NAMIBIA
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- **Growth sharply moderated to 1.3% in 2016 but should rebound in 2017 as the agriculture sector recovers and production from new mines accelerates.**
- **On-going fiscal consolidation policy measures to reduce public debt and help address the current account imbalance will need to protect growth-promoting public investments.**
- **The "Growth at Home" strategy for industrialisation and the policy for promoting micro, small and medium enterprises provide a strong foundation for diversification and job creation but the pace for business environment reforms needs increasing to support entrepreneurship.**

Overview

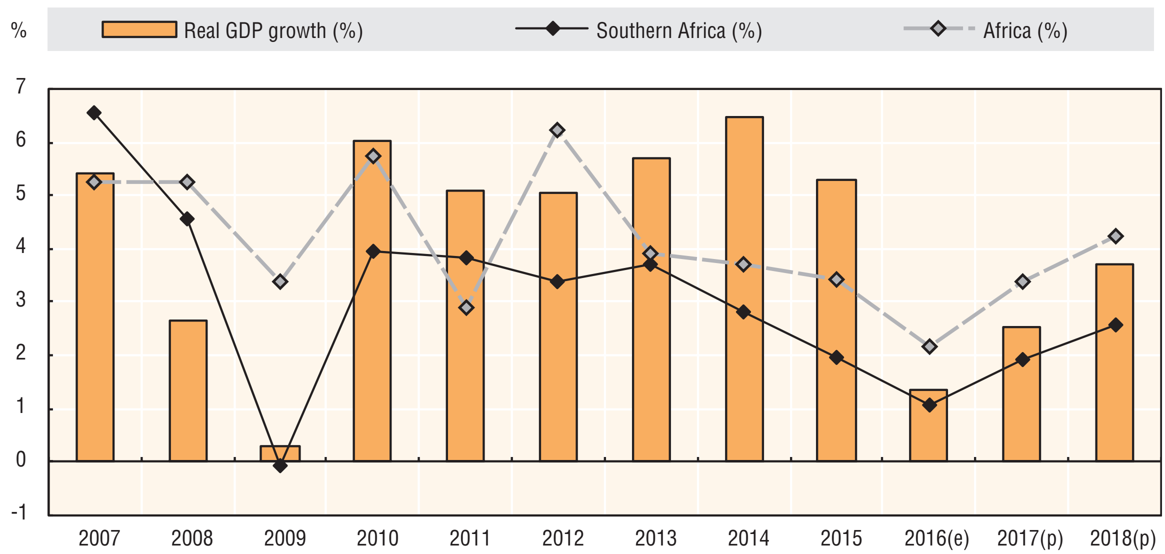
After posting annual growth rates of above 5% since 2010, Namibia's growth momentum sharply moderated in 2016. Gross domestic product (GDP) growth slowed from 5.3% in 2015 to an estimated 1.3% in 2016 as major mining construction projects ended and fiscal consolidation took hold. In 2017 GDP growth is expected to rebound to 2.5% with the recovery of the agriculture sector and the strengthening of production and exports from new mines. The mid-term outlook is positive, albeit with significant downside risks emanating from weak Southern Africa Customs Union (SACU) revenues, fiscal consolidation, soft global commodity prices, and rising housing prices and household credit.

During 2015, a prolonged expansionary fiscal stance, in the context of falling SACU revenues combined to widen the fiscal deficit to 8.7% of GDP and pushed the current account deficit into double digits at 13.7% of GDP. These deficits were financed with the issuance of the eurobond which helped to anchor foreign reserves but increased public debt to its highest levels yet. This prompted leading rating agencies to revise Namibia's sovereign credit rating outlook from stable to negative (Fitch rating BBB; 2 September 2016; www.fitchratings.com/site/pr/1011212) in September 2016. As a result, the government had to change its fiscal policy stance and accelerated fiscal consolidation, proposing expenditure cuts of up to 2.8% of GDP in the mid-term review of the 2016/17 budget.

Inflation picked up from 3.4% in 2015 to 6.7% in 2016 driven by food and administrative price increases. In response to this, monetary policy was tightened to stem strong credit growth also linked to an increase in luxury imports, rising housing prices and household indebtedness. The Bank of Namibia (BoN) raised the repo rate to 7% in April, 2016 to align with the South Africa Reserve Bank (SARB)'s policy rate in the context of the Common Monetary Area. Going forward, the twin deficits are projected to narrow on the back of fiscal consolidation and export revenue growth.

Namibia's policy for industrialisation adopted in 2012 and its implementation strategy the "Growth at Home" launched in 2015, lays a strong foundation for economic diversification and job creation. In its policy for promoting micro, small and medium enterprises adopted in 2016 the government recognises that a vibrant entrepreneurship culture and a conducive business investment climate are key imperatives for competitiveness and successful industrialisation. While some structural transformation has taken place and poverty has significantly declined, the majority of Namibians are still employed in low paid jobs dominated by primary agriculture. Furthermore, unemployment rate at 28.1% and income inequality (Gini coefficient of 0.572) remain high. To harness entrepreneurship that promotes value adding economic activities and creates quality jobs while reducing poverty and inequality, Namibia needs to accelerate implementation of its structural reform programme articulated in the Harambee Prosperity Plan and the National Development Plan in line with the aspirations of the 2030 Vision.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	5.3	1.3	2.5	3.7
Real GDP per capital growth	3.0	-0.9	0.3	1.6
CPI inflation	3.4	6.7	6.0	5.2
Budget balance % GDP	-8.7	-4.7	-6.4	-4.9
Current account % GDP	-13.7	-9.7	-5.1	-4.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

After strong resilience, the country's small and open commodity-driven economy is showing enormous vulnerabilities that are putting pressure on macroeconomic stability. Growth sharply dipped from 5.3% in 2015 to an estimated 1.3% in 2016 as mega construction projects ended, weak commodity prices and drought persisted and the subdued economic activity in South Africa and Angola sharply reduced both Namibia's SACU revenue inflows and services sector activity.

The primary sector's contribution to growth has increased dramatically owing to new investments in mining projects. The sector share increased from 18.3% of GDP in 2011 to 20.4% of GDP in 2015. Nonetheless, the primary sector continued contracting in 2016 owing to persistent drought and restrictive veterinary requirements on livestock exports to South Africa. Primary sector growth is expected to rebound in 2017 as agriculture recovers and production from new mines gains momentum. Output from B2Gold's Otjikoto mine is predicted to increase steadily from 4 394 kg in 2016 to its full capacity of 6 670 kg by 2018 while output from the Tschudi copper mine is estimated to reach its full capacity of 17 000 tonnes in 2016 from 10 659 tonnes in 2015. The share of the secondary sector growth at 17.3% in 2015 has slowly dwindled from 20.8 % in 2011 as the share of the primary sector increased rapidly on the back of new mining investments. In 2016, the sector contracted as major construction projects ended and persistent drought affected the electricity and water sectors and manufacturing growth. Manufacturing as a share of GDP has fallen from 14.8% in 2011 to 9.1% in 2015. The secondary sector is expected to emerge out of recession and grow by 1.2% in 2017 as the manufacturing sector rebounds and electricity supply grows on the back of the new Power Purchase Agreements and production from independent power producers. Accounting for 62.4% of GDP, the tertiary sector continues to be the largest contributor to GDP, having increased its share from 61.0% in 2011. The sector grew by 4.8% in 2016 driven by momentum in wholesale and retail trade, hotels and restaurants and financial intermediation. In 2017 the tertiary sector growth should moderate to 3.6% as the slowdown in private credit, fiscal consolidation and a weak South African and Angolan economy drive down wholesale and retail trade.

An analysis of aggregate demand shows a sharp contraction in Gross Domestic Fixed Capital Formation (GDFCF) owing largely to the completion of major new private mining investment projects. GDFCF contracted by 15.2% in 2016 and is expected to remain in negative territory in 2017. Private consumption will drive domestic demand as the government accelerates fiscal consolidation and reduced general government consumption. The contribution of net exports of goods and services to GDP growth should recover in 2016 and 2017 as new mines commence production while foreign direct investment (FDI) and consumption-related imports significantly slow down.

The medium-term growth outlook is positive on the back of strong growth from new mines and recovery in agriculture, albeit with downside risks. Real GDP growth is projected to rebound although further weakening of commodity prices, external demand and SACU revenue inflows and sharp fiscal consolidation present downside risks. SACU revenues are forecast to slightly recover in 2017/18 owing to some rebound in regional economic activity and rising revenues from excise duties but should remain below par in the medium term. Headline inflation is expected to remain largely contained as the anchor currency holds steady, while food and oil prices slow, although rental and administrative prices present an upside risk. The current account deficit is expected to improve as growth in exports accelerate while imports slow down.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2011	2015
Agriculture, forestry, fishing and hunting	8.9	6.7
of which fishing	3.5	3.2
Mining and quarrying	9.4	13.7
of which oil	...	...
Manufacturing	14.8	9.1
Electricity, gas and water	2.2	1.5
Construction	3.8	6.7
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	14.3	15.2
of which hotels and restaurants	1.9	2.3
Transport, storage and communication	5.5	5.4
Finance, real estate and business services	17.1	14.9
Public administration and defence	10.5	12.5
Other services	13.6	14.4
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Fiscal policy is on a tightening path following a prolonged period of growth stimulating measures. The stimulus policy environment increased the government's financing needs and worsened the fiscal deficit and public sector debt. The fiscal deficit as a share of GDP widened from 6.6% in 2014/15 to 8.7% at the end of 2015/16 as revenue inflows failed to keep pace with growth in public spending. Total expenditure increased from 42.0% of GDP to 43.6%, driven by growth in capital spending, subsidies and transfers and public sector wages and salaries. Total revenues slowed down from 35.4% of GDP in 2014/15 to 34.9% in 2015/16 weighed down by a sharp reduction in the Southern African Customs Union (SACU) and domestic tax receipts.[1] Estimates for 2016/17 show revenues including taxes declining further. The government tapped into the domestic capital market and used proceeds from the USD 750 million eurobond issued in 2015 and the Johannesburg Stock Exchange (JSE) bonds issued in 2015 and 2016 (totalling ZAR 2.3 billion) to finance the deficit.

In order to reduce the deficit to below the fiscal limit of 5% of GDP and preserve macroeconomic stability, the 2016/17 mid-year budget review proposes expenditure cuts of up to 2.8% of GDP and introduces some levies and taxes. The aim is to rein in current non-productive spending while preserving growth-enhancing capital investments and strengthening domestic revenue mobilisation. The Medium Term Expenditure Framework (MTEF) targets a zero net increase in the size of the civil service, with wage increase capped to a maximum of the annual inflation rate. Based on these measures the fiscal deficit is expected to narrow from 2016/17.

Going forward, the underlying objective of the fiscal policy is to bring the medium-term expenditure outlook in line with the significant reduction in public revenue, support the rebuilding of macro-fiscal accounts and achieve a pro-poor and growth-friendly consolidation programme. The government expects total expenditure as a percent of GDP to be contained over the MTEF, helping the budget deficit to gradually narrow in line with fiscal benchmarks. In the 2017/budget statement, the Minister of Finance underscored the need to continue with “growth friendly” fiscal consolidation to protect and create jobs. The government taps into both domestic and international capital markets to finance the deficit.

Table 3. **Public finances (percentage of GDP at current prices)**

	2008/09	2013/14	2014/15	2015/16	2016/17(e)	2017/18(p)	2018/19(p)
Total revenue and grants	**32.8**	**33.4**	**35.4**	**34.9**	**34.3**	**30.6**	**29.1**
Tax revenue	29.5	30.7	33.2	32.7	32.2	28.4	26.8
Grants	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Total expenditure and net lending (a)	**28.2**	**37.3**	**42.0**	**43.6**	**39.0**	**37.0**	**34.0**
Current expenditure	22.2	31.0	35.5	36.9	34.7	32.0	29.3
Excluding interest	20.6	29.6	34.1	35.2	33.8	31.0	28.5
Wages and salaries	10.3	14.1	15.3	15.8	16.6	13.4	13.1
Interest	1.6	1.4	1.5	1.7	0.9	1.1	0.9
Capital expenditure	4.5	6.3	6.5	6.6	4.3	4.9	4.7
Primary balance	**6.2**	**-2.5**	**-5.1**	**-7.0**	**-3.8**	**-5.3**	**-4.1**
Overall balance	**4.6**	**-3.9**	**-6.6**	**-8.7**	**-4.7**	**-6.4**	**-4.9**

Note: Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

In line with the SARB’s stance,[2] the BoN’s monetary tightening is underway. Driven by higher food and administrative prices, the inflation rate averaged 6.7% in 2016 rising from 3.4% in 2015. The BoN raised the repo rate to 7% in April 2016 to align with the SARB’s policy rate in the context of the Common Monetary Area. In tandem, the average lending rate rose to 9.4% at the end of 2015, when compared with the 9.13% at the end of 2014. Similarly, the average deposit rate rose to 5.0% (2015), from 4.42% (2014). Tightening also helped to contain rising private sector credit linked to luxury imports to reduce pressure on international reserves and preserve the currency peg. Consequently real annual growth in private sector credit decelerated to 9.5%

(2015) from 11.3% (2014) owing to moderated growth in overdraft and instalment credit. Mortgage credit remains the largest contributor, making up 51.6% of total private sector credit. In line with monetary tightening, credit growth is likely to moderate. During 2015 the overall liquidity of the banking sector at 2.8 billion Namibian dollars (NAD) was much lower than the NAD 3.5 billion in 2014 given slow government expenditure and increased net outflows to South Africa. As at end September 2016, the Namibia dollar depreciated against the US dollar and euro, year-on-year, while it appreciated against the UK pound. The NAD depreciated by 8.3% and 8.6% against the US dollar and the euro respectively, while it appreciated by 8.2% against the UK pound. The NAD weakened on the back of a weak outlook for the anchor currency as South Africa's economic outlook remained fragile coupled with soft commodity prices. The Real Effective Exchange Rate however appreciated by 6.7% year-on-year due to the high inflation differential between Namibia and its major trading partners consequently the current account deficit sharply widened to 13.7% of GDP in 2015 from 7.6 % of GDP in 2014 as import growth accelerated amidst weak export performance and a sharp slowdown in SACU revenues. In tandem, international reserves reached record low levels at 1.8 months of imports in 2014. Although reserves increased to 2.8 months in 2015 owing to the eurobond proceeds, they have remained persistently below 3 months since their peak at 3.9 months in 2009. As at end 2016 they improved to 3 months of imports following a negotiated asset swap arrangements between BoN and the Public Pension Fund and NAMPOWER, the Electricity State Owned Enterprise (SOE). The outlook for international reserves is moderately positive as the current account balance gradually improves and the BoN continues with the asset swap programme but they will remain under pressure until inherent structural bottlenecks that drive external sector imbalances are addressed.

Economic co-operation, regional integration and trade

Namibia relies heavily on international trade to augment its small domestic market. In 2015, trade accounted for about 111.5% of GDP up from 104.6% of GDP in 2014. The bulk of Namibia's exports benefit from existing preferential trade agreements particularly under SACU and European Union (EU) Economic Partnership Agreement (EPA). As a member of SACU, Namibia enjoys free movement of goods, a common external tariff regime and harmonised rules of origin. In June 2016 Namibia, along with Botswana, South Africa, Swaziland, Lesotho and Mozambique signed the EPA for continued duty and quota-free access to the EU. Namibia's access to the United States market under the African Growth and Opportunity Act was also extended to 2025. In 2015 Namibia signed up to the Southern African Development Community, the Common Market for Eastern and Southern Africa and the East African Community Tripartite Free Trade Agreement for better access to an integrated market of nearly 600 million people.

Namibia's top five merchandise exports include diamonds, copper cathodes, fish, copper ores and zinc, with diamonds alone accounting for 33% of export earnings. In line with past trends, quarterly data for the first to third quarters of 2016 show that South Africa remains the main source of imports to Namibia mainly for vehicles, machinery, steel and consumer goods. Botswana follows for diamonds and the euro area for machinery and fuel. For exports, the main destination markets include Botswana for diamonds, South Africa for gold, live animals and fish and the euro area for uranium ores and fish products. The on-going expansion and modernisation of the Walvis Bay Port and planned infrastructure improvements to the four corridors (Trans Kalahari, Trans Cunene, Trans Orange and Trans Caprivi) will help Namibia achieve its ambition of becoming a logistics hub in Southern Africa. In the World Bank report, *Doing Business 2016*, Namibia is ranked 108 out of 189 economies on trading across borders.

Table 4. **Current account (percentage of GDP at current prices)**

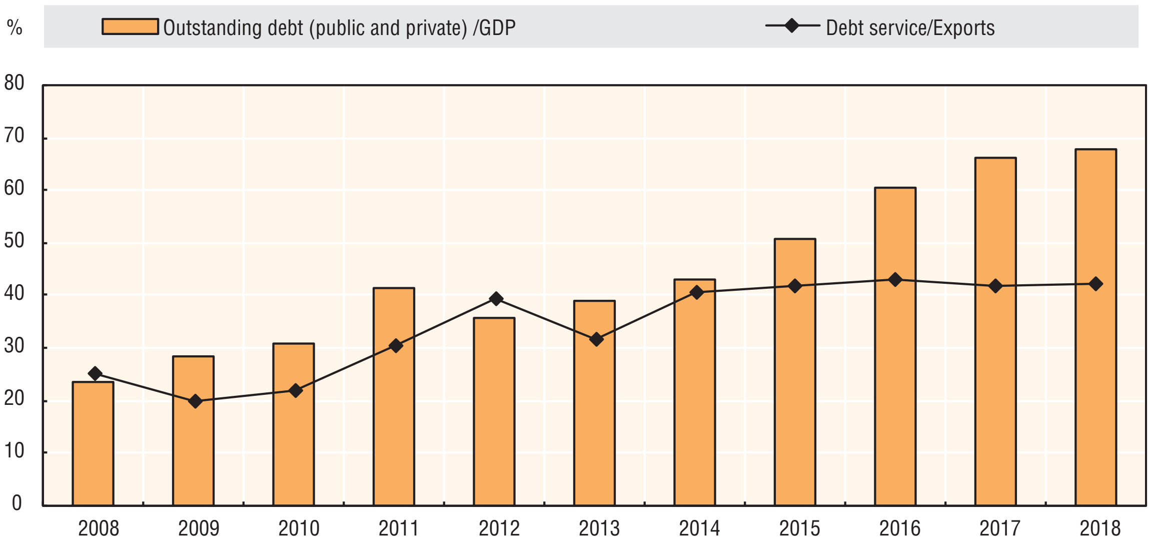
	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-11.3	-15.6	-20.1	-25.3	-21.4	-11.4	-8.7
Exports of goods (f.o.b.)	37.0	36.5	35.9	35.3	40.1	45.3	46.6
Imports of goods (f.o.b.)	48.3	52.1	56.0	60.5	61.5	56.6	55.3
Services	-0.4	-0.1	-0.8	-0.8	-0.1	-1.4	-2.2
Factor income	-1.8	-0.8	-0.2	-0.5	-0.5	-1	-2.2
Current transfers	13.3	12.4	13.5	12.8	12.3	8.7	8.4
Current account balance	**-0.1**	**-4.0**	**-7.6**	**-13.7**	**-9.7**	**-5.1**	**-4.8**

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

The capital market issuances,[3] combined with the depreciation of the currency sharply increased public debt from 24.2% of GDP in 2013/14 to 39.8% at the end of 2015/16 breaching the government's own fiscal limit of 35% of GDP.[4] The Government of the Republic of Namibia's (GRN) access to international capital markets has aimed at closing its financing gap while diversifying its debt portfolio. Proceeds have gone into public sector capital investments, with part of the eurobond used to bolster international reserves. The latest analysis carried out by the IMF in 2016 shows that although Namibia's public debt sustainability and outlook remain below the distress threshold of 70% of GDP, it is on a deteriorating path. The sharp rise in foreign currency denominated debt and reliance on short term debt exposes Namibia to exchange rate and roll-over risks. As at end 2015/16, about 42% of total public debt was denominated in non-rand foreign currencies, mainly the US dollar, while short-term treasury bills accounted for about 43% of the government's domestic debt. With emerging liquidity constraints in the domestic market,[5] the authorities' borrowing strategy under the MTEF 2017/18-2019/20 is to continue diversifying sources of borrowing while focusing on South African Rand (ZAR) denominated debt and extending the maturity profile. The 2005 sovereign debt management strategy is being revised to ensure that fiscal risk benchmarks reflect recent developments in the economy. The revision is likely to consider increasing the sustainable limits for the share of foreign debt from the current 20% of total debt to accommodate mega infrastructure financing needs. The accelerated fiscal consolidation efforts combined with projected improvements in growth and revenues are expected to put public debt as a share of GDP on a declining path in the medium term.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

Namibia's business environment is better than the sub-Saharan African average, but enormous challenges remain.[6] The pace of business regulatory reform needs to be expedited to enable Namibia to catch up with Mauritius, South Africa, Rwanda and Botswana, the four sub-Saharan African countries ranked higher in terms of competitiveness. Starting a business and registering property are particularly difficult in Namibia. Whereas it takes an average of 4 days in Rwanda and 6 days in Mauritius to start a business, it takes more than 60 days in Namibia. When it comes to registering property, in Botswana it takes an average of 12 days, in Mauritius 14, and in South Africa 23, whereas in Namibia it takes 52. In an annual survey of captains of the industry in Namibia, the World Economic Forum, *Global Competitiveness Report 2016-2017* identifies access to finance, an inadequately educated workforce and inefficient government bureaucracy as the most problematic factors for doing business.

The Namibia Chamber of Commerce and Industry's survey report (2014) noted that access and cost of finance, shortage of relevant skills and access to land are the leading constraints affecting the business and investment climate, affecting small and medium enterprises (SMEs) more than large corporations. A 2015 study by the Ohorongo cement company on "skills shortage" showed that management and specialist positions in finance, information and technology and marketing take a very long time to fill, and involve substantial premiums to attract the right recruits. Lab technicians to oversee research and quality control are particularly scarce. Despite this skills shortage, securing business visas and work permits for skilled staff has proved difficult, requiring up to 90 days to process. The *Global Competitiveness Report 2016-2017* ranks Namibia amongst the bottom 30 out of 138 economies on the quality of mathematics and sciences.

The "Growth at Home" strategy adopted in 2015 proposes bold reforms that seek to improve the business environment. A structured public-private partnership (PPP) forum is being set up to initiate business reforms. To streamline business registration, the government, in September 2016, enacted legislation providing for the establishment of the Business and Intellectual Property Authority (BIPA) which provides for on-line business name search, registration and tracking of application status. The government is also drafting relevant legislation to facilitate ease of entry for skilled labour, establish a one-stop shop for investors and improve access to land.

Financial sector

Namibia's financial sector[7] is relatively well developed with both banking and non-banking institutions playing a significant role in the sector. The banking sector, with an asset value of 60% of GDP, is highly concentrated, with the four biggest banks controlling more than 90% of total assets, of which three are South African subsidiaries. Nonetheless banks are profitable, well capitalised and boast low levels of non-performing loans, estimated at 1.6% as at the end of 2015, up from 1.5% in 2014. The rising interest rate is a risk to financial stability in view of banks' high exposure to real estate and high household debt. Mortgage lending accounted for 52% of total loans and represented 54.1% of non-performing loans at the end of 2015. Household debt, at 89.1% of disposable income in 2015, had risen from 85% in 2014. The high indebtedness reduces the capacity of households to take on more debt, even for productive activities. The BoN is strengthening credit reference bureau reporting and putting caps on the loan-to-asset ratio for mortgage lending to mitigate risks.

In terms of financing for priority public investments, the challenge is the short-term nature of the liquidity to meet long-term financing needs, which creates a maturity mismatch. Furthermore, financial institutions supporting development, including the Development Bank of Namibia and the AgriBank, still rely heavily on government funding, partly because of caps related to on-lending rates and other mandate restrictions. Namibia's non-banking financial sector at 252.3% of GDP in asset value, is solvent, well capitalised and the main source of deposits for the banking sector. Key non-banking financial institutions include pension funds, long-term insurance and short-term insurance, collective investment schemes, investment management and micro-lending. In 2015, assets to GDP ratio of the investment industry and pension funds alone stood at 100% and 90% respectively. Namibia's financial system is, therefore, flush with investible funds, as 35% of all pension fund assets must be invested domestically.

Public sector management, institutions and reforms

Namibia's accountability systems are strong, in line with the guidelines established in the Constitution and State Finance Act of 1991, as amended in 1995. The public sector is the second largest employer in Namibia accounting for 25% of the total 685 600 employed persons, behind the formal private sector at 45%. A Code of Conduct in the civil service guides hiring and promotion based on merit. However, the Global Competitiveness Index 2016-2017 identified "Inefficient government bureaucracy" and "Poor work ethics" in the national labour force among the most problematic factors for doing business in Namibia. While judicial independence is considered reasonably high in the report, Namibia's performance on the quality of "institutions" is affected by the general view that there is "favouritism in decisions of government officials". The country scores 3.0 out of a possible 7 and ranks 69 out of 138 economies.

A three year rolling Medium Term Expenditure Framework (MTEF) introduced in 2002/03 serves as a tool for achieving transparency, accountability and predictability in the allocation of public resources to priority areas. The Ministry of Finance presents the accountability report in the National Assembly alongside other budget documents. In 2016, on Transparency International's Corruption Perception Index, Namibia is positioned 5th among 47 sub-Saharan African countries and 53rd out of 176 countries globally. The constitution was amended in 2010 to incorporate anti-corruption measures that oblige the state to "put in place administrative and legislative measures necessary to prevent and combat corruption." Anti-corruption efforts will be further strengthened with the new public procurement law under preparation which aims at strengthening the legal and regulatory framework and establishing an independent oversight body.

Natural resource management and environment

Namibia relies heavily on the extraction and utilisation of its vast natural resources. Protected areas cover approximately 17% of the country and form the core strategy for sound natural resource management, helping earn international recognition for its community-based management. However, carbon dioxide (CO2) emissions in Namibia have rapidly risen from negligible in 1990 to 1.4mt/capita in 2014. The impact of climate change variability is manifesting itself through increased frequency of hot days, heat waves and droughts. As a result of the protracted drought in 2015, the agriculture sector growth contracted by 14%, and local hydroelectricity generation fell by 18.8% leading to a 7% increase in electricity imports. To forestall future crises, high priority is accorded to environmental protection through regulations for strategic environmental assessment and environmental impact assessment.

Vision 2030 identifies sustainable environmental management as a key focus area for economic transformation while the Fourth National Development Plan emphasises environmental management as a driver of economic development. In the context of the Vision 2030 and the national development plan, Namibia's 2012 industrial development policy recognises the principle of "greening the economy" through sustainable manufacturing and development practices. The Policy on Climate Change has been under implementation since 2011 to mitigate the impact of an inherently variable climate, and protect Namibia's natural resource endowment and livelihoods. Namibia has submitted its intended nationally determined contributions to the United Nations Framework Convention on Climate Change.

Political context

Namibia is a constitutional multiparty democracy where free and fair elections are held regularly. The South West Africa People's Organization (SWAPO) has dominated politics since independence from South Africa in 1990. The SWAPO won the general election of November 2014 and the local election of 2015 with overwhelming majorities. The country's governance record continues to improve. In 2015, the Transparency International Corruption Perception Index showed that Namibia scored 53 out of 100, reflecting an improvement from 49th place in 2014. This places the country 45th out of 168 countries surveyed globally, and 6th in Africa. Based on its consolidated performance on the rule of law, role of government, regulatory efficiency and open market policies, according to the Heritage Foundation, Namibia's score on the index of economic freedom improved from 59.4 in 2014 to 61.9 in 2016, positioning it 8th in Africa. Its score on the 2015 Mo Ibrahim Index of African Governance also improved by 1.7 points, elevating it to 5th out of the 52 African countries surveyed.[8] However, in the Bank's Country Policy and Institutional Assessment, Namibia's score fell from 4.20 in 2014 to 4.14 in 2015 owing to slow progress in infrastructure development and regional integration.

Social context and human development

Building human resources

Three years of persistent drought has heightened food insecurity. In 2016, 5 959 839 people were food deficit and 42.8% of Namibians were undernourished. High rates of stunting (24%), underweight (13%) and under-nourishment raise concerns for the achievement of the Sustainable Development Goals (SDGs).

Namibia's access to education is above 95% yet education outcomes are poor, contributing to a mismatch of skills and exclusion. The gross enrolment ratio reaches 109% in primary school, but declines to 65% in secondary schools and less than 10% in tertiary institutions. Nearly 21.5% of teachers are not qualified and the majority of these teach in early grades of primary education (Ministry of Education and Training, Govt of Republic of Namibia, 2016). Investment in Early Childhood Care and Development (ECCD) is critical for Namibia's performance on SDGs. Increasing access to early childhood services will benefit reductions in grade 1 repetition rates, the under-5 mortality rate, currently at 54 per 1 000 live births (2013), and child malnutrition, currently 24% (2013).

The health sector has shown some good progress as maternal mortality reduced from 449 (2006) to 385/100 000 live births in 2013; and both infant and under-5 mortality also declined from 46/1 000 to 39/1 000 and from 69/1 000 to 54/1 000 from 2006 to 2013, respectively. Teenage pregnancies at 15.4% (2014-15) constitute 10.1% of maternal deaths. A total of 87% of all births occur in health facilities and 88% are attended by skilled birth attendants, while 94% of the health facilities provide prevention of mother-to-child transmission (PMTCT) services. The proportion of HIV exposed infants provided with ARVs has risen to 91%, and PMTCT rate has declined from 5% in 2013 to 3% in 2015. Government's priority is the control of epidemics of communicable diseases like, HIV/AIDS and malaria. Currently, Health Adjusted Life Expectancy (HALE) is estimated at 58 years. HIV/AIDS prevalence in pregnant women has reduced from a peak of 22% in 2002 to 16.9% in 2014. However, 29% of young women live with HIV as compared to only 8% of young men. While ranked among the top four countries in the world with a high burden of TB, treatment success rate is 87% in 2015-16. There is a significant decline in both malaria morbidity and mortality from 29.6/100 000 population (2006) to 0.9/100 000 (2013) (Ministry of Health, GRN, 2016). Namibia funds more than 75% of its total health expenditures through domestic resources and in 2015 it allocated 13.4% of the budget to the health sector, still below the Abuja target.

Poverty reduction social protection and labour

Namibia has effected one of the fastest reductions in poverty in the continent, although income inequality remains persistently high. The share of poor and severely poor as at end 2015/16 were estimated at about 18% and 11% of the population respectively, representing a 52% and 37.3% reduction in poverty headcount over the 2002/03 and 2009/10 estimates respectively (National Household and Income Expenditure survey, National Statistical Agency, GRN, 2016). Poverty is higher in rural areas (37%) than in urban areas (15%); higher among women (32%) compared to men (18%), among old age pensioners (44%) and subsistence farmers (39%) while the working poor are estimated at 16%. While poverty has seen a remarkable decline, income inequality with a Gini coefficient of 0.572 remains persistently, high registering only a 5% and 4% decline over 2009/10 and 2003/04 estimates respectively. Food poverty also remains a challenge. While there has been some decline, nearly 5.8% of the population remain unable to buy the minimum calorie requirement 1 200 kcal/day. Another challenge in fighting poverty is the high level of unemployment, at 28.1% (2014), highest among youth at 43% and women (31.7%) compared to men (24.3%) and in rural areas (30.2%) compared to urban areas (26.2%).

Affordable housing is also seen as a critical component of addressing poverty by improving welfare standards. The government estimates that 74% of Namibians particularly in the low- and middle-income brackets cannot afford conventional housing. Accordingly, it proposes to accelerate housing delivery through stakeholder involvement and development of alternative housing construction models in its next National Development Plan (NDP5).

Over the years, redistributive policies such as the progressive income tax, zero rating of basic food commodities consumed by the poor and incremental adjustment of social grants have been introduced to address both poverty and inequality. Measures have also been put in place to increase coverage of social grants programmes. About 398 693 people are currently receiving social welfare grants with national coverage for old age grants estimated at above 90%. However, not all needy people have access to social welfare grants. This results from a lack of adequate official documents and a lack of information, together with fragmentation within the social protection system because various policies, strategies and resources for eradicating poverty are managed in an unco-ordinated manner by different entities. Better co-ordination and a robust social protection policy are required.

In 2016, government launched its Blue Print on Poverty Eradication and Wealth Creation emphasising the need for inclusive growth to address severe poverty and inequality. The country's "war on poverty" has led to the setting up of food banks and increasing old age pensions under the government's Harambee Prosperity Plan (HPP) (2016-20). In the 2016/17 mid-term review of the budget the government announced plans to implement targeted measures to reduce poverty and vulnerability through conducting expenditure reviews to strengthen the social safety nets to achieve efficiency.

Gender equality

Concerted policy efforts to reduce gender disparities are bearing fruit. Namibia has moved up two places to rank 14th out of 144 countries on the World Economic Forum, Global Gender Gap Index 2016 as compared to 16th out of 142 in 2015. It is third in Africa after Rwanda and Burundi. In 2014 Namibia was ranked 40th out of 142 countries. At all education levels, gender parity has been achieved. Female-managed firms represent a 27% share of all firms, exceeding the average for Africa (15%) and Middle Income Countries (17%) (World Bank Enterprise survey Data, 2015). The 2016 Mo Ibrahim Index of African Governance shows that Namibia was the fifth most improved country on gender during the period 2006-15.

In spite of the progress, challenges remain, particularly in the high rates of gender based violence and child marriages. At 33%, the female population with at least secondary education in Namibia is lower than the average for medium Human Development Index (HDI) countries at 44.7%. More females than males are employed as unpaid family workers, and are paid a lower average wage (NAD 6 164) than males (NAD 6 965). When Namibia's HDI for 2014 of 0.628 is discounted for inequalities, the HDI falls to 0.354, a loss of 43.6%. To address remaining challenges, accelerated implementation of gender-responsive budgeting and strengthening of the National Gender Coordination Mechanism will be crucial.

Thematic analysis: Entrepreneurship and industrialisation in Namibia

Diversification and the promotion of productive sectors with high potential for job creation are central to the Namibia's development agenda. The objective has been to address the country's dual economy, where a highly productive capital intensive mining sector thrives on the one hand, while the agro-based subsistence sector which employs the majority of the population remains less productive on the other. Vision 2030 envisages that primary sector will contribute 10%, secondary industries 42% and tertiary industries 48% to GDP. The Harambee Prosperity Plan 2016-20 accordingly prioritises structural transformation. It has identified high priority areas to expedite reforms and scale up investments in the fifth NDP scheduled for approval in 2017.

There is evidence that some diversification is taking place, but not in the manner or at the pace that could characterise meaningful transformation. While agriculture value added has fallen from 9.8% of GDP in 1990 to 6.7% in 2015, industry value added has remained largely stagnant at around 30% of GDP. Notable within the industry sector is the fall in manufacturing value added, which has decreased from 11.2% of GDP in 1990 to 9.1% in 2015. Only services value added has seen an expansion from 58.7% of GDP in 1990 to 62.9% in 2015. Mining is dominant; at 9% of GDP (2015) it contributes the highest share to export earnings with diamonds alone accounting for 33% of total exports.

Namibia Industrial Policy (2012) and "Growth at Home" strategy (2015) set the stage for industrialisation and entrepreneurship by focusing on three strategic areas: supporting value addition, upgrading and diversification; securing market access at home and abroad; and improving the investment climate and conditions. The "Growth at Home" strategy identifies priority sectors, including mining and mineral beneficiation, agriculture and agro-processing; fish and fish processing; chemical industries linked to locally available minerals; steel manufacturing and components of automotive industries. A monitoring system to track results has also been put in place.

One of the key tenets guiding implementation of the "Growth at Home" is the promotion of local value addition to the country's enormous natural resource endowment. A new public procurement law enacted in 2015 provides for increased local content to expand domestic manufacturing. It provides for preference to categories of persons; goods manufactured, mined, extracted, produced or grown in Namibia; Namibian-registered SMEs and joint venture businesses; and local suppliers, contractors and service providers.

Namibia's rich mineral deposits of diamonds, uranium oxide, zinc, gold bullion, blister copper, lead concentrate, manganese, salt and dimension stone as well as its productive fishing grounds and the world's most unique flora and fauna has potential for strengthening value chains and the creation of efficient backward and forward linkages to create jobs and catalyse both domestic and external demand. This will help the country achieve inclusive growth and converge towards high income status. The target is to increase the share of export value added from 40% in 2013 to 70% by 2030.

A Special Industrialisation Initiative is underway providing support to value chain and feasibility studies for targeted projects, incubation of specific industrial products and marketing support, development of industrial land, provision of plants and equipment and facilitating the reduction in the costs of utilities such as electricity, water and telecommunications for priority projects. Furthermore, the government has declared uranium, gold, copper, coal, diamonds and rare earth metals as strategic minerals for the country to facilitate domestic value addition through joint ventures. The state-owned Epangelo Mining Company has the right to own all new licences issued for the purpose of exploration and for the mining of strategic minerals and is a conduit for joint ventures.

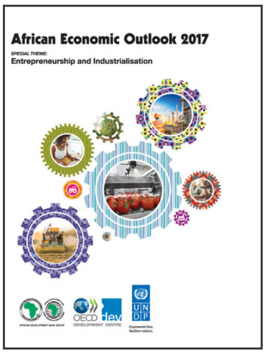
Namibia is ranked first in Africa and 42nd out of 85 countries in the world on the state of entrepreneurship (Ashish J Thakkar Global Entrepreneurship Index, 2016). The "Growth at Home" strategy recognises that a vibrant entrepreneurship culture and a conducive business investment climate are key for competitiveness and successful industrialisation. Therefore, the road map focuses on developing relevant skills, streamlining business processes, reviewing incentives for investors and undertaking labour market reforms. To streamline business registration, the government in September 2016, enacted legislation for the establishment of the Business and Intellectual Property Authority (BIPA). The government is also drafting relevant legislation to facilitate ease of entry for skilled labour, establish a one-stop shop for investors and improve access to land. A structured public-private partnership (PPP) forum is being set up to initiate business reforms. Further to the establishment of an SME Bank in 2012, the government, in collaboration with the BoN, is exploring the feasibility of setting up three facilities to address SME challenges: the Venture Capital Fund for equity financing; the Challenge Fund for SME business management skills; and the Credit Guarantee Scheme to address the collateral challenges.

A new Micro and SME policy came into effect in 2016 to support about 33 700 MSMEs which employ nearly one third of the nation's workforce and contribute about 12% of GDP. The new policy recognises the importance of developing an entrepreneurial culture that inculcates positive attitudes towards business from a very young age and promoting it throughout all stages of formal education. Among its key strategies, it seeks to partner with research and business teaching institutions including the Namibia Training Authority (NTA) to review the current entrepreneurship curricula and roll it out as a compulsory subject in secondary schools and vocational training centres. According to the 2014 labour force survey, self-employment (own account workers) was estimated at 68 799 individuals representing 6.9% share of the labour force. About half (50.7%) of the self-employed were in wholesale and retail trade followed by construction (8.7%), accommodation and food (7.3%), transport and storage (5.2%) and manufacturing (4.8%).

The Ministry of Industrialisation, Trade and SME Development is spearheading a number of initiatives to harness entrepreneurship and manufacturing capabilities through the Industrial Upgrading and Modernization Programme, and the Equipment Aid Scheme. The HPP is committed to developing a National Youth Entrepreneurship Policy by the end of 2016 and creating a single ring-fenced Youth Enterprise Development Fund. In 2015/16 the SME Bank had assisted 353 SMEs with loans, 895 SMEs with production equipment and machinery; and business training, mentoring and coaching. SME Parks have been constructed at Okakarara, Ruacana, Keetmanshoop, Onethindi and Grootfontein to provide affordable operating business premises.

Notes

1. As a share of total government revenues, SACU receipts represent about 35% in Namibia. In 2015/16 they slowed down to 8.6% of GDP from 11.6% in 2014/15. Tax revenues moderated to 32.7% of GDP in 2015/16 from 33.2% in 2014/15. During the period subsidies transfers increased to 11.9% of GDP in 2015/16 from 10.7% of GDP in 2014/15 while wages and salaries increased from 15.3% of GDP in 2014/15 to 15.8% of GDP in 2015/16.
2. SARB's monetary policy is Namibia's *de facto* monetary policy owing to the local currency peg to the South African Rand (ZAR) which is its reserve currency, and the requirement that the Bank of Namibia (BoN) backs a proportion of its money liabilities by the reserve currency.
3. The 2015 eurobond was issued at a better coupon rate of 5.25% compared to 5.75% in the 2011 ten-year USD 500 million issuance.
4. Public debt and publicly guaranteed debt stand at 44.7% of GDP with guarantees to SOEs estimated at 4.3% of GDP.
5. In 2015/16, under-subscription across all government securities amounted to NAD 3.2 billion.
6. World Bank report, *Doing Business 2017* ranks Namibia 108 out of 189 economies down from 104 out of 189 economies in 2016.
7. Financial inclusion stands at 69% according to the 2011 FinScope Survey.
8. In 2015, former Namibian President Hifikepunye Pohamba was awarded the Ibrahim Prize for African Leadership.



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