AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DÉVELOPPEMENT

COUNTRY FOCUS REPORT 2024

NAMIBIA

Driving Namibia's Transformation

The Reform of the Global Financial Architecture

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF BOXES

LIST OF ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
AGOA	African Growth and Opportunity Act
AFOLU	Agriculture, Forestry and other Land Uses
BIPB	Business and Intellectual Property Bill
CFR	Country Focus Report
DFI	Development Finance institutions
DRM	Domestic Resource Mobilization
EIF	Environmental Investment Fund
EMDE	Emerging Market Developing Economies
FDI	Foreign Direct Investment
GCF	Green Climate fund
GDP	Gross Domestic Product
GHG	Green Houne Gas
GII	Global Innovation Index
GIPF	Government Institutions Pension Fund
GRN	Government of the Republic of Namibia
HIV/AIDS	Human Immune Virus/ Acquired Immune Deficiency Syndrome
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management and Information System
IIAG	Ibrahim Index for African Governance
IMF	International Monetary Fund
LGBT	Lesbian, Gay, Bi-sexual and Transgender
MAC-DSA	Debt Sustainability Market Access Countries
MDBs	Multilateral Development Banks
MET	Ministry of Environment and Tourism
MPC	Monetary Policy Committee
MSMEs	Micro, Small and Medium Scale Enterprises
MTEF	Medium term Expenditure framework
MPC	Monetary Policy Committee
NAD	Namibian Dollar
NDC	Nationally Determined Contributions
NDP	National Development Plan
ODA	Official a Development Assistance
PEFA	Public Expenditure and financial Accountability
PFM	Public Finance Management
PPP	Public Private Partnership
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
SMEs	Small and Medium Scale enterprises
SSA	Sub-Saharan Africa
TAF	Technical Assistance Fund
TIPEEG	Target Intervention Program for Employment and Economic Growth
UMIC	Upper Middle iNcome Country
UNCTAD	United Nations Conference and Trade and Development
UNFCCC	United Nations Framework Convention for Climate Change
UNFPA	United Nations Population Fund
US	United States

EXECUTIVE SUMMARY

Chapter 1 of this Country Focus Report for Namibia gives an overview of macroeconomic developments since 2022, covering growth, monetary, and fiscal policies, public debt, outlook and risks, as well as social developments. The Namibian economy grew by an estimated 4.2% in 2023, down from 5.3% in 2022, due to weak global demand for diamonds and 18% contraction in agriculture caused by drought.

Real GDP is projected to decline to 3.3% in 2024 and 2025 owing to anticipated weak global demand for diamonds and contraction in agriculture. The report suggests that despite recent shocks, such as COVID-19 and the Russian invasion of Ukraine, the Namibian economy continues to do relatively well. It also notes that there were downside risks, including water supply interruptions that affected mining production. The economy was also affected by the impacts of climate change, faltering growth in China which could affect demand for Namibian diamonds, water supply constraints, drought conditions, and high costs of key import items that could persist for a long time. As a mitigation measure, the Central Bank hiked its interest rates by 50 basis point in June 2023 and implemented a stimulus package to revitalize the economy.

As regards social developments, Namibia's inequality is among the highest in the world. Namibia is one of the most unequal countries in the world. The Gini index was 59.1 in 2015, down from 61.0 in 2010 and 63.3 in 2022 because of COVID-19. About 28.7% of the population is poor, while 15% are extremely poor. Poverty is higher in rural (37%) than in urban areas (15%). It is also higher among women (32%) than men (26%). The incidence of poverty was projected to increase in 2015, rising to 64 % in 2021 due to COVID-19. The unemployment rate in Namibia declined from 23.35% in 2020 to 19.63% in 2023.

Chapter 2 focuses on Namibia's structural transformation, rapid growth in incomes and jobs in service exports which are drivers to accelerate structural transformation, as well as on key obstacles to fast-paced structural transformation.

Chapter 3 discusses structural change in national development plans, Namibia's financing needs and gaps, and ways of closing the financing gaps through domestic resource mobilization. It also makes recommendations for boosting domestic resource mobilization and considers the private sector's role in driving structural transformation, the role of regional institutions in supporting Namibia's structural transformation agenda, and the role of DFIs and MDBs in financing Namibia's structural transformation. In addition, the chapter presents Namibia's stand on the need for reform of the international financial architecture and examines ways of mobilizing additional resources for Africa's structural transformation, dealing with debt, and financing climate action. Finally, it makes recommendations relating to global good governance, debt relief, international public finance, global social safety net, policy and regulatory frameworks, scaling up development finance, and climate financing.

INTRODUCTION

Namibia gained political independence from South African apartheid rule on 21March 1990, and is therefore one of the youngest African nations. Namibia is a multi-party democracy with general and local government elections being conducted regularly. The country has established a good governance record and is consistently ranked among the top sub-Saharan African performers on governance indicators. Namibia's strong governance architecture resulted in a smooth transition from the third to the fourth President, when President Geingob passed on in February 2024 and the Vice President was sworn in within less than 15 hours, while a new Vice President was appointed at the same ceremony. The ceremony followed the path prescribed in Namibia's constitution.

The country is in the south-west of Africa, bordering on Angola and Zambia to the north, Zimbabwe to the north-east, Botswana to the east, and South Africa to the south. Its coastline, which stretches for some 1,500km in the west, offers access to the nutrient-rich Benguela upwelling with its fish resources, to diamonds mined offshore, as well as to recently discovered, potentially large oil deposits. The country also has several unique features that offer opportunities, but pose challenges to its development path. It is the third least densely populated country in the world, after Greenland and Mongolia. Its population of 3.0 million inhabitants in 2023[1] is dispersed over an area of some 825,000 square kilometres, with a population density of some 3.7 persons per square kilometre. The low population density affects the cost of public service delivery and impacts on access to markets and its inherent costs, and therefore on business operating costs.

Namibia is the driest country in sub-Saharan Africa, with highly variable rainfall patterns exacerbated by the impact of global warming. Climate change will affect not only subsistence and commercial agriculture that is the mainstay of a large part of the Namibian population, but also business operations, tourism, as well as infrastructure costs. The arid and semi-arid conditions limit the potential of some traditional sectors, such as agriculture, but also provide opportunities for new industries. Perennial rivers provide access to water only at the country's borders in the north, north-east and south, while inland rivers run for a while after heavy rainfall. However, underground water resources are used for irrigated crop farming, including horticulture farming and irrigation areas along some of the perennial rivers.

The Atlantic Ocean benefits not only the fisheries and mariculture sector and potentially in the future the oil and gas industry, but also the transport and logistics sector through the two harbors, Walvis Bay, and Lüderitz. Namibia therefore aims to become a regional logistics hub, focusing on its landlocked neighboring countries, such as Botswana, Zambia and Zimbabwe that have been allocated dry ports at the Walvis Bay port. In contrast, the country's geographical location is often viewed as having a detrimental impact on its competitiveness due to relatively long distances to large markets such as South Africa and Angola, which is mitigated, however, by factors such as political and macro-economic stability, expansive and reliable infrastructure, and safety and security. The economic potential of the blue economy is only slowly emerging (see also 4.2.2), since it has been identified in the Fifth National Development Plan (NDP5) as a priority sector.

The mining sector, which is dominated by diamond, uranium, and gold, remains the backbone of Namibia's economy in terms of contribution to the gross domestic product (GDP 16.2% in 2023), government revenue, and foreign exchange earnings. Since the mining industry is very capital-intensive, its direct employment effect (1.7% in 2018) is relatively low compared to the monetary value of its output. Tourism has emerged as a major industry, contributing about 7% to foreign exchange reserves and providing substantial employment (11.4% of total employment in 2018) and cash-income opportunities in remote areas.

The wealth created by the mining sector has moved Namibia into the upper middle-income country (UMIC) category with a per capita income of NAD 79,431 in 2022, equivalent to USD 4,849.2. However, Namibia remains one of the most unequal countries in the world, with a Gini-coefficient of 0.56 in 2015/163 and 63.3 in 2022. This, in addition to the size of its population, limits the demand for domestic goods and services. Although progress has been made in creating wealth for all, income equality and job creation remain a major challenge. The proportion of people classified as poor or severely poor was halved between 2003/04 - from 37.5% to 17.4% and from 21.8% to 10.7% respectively. Life expectancy at birth dropped by almost ten years from 61.5 years to 53.6 years between 1990 and 2005, before improving rapidly until 2017 to 64.9 years. This improvement reflects the substantial efforts made to combat HIV/AIDS.

This CFR is organized in three chapters, beginning with chapter 1 on Macroeconomic performance and outlook. Chapter 2 takes stock of Namibia's structural transformation. Chapter three deals with financing to fast-track Namibia's structural transformation. It argues that the global financial architecture has failed to deliver development financing at scale to Namibia and to Africa in general. It maintains that Africa's growing significance in the global economy warrants commensurate treatment and representation in international financial governance and therefore calls for its reform. It discusses structural transformation in national development plans, Namibia's financing needs and gaps, and ways of closing the financing gap through domestic resource mobilization. Furthermore, it considers the private sector's role in financing structural transformation, and the role of DFIs in supporting structural transformation. It posits that Namibia's progress towards structural transformation requires significant investments in infrastructure, human capital and climate action. In addition, it argues that global financial architecture has failed to deliver development financing at scale to Namibia and to Africa in general, insisting that Africa's growing significance in the global economy warrants commensurate treatment and representation in international financial governance, and therefore calls for its reform.

1

MACROECONOMIC PERFORMANCE AND OUTLOOK

KEY MESSAGES

- The Namibian economy grew by an estimated 4.2% in 2023, down from 5.3% in 2022, owing to weak global demand and contraction in agriculture.
- Inflation moderated slightly from 6.1% in 2022 to 5.9% in 2023 as demand for Namibian diamonds declined alongside reduction of prices of other commodities such as oil and food.
- Namibia's stock of international reserves stood at 5.7 months of import cover in 2024. To continue safeguarding the peg between the Namibia Dollar and the South African Rand, while supporting the domestic economy, the Monetary Policy Committee (MPC) decided to maintain the Repo rate at 7.75%.
- The fiscal deficit narrowed from 5.1% of GDP in 2022 to 3.8%of GDP in 2023. The current account deficit declined from 12.9% of GDP in 2022 to 10.3% in 2023, reflecting slightly lower imports.
- Namibia's public debt increased sharply in 2023 due to the impact of the COVID-19 crisis, compounded by the sharp decline in SACU tax revenues. Public debt sharply increased to 65.9% of GDP in 2021, as the fiscal deficit widened to 8.8% of GDP to accommodate the COVID-19 response package, and real GDP contracted by 8%. Public debt further increased to 70.1% of GDP in 2023, slightly above the market access countries debt sustainability analysis (MAC-DSA benchmark of 70%.
- Moody's and Fitch downgraded Namibia's rating to B1 in April 2022 and BB- in June 2022 respectively. The current account deficit improved from 12.9% of GDP in 2022 to 10.3% in 2023, reflecting slightly lower imports.
- Non-performing loans declined from 6.4% of gross loans in 2019 to 1.1% in 2022, while the capital adequacy ratio stood at 15.6% in 2022, just 0.776% less than in 2021.
- Namibia's poverty and inequality levels are among the highest in the world. About 28.7% of the population is poor, and 15% extremely poor.
- Poverty is higher in rural (37%) than urban areas (15%). It is also higher among women (32%) than men (26%). The incidence of poverty is estimated to have increased since 2015, rising to 64 % in 2021.
- The persistence of poverty in certain areas and households in Namibia is strongly associated with the exclusion of many Namibians from the mainstream economy. Many Namibians, because of their level of education, location or health, cannot participate fully in the modern economy and are therefore vulnerable to falling into and remaining in poverty.
- Namibia is one of the most unequal countries in the world. The Gini index was 59.1 in 2015, down from 61.0 in 2010, and rose to 63.3 in 2022. The unemployment rate in Namibia declined from 23.35% in 2020 to 19.63% in 2023.

1.1 Introduction

This chapter presents Namibia's economic performance in 2023, with medium-term growth projections over the 2024-2025 period. It also assesses trends in key macroeconomic indicators, fiscal and monetary policies, domestic and international financial flows, investment, and public debt. The chapter will also discuss major downside and upside risks to the outlook, and provide policy options for high and resilient growth to support macroeconomic stability and economic transformation.

1.2 Growth performance

Namibia's recent economic performance was stronger than expected driven by the mining sector, including investments in oil exploration. The economy has recovered to its pre-pandemic level, but many key sectors, including job-rich construction and financial services, continue to lag.

The Namibian economy grew by an estimated 4.2% in 2023, down from 5.3% in 2022, due to weak global demand and contraction in agriculture. (Central Bank of Namibia, 2023). On the supply side, buoyed mineral and oil prices pushed growth as investments in the extractive sector increased. Global and regional developments have been critical drivers of Namibia's economic performance, with reliance on commodity exports and Southern African Customs Union (SACU) transfers

1.3 Other recent macroeconomic and social developments

1.3.1 Monetary policy – Inflation – Exchange rate

The ultimate objective of monetary policy in Namibia is to maintain price stability. To achieve this broad objective, the Bank of Namibia has an intermediate target to promote an economic and financial environment that will sustain the one-to-one parity between the Namibian dollar and the South African rand. Inflation fell slightly from 6.1% in 2022 to 5.9% in 2023 as demand for Namibia's diamond slackened and the prices of commodities such as oil and food came down. To continue safeguarding the peg between the Namibian dollar and the South African rand, while supporting the domestic economy, the Monetary Policy Committee (MPC) decided to hold the Repo rate at 7.75%. The Namibian dollar depreciated by 6.4% against the US dollar, 12.5% against the euro, and 12.2% against the British pound in 2023 due to the depreciation of the South African rand to which the Namibian dollar is pegged. Inflation decelerated from 6.1% in 2022 to 5.9% in 2023 due to the decline in food inflation. Non-performing loans declined from 6.4% of gross loans in 2019 to 1.1% in 2022, while the capital adequacy ratio stood at 15.6% in 2022, just 0.776% lower than in 2021.

Box 1.1: Impact of tighter international financial conditions

Tighter international financial conditions imply that global growth will slow down further amid tight monetary policy, restrictive financial conditions, and feeble global trade and investment. The impacts of such tightening include an escalation of the recent conflict in the Middle East, financial stress, persistent inflation, rising unemployment, trade fragmentation, and climate-related disasters. Global cooperation is needed to provide debt relief, facilitate trade integration, tackle climate change, and alleviate food insecurity. Among emerging markets and developing economies (EMDEs), commodity exporters continue to grapple with fiscal policy procyclicality and volatility. Across all EMDEs, appropriate macroeconomic and structural policies, as well as well-functioning institutions, are critical to help boost investment and long-term prospects.

The outbreak of COVID-19 compelled advanced countries to raise interest rates to contain inflation. This decision impacted the Namibian economy. Tighter international financial conditions resulted in a weak demand for Namibia's exports (textiles), thereby negatively affecting the current account which deteriorated from –11.2% of GDP in 2021 to –12.9 of GDP in 2022. Namibia's subdued exports also affected GDP growth, which impacted the fiscal deficit and increased debt levels. Real GDP growth declined from 5.3% in 2022 to 4.2% in 2023.

The local currency weakened due to a decline in portfolio investment, thereby contributing to an increase in inflation from 3.6% in 2021 to 6.1% in 2022. In addition, interest payments on loans increased, exacerbating debt vulnerability. Interest rates and exchange rates became major drivers of debt accumulation in Namibia. Tighter international financial conditions in developed countries resulted in a decline in ODA to Namibia. Since 80% of Namibia's development budget is externally financed, this affected the implementation of its NDP. Therefore, tighter international financial conditions do not augur well for Namibia in particular, and Africa in general.

1.3.2 Fiscal policy – public debt

The Government Fiscal Policy Framework remains grounded in fiscal countercyclicality, with the objectives of providing support to the economy, safeguarding macroeconomic stability and social welfare, and ensuring long-term fiscal sustainability. The fiscal deficit narrowed from 5.1%of GDP in 2022 to 3.8% of GDP in 2023. The current account deficit declined from 12.9% of GDP in 2022 to 10.3% in 2023, reflecting slightly lower imports. Namibia's public debt increased sharply in 2023 due to the impact of the COVID-19 crisis and the sharp decline in SACU tax revenues. In view of the COVID-19 shock, the authorities had to temporarily deviate from their planned fiscal consolidation to respond to the crisis. Public debt sharply increased to 65.9% of GDP in 2021, as the fiscal deficit widened to 8.8% of GDP to accommodate the COVID-19 response package, and real GDP contracted by 8%. Public debt further increased to 70.1% of GDP in /2023, slightly above the MAC-DSA benchmark of 70%. Moody's and Fitch downgraded Namibia's rating to B1 in April 2022 and BB- in June 2022. Namibia's external debt as a ratio of GDP is expected to decline gradually. External debt peaked in 2020, rising to 77.3% of GDP (with public external debt at 21.3% of GDP and private external debt at 56% of GDP) and reflecting the sharp contraction in output and sizable exchange rate depreciation (about 14%). Starting from 2022, external debt is expected to gradually decline as the economy recovers and the current account position gradually improves. Gross external financing needs are expected to remain large, but to gradually decline over the medium-term.

1.3.3 External position – external financial flows

The current account deficit improved from 12.9% of GDP in 2022 to 10.3% in 2023, reflecting slightly lower imports. Non-performing loans declined from 6.4% of gross loans in 2019 to 1.1% of GDP in 2022, while the capital adequacy ratio stood at 15.6% in 2022, just 0.776% lower than in 2021.

Table 1: Key macroeconomic indicators

	2019	2020	2021	2022	2023(e)	2024(p)	2025(p)
Real GDP growth	-0.8	-8.1	3.6	5.3	4.2	3.3	3.3
CPI inflationpar habitant	3.7	2.2	3.6	6.1	5.9	4.6	4.4
Overall fiscal balance, including grants % GDP *	-5.6	-8.9	-8.6	-5.1	-3.8	-4.2	-4.0
Current account balance (% GDP)	-1.8	-4.7	-4.4	-0.8	1.1	0.9	1.1
Total population (Millions)	2.4	2.5	2.5	2.6	2.6		
Life expectancy at birth (years)	63.1	62.8	59.3	58.1	59.5		

*Source: Data from Domestic authorities; estimates (e) and prediction (p) based on authors' calculations. AfDB Statistics Department, April 2024; * Year n refers to April n / March n+1*

1.3.4 Social developments

Namibia's poverty and inequality levels are among the highest in the world. About 28.7% of the population is poor, with 15% extremely poor. Poverty is higher in rural (37%) than urban areas (15%). It is also higher among women (32%) than men (26%). The incidence of poverty has increased since 2015, rising to 64 % in 2021. Namibia is one of the most unequal countries in the world. The Gini index was 59.1 in 2015, down from 61.0 in 2010 and 63.3 in 2022. The unemployment rate in Namibia declined from 23.35% in 2020 to 19.63% in 2023. The persistence of poverty in certain areas and households in Namibia is strongly associated with the exclusion of many Namibians from the mainstream economy. Many Namibians, given their level of education, location or health, cannot participate fully in the modern economy and are therefore vulnerable to falling into and remaining in poverty.

1.4 Macroeconomic outlook and risks

1.4.1 Outlook

Real GDP is projected to decline to 3.3% in 2024 and 2025 because of anticipated weak global demand for exports and contraction in agriculture. Growth for secondary industries is expected to improve in 2024, and moderate downwards in 2025. Secondary industries are projected to grow by 3.3% in 2024, up from the 2.0% growth recorded in 2023. This performance is expected to be driven by manufacturing and resurgence in construction activities for 2024. Furthermore, the sector growth is expected to improve to 4.0% in 2025 on the account of the projected recovery of the electricity and water sectors. Inflation is expected to moderate further to 4.6% in 2024 and 4.4% in 2025 owing to decline in food inflation. The fiscal deficit is projected to remain at 4% of GDP in 2024 and 2025 on expectations of improved revenue collection. The current account deficit is expected to moderate to 9.6% of GDP in 2024 and 8.5% in 2025.
Growth for tertiary industries is expected to remain robust in 2024 and 2025. Tertiary industries are projected to grow by 4.5% in 2024 and by 4.1% in 2025, from 2.7% recorded in 2023. Wholesale and retail trade, hotels and restaurants, transport and storage, financial and insurance service activities, and public administration and defense are expected to lead growth for tertiary industries in 2024.

1.4.2 Risks

Downside risks are related to monetary policy tightening which will slow down growth, to the high costs of key imports, and to Russia's continuing invasion of Ukraine, which will increase commodity prices. The faltering growth in China could affect demand for Namibian commodities. As mitigation measures, the Central Bank hiked its interest rates by 50 basis points in June 2023 to contain inflation and implemented a fiscal stimulus. Risks to domestic growth are predominantly due to water supply constraints that could continue to affect mining production at the coast, drought conditions, high costs of key import items that are likely to persist for a long time, and supply chain disruptions from global trade flows.

1.5 Conclusion and recommendations

The Government of Namibia should implement the following recommendations in the short, medium and long terms:

Short term

- Sound macroeconomic policies: Namibia should prioritize public spending and improve the quality of public investments while avoiding to crowd out the private sector.

- Promoting local production: Namibia is a major importer. South Africa is Namibia's major import partner (66% of total imports). The Government should encourage local production to reduce food imports and ease pressure on foreign exchange, and thereby reduce inflation. The promotion of local production will also create fiscal space and help reduce the deficit.

Medium to long term

- Domestic resource mobilization: To achieve the objectives outlined in NSDP II, the Government needs to enhance domestic resource mobilization. The Government of the Republic of Namibia (GRN) recognizes the need for enhanced revenue mobilization and has indicated that "the imperative to fund critical national priority needs calls on Government to strengthen revenue mobilization strategies and increasingly harness measures to improve internal efficiency, reduce waste and realize internal savings as important facets for public finance management in the medium-term" (Ministry of Finance, 2013).

- Enabling environment: The major constraints on the private sector in Namibia include financing, training, government regulations, crime, infrastructure, markets, as well as technology. Key reforms undertaken by the Government to improve the business environment include enactment of the Business and Intellectual Property Bill (BIPB), the Industrial Development Agency Bill, and the Public Private Partnership (PPP) Bill. The BIPB mainly provides for an online business registration and licensing platform, known as the Integrated Customer Service Facility, and a "One-Stop-Shop" for investors. The GRN has also embarked on various policy initiatives for small and medium-sized enterprise (SME) development to drive industrialization and job creation. These include the approval of the SME Policy and the SME financing Strategy. However, Namibia needs to deepen regulatory reforms to improve the investment climate, as well as promote local entrepreneurship for private sector development.

- Acceleration of structural reforms to build a resilient economy: Namibia should implement structural reforms to encourage job creation and investment, as well as improve productivity. This action will boost the economy's competitiveness and growth potential. In addition, the reforms could include improving the business environment regulations, supporting more flexible labor markets, gradual State withdrawal from the economy, and a simpler tax system or less red tape, which will make it easier for companies to conduct business and plan for the future.

2 TAKING STOCK OF NAMIBIA'S STRUCTURAL TRANSFORMATION PROGRESS

KEY MESSAGES

- Namibia's per capita income increased from USD 8,130 in 2010 to USD 11,190 in 2022. The industrial sector in Namibia was the main driver of growth and propelled its structural transformation, with labor moving from agriculture into industry. From 1991 to 2018, the share of agriculture, forestry, and fisheries increased from 8% to 13%. It peaked at 13% from 2006 to 2009 and recorded its lowest in 1996 at 8%. The share of manufacturing increased from 6.7% in 2011 and 2012 to 10.7% in 2005. The share of services increased from 48.4% in 2008 to 60.7% in 1993.
- In Namibia, the primary industry has the lowest level of labor productivity, which means that additional workers will be required each time to produce the same unit of output compared to the other two industries. Secondary industry, on the other hand, is the most labor-productive sector, which means that fewer workers will be needed to produce the same unit of output over time. This also means that the secondary industry is able to produce more units of output each time with the same or a smaller number of workers.
- With higher productivity gains in secondary industries, structural transformation can easily be achieved through the national development plans. Given the structural transformation aspirations, there is need to enhance productivity levels, especially in the secondary industry which is showing the potential to be highly productive.
- High productivity levels are essential for increasing national income and are associated with reduced poverty rates and improved living standards.
- The trends in the growth performance of the construction sub-sector reflects the developmental nature of the Namibian economy. As regards employment by sector in Namibia from 2011 to 2021, 22.12% of the employees were active in the agricultural sector, 16.43% in industry, and 61.45% in the services sector. With respect to the labor growth productivity composition, structural change within agriculture from 1991 to 1999 was 1.89, with 0.982 in industry, -0.710 in services, and 0.55 for overall structural change. As for the labor productivity growth composition, structural change from 2000 to 2009 within agriculture was -0.534, with 3.166 in industry, -4.675 in services, and 1.155 for overall structural change.
- The total factor productivity in Namibia declined from 1.19325 in 1980 to 0.944 in 2019. In Namibia, the primary industry has the lowest levels of labor productivity, which means additional workers will be required each time to produce the same unit of output compared to the other two industries.
- Secondary industry, on the other hand, is the most labor-productive sector, which means that fewer workers are needed to produce the same unit of output over time. This also means that the secondary industry is able to produce more units of output each time with the same or less number of workers. Some of the drivers of Namibia's structural transformation are governance, urbanization, technology and capital, ICT, and transport. Some of the obstacles are climate change, informality, political issues, financing constraints, financial exclusion, capital flight, and institutional factors.

2.1 Introduction

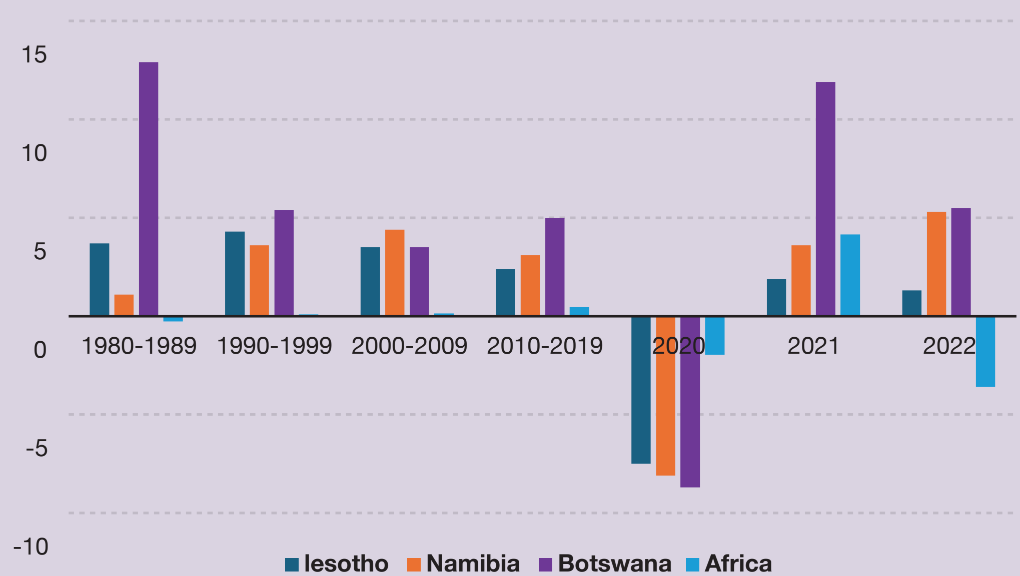
This chapter presents a comprehensive overview of recent progress in Namibia's economic transformation amid a changing world, identifies its key trends, and outlines its characteristics, as well as estimates the financing needs for fast-tracking structural transformation. It will adopt a historical perspective on (what has been done so far) and a forward-looking approach (what can or should be done in the future to fast-track progress) to structural transformation, comparing Namibia's performance to that of Africa and other peer countries and drawing lessons for the future. The chapter will assess the impact of a wide array of socio-economic, financial, governance, and external factors on Namibia's structural transformation (or lack thereof), as well the financing needs and financing gaps, with the objective of highlighting the main pull and push factors guiding evidence-informed policymaking and investment opportunities.

2.2 Taking stock of economic performance and transformation in Namibia

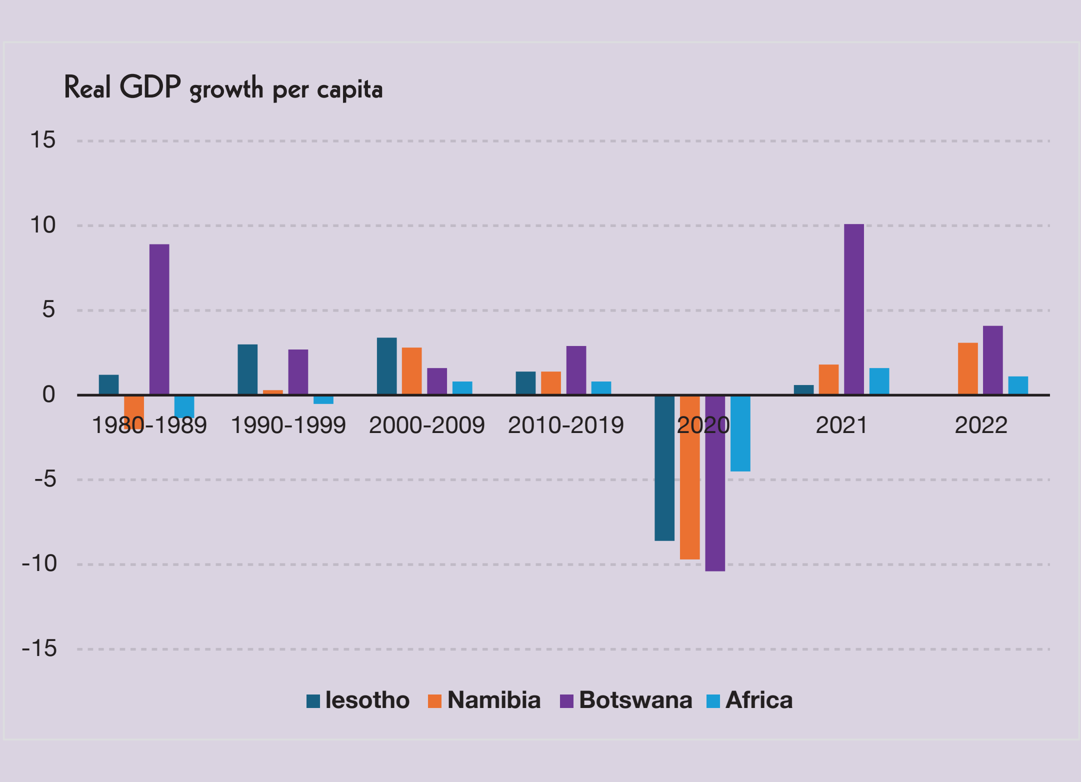
The nature of structural transformation has implications for growth performance as it is influenced by productivity across sectors, which in turn have implications for GDP growth and GDP per capita. Namibia's per capita income increased from USD 8,130 in 2010 to USD 11,190 in 2022. The trends comparison with peer countries and Africa is depicted in Figures 2.1 and 2.2.

The nature of structural transformation has implications for growth performance as it is influenced by productivity across sectors, which in turn have implications for GDP growth and GDP per capita. Namibia's per capita income increased from USD8,130 in 2010 to USD 11,190 in 2022

Figure 2.1: Real GDP Growth



Source: AfDB, Statistics Department.



Source: AfDB, Statistics Department.

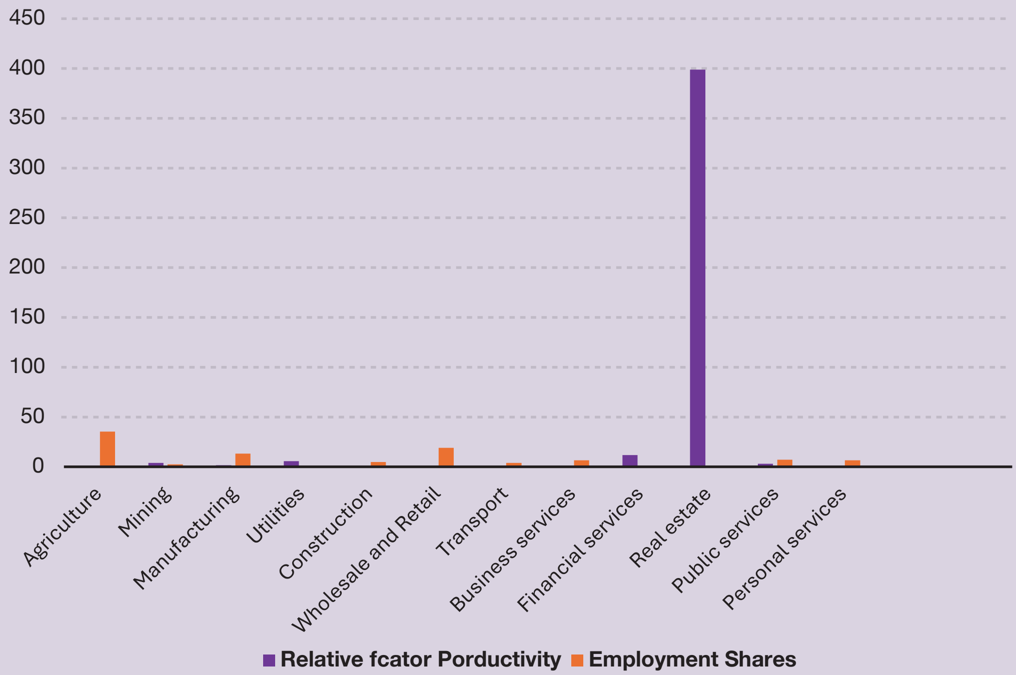
The trend in the growth performance of the construction sub-sector reflects the developmental nature of the Namibian economy. The construction boom brought about by the infrastructural development and more specifically the expansionary fiscal policy following the 2008/2009 financial crisis boosted the growth of the construction sector. This is further reflected by relatively high investment expenditure averaging about 23.7% of GDP for the 2000-2015 period compared to about 14.0% for the 1990-1999 period. The Targeted Intervention Program for Employment and Economic Growth (TIPEEG) aimed at accelerating infrastructure development was implemented over the 2011/12-2013/14 financial years and is estimated to have cost NAD 14.7 billion. The program undoubtedly stimulated growth, as reflected by the 16.6% average growth in the construction sector, and has potential to indirectly stimulate growth in the long run. The services industries remain the highest contributor to GDP, with a share of over 50%, and have increased marginally over the years. The public sector and wholesale and retail and trade sub-industries dominate the services industries, while the share of hotels and restaurants sector, which is a proxy for tourism, remains below 2.0%. From 1990 to 2006, ores and minerals represented close to or above 50% of total exports, with diamond exports dominant. This, however, declined to about a third after 2006, with manufacturing taking over. It should be noted that, on average, close to a third of manufactured exports comprises mining products with minimal value added, limited to cutting and polishing of diamonds, copper, and zinc refinery.

2.3 Namibia's structural transformation: Drivers, bottlenecks, and opportunities

2.3.1 Namibia's structural/economic transformation

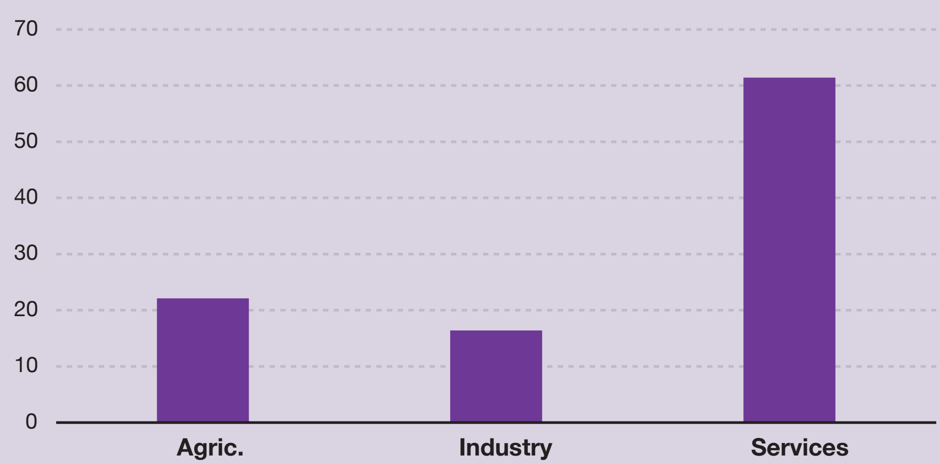
The relative sector productivity in agriculture in Namibia in 2018 (Figure 2.3) was 0.3, with an employment share of 23.1%, mining was 9.9 with an employment share of 1.7%, manufacturing was 1.8 with an employment share of 6.2%, utilities 1.7 with an employment share of 1%, construction was 0.42 with an employment share of 6.2%, wholesale and retail was 0.55 with an employment share of 22.6%, transport was 0.547 with an employment share of 3.4%, business services was 0.65 with an employment share of 6.3%, financial services was 4.1 with an employment share of 1.9%, real estate was 40.5 with an employment share of 0.15, public services was 1.9 with an employment share of 13.9%, and personal services was 0.21 with an employment share of 13.6%.

Figure 2.3: Relative factor productivity and employment shares (%) in 2018



Source: AfDB, Statistics Department.

Figure 2.4: Sectoral Employment Shares 2011-2021



Source: AfDB, Statistics Department.

2.3.2 Unpacking Namibia's structural transformation through labor productivity decomposition

As regards labor growth productivity composition, structural change in the agricultural sector over the 1991-1999 period was 1.89, in industry 0.982, and in services -0.710, and the average structural change was 0.55. With respect to the 2000-2009 period, the structural change in the labor productivity growth composition was -0.534 in the agricultural sector, 3.166 in industry, and -4.675 in services, and the average structural change was 1.155.

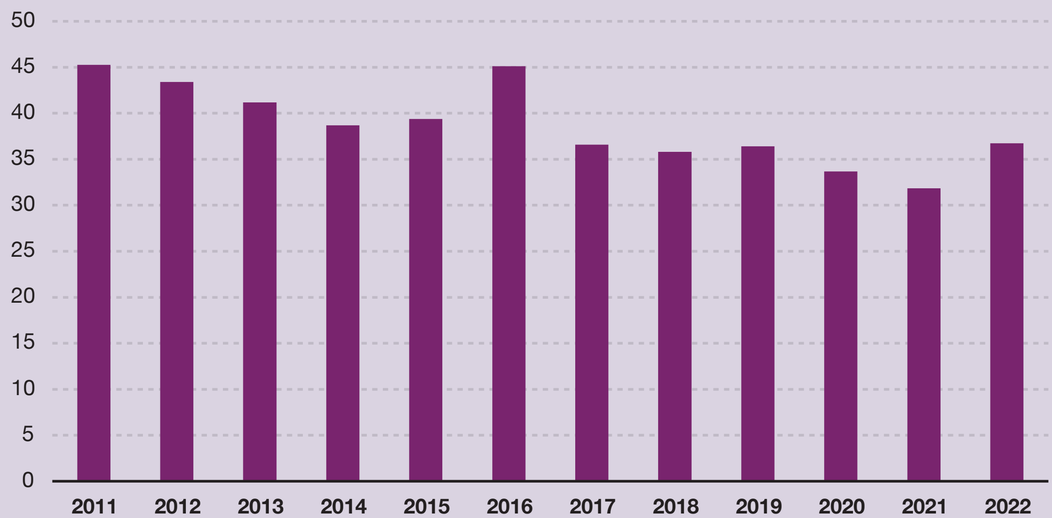
The total factor productivity in Namibia declined from 1.19325 in 1980 to 0.944 in 2019. In Namibia, the primary industry has the lowest levels of labor productivity, which means additional workers will be required each time to produce the same unit of output compared to the other two industries. Secondary industry, on the other hand, is the most labor productive sector, which means that fewer workers will be needed to produce the same unit of output over time. This also means that the secondary industry is able to produce more units of output each time with the same or less number of workers. Doing more with less is the foundation of productivity. Thus Namibia has the potential to become an industrialized nation as envisaged in Vision 2030. With higher productivity gains in secondary industries, structural transformation can easily be achieved through the national development plans. Given the structural transformation aspirations, there is need to enhance productivity levels, especially in the secondary industry, which is showing potential to be highly productive. High productivity levels are essential for increasing national income, and are associated with reduced poverty rates and improved living standards.

2.3.3 Rapid growth in income and jobs embodied in services export: New evidence

Namibia's Ministry of Trade and Industry reports that although trade in goods is larger than trade in services in terms of value, growth in services outweighed that of trade in goods between 2019 and 2023. The services account has been a significant sub-account of the current account, largely registering net inflows in 2019, on the back of export earnings from travel and manufacturing services. Export and import of goods rose from NAD 56.1 billion and NAD 74.9 billion recorded in 2019 to NAD 85.7 billion and NAD 116.0 billion, respectively, recorded in 2023. Meanwhile, export and import of services grew by higher margins, from NAD 10.1 billion and NAD 9.1 billion recorded in 2019 to NAD 18.4 billion and NAD 36.9 billion, respectively, recorded in 2023. The higher outflows in the trade in services, particularly since 2021, was chiefly due to higher payments for services with ongoing oil and gas exploration and appraisal activities in Namibia.

The Ministry of Trade also reports that Namibia's export of services has also been on an upward trend, mainly supported by travel, transport and manufacturing services. Since 2019, export of services rose by 80.9% to NAD 18.4 billion recorded in 2023. Historically, export receipts for services have been underpinned by travel, transport and manufacturing services receipts. Other business services have gained significant momentum in recent years. Namibia's travel services have predominantly been sustained by a robust tourism sector, while the manufacturing export receipts are mainly ascribed to copper smelting activities for non-residents. Meanwhile, export receipts from transport services have been mainly sustained by the increase in South Africa's manganese exports, which transit through Namibia and in part uses Namibian transportation companies. Furthermore, the provision of road transportation services for freight forwarding to non-residents, especially land-locked neighboring countries such as Zambia and Botswana, has also contributed to high export receipts for Namibia's transport services.

Figure 2.5: Exports Value Added % of GDP



Source: AfDB, Statistics Department.

Box 2.1: **Successful experiences in supporting growth and structural transformation**

Attempts at industrialization by all regions of the world hark back to the success first of Great Britain, followed by Western Europe, and thereafter North America during the 19th and early 20th centuries (Oyelaran-Oyeyinka, 2014). The literature on the experiences of these countries seems to agree that, although the early-industrializing countries started out at different stages of growth, they followed a more or less similar format of change that led to their transformation. Marked by the shift from a subsistence/agrarian economy towards more industrialized/mechanized modes of production, the hallmarks of industrialization include technological advance, widespread investments in industrial infrastructure, and a dynamic movement of labor from agriculture in manufacturing (Romer," 1952). It is generally accepted that a dynamic process of industrialization is fundamental to overall economic development of countries, given that it promotes growth-enhancing structural change, which is the gradual movement of labor and other resources from agriculture to manufacturing, accompanied by productivity increases. Manufacturing is construed as critical in most of such explanations because of the empirical correlation between the degree of industrialization and the per capita income in countries (Szirmai, 2012). Given that productivity is higher in the case of manufacturing than agriculture, transfer of resources to manufacturing should normally provide a basis for higher rates of productivity-induced growth structures.

Source: Ministry of Trade, Namibia

2.3.4 Drivers to accelerate structural transformation

Some of the factors driving Namibia's structural transformation are:

- **Governance:** Namibia consistently ranks among the top sub-Saharan African (SSA) countries on good governance metrics. It was ranked 8th out 54 countries surveyed on the 2023 Mo Ibrahim Index of African Governance (IIAG) with a score of 64.1/100. Namibia's performance is strongest on the dimensions of "Safety and Rule of Law" and "Participation and Human Rights" where it is ranked among the top three countries. On the 2023 Corruption Perception Index of Transparency International, Namibia ranked 4th out of 180 countries globally, and 5th on the African continent scoring 49 out of 100. As part of financial governance, public expenditure and financial accountability assessment (PEFA) for Namibia indicated progress in public financial management (PFM) reforms. Key reforms included the introduction of the Medium-Term Expenditure Framework (MTEF), programme budgeting, integrated financial management systems (IFMIS), and improved cash management. These reforms enhanced macroeconomic stability. The labor law in Namibia seeks to entrench fundamental labor rights and protections, regulate basic terms and conditions of employment, ensure the health, safety and welfare of employees, and allow for flexibility.
- **Urbanization:** Urbanization is an essential feature of Namibia's structural transformation. Namibia is in the middle of transition from a rural to an urban society. By 2050, an estimated three-quarters of its population will be living in cities. The share of Namibia's urban population as a proportion of the total population increased from 50.3% in 2018 to 53.6% in 2022. Structural transformation away from agriculture has resulted in higher population densities in urban areas—that is, an increasingly positive relationship between non-agricultural employment and population density. Urbanization is a source of economic as well as social transformation. It favors change and innovation mainly due to its concentration of (skilled) labor, capital, and economic activities in cities.
- **Technology and human capital:**
  Namibia's human capital index is 0.4. Namibia ranks 100th out of the 132 economies featured in the GII 2021. The table below shows the rankings of Namibia over the past three years, noting that data availability and changes to the Global Innovation Index (GII) model framework influence year-on-year comparisons of the GII rankings. Namibia ranks 32nd out of the 34 upper middle-income group economies. Namibia ranks 6th out of the 27 economies in sub-Saharan Africa.

Rankings for Namibia (2019–2021)

Year	GII	Innovative inputs	Innovative inputs
2021	110	88	110
2020	104	101	104
2019	101	99	103

Source: Ministry of Communications Science and Technology

- ICT: Namibia has achieved significant progress expansion of access to ICT services. The mobile phone population coverage and subscription rates have increased significantly, standing at 95% and 103% respectively.

- Transport: Namibia has a relatively well-developed road network covering 45,380 km, of which 14% is paved. About 93% is either in good or fair condition. The rail network comprises 2,382 km of cape gauge configuration like the rest of the region. The railway network plays an important role in the movement of bulk freight. Namibia's largest port, Walvis Bay, has recently undergone expansion and modernization. The expansion of the port container terminal, which was commissioned in August 2019, is part of long-term plan to position the country as a logistics and distribution hub for the SADC region.

Box 2.2: Potential and existing opportunities in Namibia

Peace, political stability and good governance: Namibia has been politically stable since independence, with relatively strong governance institutions.

Proximity to and integration with South Africa: Namibia has easy access to a range of South Africa's expertise, advanced technology, developed infrastructure, relatively advanced intermediate inputs and goods markets, capital and financial markets, and investment resources.

The currency peg with the ZAR ensures exchange rate stability. This factor provides an opportunity to connect to South Africa's supply chains and the region.

Abundant natural resources: Namibia is rich in mineral deposits. It also has fishing grounds with potential sustainable yields of up to 1.5 million metric tons/year, as well as unique flora and fauna, an opportunity for value-added manufacturing and bolstering tourism.

Potential to become a regional logistics hub through Walvis Bay port: The deep-water port facilities and a network of trunk roads and railway that cross its borders, position Namibian well as a regional logistics hub.

Preferential access to markets: Namibia's membership of SACU, COMESA and SADC, as well as new regional and continental trade deals (Tripartite Free Trade Area and AfCTA) provide access to a potentially huge market.

Source: AfDB, CSP 2020-2024

2.3.5 Key bottlenecks to fast-paced structural transformation

The African continent is facing a myriad of challenges in its drive for structural transformation, in particular climate change, informality, capital flight, financing constraints, an estimated USD 93 billion per annum infrastructure gap, inadequate human capital development, and a weak technological base that is not sufficient to support modern manufacturing and improve low agricultural productivity (AfDB 2018). In the specific case of Namibia, the following are some of the bottlenecks to fast-paced structural transformation:

- **Climate change:** Greenhouse gas (GHG) inventories indicate that emissions from agriculture, forestry and other land uses (AFOLU) are responsible for about 24% of global GHG emissions, of which agricultural production alone is responsible for more than half (IPCC 2014b). Climate change has led to droughts and floods, thereby affecting agricultural production and productivity.

- **Informality:** Namibia's informal economy is also characterized by numerous undocumented and unregulated businesses and employment similar to all other developing countries. Namibia's informal sector has been recorded to be the country's largest employer and contributes about 24% to the country's gross domestic product (GDP). Yet, it is not accounted for in formal statistics. Despite this huge contribution, the sector presents challenges in terms of labor rights, social protection, tax evasion, economic stability, and lack of access to finance. The absence of labor rights and lack of financing hinder their transition from the informal to the formal sector and a shift of resources from the traditional to modern sectors and from low productive to high productive sectors. The absence of labor rights discourages skilled workers from taking up jobs because their rights are not protected.
- **Political issue**s: Minority ethnic groups in Namibia accuse the Government of favoring the majority Ovambo ethnic group in allocating services. The nomadic San people experience disproportionate poverty and societal marginalization.
- **Financing constraints:** There are financing constraints owing to financial exclusion, capital flight, and institutional factors.
- **Financial exclusion:** Despite the existence of a well-developed financial system, there have been concerns regarding financial exclusion. According to the FinScope consumer survey (2012), 31% of the Namibian population were excluded from financial services.
- **Institutional factors:** Institutional factors, such as the quality of institutions, public governance, rule of law, rent-seeking tendencies, and regulatory frameworks have also been identified as important determinants of revenue performance (Drummond et al., 2012). Such factors are believed to influence tax revenue through their contribution to tax evasion, improper tax exemptions, and weak tax administration. Public institutions are not functioning at their optimum, thereby undermining their credibility.

2.4 Financing to fast-track Namibia's structural transformation: The financing gap and the country's commitment to structural change

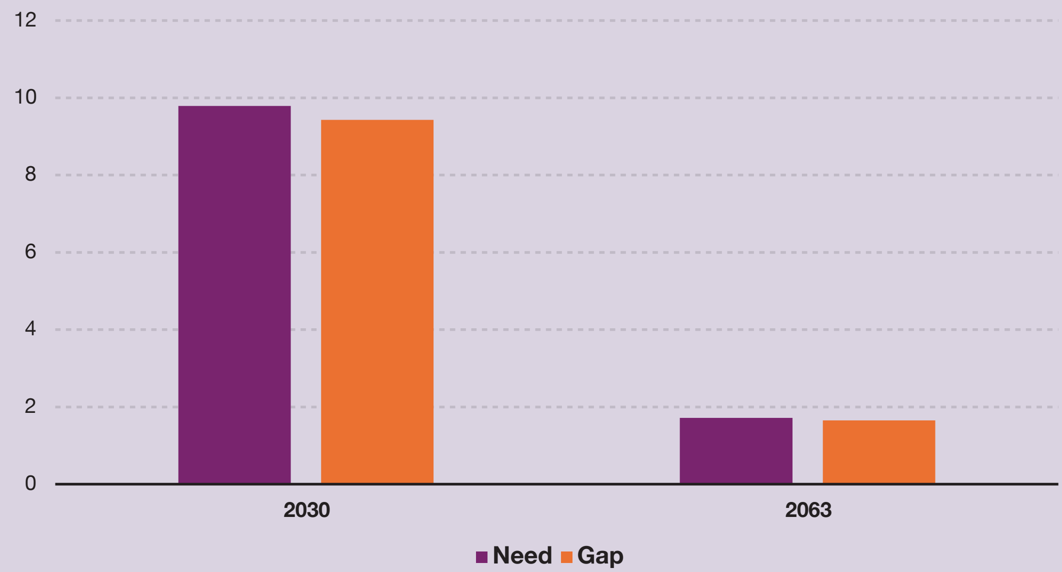
2.4.1 Structural change strategy in the National Development Plan

The fifth National Development Plan (NDP 5) recognizes that structural transformation is a key strategy in Namibia's graduation to a high-income nation. Improved systems of governance will facilitate the collaboration of many sectors in achieving structural transformation. Special attention will be paid to the implementation and monitoring of inclusive economic growth through the provision of high-quality government services including water, sewage, electricity generation, transport, housing, and land use planning.

2.4.2 Financing needs and financing gap

The AEO 2024 estimates that the total financing needs for achieving SDG 4 for by 2030 is USD 0.14 billion, with a financing gap of USD 0.02 billion. The total financing needs for SDG 7 is USD 0.09 billion, with a financing gap of USD 0.04 billion. The total financing needs for SDG 8 is USD 0.06 billion, with a financing gap of USD 0.05 billion. The total financing needs for SDG 9 is USD 9.50 billion, with a financing gap of USD 9.36 billion. The total financing needs to achieve all the SDGs is USD 9.786 billion, with a financing gap of USD 9.429 billion. The total financing needs for SDG 4 by 2063 is USD 0.02 billion, with a financing gap of USD 0.003 billion. The total financing needs for SDG 7 is USD 0.02 billion, with a financing gap of USD 0.076 billion. The total financing needs for SDG 8 is USD 0.01 billion, with a financing gap of USD 0.01 billion. The total financing needs for SDG 9 is USD 1.66 billion, with a financing gap of USD 1.63 billion. The total financing needs for all the SDGs is USD 1.71 billion, with a gap of USD 1.65 billion (Figure 2.6).

Figuer 2.6: Fianicng Needs and Gaps

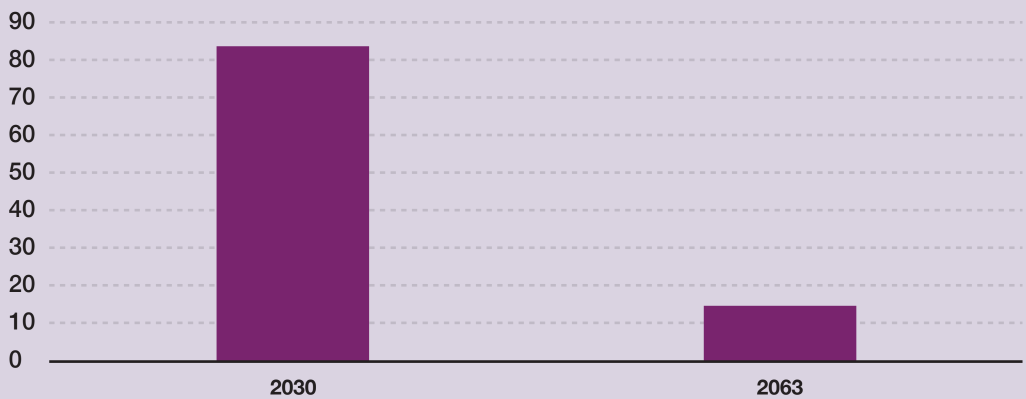


Source: AfDB, Statistics Department.

2.4.3 Closing the financing gap through domestic resource mobilization

The Government recognizes the need for enhanced revenue mobilization and has stated thus: "the imperative to fund critical national priority needs calls on Government to strengthen revenue mobilization strategies and increasingly harness measures to improve internal efficiency, reduce waste and realize internal savings as important facets for public finance management in the medium-term" (Ministry of Finance, 2013). The required increase in tax/GDP ratio to close the estimated annual financing gap in Namibia in 2030 is 83.6% and 14.6% by 2063 (Figure 2.7).

Figure 2.7: The required increase in tax/GDP ratio to close the estimated annual financing gap in Namibia in 2030 and 2063



Source: AfDB, ECMR

Box 2.3: Bank support for Namibia's structural transformation

The ERSP supported the Government to implement reforms that helped to create an enabling environment for private sector development. The reforms include the approval of industrial development regulations to simplify business registration procedures, as well as the approval of a USD 117 million industry support facility to provide financing to private sector beneficiary entities and eventually help to create jobs. The Government is reforming its business climate through the Doing Business reforms roadmap: (i) the Industry Development Act and Trade Regulations 2020 allow for over-the-counter issuance of licenses and registration certificates; (ii) the FDI incentive package includes low corporate tax rates, transfer duty waivers, and temporary property tax exemptions; (iii) an investment facilitation law designed to attract private investments is being prepared; (iv) an investment board is being established to resolve investor bottlenecks; and (v) the Public Procurement Act is in place.

The Government is working on a stand-alone PPP Bill that will cover several aspects, including procurement under PPP arrangements. The Bank is also supporting the implementation of the PPP programme of the PPP Unit within the Ministry of Finance, through budget support and an MIC grant facility.

2.4.4 Domestic resource mobilization for structural transformation

The Government is resorting to the following policy options to boost domestic resource mobilization:

- **Boosting domestic savings and promoting investment** on a sustained basis: The Government is boosting private savings by promoting linkages between formal and informal financial institutions, which would improve access by small and medium-sized enterprises (SMEs) to financial services, and further develop the nascent Namibian capital markets. One way of promoting investments is to reduce the high costs of doing business which discourages private investment, thereby generating negative effects on income and savings.

- **Fighting capital flight:** To minimize any possible capital flight, a lasting solution lies in continued political stability, improved governance, and stable macroeconomic conditions in the form of low inflation and stable exchange rates.

- **Judicious external borrowing:** In November 2012, the Namibian Government listed and issued the first non-South African sovereign bond on the Johannesburg Stock Exchange in the value of NAD 850 million. More of such listings could be used to raise the much-needed financial resources for development projects.

- **Innovative utilization of remittances:** Namibia receives worker remittances from nationals working in the diaspora. It constitutes about 0.6% of GDP. The remittances can be packaged into private equity funds with a guaranteed rate of return. Such an arrangement would boost inflows and could go a long way in financing development projects in the country.

- **Pension funds:** The Government could also use pension contributions from public-sector workers such as the Government Institutions Pension Fund (GIPF) to finance productive investments which generate good return.

- **Oil:** Namibia discovered oil and gas in 2022. It is expected that the country will exploit 11 billion barrels of oil and 2.2 trillion cubic feet of natural gas reserves, which will transform the socioeconomic landscape of the country. Some analysts have made bold predictions that the Namibian economy will double by 2040, and that Government could earn more than USD 3.5 billion (approximately NAD 53.5 billion) annually in royalties and taxes at peak production from oil finds.

- **Public financial management:** Namibia can improve PFM to create more fiscal space. The 2020 Public Expenditure and Financial Accountability Assessment (PEFA) for Namibia indicated progress in public financial management (PFM) reforms. Key reforms include the introduction of the Medium-Term Expenditure Framework (MTEF), program budgeting, integrated financial management systems (IFMIS), and improved cash management. The use of IFMIS has improved the timeliness of financial reporting, while debt management has been further enhanced by the adoption of a new debt management strategy. A new Public Financial Management Bill has been drafted to replace the State Finance Act of 1991. In tandem, a new Internal Audit Bill has been drafted to align with international best practices. The GRN is also taking steps to strengthen efficiency in revenue administration, including the establishment of a semi-autonomous revenue authority.

2.5 Conclusions and policy recommendations

2.5.1 The role of the Government

The Government's role is to build strong institutions and implement critical measures to create a conducive environment for accelerating structural transformation. Namibia needs to formulate and institutionalize national development plans and policies tailored to its comparative advantage. The country's national development plans should reflect its priorities and comparative advantage. The country's diamonds have contributed immensely to structural transformation and development. The discovery of oil will also give a big boost to the country's development

Private sector flows: The private sector should assume center stage as the engine of growth. In that regard, the Government should create an enabling environment for growth by facilitating access to information and credit, as well as improving the legal and regulatory environment. An enabling environment should help boost private capital flows to support Namibia's structural transformation.

Prioritizing investment needs: This financing gap of USD 9.429 billion to achieve the SDGs by 2023 presupposes that Namibia prioritizes investment needs in education, energy, productivity, and infrastructure. It should also invest heavily in key sustainable development goals (SDGs) such as education, health, energy and infrastructure to achieve structural transformation. Namibia should invest its resources from diamonds, and oil exports in these areas.

Human capital: Namibia should invest more in human capital to build requisite skills as it prepares for industrialization. It should invest more in education, nutrition, and health. The investment should be adapted to local realities, circumstances, and development priorities, including adequate skills training to prepare the workforce for the future. There is a dearth of skilled manpower in Namibia, hence the mismatch between the labor demand and supply. The curriculum in the educational institutions should be tilted to cater for the needs of the labor market and industry.

Formalization of the informal sector: The informal sector in Namibia constitutes 24.7% of GDP, accounting for about USD 11 billion at GDP PPP levels. The Government should assist the informal sector operators to graduate into the formal sector. This has the advantage of increasing tax revenue and growing the economy. The Government should also facilitate access of the informal sector to financing and training.

Scale up domestic resource mobilization (DRM) and prioritize prudence in public financial management (PFM): Domestic resource mobilization would reduce Namibia's dependence on external flows which have been found to be highly volatile, as well as give the Government greater flexibility in designing and controlling its development agenda. It also creates a conducive environment for foreign investments, enhances national ownership over development processes, and strengthens the bonds of accountability between governments and their citizens (UNCTAD, 2005). Indeed, domestic resource mobilization provides developing countries, such as Namibia, with the necessary policy space which is often constrained under the terms and conditions associated with external resources (https://www.ipc-undp.org/pub/IPCWorkingPaper127.pdf).

Namibia needs to build and deepen national and regional markets for goods, services, capital, and finance. The African Continental Free Trade Area comes in handy. It offers Namibia an opportunity to expand its export markets beyond SADC. It is also a unique opportunity for the private sector to boost its textile exports beyond AGOA. Walvis Bay port, which the country's major port, can serve as a catalyst in boosting Namibia's trade with the rest of the continent. Namibia, as a producer of diamonds and oil, needs to invest in natural capital accounting beneficiation and conservation, and include it in the system of national accounts to expand the economy.

Invest in youth entrepreneurship development program: On account of the high youth unemployment in Namibia (38.41%), the Government should create employment opportunities through entrepreneurship development programmes, specifically by providing skills training and facilitating access to finance.

2.5.2 The role of the private sector

The Government's National Development Plan seeks to empower the private sector by establishing value chains to reduce raw material exports and involve MSMEs in produce processing in the country. To that end, the Government is working directly with MSMEs and commercial financial service providers to enable business associations and existing programs to provide companies with needs-based support. They operate in two fields of action, namely private sector promotion and financial sector development. In both components, training courses are offered to promote the entrepreneurial and financial skills of MSMEs in Namibia. This project has promoted structural transformation in Namibia with many MSMEs graduating into the formal sector. According to the Bank of Namibia, the oil and gas sector generated NAD 33.4 billion in foreign direct investment inflows between 2021 and 2023. Foreign direct investment is a phenomenon resulting from globalization, which involves the integration of the domestic economic system with global markets. These, in turn, enhance growth and structural transformation.

2.5.3 The role of regional institutions

A regional institution, such as the African Development Bank, has been assisting Namibia in financing its development agenda. More recently, it supported Namibia in a number of areas, including the Namibia Agricultural Mechanization and Seed Improvement Project with expected outcomes of increased agricultural production for cereal crops and improved rural employment, the MIC TSF Grant Feed Africa - Agricultural Transformation Program - feasibility study to design and prepare good quality and bankable agricultural projects with final designs, construction drawings and bidding documents, the Agricultural Bank of Namibia Line of Credit, and the Humanitarian Emergency Assistance to Mitigate Effects of the 2018/2019 Drought. The Climate Finance support for Namibia's nationally determined contribution (NDC) in 2021 resulted in a Green Climate Fund (GCF) concept note being developed for the agriculture **sector**. It has also financed a sovereign guaranteed loan of USD 300 million to the Namibian Ports Authority (Namport) approved in 2013 to finance the construction of the new container terminal in Walvis Bay port. The project has helped to: (i) increase international and inter-regional trade and enhanced regional integration with additional 750,000 twenty-foot equivalent units' capacity, and reduce container dwell time by more than 30%; and (ii) enable Namibia to fully exploit its unique geographical location as a facilitator of trade to and from the Southern Africa region.

2.5.4 The role of development financial institutions (DFIs) and multilateral development banks (MDBs)

DFIs in Namibia have played a useful complementary role of fill existing gaps with long-term financing, especially in infrastructure, housing, agriculture and SMEs. They have taken higher-than-average risks to fulfil their mandates and reduce credit procyclicality.

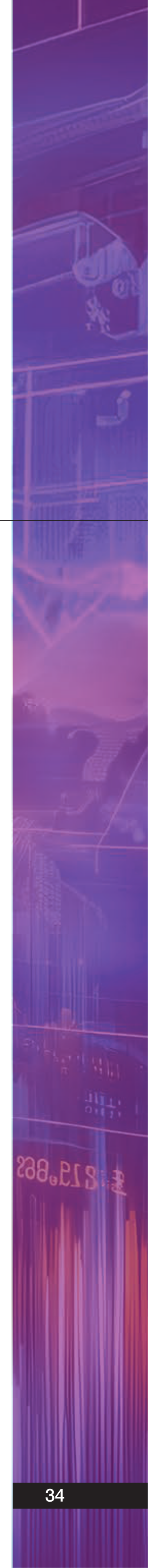
As specialized institutions, DFIs have provided a range of specialized financial products and services to meet the specific needs of targeted strategic sectors. Ancillary services in the form of consulting and advisory services have also been provided by DFIs to nurture and develop the identified sectors. DFIs therefore complement the banking institutions and act as a strategic conduit to bridge gaps in the supply of financial products and services to identified strategic areas for long-term economic development.

Successful DFIs do two things well: first, they perform their jobs as development finance institutions, in that they finance development projects effectively. Secondly, they play key roles as facilitators, arrangers, idea banks, or financiers, in the broader industrialization and economic development strategies of their countries.

Small and medium-sized enterprises play a very significant role in the economy by creating jobs and value addition. There is no universal definition for small and medium-sized enterprise. Despite this important role, small and medium-sized enterprises encounter many challenges, particularly lack of access to financing. To circumvent this challenge, Namibia has established development financial institutions, namely the Development Bank of Namibia and the Small and Medium Enterprise Bank, to ease access to funding. These two institutions have been established to finance projects or activities from which commercial banks may shy away. The establishment of these two institutions is supposed to lead to significant growth and increase in the number of small and medium-sized enterprises in Namibia’s economy.

3

FINANCING STRUCTURAL TRANSFORMATION IN NAMIBIA: THE NEED FOR REFORM OF THE INTERNATIONAL FINANCIAL ARCHITECTURE



KEY MESSAGES

- Namibia has been classified as an upper –middle income country. Since then, it has not been eligible for concessional resources, thereby limiting its capacity to access resources at scale. This is a cause for concern for the country.
- For example, Namibia was allocated an amount of SDR 183 million out of a total allocation of SDR 650 billion. This amount is grossly inadequate to meet Namibia's development challenges.
- There is need for reform of the international aid architecture to make more resource available to Namibia and other African countries.
- Reform of the international aid architecture could significantly increase financing for Namibia's structural transformation and catapult the continent to a higher level of economic development.

3.1 Introduction

Overall, there has been very little, if any, structural transformation of the Namibian economy, as evidenced by the slow pace of change in the manufacturing sector. Manufacturing's share in GDP ranged from 7% in 1990 to 11% in 2022. Agriculture's share varied even less, ranging from 8% to 9%, while services' share declined from 54.2% in 1990 to 26.1% in 2022.

Although Namibia is an upper middle-income country, it faces many of the same challenges as low-income countries owing to its past. The global financial architecture has failed to provide adequate resources to support Namibia's development.

Namibia needs more sustainable and predictable financing for development. Practical actions also need to be taken on the issue of debt restructuring and forgiveness, debt for nature and debt for development swaps.

Namibia has therefore joined international calls for reform of the international financial architecture. Namibia's ranking as an upper middle-income country has placed the country in a precarious position. The President of Namibia, Nangolo Mbumba, has argued that his country continues to be unfairly labelled as an upper middle-income country, limiting access to concessional capital, without a just recognition of the Gini coefficient inherited from the past. He has further asserted that his country is now under pressure to devise new ways to access capital, suggesting more sustainable and predictable financing for development.

3.2 Namibia's stand on the need for reform of the international financial architecture

Namibia needs to transform rapidly and become more inclusive to allow all citizens to benefit from any growth and development. The United Nations Population Fund (UNFPA) has noted that 43% of the country's population is experiencing multidimensional poverty. According to the UNFPA 2022 annual report, the Gini coefficient index shows that income inequality in Namibia stands at 57.2%. According to the World Bank Wealth Inequality Index, Namibia ranks second in the top 10 of the list, only second to South Africa since 2015 as one of the countries with the highest wealth inequality in the world. To undertake structural reforms rapidly, Namibia needs more sustainable and predictable financing for development. Practical actions also need to be taken on the issue of debt restructuring and forgiveness, debt-for-nature swaps, and debt for development swaps. Sustainable and predictable financing is the bedrock for all Namibia's development priorities. In essence. international financing institutions, such as the World Bank, need to review their capital adequacy ratios so as to unlock more capital for lending to low- and middle-income countries for more sustained financing for development.

Reform of the international financial architecture will benefit Namibia as follows:

- **Additional resources:** Additional resources will be available to Namibia when the IMF changes its allocation system, which is currently based on quotas rather than needs. This will enable Namibia to scale up its development interventions. Fiscal incentives for the private sector will also provide more resources to the country.
- **Debt restructuring:** Namibia is in dire need of debt restructuring given the magnitude of its debt. Debt restructuring will enable the country to achieve debt sustainability.
- **Alleviation of financial shocks:** Namibia should be able to ease its financial shocks through financial instruments as a climate-prone country.
- **Direct private capital to where it is needed most and create investment pipelines:** Localized incubators, start-ups, and businesses should be able to identify and target sectors with quick wins.
- **Key areas for financing sustainable development priorities:** Sustainable

development priorities are embedded in the second national development plan. The Government should concentrate on financing these investment programs which have a direct impact on the people.

◦ **More climate finance:** Namibia can secure more climate finance under the Bridgetown Initiative launched by Barbadian PM Mia Mottley in 2022. The Bridgetown Initiative is a major multilateral push for financing and trade to support the shift towards low-carbon and resilient economies in the Global South.

3.3 Mobilizing additional resources for Namibia's structural transformation

Given Namibia's limited fiscal space, it has no choice but to depend on external resources. Unfortunately, both ODA and FDI have declined in recent years. Pursuing sound macroeconomic and governance policies can attract both ODA and FDI into the country. However, the country should also focus on domestic resource mobilization to supplement external resources.

The country can leverage its natural resources to draw in additional finance. For example, Namibia's discovery of oil has the potential of attracting FDI into the country. A number of foreign companies have shown a keen interest in oil drilling. This is likely to be a game changer for the country, with oil revenue estimated at trillions of US dollars. If used judiciously, the Government will be able to finance its development without resorting to external financing.

Credit rating agencies have had impact on many African countries' access to financing in international financial markets by giving more than warranted risk profiles. Namibia has been no exception. For example, in May 2024, Fitch gave the country a stable outlook of BB-. In the event of a downgrade, the country would have difficulty in accessing the international financial market. SADC can also bring pressure to bear on the IMF to change the quota system of allocating SDRs. This will make more resources available to Namibia.

SADC can also serve as a voice in the IMF and World Bank to advocate for better representation in these institutions. Currently, the African countries are under-represented in the institutions and therefore their voices are no heard. They do not take part in decisions affecting them. Given Africa's importance in the world today, it has a lot to give and offer.

The G20 debt resolution framework should be enhanced. It should be made simpler and less cumbersome so that a growing number of African countries can benefit from it. If the experience of Zambia is anything to go by, reforming the framework would benefit Namibia in the event of a debt crisis.

Finally, Namibia should also intensify its efforts in domestic resource mobilization by introducing fiscal consolidation, improving public financial management, building fiscal buffers, enforcing tax compliance, forging public-private partnerships, and eliminating waste.

3.4. Dealing with Namibia's debt

Though it was expected that starting from 2022, Namibia's external debt would gradually decline as the economy recovered and the current account position would gradually improve, the country's gross external financing needs are expected to remain significant as noted in Chapter 1. The Government should adopt the following recommendations: A series of measures should be taken to contain the country's debt, including fiscal consolidation, the tax administration should be improved, a conservative borrowing policy and fiscal rules should be adopted, and public financial management improved. This will ensure debt sustainability. In addition, the Government should strengthen the governance and management of the new sovereign wealth fund. Moreover, the resources borrowed should be utilized productively and invested in projects that produce fair returns. The quality of public investments should also be enhanced.

3.5 Financing climate action

Namibia will need about USD 5.3 billion over the 2021-2030 period to meet its climate change targets and an average of USD 565 million annually to achieve its green growth objectives. The private sector needs to play a more prominent role in closing the climate finance gap given the limited fiscal space, with the Government's budget further constrained by the adverse impact of external shocks on the economy. Several solutions to leverage opportunities for private sector investments in green growth and reduce obstacles are hereby proposed as follows: (i) accelerate the doing business reforms for a conducive private sector investment environment, including measures to sustain macroeconomic stability; (ii) tap into emerging innovative private sector financing mechanisms and enhance engagement with multilateral green finance institutions for an expanded pool of sustainable finance instruments; (iii) increase private sector representation in the existing national coordination structures for green growth; and (iv) enhance green growth skills and capacity, particularly by mainstreaming green skills development into education curricula.

The country's national synergies relating to climate change provide overarching guidance to develop and implement appropriate strategies to reduce Namibia's vulnerability to climate change and integrate climate change effectively into existing legal frameworks. The guidance aims at enhancing capacities at all levels, ensuring successful implementation of climate change response activities, and facilitating climate proof development to reduce the climate change impact magnitude and extent. Vision 2030 seeks to facilitate social inclusion by cultivating the spirit of togetherness for a prosperous and industrialized Namibia. Gibson et al (2022) list the drivers of this goal as follows: education, science and technology, health and development, sustainable agriculture, peace and social justice, and gender equality. In support for these drivers, a very comprehensive social protection system provides for social assistance, such as cash transfers, to the most vulnerable groups, and social insurance for public sector workers. The social protection system has helped to reduce poverty and unemployment over time despite the latter's persistence.

Namibia's initial NDC submission in 2015 committed to reduce economy-wide GHG emissions by 89% by 2030 under the BAU baseline. In its 2021 NDC submission, Namibia increased this goal to 91%. This commitment keeps Namibia on its low carbon path as it is already a net sink of GHG emissions. The mitigation target is to reduce GHG emissions conditionally by 14% (under limited domestic and international support) and by about 77% (with substantial international support) by 2030. Namibia's 2021-2030 updated NDC Implementation Strategy and Action Plan replaces the National Climate Change Strategy and Action Plan 2013-2020. Priority areas for NDC adaptation are water resources, agriculture, forestry, coastal zones, tourism, human health, and disaster risk management. To achieve the updated NDC targets, Namibia will need approximately USD 5.3 billion over 10 years, of which about 10% will be unconditional, provided mainly from domestic public funds. Ninety percent is therefore conditional upon the provision of international support. The Government has demonstrated its political commitment to tackling climate change. The climate change unit within the Ministry of Environment, Forestry and Tourism (MET) is responsible for tracking NDC implementation progress. The MET also serves as the approver/focal point to the United Nations Framework Convention on Climate Change (UNFCCC), and as the

National Designated Authority to the Green Climate Fund (GCF). One major achievement has been the establishment of the Environmental Investment Fund of Namibia (EIF) which is playing a pivotal role in the mobilization of funds from the GCF. The EIF has partnered with the United Nations Development Programme to support the acquisition of supplementary grant funding.

3.6 Conclusions and Recommendations

The following recommendations are proposed for the short, medium and long terms:

Short term

Reducing debt burdens through governance reforms to strengthen debt management capacity: The Government should adopt a conservative borrowing policy and fiscal rules. This will avoid over- expenditure and control the debt.

Policies for the medium to long term

Reforming the current global financial architecture to make it meet African countries' financing needs: Namibia has a financing gap of USD 9.429 billion to achieve the SDGs by 20230. The current global financial architecture constrains Namibia to fill this gap. Namibia is disadvantaged in terms of accessing concessional funds, given the current the global financial architecture. Consequently, there is need to overhaul the aid and private finance architecture. For example, MDBs should continue to provide concessional financing to countries like Namibia that have not graduated to high income status, since many of them continue to be vulnerable to shocks such as COVID-19 and commodity price volatilities. The country could also benefit from a global stance against illicit financial flows.

Scaling up domestic resource mobilization: Domestic resource mobilization would reduce Namibia's dependence on external flows which have been highly volatile, and allow the Government greater flexibility in designing and controlling its development agenda. It would also create a conducive environment for foreign investments, enhance national ownership over development processes, and strengthen the bonds of accountability between governments and their citizens (UNCTAD, 2005). Indeed, domestic resource mobilization provides developing countries, such as Namibia, with adequate policy space which is often constrained under the terms and conditions associated with external resources.

Creating an enabling environment is crucial for attracting and scaling up external financial flows as complementary sources of financing: Namibia has implemented key reforms, including enactment of the Business and Intellectual Property Bill (BIPB), the Industrial Development Agency Bill, and the Public Private Partnership (PPP) Bill. The BIPB mainly provides for an online business registration and licensing platform, known as the Integrated Customer Service Facility, and a "One-Stop-Shop" for investors. The GRN has also embarked on various policy initiatives for small and medium-sized enterprise(SME) development to drive industrialization and job creation; the initiatives include the approval of the SME Policy and the SME financing Strategy. However, Namibia needs to deepen regulatory reforms to improve the investment climate, while promoting local entrepreneurship to advance private sector development.

Accelerating structural transformation efforts and financing its implementation will be key to unlocking Namibia's development potential: Structural transformation can be accelerated through private capital inflows such as FDI and ODA. It can also be enhanced through improvements in productivity. In this regard, investment in research, innovation, human capital, and technology would be necessary.

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