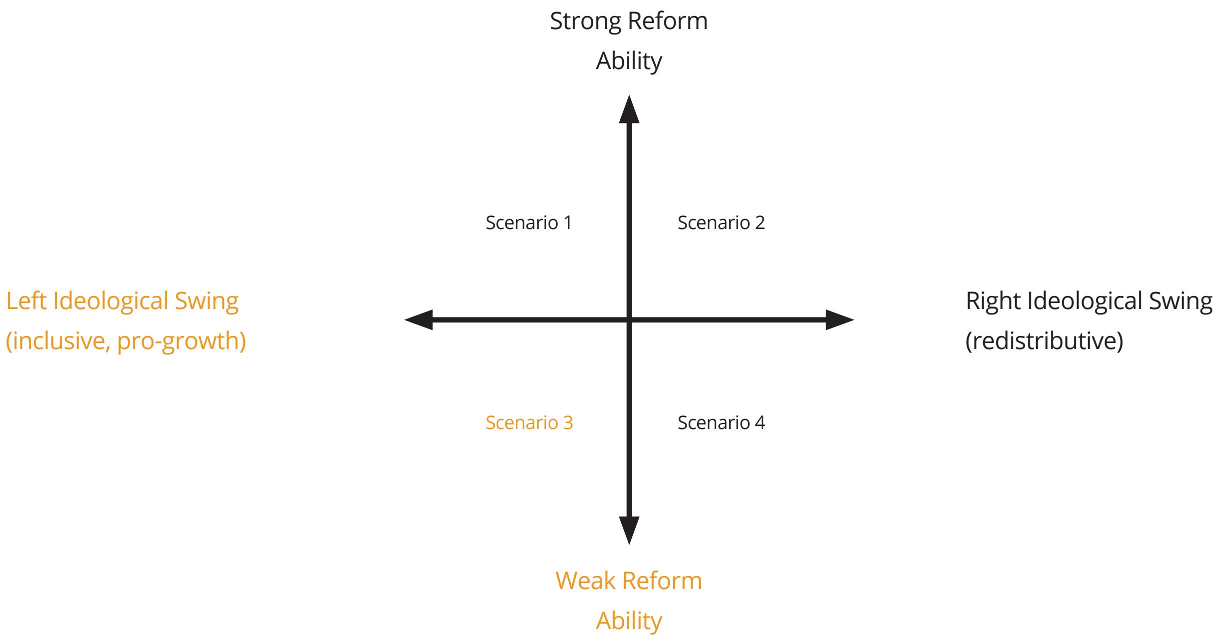
The improved domestic conditions have also left Namibia and her people more resilient to natural disasters, such as drought. Strong economic growth and rapid growth in employment has spurred regional development and some migration to various urban centres, in which services are cheaper and easier to provide. As a result, there is a material reduction in reliance on subsistence agriculture for livelihoods. The smaller number of those adversely affected by events such as these mean that the state can adequately support remaining subsistence agriculturalists, preventing natural disasters from becoming humanitarian ones.

Namibia's growth and diversification of industry, driven by a girth of ideas, unincumbered by groupthink and central planning, as well has her improved business and investment climate, make her stand out amongst her peers. As a result, the country is more resilient to regional headwinds, and benefits from tailwinds.

While the progress was small and slow at first, the rapid effect of the policy shift and resolute reform have seen Namibia make large strides towards achieving her 2030 developmental goals. Employment has increased dramatically, seeing at least 90% of Namibia's eligible population in gainful employment. While there is still much progress to be made, the advances over the last decade have put Namibia on the correct path.

	Winners		**Losers**	
	Short Term	**Long Term**	**Short Term**	**Long Term**
Incumbent Political Class	x	x		
Other Politicians	x	x		
Civil Servants			x	
Private Sector Employees		x		
Unemployed Youth		x		
Unemployed Elders		x		
Entrepreneurs		x		
Voters	x	x		
Established Businesses	x	x		
Civil Society	x	x		
Media	x	x		

Scenario 3: Weak/no ability to reform; left ideological swing



The ship is sinking, and the captain is nowhere to be found. Despite the many promises and commitments to reform, the state and related institutions are unable to do so. Any attempts to introduce some reforms are watered down through consensus-seeking and protection of vested interests, either within existing political structures or eventual (and volatile) coalitions. While there is consensus that change is needed, the lack of ideological alignment within legislative bodies (as well as the broader public) sees a peculiar combination of free-market reform and increased state involvement sschizophrenically dispersed throughout policy proposals.

However, "the free-market has failed us" narrative has a marginal upper hand in the debate, and from an already highly business unfriendly environment (far from the free market the ideologues paint the situation to be), policy slides slowly to the left. Without much real change, things continue much as they have been for the preceding years. Policy discussion and direction are dominated by (superficial) redistribution and state-led activity, with a gradual creep of policy in this form. Although this initially buys support, it results in a 'slow bleed' – continued economic deterioration (particularly on a per capita basis), limited domestic and foreign direct investment (despite greater efforts to sell the country, the business climate remains unchanged or worse on the ground, and investors are not fooled for long), stagnating wages, and worsening unemployment. These drive ever-widening inequality, which had already been exacerbated by the COVID-19 recession.

Inequality worsens and the future seems less and less likely to bring the desired progress, seeing radical and immediate solutions become overwhelmingly popular. This is exacerbated by continued blame on Namibia's pre-independence history for continued difficulties in the present, and the narrative that the earlier 'free-market' approach failed the nation. Although SWAPO shifts its policy towards more centrally planned, redistributive means, these only accelerated economic collapse. As a result, and with an ineffective state and unrelenting perceptions of corruption, the ruling party's support diminishes, and control of the National Assembly is lost in 2024. This support is lost to more radical parties, advocating for immediate solutions through widescale redistribution of finite existing wealth, with control and implementation manifesting within the State. There is a perilous erosion of property rights, and the ineffective state apparatus and cronyism allow rent seekers to take advantage of increased state control. Such policy, however, repels foreign investment, thereby accelerating the economic decline and reinforcing the desire for redistribution with nationalist fervour.

Worsening conditions and poor service delivery prompt greater demands for the government to resolve these problems, spawning a national psyche of increased dependence and reliance on the state. This sees more legislation passed to address these issues, providing for creeping state influence in the economy through increased executive and bureaucratic power – such as NEEEF, NIPA, and foreign exchange controls. Government seeks to address challenges such as poverty, inequality, unemployment, and disinvestment through statue and policy – not by incentives, but greater control of the economy and punitive disincentives.

Despite the effort to exact greater control, the apparatus of the state itself has seen little change. While there has been an unequivocal leftward shift, targeting greater redistribution, this is greatly hampered by an ineffective and bureaucratic state. With greater resources under its control and an extensive civil service, rent seekers have ample opportunity to redirect public funds into their own pockets. This only exacerbates the poor service delivery and growing discontent amongst the populace, who decry not the extent of state influence but rather simply the actor behind it.

The policy environment has repelled investment, resulting in a gradually shrinking private sector – particularly as skilled individuals leave for greener pastures beyond Namibia's borders. Not only does this adversely affect employment, but also government revenue through reduced corporate and personal income taxes. The largely redistributive state comes under strain due to reduced revenues, and rather than looking to reversing the root causes of its troubles, looks to introduce further taxes and increase existing tax rates in effort to continue funding its inefficient allocations and large-scale redistributions.

This does not have the desired effect. Instead, the increased tax burden drives away investment and ensures that Namibia is not an attractive jurisdiction, especially with far more welcoming and promising neighbours who actively court investment. The struggling private sector comes under further strain, wrestling to make ends meet. The higher tax burden in a low growth environment forces businesses to downsize, worsening unemployment, while skilled entrepreneurs look to opportunities abroad where they can be better rewarded for the endeavours.

With large expenditure requirements and dwindling revenues, the state must turn to the country's sizeable private savings pool to sustain itself. However, this can only be done for so long until even these savings are fully repatriated. While this has staved off larger macroeconomic instability for several years, the state eventually becomes less and less able to borrow money for its debt obligations and public spending. This leaves the country with two real choices. The first is to turn to international organisations, like the IMF, for help. However, this would result in an austerity programme and effectively handing over much of the state's control to an external power. The alternative is to monetize the deficit. Although this may work for a short while, a trade deficit and investment boycott mean reserves are under pressure and soon the ratio guaranteeing the currency peg would be breached, resulting in a loss of the currency peg. This would result in high inflation overnight, reminiscent of Zimbabwe's earlier collapse.

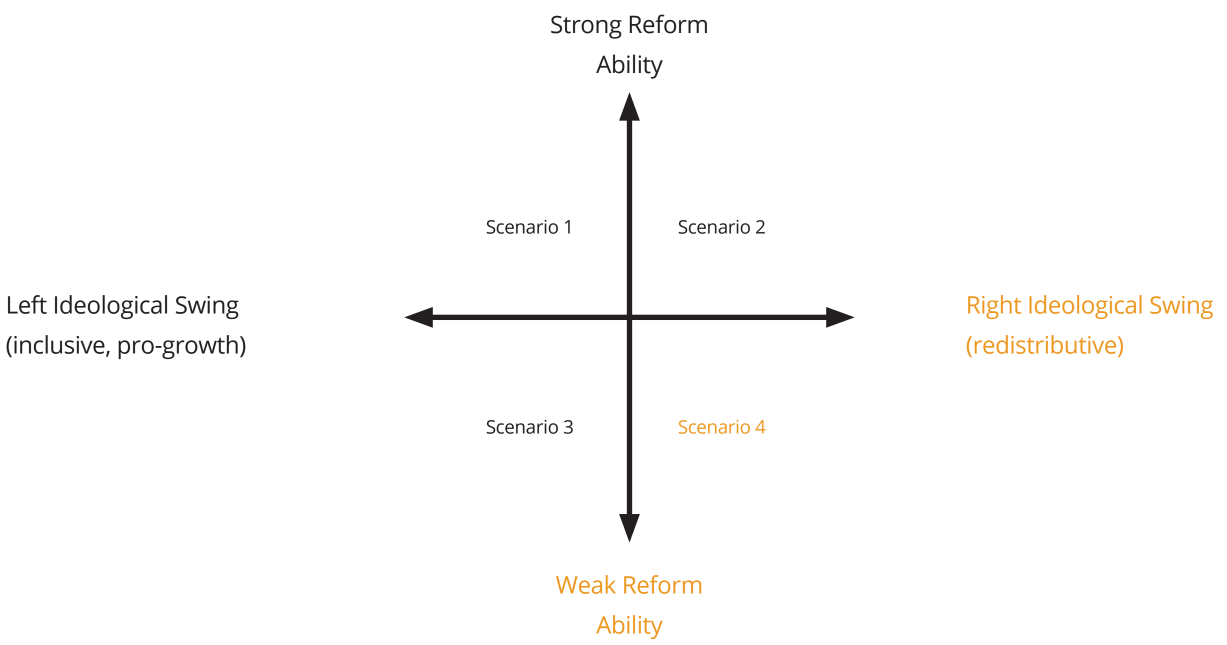
However, an unexpected but more palatable solution becomes viable. Rather than turning to international institutions or the West, Namibia turns to the East to help fund her budget deficit. These bailouts are clouded in secrecy, and while they initially appear beneficial, they also result in a gradual handing of control to external actors. This happens slowly, as at first the bailouts result in some improvement, but without addressing the structural issues in the economy, the state burns through its resources quickly and is faced with either defaulting on its bailouts or handing over control of key assets.

Although an oil discovery would go a long way to bankrolling the struggling government, such an event is extremely unlikely. The government-centric approach to policy and strict regulations governing investment and exchange controls have deterred would-be exploration entities, especially those with the resources needed for such frontier exploration. Instead, Namibia's neighbours have been able to attract this interest. Namibia has also not been able to capitalize on the growing interest in renewable energy for the region, again owing to the policy and investment environment that has been fostered.

While the early years of redistribution of existing wealth and a central-planning approach to the economy attract support and appear to start off well for some, the economic reality comes home to roost several years later. The state eventually runs out of other people's money and must choose between handing over some control externally, or risk high inflation which will hurt the large population of poor persons. The exodus of skilled persons and employers exacerbates these issues, and thus not only does employment collapse materially (in quantity and quality), but substantially more people become reliant on a penniless state and are vulnerable to extended drought and poor service delivery.

	Winners		Losers	
	Short Term	**Long Term**	**Short Term**	**Long Term**
Incumbent Political Class	x			x
Other Politicians	x			
Civil Servants	x			
Private Sector Employees			x	x
Unemployed Youth				x
Unemployed Elders				x
Entrepreneurs			x	x
Voters			x	x
Established Businesses			x	x
Civil Society				x
Media				x

Scenario 4: Weak/no ability to reform; but swing to right/pro-growth ideology



Limping, but surviving. The country remains in policy limbo, without clear direction. However, a slight easing of the business and investment climate – driven by necessity as much as desire, has kept the economy from complete collapse. Despite a slight positive and some pockets of reform, true reform is thwarted by ideological elements that see redistribution and government control of the economy as a requirement to remedy injustices of the past, as well as vested interests that see redistribution as a simpler route to great wealth, than innovation and work.

As a result, public services are still slow and inefficient, hindering any real progress in the living conditions of the many. Cronyism and nepotism are widespread and, combined with conflicting ideologies of the ruling class, result in few decisions being taken. If decisions are made, large government structures slow or hinder any real changes in terms of the common man. After the more redistributive policy stance in the mid and late 2010s, policy began taking a somewhat more inclusive, pro-growth stance. Although this has resulted in some progress in building a stronger, more investor friendly economy, it has been hampered by a reluctance of government to introduce meaningful accountability and civil service reform, thus there remains an inability to truly implement any reform. The resultant growth, although in positive territory, has been lacklustre. Due to a lack of firm decision-making and willingness to drive through reform, hampered by entrenched interests, tax and policy directives are largely for show. Investors are courted globally, but the bureaucratic world on the ground remains unchanged, and the shine for most of these investors dissipates prior to investment taking place.

Constrained by its finances and the change in policy approach, government has gradually reduced its involvement in the commercial parts of the economy, which led to a marginal growth recovery. However, the generally unimplemented regulations and legislation caused limited revival of the economy. This, naturally, has restricted the ability for industry to create sufficient jobs to increase employment levels. Although unemployment has somewhat decreased, it has remained at rates that do little to appease wide-spread poverty and inequality. As a result, without material improvements in peoples' lives, frustration and anger continue.

Entrepreneurs and established businesses have generally benefitted from the freer business environment, creating marginally more jobs. This slight improvement slows the spread of discontent, but poverty and unemployment remain high. Thus, despite some improvement, dissatisfaction with the slow rate means that the political elite struggle to maintain their grip on power. By 2024 the youth are the largest percentage of the voting age population (about 65%) and thus represent the group that determines the distribution of power. In the build-up to elections, capitalizing on this dissatisfaction, the opposition has grown stronger and has gained more popularity amongst the youth. By fumbling on the ability to create a more prosperous economic environment, the ruling party is bracing stronger headwinds from both left- and right-leaning movements. Trying to appease both sides of the aisle has led to a centrist policy approach, which has not had the desired results for any party on either side.

Although the business environment is relatively freer, opportunities are not in abundance. Those who work hard see this effort rewarded, but there is not widespread prosperity. Many highly skilled workers find easier opportunities elsewhere, to the detriment of the country through reduced skills availability and the job creation that is associated with such. The lack of active, deep reform has also meant an education system that is still inadequate, not providing for the needs of a modern economy and still lags in creating a skilled labour force. Educational inequality remains high.

Although the business environment has improved marginally, the weak growth has meant no substantial improvement in the state's revenue – apart from the fluctuating SACU revenue. Difficulties in closing the budget deficit mean that expenditure has slowed as well, creating a cycle of austerity, and feeding back into reduced revenue. Civil servants see no real wage adjustments, reducing the spending power for a great proportion of breadwinners. Poor service delivery and an ineffective state has led to a deterioration of tax compliance, further restricting government resources to implement effective tax legislation and compliance. This has created a cycle of low revenue, resulting

in continuous budget deficits, leading to austerity and an unsustainable debt burden. Large budget deficits face insufficient domestic demand, and efforts to enforce this through regulatory changes are largely unsuccessful – facing resistance and non-compliance. Slow growth and large deficits mean debt-to-GDP has continued to grow, and with the cost of debt growing faster than value addition in the country, debt servicing has become difficult. Unsustainable debt and debt servicing costs, as well as a slow trickle of foreign investment and a large trade deficit result in an erosion of hard currency reserves. This is unsustainable, but the 1:1 peg between the rand and the Namibia dollar, clings on. The fragility of the peg, however, further tempers inward investment, and a slow creep in capital controls makes it harder to repatriate profits from the country.
Reliance on inward investment and stricter controls on expatriating wealth allow for management of hard currency reserves, thereby managing to maintain the peg, but at a cost to investor confidence, foreign investment, and greater economic growth. Even greater reliance is placed on external funding in order to replenish reserves, including dependency on SACU receipts and assistance provided by development finance institutions and similar through 'budgetary support' mechanisms. This assists in maintaining the guise of macroeconomic stability, but increasingly places the locus of control in the hands of Namibia's external financiers – who may eventually force through harsher reforms. Such a loss of policy sovereignty may well provide a footing for improved growth over the longer term, but equally may push through a political realignment that resists such.

Thin fiscal resources leave the country highly vulnerable to natural disaster, such as drought and the effects of climate change over the longer term. The inability to adequately respond would be fatal for many of the poor, with a disproportionate reliance on foreign aid to mitigate disasters.

The inability to reform means Namibia has missed many opportunities, including the opportunity to become a legitimate global green champion. After being a relatively early mover and seeing increased adoption of renewables, ineffective policy sees reduced support of "green" Namibia. The extension of earlier adoption, and other opportunities, are left on the table, as has the country's ability to attract foreign investment due to ineffective policy. Namibia thus also remains reliant on her neighbours for energy production, and thus remains a price taker. Although government has moved toward a more pro-growth, open market ideology, policy changes and regulations have been slow to take hold and watered down, limiting their effectiveness. The failure to aggressively promote renewable energies has left Namibia dependent on other countries, specifically South Africa with its struggling Eskom, for power. Large price increases have been pushed to maintain existing infrastructure and to make up for imported tariff increases. This adversely effects low-income groups, as a higher portion of income is spent on electricity and salaries are not growing in line with rising expenses.

An oil discovery would go a long way to resolving many of the country's fiscal challenges and be a boon for the domestic currency. However, the weak reform does not provide an adequate framework for material exploration, and there are many leakages from the system, with insufficient oversight of not just the flow of funds, but also environmental impact. While the state coffers may benefit to a large extent, the ineffective Government means that this does not properly benefit the country's people.

Although there have been some marginal improvements in some respects by 2030, there has been severe deterioration in many – particularly in terms of per-capita incomes. Namibia has not been able to ensure that 90% of Namibians are in gainful employment by 2030. It is important to note that the failure here is not a direct result of any ideology, but rather that the state has been unable to reform and effect these changes. The failure lies in the inability to translate ideas into action.

	Winners		Losers	
	Short Term	Long Term	Short Term	Long Term
Incumbent Political Class	x			x
Other Politicians		x	x	
Civil Servants	x			x
Private Sector Employees				x
Unemployed Youth				x
Unemployed Elders				x
Entrepreneurs			x	x
Voters				x
Established Businesses			x	x
Civil Society				x
Media		x		

Flags

Indicators include:

1. Ability to reform
    a. Public sector employment: growth, unchanged, retrenchments
    b. Change in civil service wage bill
2. Ideology: inclusive, pro-growth vs redistribution
    a. Definitive move on race-based and/or restrictive legislation (e.g., NIPA, NEEEF)
    b. Net FDI inflows as % of GDP (inflows vs outflows, growth vs shrinking)
3. Internal vs external locus of control
    a. Sources of external funding and ability to repay (or IMF programme, default on bilateral debt)
4. Currency peg
    a. Hard currency reserves
5. Debt trap
    a. Long-term build up in payment arrears
    b. Public debt metrics: absolute value, growth, servicing as % of revenue
6. Youth aspirations
    a. SWAPO support in elections (presidential, national assembly, local and regional)
    b. Youth unemployment
    c. Emigration
7. Skills
    a. Migration
    b. Job creation/destruction (growth in employers)
8. National psyche
    a. Media sentiment (focus on past/future)
    b. Forward/backward looking policy (enactment of discriminatory policy and regulation)
9. Green development
    a. Number of green development projects
    b. Number of large climate-finance funded projects
10. Oil
    a. Oil discovery announcement
11. Regional head/tailwind
    a. ANC support in SA/change in ruling party
    b. Changes in SACU revenue
12. Natural disasters (local and regional)
    a. Drought incidence

About the Authors:

This report, and the process that culminated in it, is the output of a working group made up of members of the Economic Association of Namibia, civil servants, politicians, Non-Governmental Organizations, the Namibian private sector and development partners. The team was coordinated by **Mr. Rowland Brown** from the Economic Association of Namibia, and guided by **Dr. Frans Cronje** and **Mr. David Ansara** from the Centre for Risk Analysis in South Africa. **Mr. Robert McGregor** from Cirrus Capital coordinated the compilation of the publication, and provided editorial coverage thereof.

The process followed to compile this report stems from Dr. Cronje's Piercing the veil: *A practitioner's guide to scenario based strategy in volatile emerging markets*, a publication produced for the MBA programme at the Business School of the University of the Free State.

Dr Frans Cronje directs the Centre For Risk Analysis (CRA). Dr Cronje has advised several hundred South African corporations, foreign investors, and policy shapers. He is the author of two books on South Africa's future, and scenarios from those books have been presented to an estimated 30 000 people. He writes a column for Rapport and teaches scenario based strategy at the business school of the University of the Free State.

Dr Cronje holds a PhD in Scenario Planning from the University of the North West.

About the EAN:

The Economic Association of Namibia (EAN) is a Namibian Think Tank conducting research and providing public policy advisory services. The Association also organizes public discussion forums on topical issues in order to inform the broader public and stimulate public debates on current issues. Moreover, the EAN has established an online document repository accessible through its website that provides access to relevant socio-economic research reports and official documents.

About the Hanns Seidel Foundation (HSF):

Present in more than 60 countries world-wide, the Hanns Seidel Foundation Namibia (HSF) is a German non-profit organisation, largely funded by the German Federal Ministry for Economic Cooperation and Development. Together with its Namibian partners, the Foundation promotes democracy and good governance, the rule of law and anticorruption, sustainable economic and social development, environmental sustainability, as well as climate adaptation and mitigation.

Contact details

Tel: +264 61 244 300
Cell: +264 81 155 9775
Email: info@ean.org.na
Website: www.ean.org.na

70 -72 Dr. Frans Indongo Street
PO Box 6148
Windhoek, Namibia

We are grateful to our key sponsors, **RMB Namibia** and the **Hanns Seidel Foundation,** as well as Namib Mills for making this publication possible.

economic association of namibia ean

Hanns Seidel Foundation

RMB

namibmills FEEDING THE NATION

Standard Bank