Namibia Policy Notes on Growth and Employment

An Executive Summary and Overview

May 31, 2012

Context: Turning around a history of jobless growth

Namibia has enjoyed peace, stability, and democracy since gaining independence in 1990, and it is widely seen as having a well-managed economy. The government has taken a conservative approach to fiscal policy and debt, enabling its debt to receive investment-grade ratings from Fitch and Moodys. Inflation has usually remained within the band of 3.0–7.0 percent during the past decade. Policies and regulations are generally favorable to private sector investment. GDP has grown at an average annual rate of 4.2 percent since Independence and at 5.7 percent per year since 2000.

This has been a history of jobless growth, however. The high unemployment inherited at Independence has not only persisted, but it has increased. The structure of production and international trade has changed very little during the past two decades. Production is centered on primary commodities and (largely non-tradable) services. Merchandise exports remain tied closely to the country’s natural resource endowment—concentrated in minerals and metals, supplemented by livestock, fish, beef and other processed foods—much as they were in the 1990s. To move onto a trajectory of more rapid growth and job creation, the economy needs to diversify into high productivity activities.

The Government request for these policy notes

It is in this context that the National Planning Commission invited the World Bank to prepare a series of policy notes analyzing options for growth and employment in three key productive areas of the economy: tourism, livestock and meat, and transport and trade logistics. All are sectors where Namibia has enjoyed a measure of success in international markets:

- **Namibia** offers unique and attractive tourism products: landscape, wildlife, peacefulness, and indigenous culture. It is the only country in the world where a black rhino population outside of protected areas is increasing, where free-roaming lion populations are increasing, and where the entire coastline is protected. Visiting Namibia is one of Lonely Planet’s “Top 10 things to do in 2012.”

- Namibia sells branded cuts of beef in European supermarkets, making it not only one of the few African countries that can meet tough government veterinary regulations, but also pass the even more demanding market test of satisfying buyers’ desire for quality and reliability.
Traffic along the international transit corridors connecting Namibia’s seaports to countries in the region grew at an average annual rate of 33 percent between 2005 and 2011—despite a downturn in 2009–2010 caused by the global economic crisis.

Government analysis had identified these three sectors as ones where greater attention, scaled-up resources, and improved policies could help the Namibia realize the objectives the country set for itself in Vision 2030: to become “a prosperous and industrial nation, developed by her human resources, and enjoying peace, harmony and political stability.”

Findings of the policy notes

With sectors as diverse as livestock, tourism and transport, it should not be surprising that each policy note identifies certain challenges that are unique to a sector:

- The supply of quality animals for slaughter is significantly and increasingly constrained by the loss of productivity caused by encroachment of invader bushes onto grazing lands. The supply is further limited by insufficient animal disease control measures in the Northern Communal Area.
- Transit cargo moves overwhelmingly in one direction: from Walvis Bay outbound (to Angola, Democratic Republic of Congo, and Zambia). Shipping liners do not make enough direct calls at Walvis Bay. Both factors severely undermine the attractiveness of the Walvis Bay transit corridors.
- Long-haul tourists to Namibia come from the same countries, arrive at the same time of year, visit the same places, and do the same things. This narrow product offering makes the industry vulnerable to shocks and hard to expand business without causing congestion.

The analysis in the three policy notes also reveals constraints that cut across more than one sector, with some pervading the economy as a whole. Perhaps most significantly, problems in factor markets limit the supply of labor and land and make it difficult to increase output and employment. Slow and expensive labor dispute resolution procedures make it costly for firms to shed unproductive labor, and therefore lead them to hire fewer workers and invest less in training. Skilled labor and managers are in short supply—education and training institutions are not producing workers with the capabilities that firms need, and this is aggravated by a restrictive visa and work permit regime. In rural areas and in state protected areas, it is difficult to obtain secure, long-term access to the use of land.

The structure and organization of some industries are not conducive to expansion and innovation. The tourism and transport industries especially are characterized by many small businesses and micro-enterprises that lack the managerial capacity to scale up their activities, develop innovative services, and aggressively attract new business.

The extent and type of state involvement holds back sector growth in many cases, for several different reasons:

- There is not enough state involvement in providing public services: Animal husbandry extension is insufficient and devoted primarily to controlling trans-boundary animal diseases at the expense of management diseases, e.g., those that merely retard growth. The government invests too little in the infrastructure in national parks that would add value to the tourist experience and protect fragile ecosystems—such as vis-
itor centers, blinds for wildlife viewing, interpretive signs, and boardwalks in desert areas.

- **There is too much state involvement in commercial production:** Political considerations constrain Namibia Wildlife Resorts from operating efficiently and offering innovative products. Its monopoly on hospitality services inside national parks prevents private firms from stepping in to fill these gaps. Meatco has an unfunded mandate to operate loss-making abattoirs, leading it to offer lower prices to farmers selling to profitable abattoirs, with the result that fewer animals are marketed for slaughter domestically.

- **Corporate governance of state-owned enterprises is often ineffective:** Managing directorships at Air Namibia and NWR remained vacant for well over one year. Board oversight of TransNamib has not been strong enough to ensure adequate financial management of Namibia’s railroads.

- **Statutory bodies have conflicting mandates:** The Namibia Tourism Board is both a regulator of and provider of services to firms in the tourism industry, introducing a potential conflict of interest. The Meat Board is called on to use levies to repair fences and contain diseases outbreaks—which in principle should be carried out with money from the State Revenue Fund by a government agency rather than a body tasked with market promotion.

Not all constraints are results of policies. It must be recognized that **geography and natural factors also impose limits.** Although Namibia shares borders with the two largest economies in the region (Angola and South Africa), its seaports are separated from the region’s centers of economic activity by vast distances, making them high-cost alternatives to Durban and other ports. Similarly, Namibia is a costly destination for international tourists in part because it is so far away from industrial countries. Extreme aridity imposes severe limits on where and how livestock can be raised in Namibia.

**Measures that could stimulate growth and job creation**

**Tourism:** Namibia has sensational tourism assets. It now requires a dynamic response that matches these assets and exploits them for economic development, with sure attention to social and environmental matters. Part of this response would be a tourism strategy that stimulates new product offerings, improves inter-ministerial coordination, rationalizes the regulatory framework, and fosters greater competition and innovation in tourism offerings in national parks.

**Livestock and meat:** The NCA appears to offer the best potential for increasing the supply of cattle for commercial slaughter and export. Achieving this will require stepped-up provision of veterinary and extension services, as well as measures that promote the emergence of community-based rangeland management (for example, stricter enforcement of rules against fencing of communal grazing land). Control and eradication of bush is a nationwide priority. Facilitating emergence of markets for bush (as fuel, charcoal, and other products) will make de-bushing more attractive for farmers. Finally, market interventions should focus on maximizing the sector’s total contribution to GDP rather than promoting one stage of production process at the expense of others.

**Transport and logistics:** Namibia’s size, location, and other factors make it unlikely for Walvis Bay to succeed in displacing Durban as the gateway for handling the bulk of the re-
gion’s trade. Specializing in moving high-value, time-sensitive, mission-critical cargo plays to Namibia’s strengths, for which Namibia’s speed outweighs its cost disadvantage. Much of the agenda falls to the private sector, to aggressively seek strategic partnerships between shipping liners that will make direct calls at Walvis Bay and firms in the Copperbelt of Zambia and DRC who will divert their business to Walvis Bay to help fill vessels making those direct calls. As traffic grows, it becomes increasingly important to reverse the three-decade-long trend of declining road maintenance spending. This will require a careful balancing of different road user charges.

Other considerations and implications of the analysis

Two lessons about size and international markets also emerge from the policy notes. First, international integration needs to remain an important element in Namibia’s development strategy. Even for the world’s largest economies, the global market offers richer opportunities for finding buyers, sellers, investors, workers, and new ideas than their domestic markets alone. This applies even more strongly to a small economy like Namibia’s. By expanding to provide more international transit services to countries in the region, Namibia’s transport and logistics sector creates economic spillovers through reducing trade costs the economy as a whole. Two-way trade in meat—selling expensive cuts to wealthy consumers and importing less costly meat for domestic consumption—enables the livestock sector to contribute more to national income than if it oriented itself primarily to the domestic market.

A second and related lesson is to make a virtue out of smallness. Succeeding in even a few niches of global and regional markets has a big payoff for a small economy. Instead of attempting to compete in activities where scale economies are fundamental to commercial success, Namibia will be better off focusing on activities that reward being nimbler and more responsive to consumer demand.