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NAMIBIA

Selected Issues and Statistical Appendix

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Approved by African Department

March 9, 2006

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I. UNEMPLOYMENT AND EDUCATION IN NAMIBIA: SOME FACTS[1]

A. Introduction

1. **Since independence, the Namibian economy has failed to generate significant job growth.** Estimates from the 2002 Labor Force Survey suggest that 20 percent of the economically active population is unemployed. Broader measures of unemployment yield estimates as high as 54 percent. Estimates from the International Labor Organization (ILO) put total unemployment at 34 percent in 2000.[2] [3] These relatively high unemployment levels are not driven by short-run business cycle fluctuations, but appear highly persistent. Although there are some differences in sampling methodology, unemployment among the economically active was around 19 percent in both the 1993/1994 and 1997 Labor Force Surveys—the ILO estimate for 1997 was 35 percent. By a substantial margin, unemployment is also widely perceived to be the most important problem facing the country (Table I.1).

Table I.1. Namibia: Results of Afrobarometer Survey on the Most Important Problems Facing Namibia

Choices	Percent of Respondents
Unemployment	53.9
AIDS	7.6
Poverty/Destitution	6.6
Education	5.6
Water Supply	3.4
Crime and Security	3.3
Food Shortage/Famine	2.8
Wages, incomes and salaries	2.8

Source: Afrobarometer Survey

2. **Using the Afrobarometer Project survey data, this chapter develops some stylized facts about the Namibian labor market, focusing on the link between education, earnings and unemployment.** There is strong evidence that, unlike more developed economies where unemployment also affects educated workers, unemployment in Namibia is primarily an unskilled phenomenon—unemployment among those with post secondary education is almost non existent, and decreases sharply with education attainment.

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[1] Prepared by Rodney Ramcharan (RES).

[2] To be classified as unemployed, the ILO requires that an individual not be in paid employment or self-employment, and that during the reference period the individual took steps to seek paid employment. In short, the individual must be out of work, but available for work and seeking work.

[3] For 2000, the ILO estimated unemployment in South Africa and Botswana at 25.8 and 15.8 percent, respectively. Unemployment in Lesotho was 39.3 percent in 1997—the last available data.

3. **The chapter finds that unemployment probabilities depend on the level of education.** The completion of secondary schooling is an important threshold in the Namibian labor market, and those who have not completed secondary schooling account for a disproportionately large share of the unemployed. In addition, there is evidence that women face a higher risk of unemployment than men with the same age and education level.

4. **Consistent with the differences in unemployment probabilities, there is also evidence that returns to education are large, and become larger as the level of education increases.** Specifically, compared to a primary school graduate, a high school graduate has a 38 percent higher chance of being a high-income earner. And a college graduate has a 56 percent higher chance of becoming a high earner compared to a high school graduate.

5. **Although the methodology and available data cannot predict how large-scale changes in the education distribution will affect unemployment and the skill premium—this awaits a general equilibrium analysis—it does suggest some tentative policy conclusions.** Since unemployment is significantly more likely among unskilled workers, public policy measures that reduce the number of unskilled, such as education reforms that improve access and completion rates for secondary, tertiary and vocational education, can help lower unemployment in the long run, possibly raising average incomes.

6. **At the same time, steps that increase the demand for unskilled labor may also have a large impact on unemployment.** Public initiatives such as works programs, which could possibly be funded through donor support, could help. But given the magnitude of unemployment and the already large role of the public sector in providing employment,[4] success in tackling the problem mainly depends on the private sector. More efficient approaches might include modifying the labor legislation to reduce the cost of employing unskilled labor, especially for smaller businesses. In addition, given the possible complementarities between unskilled and skilled labor [Ramcharan (2004)], relaxing visa restrictions for the entry of more educated workers could potentially increase the demand for local unskilled labor.

B. Empirical Framework and Main Results

7. **The empirical framework is based on Afrobarometer Survey data, which closely mirror the results of the Namibian labor market surveys (Box 1).** Taking the standard definition of unemployment as those not employed but currently searching for a full time job, Table I.2 reports that nearly 28 percent of the respondents are unemployed. Close to 10 percent are employed part time, but still searching for a job. That is, unemployment, including underemployment is around 38 percent—similar in magnitude to the labor market surveys. In fact, only about 33 percent of the survey respondents are employed full time,

[4] See Chapter III in last year's Selected Issues Paper, IMF Country Report 05/96.

suggesting that the dependency ratio—the employed to total population—closely mirrors that found in the labor market surveys, and is consistent with the widespread perception of unemployment as the most serious problem facing the country.

Table I.2. Employment Profile of Respondents

Does Not Have a Job and Not Looking	Does Not Have a Job and Looking	Part Time (Not Looking for Job)	Part Time (Looking for Job)	Full Time (Not Looking for a Job)	Full Time (Looking for a Job)
26.9%	27.9%	1.8%	9.8%	24.3%	8.8%
Source: Afrobarometer Survey					

Box I.1. The Afrobarometer Survey

The Afrobarometer Survey is designed in conjunction with Michigan State University, the Institute of Democracy in South Africa, and the Center for Democratic Development in Ghana. Funding in part is provided by the National Science Foundation (U.S), the World Bank, USAID, the African Development Bank, as well as the UK, Swedish, and Dutch Governments. In addition to academic research, the surveys are also widely used in the local policy-making process. For example, the government of Lesotho adopted the report of the 2000 Afrobarometer survey as an official working document, while the South African Human Rights Commission adopted the survey data for its ongoing monitoring activities.

The data are collected during face-to-face interviews. Participants are chosen by national probability samples that represent an accurate cross section of the voting age population. In the case of Namibia, the survey consists of 1200 individuals. Random selection is used at every stage of sampling and the sample is stratified to ensure that all major demographic segments of the population are covered.

The table below provides some information about the survey participants. The survey is nearly equally split between the sexes, as females account for 49 percent of the respondents. The survey is also focused on the voting-age population, and the average age of those surveyed is about 34—the median age is 30. Survey participants are also linguistically representative of the Namibian population. About 45 percent of the respondents speak Ovambo languages, and the percent of Afrikaans, Herero and Nama/Damara speakers are each around 12 percent.

Respondents' Demographic Characteristics

Total Number of Respondents	*Gender*				*Age*		
	Male		Female		Average Age		Median Age
1200	51.08%		48.92%		34.13		30
Language							
English 1%	Portuguese 0.67%	Afrikaans 12.92%	Ovambo Languages 45.17%	Kavango Languages 8.33%	Herero Languages 12.58%	Caprivi Languages 5.25%	Nama/Damara 12.67%

8. **Survey data suggest a close relationship between education and unemployment.** Table I.3 provides a comparison of the breakdown of the education level between the unemployed and the general population. The evidence suggests that the completion of secondary schooling is an important threshold in the Namibian labor market. While some 71 percent of the unemployed have some secondary education or less, this group only accounts for about 62 percent of the overall sample. That is, those who have not completed secondary schooling account for a disproportionately large share of the unemployed. Conversely, individuals with post-secondary qualifications and beyond make up 15½ percent of the overall sample, but just 2½ percent of the unemployed. Put differently, the odds of unemployment are 5.66 times higher for those without a high school degree, compared to someone with post-secondary qualifications.

Table I.3. Education and Unemployment

Education Category	Unemployed (in percent)	All Respondents (in percent)
No Formal Schooling	5.4	7.4
Informal Schooling	2.7	2.8
Some Primary Schooling	11.6	9.8
Primary Schooling Completed	17.3	13.0
Some Secondary School/High School	34.3	28.9
Secondary School Completed	26.3	22.3
Post Secondary Qualifications, Not University	1.8	5.8
Some University, College	0.3	4.9
University, College Completed	0.3	4.3
Post Graduate	0.0	0.5

Source: Afrobarometer Survey

9. **A simple logit regression framework supports the notion from tabular evidence that unemployment is mainly concentrated among the less educated.** The logit regression framework estimates the link between an individual's education level and the probability that the individual describes himself as unemployed. The coefficient in Table I.4 suggests a large negative and robust relationship between education and unemployment. Specifically, moving from no formal schooling to informal schooling reduces the probability of unemployment by 9 percent. Likewise, compared to some secondary schooling, completing high school reduces the probability of unemployment by 12 percent. But the steepest reductions are reserved for those that acquire tertiary education. In this case, some university or college education reduces the probability of unemployment by 14 percent compared to those that report only post secondary education, but not university.

Table I. 4. Logit Estimates of the Probability of Unemployment

	(2)	(3)
Education	-0.188***	-0.227***
	(0.036)	(0.040)
Gender	---	-0.017***
		(0.006)
Age	---	-0.345***
		(0.134)
Psuedo R2	0.02	0.04
Number of Observations	1135	1135

Standard errors in parenthesis. *** denotes significance at the 1% level.
Regional dummy variables are included in column 3

10. **Adding demographic factors does not alter these conclusions.** While education attainment might be correlated with other demographic factors, such as age, gender, and the region of residence, which might also affect employment outcomes, column 3 of Table I.4 shows that such impact is small, and age itself does not appear to significantly change the odds of unemployment. However, the odds of a woman reporting unemployment is about 1.4 times greater than that of man.[5] That is, a woman having the same age and education level as a man, and from the same region is about 40 percent more likely to be unemployed.

11. **In addition to being less likely to become unemployed, the returns to education increase dramatically for those who have at least completed high school.** This is suggested by Table I.5. Unskilled workers such as farm laborers, maids and vendors have the lowest monthly household income. But household income increases steeply with the level of education, although the rate of increase slows after secondary completion. That is, teachers and professional workers generally have post-secondary education and report the highest household income. They earn about 1.67 times as much as clerical workers—who usually have completed high school. But professional workers and teachers earn nearly 20 times as much as farm workers and others who typically have completed only primary schooling. These simple statistics suggest that while the return to a university degree is large, the returns to completing secondary education are huge.

[5] The coefficients reported in the tables are the unstandardized logistic regression coefficients. The odds ratio can be calculated by using the exponential function. For example, in the case of gender in column 3 of Table I.4, the exponent of -0.017 is 0.707. Thus, 1/0.707 indicates that a woman has a 40 percent greater chance of unemployment.

Table I.5. Occupations, Monthly Household Income and Education[6]

Occupation	Household Income (in N$)	Education
Subsistence Farmer	0-500	Primary School Completed
Farm Worker	0-500	Some Secondary/High School
Domestic Worker	0-500	Primary School Completed
Trader/Hawker/Vendor	501-1000	Some Secondary/High School
Business Person	1001-2000	Some Secondary/High School
Technical Worker	1001-2000	Some Secondary/High School
Clerical Worker	2001-4000	Secondary School Completed
Government Worker	2001-4000	Secondary School Completed
Professional Worker	4001-6000	Post Secondary Education/Not University
Teacher	4001-6000	Some University/College

Source: Afrobarometer Survey

12. **An ordered logit framework is applied to better understand the relationship between education and household income.** Ordered logit estimates reveal how changes in education levels affect the probability that an individual reports a particular household income category. Specifically, let X_i denote individual i's education level from among the 10 categories listed in Table I.5, then the probability that individual i reports a household income j from among the 10 possible income categories—again listed in Table I.5 is:

$$\Pr(\text{Household Income}=j)=\Pr(k_{j-1}<BX_i+u_i<k_j)$$

The parameter B indicates how changes in education, X_i, affect the likelihood that the individual reports household income j. The variable u_i are unobserved features of individual i and are assumed to be logistically distributed. The k_s are the cutoff points that determine the probability that an individual with education X_i reports a household income category j. Table I.6 presents the ordered logit estimates. The parameter B is positive and highly significant (p-value=0.00), suggesting that higher levels of education greatly increase the probability the individuals report higher monthly household income.

[6] The number of households with monthly income beyond N$6000 is relatively few, and are not shown in Table I.5.

Table I.6. Ordered Logit Estimates: Education and Income Categories

	(2)	(3)
Education	0.191***	0.196***
	(0.03)	(0.031)
Gender	---	0.446***
		(0.106)
Age	--	0.002
		(0.106)
Psuedo R2	0.01	0.02
Number of Observations	1135	1135

Standard errors in parenthesis. *** denotes significance at the 1% level.
Regional dummy variables are included in column 3.

13. **Using these estimates, for each of the income categories Figures I.1 to 9 depict the relationship between an individual's level of education attainment and the probability that the individual reports a particular income category.** In Figure I.1 for example, individuals with no schooling, informal schooling or some primary schooling have the highest probability of reporting monthly income between N$0-N$500—the median and mode value in the sample. There is also virtually little change in this probability when moving from no schooling to informal schooling or even some primary schooling. However, the probability of household income being in this category falls steeply for those who graduated from high school, and is at its lowest among those with some form of tertiary education.

14. **The average respondent in the sample claimed household income in the range of N$501-N$1,000.** Figure 1.2 shows that relationship between education and the probability of reporting income in this category is an inverted u-shaped or non monotonic. Individuals with no formal schooling are the least likely to report income in this category. The N$501-N$1,000 is most commonly reported among those with a high school degree or some post-secondary education. Beyond this education threshold, the likelihood drops, as individuals with higher education levels are likely to report higher incomes.

15. **Indeed, beyond the N$501-N$1,000 category, the relationship between education and income is strictly increasing, and becomes convex at higher income categories.** Specifically, higher educated individuals have a higher probability of reporting higher incomes. But the rate at which education increases the probability of reporting higher incomes is also increasing in the level of education. For instance, moving from completing primary schooling to completing secondary schooling increases the probability of reporting monthly household income in the range of N$6,000-N$8,000 by 38 percent. However, a change in education status from high school to university graduate increases this probability by 56 percent. And as column 3 of Table I.6 indicates, these results are robust to the inclusion of the standard demographic controls such as gender, age and region.

Figure I.1 The Probability of Reporting Household Income Less than N$501

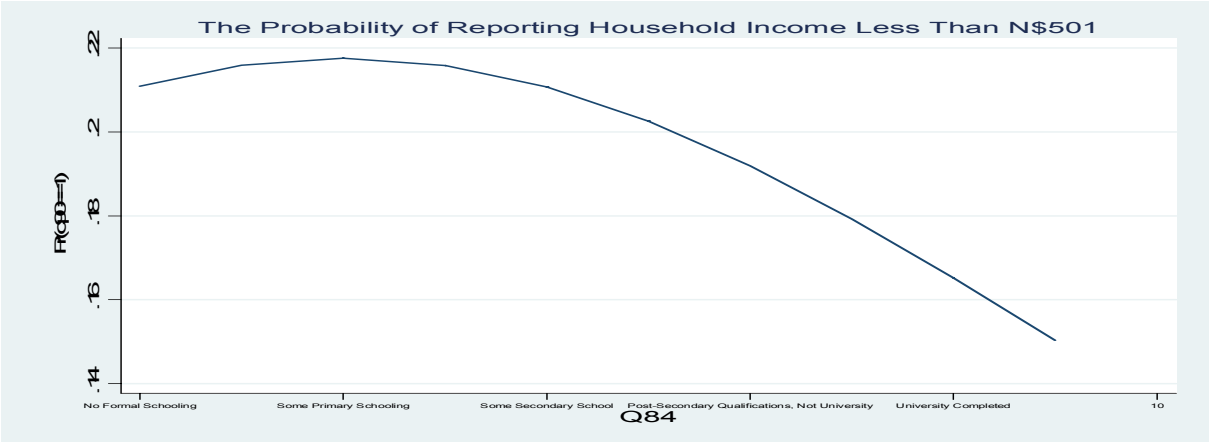


Figure I.2. The Probability of Reporting Household Income between N$501 and N$1,000

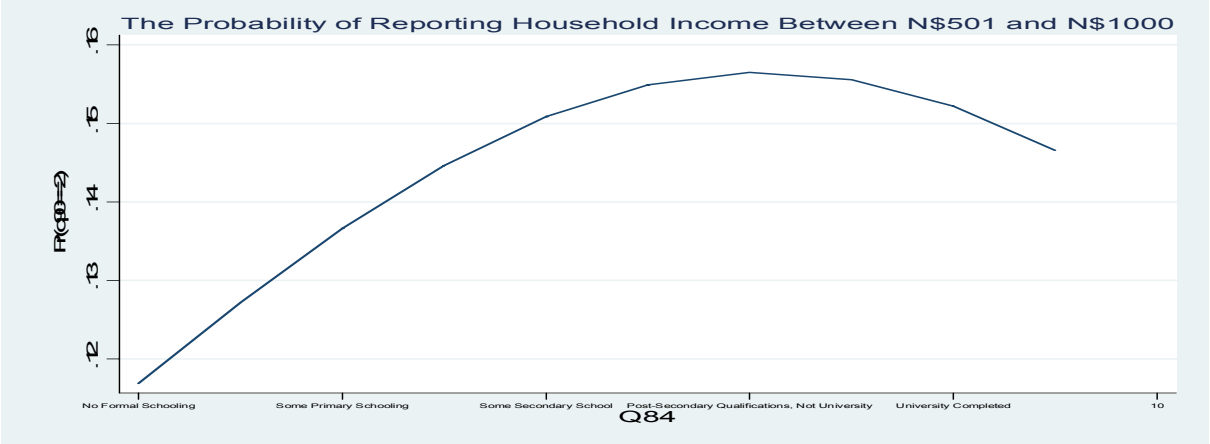


Figure I. 3. The Probability of Reporting Household Income between N$1,0001 and N$2,000

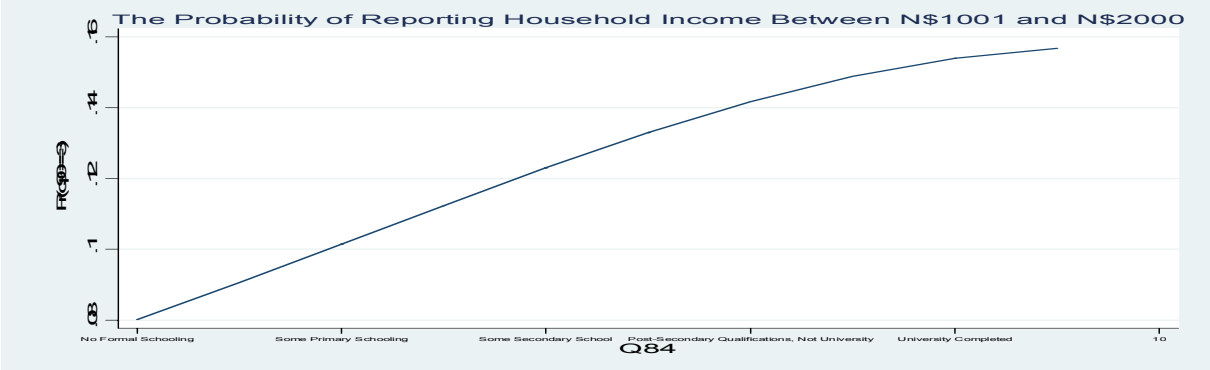


Figure I.4. The Probability of Reporting Household Income between N$2,001 and N$4,000

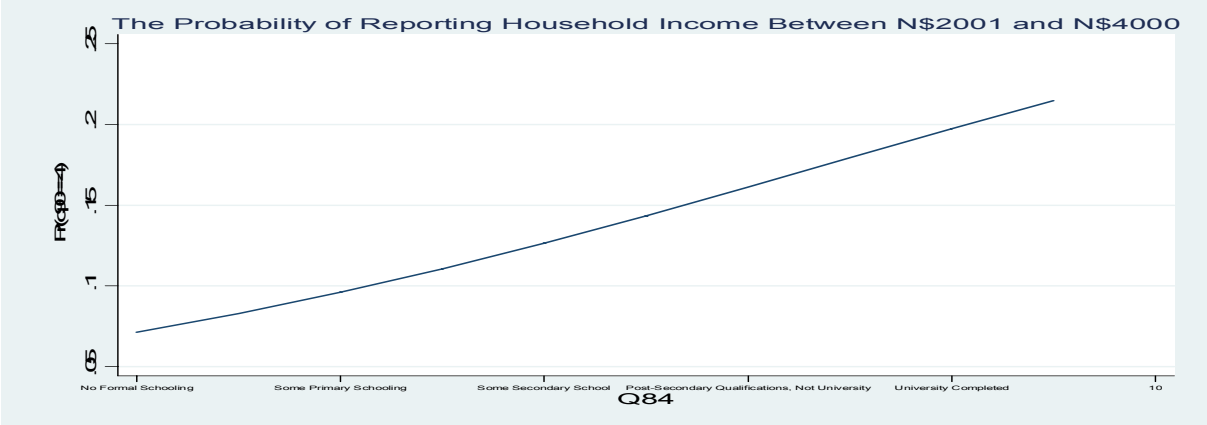


Figure I.5. The Probability of Reporting Household Income between N$4,001 and N$6,000

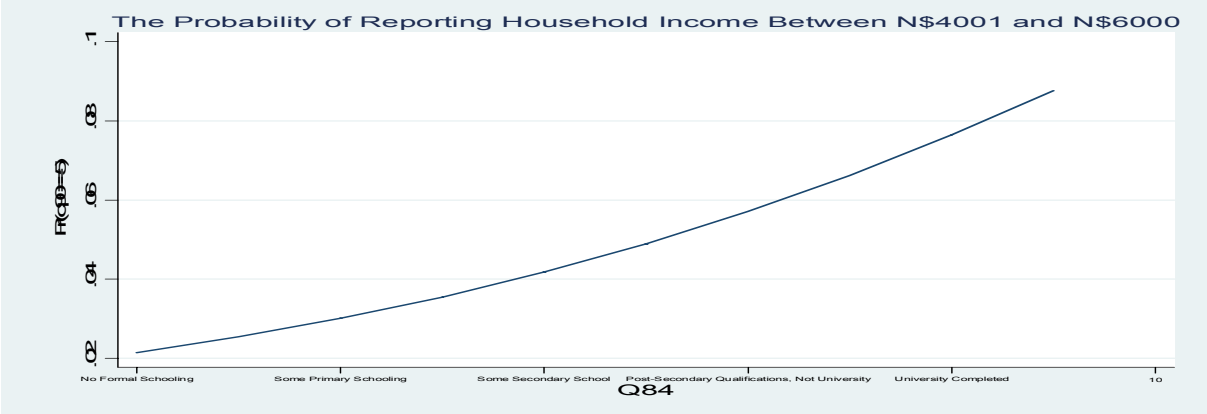


Figure I.6. The Probability of Reporting Household Income between N$6,001 and N$8,000

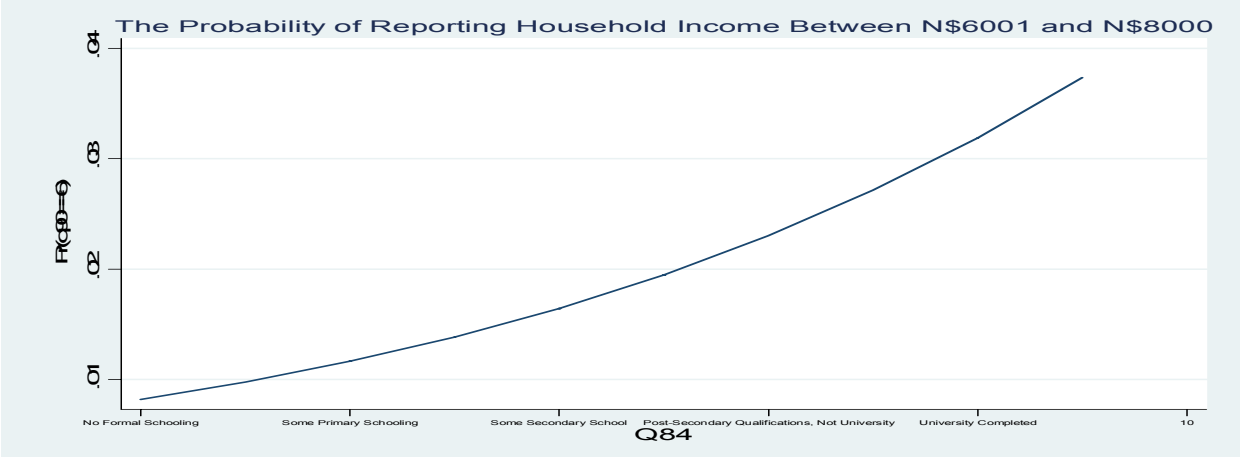


Figure I.7. The Probability of Reporting Household Income between N$8,001 and N$10,000

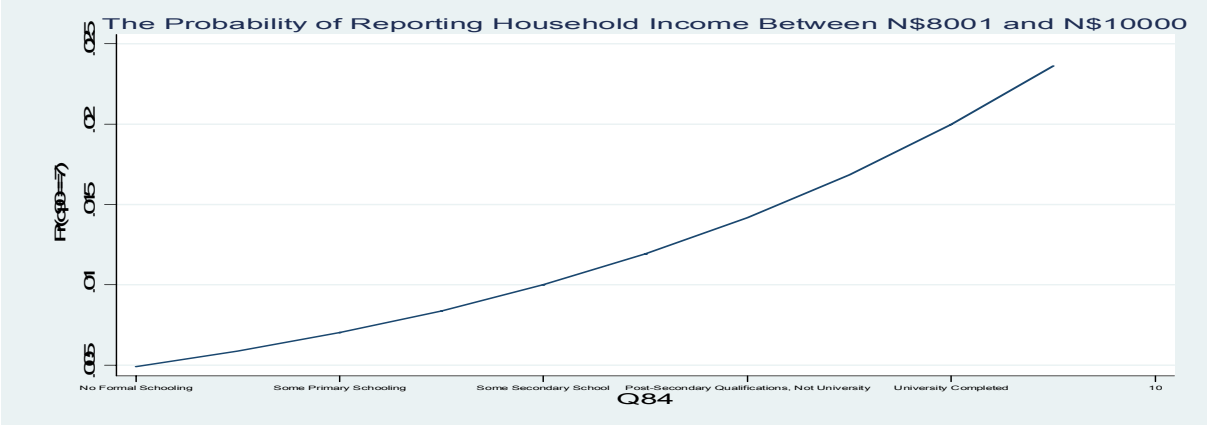


Figure I. 8. The Probability of Reporting Household Income between N$10,001 and N$20,000

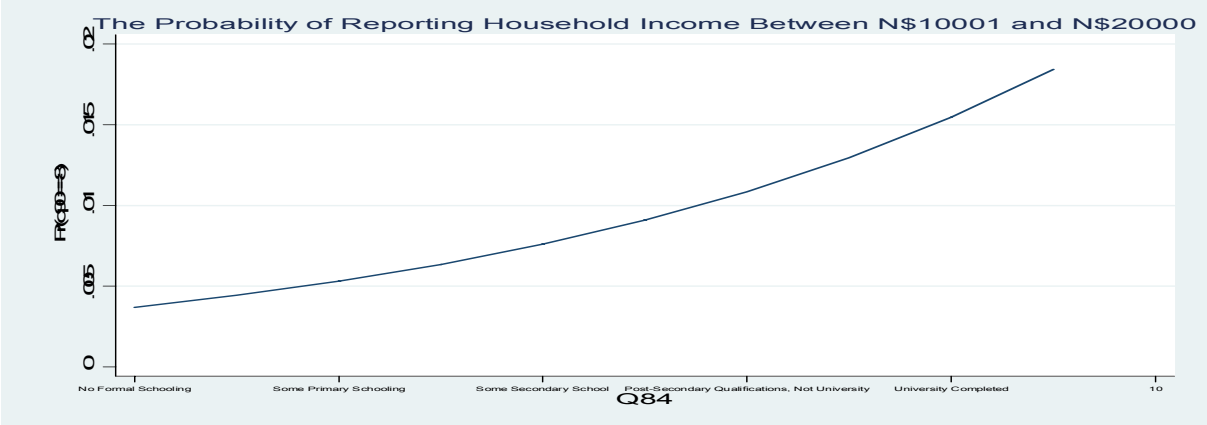
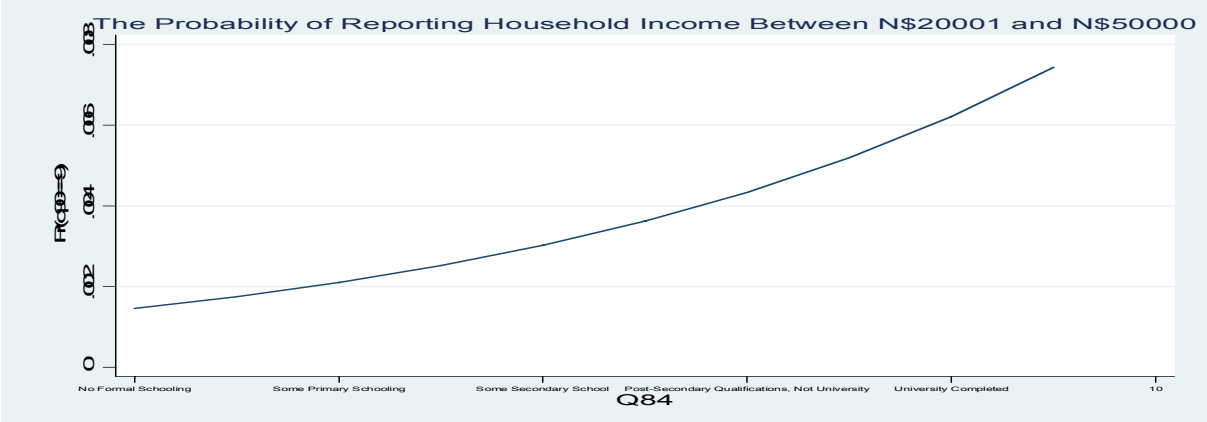


Figure I.9. The Probability of Reporting Household Income between N$20,001 and N$50,000



C. Conclusion

16. **These results are consistent with the well-known advantages of education.** As noted in Mincer (1993), relative to less educated workers, educated workers have higher wages, greater employment stability and greater upward mobility of income. Likewise, the evidence strongly suggests that unemployment in Namibia is primarily concentrated among those without a high school education. And while our estimates are unable to provide net returns, since we lack data on schooling costs and forgone wages, these results also suggest that the gross returns to education in Namibia are large, and increase dramatically up the schooling ladder.

17. **That said, the relative differences between educated and less educated workers in Namibia are much larger than typically observed elsewhere.** In the US for example, those with a bachelor's degree earn about 2.88 times as someone without a college degree. The Namibian data however suggest that the relative difference between the two groups is about 28 times. In addition, US evidence implies that the possession of a college degree increases the probability of being in the labor force by nearly 23 percent over a high school graduate; for the OCED as a whole the increase is around 17 percent. In Namibia, the difference in probabilities between the two groups is around 35 percent. Therefore, unlike OECD countries [Levine (1998)], where unemployment also impacts white collar workers, unemployment in Namibia is mainly concentrated among less educated, becoming increasingly rare as education levels rise. As such, unemployment in Namibia, as in South Africa [Kingdon and Knight (2004)], is primarily an unskilled phenomenon.

18. **This suggests that effective public policy measures to reduce unemployment should tackle both the demand and supply sides of the problem among the unskilled.** Specifically, the very high returns to secondary and tertiary education suggest that improving education access and completion rates at these levels will reduce the supply of unskilled labor, lowering unemployment and possibly raising average incomes[7]. But in the short term, increasing the demand for unskilled labor in both the public and private sector could also reduce unemployment among the unskilled, although the impact on average incomes might be less. In addition, public initiatives such as works programs, which could possibly be funded through donor support, can help. But given the magnitude of unemployment and the already large role of the public sector in providing employment, success in tackling the current high level of unemployment mainly depends on the private sector.

19. **Moreover, exempting small employers from some of the annual leave and other costly provisions in the new Labor Act may increase unskilled employment.** Small firms

[7] The World Bank (2005) provides an in depth survey of the education system in Namibia. Factors such as the legacy of apartheid, low population density, and large distances between population groups, as well as a lack of qualified teachers, books and school supplies and managerial competence all contributed to the relatively weak performance of the education system since independence.

and businesses—auto garages, landscapers, restaurants etc—are more likely to employ unskilled labor. These firms would also be the least able to absorb the increased costs of employment associated with the provisions in the new law. Exemptions from some of the costlier labor provisions may lead to an increase in unskilled employment, or at the very least, avoid decline a in the demand for unskilled labor among the smaller firms.

20. **Likewise, given the possible complementarities between unskilled and skilled labor [Ramcharan (2004)], relaxing visa restrictions for the importation of more educated labor can potentially increase the demand for local unskilled labor.** For instance, allowing a highly trained foreign mechanic to enter the work force may allow local firms to conduct repairs that they otherwise could not, prompting the hiring of local unskilled labor to facilitate these repairs. That said, this analysis is partial equilibrium in nature and does not provide information about how large scale changes in the education distribution will affect wages and employment.

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II. DIMENSIONS OF POVERTY AND SOCIAL POLICY TOWARD THE POOR[8]

A. Introduction

21. **Namibia has one of the most unequal income distributions in the world and about one third of the population is poor.** This chapter describes the main features of poverty in Namibia and assesses the appropriateness of current as well as potential policies to alleviate poverty and reduce income inequality over time.

22. **The main findings of the paper are:**

- **Despite its classification as a lower middle-income country, poverty in Namibia contains numerous economic and social dimensions.** This is evidenced by an uneven income distribution, a high prevalence of HIV/AIDS, high unemployment among unskilled labor, and instances of food insecurity.

- **The recent proposal to introduce a Basic Income Grant (BIG)—providing a monthly cash grant to all Namibians below 60 years old—would be very costly and may jeopardize macroeconomic stability.** The current estimate suggests that the cost of such a grant would be close to 5 percent of GDP. While it would reduce poverty, the likely effect on income distribution is debatable.

- **The implementation of a well-targeted conditional cash grant could be more effective in reducing poverty and improving income distribution over time.** A targeted transfer would be significantly less costly and impinge less on macroeconomic stability. Furthermore, a conditional transfer could be directly linked to the achievement of lagging Millennium Development Goals (MDG) indicators, hereby addressing both current and future poverty.

23. This chapter is organized as follows. Section B describes the dimensions of poverty in Namibia while Section C discusses the current social welfare policy. In Section D, the proposal to introduce a BIG to all Namibians is examined and examples of experience in Latin America are included for comparison. Conclusions and recommendations to improve the welfare system and alleviate poverty are presented in Section E.

B. Dimensions of Poverty

24. **Poverty in Namibia takes on several economic and social dimensions.** These include the uneven income distribution, high prevalence of HIV/AIDS and other diseases, high unemployment among unskilled labor, instances of food insecurity, an inadequate education system, and a weak social support network.

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[8] Prepared by Tove Strauss (AFR).

25. **Namibia is making uneven progress toward meeting the MDGs** (Table II.1 and Figure II.1). The country is on track to meet some targets ahead of schedule, such as on environmental sustainability and gender equality. However, despite high spending on both health and education relative to other sub-Saharan African (SSA) countries, the government has not allocated expenditures efficiently, and outcomes are below expectations (Tables II.2 and II.3). Hence, targets on child nutrition, under-five and maternal mortality, and net primary enrollment are lagging. Although Namibia has made significant progress in treating those suffering from HIV/AIDS, the epidemic is still its greatest challenge to human development. Moreover, the incidence of tuberculosis (TB) is increasing rapidly and is now among the highest in the world.

Table II.2. Namibia: Government Spending on Health
(latest available observation)

	Namibia	SSA
Expenditure per capita (current US$)	99	32
Expenditure, total (% of GDP)	6.7	6.4
Expenditure (% of total expenditure)	9.2	...

Source: World Development Indicators database, April 2005, Namibian authorities, and IMF staff

Table II.3. Namibia: Government Spending on Education
(latest available observation)

	Namibia	SSA
Expenditure per student, primary (% of GDP per capita)	21.0	...
Expenditure, total (% of GNP)	7.1	4.0
Expenditure (% of total expenditure)	21.3	...

Source: UNICEF , Namibian authorities, and IMF staff

26. **Without the introduction of specific pro-poor growth policies, recent calculations by the United Nations suggest that cutting poverty in half by 2015 would require average annual per capita growth rates of 5½ percent**. However, real per capita GDP growth averaged less than 3 percent between 2000 and 2004 and is expected to remain at a similar level over the medium term, clearly lower than what is required to meet the target for poverty reduction. While Namibia is one of very few African countries that maintain a social safety net for vulnerable groups, the system is inadequate to support all of the poor.

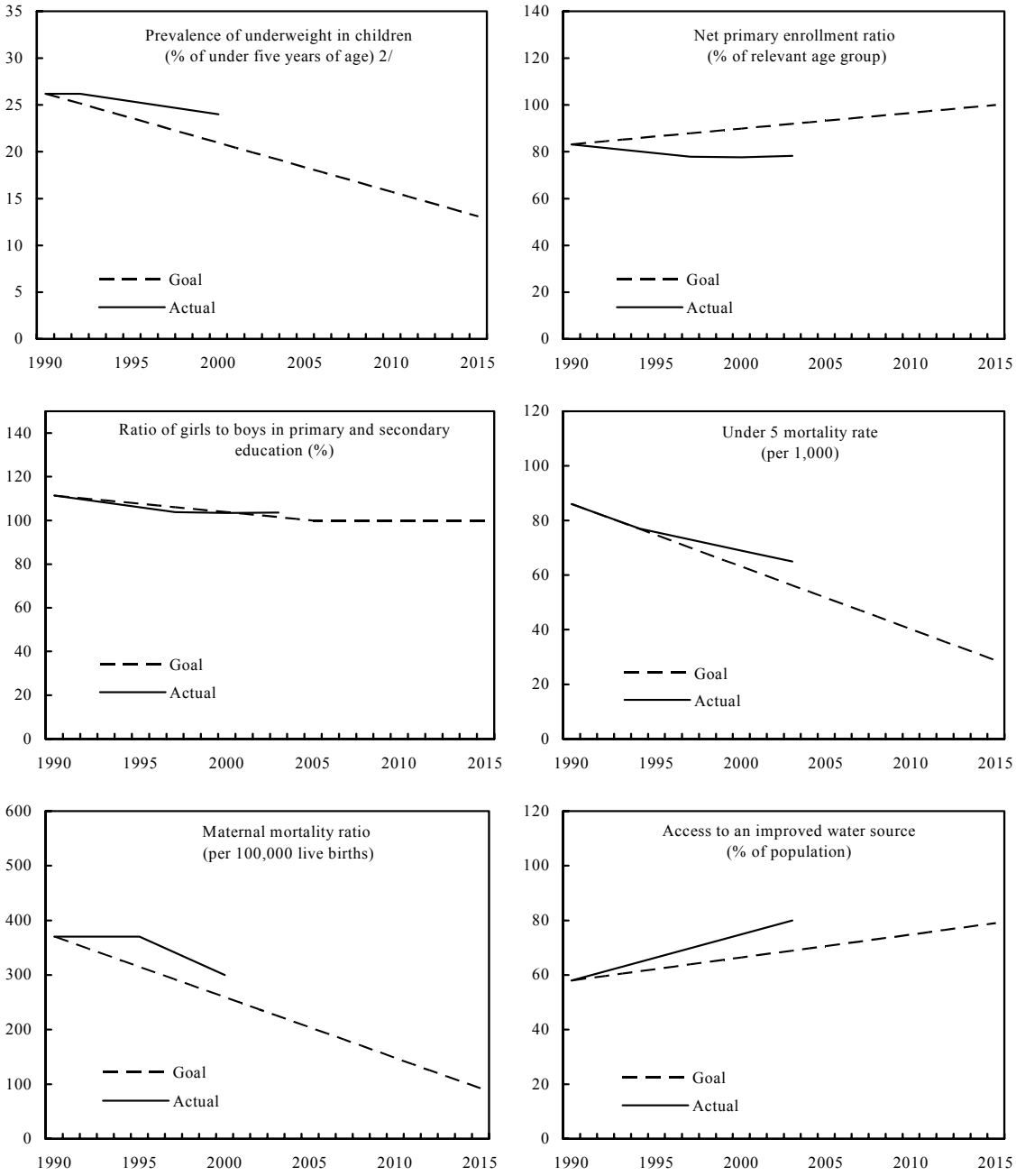
Table II.1. Namibia: Millennium Development Goals, 1990-2003 1/

	1990	1994	1997	2000	2003
Goal 1: Eradicate extreme poverty and hunger					
Percentage share of income or consumption held by poorest 20%	..	*1.4*	..	..	..
Population below $1 a day (%)	..	*34.9*	..	..	..
Population below minimum level of dietary energy consumption (%)	..	..	36	..	*22*
Poverty gap ratio at $1 a day (incidence x depth of poverty)	..	*14*	..	..	..
Poverty headcount, national (% of population)	..	..	..	..	..
Prevalence of underweight in children (under five years of age)	..	..	..	24	..
Goal 2: Achieve universal primary education					
Net primary enrollment ratio (% of relevant age group)	83.2	..	*77.9*	77.7	*78.3*
Primary completion rate, total (% of relevant age group)	..	74	81	87	..
Proportion of pupils starting grade 1 who reach grade 5	63.9	..	*83.4*	94.2	..
Youth literacy rate (% ages 15-24)	..	..	..	*92.3*	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliament (%)	7	..	18	22	26
Ratio of girls to boys in primary and secondary education (%)	111.4	..	*103.8*	103.4	*103.6*
Ratio of young literate females to males (% ages 15-24)	..	..	..	*102.6*	..
Share of women employed in the nonagricultural sector (%)	39.2	42.7	44.7	48.8	50.8
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	*76*	70	59	69	70
Infant mortality rate (per 1,000 live births)	60	*55*	..	50	48
Under 5 mortality rate (per 1,000)	86	*77*	..	69	65
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	..	..	..	77.7	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	300	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Contraceptive prevalence rate (% of women ages 15-49)	..	..	..	44	..
Incidence of tuberculosis (per 100,000 people)	250.6	412.5	527.2	626	722
Number of children orphaned by HIV/AIDS	..	..	..	*33000*	57000
Prevalence of HIV, total (% of population aged 15-49)	..	..	..	*21.3*	21.3
Tuberculosis cases detected under DOTS (%)	..	*23*	86	81.2	85.8
Goal 7: Ensure environmental sustainability					
Access to an improved water source (% of population)	58	..	..	..	*80*
Access to improved sanitation (% of population)	24	..	..	..	*30*
Access to secure tenure (% of population)	..	..	..	..	..
CO2 emissions (metric tons per capita)	..	0	1.1	1	..
Forest area (% of total land area)	10.7	..	..	9.8	..
GDP per unit of energy use (2000 PPP $ per kg oil equivalent)	*12.2*	10.9	10.2	11.1	*10.1*
Nationally protected areas (% of total land area)	..	..	..	..	13.6
Goal 8: Develop a global partnership for development					
Aid per capita (current US$)	86	85.8	95.7	80.6	72.5
Debt service (% of exports)	..	..	..	..	..
Fixed line and mobile phone subscribers (per 1,000 people)	39.3	45.8	68.2	108	182.5
Internet users (per 1,000 people)	..	*0.1*	0.6	16.9	33.8
Personal computers (per 1,000 people)	..	..	18.2	42.1	99.3
Unemployment, youth female (% of female labor force ages 15-24)	..	33.8	41.4	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	29.6	32.9	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	31.7	37	..	*10.9*
Other					
Fertility rate, total (births per woman)	5.4	..	5.3	..	4.8
GNI per capita, Atlas method (current US$)	1720	2030	2190	1870	1930
GNI, Atlas method (current US$) (billions)	2.4	3.3	3.8	3.5	3.9
Gross capital formation (% of GDP)	33.7	21.7	20.2	19.5	22.7
Life expectancy at birth, total (years)	57.5	..	55.6	..	40.3
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	*85*	..
Population, total (millions)	1.4	1.6	1.7	1.9	2.0
Trade (% of GDP)	119.3	99.8	105.1	96.8	86.1

Source: World Development Indicators database, April 2005

1/ Figures in italics refer to periods other than those specified.

Figure II.1. Namibia: Progress Toward Selected Millennium Development Goals, 1990-2015 1/
(In percent, unless otherwise indicated)



Sources: World Bank, http://www.developmentgoals.org; and United Nations, http://unstats.un.org.
1/ Progress is measured compared to a linear projection between the 1990 level and the end year goal.
2/ Actual data for 1990 is assumed to be equal to 1992 level, due to lack of data.

Income and Inequality

27. **There is currently no agreed definition of poverty in Namibia** (Table II.4). The 1993/94 household survey saw one-third of the population living on less than one US dollar per day and the UNDP only ranks Namibia as 125 of 177 countries on the Human Development Index. The National Planning Commission (NPC) uses a classification under which a household is considered extremely poor if it devotes more than 80 percent of its expenditures to food, and relatively poor if the share is at least 60 percent. The 1999 Levels of Living Survey denotes the national mean expenditure as the poverty line (Government of the Republic of Namibia, 1999).

Table II.4. Namibia: Poverty Measures

(in percent of population)

Population below $1 a day	35
Population below minimum level of dietary energy consumption	22
Population devoting more than 80 percent of its expenditures on food	13
Population devoting more than 60 percent of its expenditures on food	47
Population below the national mean expenditure per month (N$462)	76

Sources: 1993/94 National Household Income and Expenditure Survey, 1999 Levels of Living Survey, and World Development Indicators database, April 2005

28. **Despite the many indications of poverty, with an average per capita gross national income of US$2,370, Namibia is classified as a lower middle-income country**.[9] Owing to an abundance of natural resources, it ranks 95 out of 208 economies on the global income scale.[10] However, the country's income distribution is highly skewed, with the highest Gini coefficient in the world, at 0.70.[11] This extreme inequality is mainly a consequence of the economic and social structures inherited from the apartheid period (including the unequal distribution of land), along with the country's dependence on the capital-intensive diamond industry.

[9] Per capita gross national income (GNI) in 2004, as calculated for the 2005 World Development Indicators (WDI) using the Atlas method.

[10] The ranking is according to the 2005 WDI for per capita PPP GNI in 2003.

[11] The results from the 1993/94 household income and expenditure survey are outdated and the Central Bureau of Statistics is expected to complete a new survey in 2006. According to the 1999 Levels of Living Survey, the Gini coefficient was estimated at about 0.8, indicating that inequality may have worsened in the latter half of the 1990s.

HIV/AIDS and Other Diseases

29. **HIV, poor nutrition, and alcohol abuse are the fundamental causes of exposure to disease in Namibia.** Life expectancy has declined from 57 years in 1990 to 40 in 2003, and more than two-fifths of the population is below 15 years old. According to the International Labor Organization, Namibia will have lost one quarter of its workforce to HIV/AIDS by 2015 (ILO, 2004). The HIV/AIDS prevalence rate is the fifth highest in the world and the country ranks fourth among the SACU countries (Table II.5). The infection rate of the adult population is 21.3 percent and the estimated number of HIV-infected people is 250,000 (PEPFAR, 2005). The most recent estimate of the infection rate among pregnant women—a key indicator on the incidence of HIV/AIDS—indicates a slight decline from 22.0 in 2002 to 19.7 percent, but the rate is still much higher than the SSA average of 6.7 percent.[12]

Table II.5. Namibia: HIV/AIDS Prevalence in SACU region
(In percent of adult population, ages 15-49)

	2003
Botswana	37.3
Lesotho	28.9
Namibia	**21.3**
South Africa	15.6
Swaziland	38.8
Sub-Saharan Africa	7.2

Source: World Development Indicators database, 2005

30. **The HIV/AIDS epidemic is the country's greatest challenge to human development.** Not only is the epidemic a source of poverty resulting from loss of income earners and reduced productivity; it also leads to a reallocation of resources to care and away from investment. In addition, the cost of the disease relative to household income is higher for the poor, who are less able to cope with sudden and considerable expenditure increases and income reduction (Steinberg, Johnson, Schierhout, and Ndegwa, 2002). The NPC estimates that the direct and indirect medical care costs of HIV/AIDS to the national economy will amount to N$8.5 billion, or 15 percent of GDP, by 2010. Notwithstanding the increasing costs associated with the epidemic, the health sector share of budget expenditure has declined continuously since 1999/00.

31. **The government's effective response to the HIV/AIDS epidemic has important implications for the impact on poverty.** Besides reducing morbidity and mortality among HIV-infected individuals, antiretroviral (ARV) therapy can lead to a large and relatively

[12] The new results are based on a different sampling methodology. The 2004 sentinel includes data for three new test cities. Without the inclusion of these cities, the ratio would be 20.3 percent. Furthermore, the data is not weighted, in the sense that all cities are given equal weight, despite size variations.

immediate increase in adult patients' ability to work.[13] It may also affect labor supply of other family members; young boys and women have been shown to work less when the patient receives treatment. This negative effect on child labor suggests potential benefits on school attendance.

32. **The government's HIV/AIDS strategy, the Third Medium-Term Plan (MTP III), has so far been successful in terms of treatment.** 15,000 people are currently given ARV therapy and the objective to treat 25,000 by 2009 has been revised upward to above 50,000. However, there is a shortage of skilled staff (nurses, pharmacists, and doctors) and inadequate space in the health facilities, which leads to bottlenecks in treatment. Moreover, the treatment strategy must be complemented by substantive prevention measures to ensure that the downward infection trend continues. Currently, efforts to combat malaria and TB as well as to improve physical infrastructure in the sector are lagging.

33. **Namibia has over 97,000 orphans—largely a consequence of the high HIV/AIDS infection rate.** Only one-fourth of Namibian children live with both parents and an equal share are not living with either parent although both are alive (United Nations, 2004). UNICEF is projecting that the number of orphans and vulnerable children (OVC) will make up 10 percent of the country's projected population of 2.5 million in 2021.[14] The extended families often rely on these children for income (from the orphan grant and child labor) and as primary caregivers for sick family members. Moreover, inadequate protection of unregistered orphans deprives them of family support and has led to exploitation, contributing to their exclusion from society.[15]

Employment Opportunities

34. **The lack of wage employment opportunities is a key contributor to poverty.** Unemployment in Namibia is primarily an unskilled phenomenon, as unemployment among those with post secondary education is almost non-existent.[16] According to the 2002 labor survey, the unemployment rate has remained relatively stable for the past decade at around 20 percent. Rural unemployment is estimated at 17 percent, while urban unemployment is

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[13] In their study on the impact of AIDS treatment on labor supply in Kenya, Thirumurthy, Graff-Zivin, and Goldstein (2005) show that within six months after the initiation of treatment, there was a 20 percent increase in the likelihood of participating in the labor force and a 35 percent increase in hours worked.

[14] According to the Namibian government, OVC are defined as children up to the age of 18 whose mother, father, or both parents have died, who are affected by HIV/AIDS, who are in need of care, including those disadvantaged, in conflict with the law, or who are subject to abuse and violence.

[15] Less than 10 percent of OVC are registered with the Ministry of Women Affairs and Child Welfare.

[16] For a discussion of the link between education and unemployment in Namibia, see Chapter I.

somewhat higher, at 24 percent. Labor force participation among 20-24 year olds is very low, at less than 50 percent, compared to over 70 percent among 25-55 year olds. A new labor survey is expected to be released in 2006.

35. **A large part of the Namibian population depends on small-scale agriculture for employment.** About 85 percent of the poor live in rural areas and 29 percent of the labor force make their living from agriculture. More than one third of Namibian households rely on subsistence farming as their only source of income. Almost half of Namibian households depend on subsistence farming as their primary source of income and in these households, average consumption is about half the national average (United Nations, 2004).

Food Insecurity

36. **Being the most arid country in SSA, Namibia commonly experiences food deficits and recurring droughts.** The lack of adequate natural fresh water resources, low and erratic rainfall, and poor soil quality limits food production and increases vulnerability.[17] The country is a net food importer, relying on maize imports for about 50 percent of its cereal requirements. The self-sufficiency ratio for the past ten years is only 34 percent (United Nations, 2004).

37. **Food shortages in rural areas during periods of drought are a major concern.** Low, variable, and uncertain levels of food production deepen food insecurity, which represents a fundamental challenge to the development process in Namibia (United Nations, 2004). As almost half the rural households derive income from selling surpluses from subsistence production, many households are extremely vulnerable to weather-related shocks. The rural population relies on wild plants and animals for a majority of their nutrition. According to the 2002 Afrobarometer survey, 45 percent of Namibians had sometimes gone without food, and 11 percent had often gone without food, during the past 12 months. Namibia also has a high rate of malnutrition among its population, particularly among children where about one in four children is underweight (Table II.1).

Education

38. **The MDG target to achieve universal primary education is not on track, although other indicators are showing improvement.** Since 1990, the net primary enrollment ratio has declined from 83 to 78 percent, although it is still quite high compared to the SSA average of 64 percent. The primary school completion rate, the proportion of pupils starting first grade and reaching fifth grade, and the youth literacy rate have all improved since the 1990s. About 80 percent of the population is literate.

[17] Most of Namibia's land is unable to support intensive agricultural production, as the soil is poor and water resources are scarce. Rainfall varies from 600 mm annually in the northeast, to 10 mm in the Namib desert; 500 mm per year is considered the minimum for rain-fed agriculture.

39. **According to the Namibian Constitution, primary education is compulsory and the state must provide reasonable facilities to all Namibians.** Furthermore, children are not allowed to leave school until they have completed primary education or have reached the age of 16. However, according to the 1999 Levels of Living Survey, 12 percent of the population had never attended school and among 6-18 year olds, the figure was 6 percent. Many children who do not attend school are unregistered OVC.

40. **There is a widespread view that schools have malfunctioned, producing students with mostly low quality skills.** Despite relatively high spending on education, the allocation of resources has been inefficient and outcomes are disappointing. Since independence, demand for skilled labor has been high, and many qualified teachers have left for the private sector. Moreover, monitoring of the educational system is poor. The World Bank recently completed a study of the education sector, which concluded that the current system is too weak to play its expected role. The key limitations relate to poor quality and ineffectiveness, low efficiency, inequalities, low economic relevance, and low capacity for knowledge creation and innovation (World Bank, 2005a). One of the specific issues identified is that while the government does not charge school fees, many individual schools do. Accounting for about 8 percent of household income, these fees are a major obstacle for the poor. Inadequate facilities were also identified as a major problem; schools lack sufficient classroom space, benches, chalkboards, as well as dormitories for teachers and students.

C. Social Welfare Policy

41. **Namibia is one of very few SSA countries that maintain a social safety net for vulnerable groups.** The system provides welfare grants to the elderly, disabled, OVC, and war veterans. Furthermore, the Social Security Act provides for maternity leave, sick leave, and medical benefits. Payments are made in several different ways: electronically through a bank or post office, in cash using contracted private companies, or by check to old age homes. Grant recipients are issued a smart card that includes their ID number and photograph. No beneficiary should have to travel more than 10 kilometers to reach a payout point.

42. **The most extensive program is the old age pension, which provides Namibians above the age of 60 with a pension of N$300 (US$45) per month.**[18] The program covers 75-100 percent of eligible pensioners. Through the old age pension, grandparents contribute tremendously to the general safety net for their extended family by sharing their income in times of need. Although means testing for the pension program has been discussed, it has not been implemented so far.[19] Overall, expenditure for Namibia's universal pension scheme

[18] For more details on the old age pension system, see Chapter III.

[19] Currently, a large number of pensioners are receiving double pensions, both the old age pension and a retirement pension from either the government or the private sector. By introducing means

(continued…)

accounts for 1¼ percent of GDP. Coverage of the disabled is low, at around 25 percent (Subbarao, 1998).[20]

43. **To supplement the OVC grant, a fund was created in 2003 to cater for emergency needs of OVC that are not yet registered on the grant system.** The fund received an initial injection of N$10 million, although about three times as much would be needed annually to assist the unregistered OVC (United Nations, 2004). Nevertheless, the number of children receiving government grants has more than tripled in the past three years.

44. **The present welfare system is inadequate to support all of the poor.** The number of social workers in Namibia is extremely small for the size of the population they serve. In 2003, there were about 400 registered social workers in the country, but the government employed only 118. Several additional posts were vacant and funded by the budget, but because of low salaries and an increasing workload, the positions were not filled. Besides the insufficient number of social workers, other problems include demanding and tedious application procedures for grants, low value and coverage of grants, and weak targeting of the poor.

D. Introducing A Cash Grant

Basic Income Grant (BIG)

45. **In an attempt to address the acute problems of poverty and income inequality, a coalition of non-governmental organizations has put forward a proposal to introduce a universal income grant in Namibia.** The coalition recommends distributing a monthly cash grant of N$100 (US$15) to all Namibians less than 60 years old, regardless of income. The coalition's main arguments for their proposal are:

- **The cash grant would reach 93 percent of the population and transfer approximately N$900 million, or 2 percent of GDP, to rural areas.** The cost of the proposed distribution system (smart cards, bank accounts, and fixed payout points in rural areas) would be less than 10 percent.[21] The net resource inflow would benefit the economy through increased consumption, which would serve as an engine of growth for local economic development.

- **The net cost of the proposal would be 2¼ to 3¾ percent of GDP and could be recuperated through taxes.** This would include an increase in the value added tax

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testing of the old age pension, the government estimates that the number of beneficiaries could be reduced by 30 percent.

[20] In theory, people suffering from AIDS can apply for the disability grant, but in practice very few do as they would need to disclose their HIV status.

[21] The distribution cost of the old age pension is currently N$9.75 per transaction.

(VAT) by 7 percentage points, to 22 percent, as well as an increase in the income tax. The financing would be redistributive as the rich consume and earn more than the poor, and hence contribute more than they receive from the grant. The two highest quintiles of the population would be net contributors and the three lowest quintiles net beneficiaries in the system. It is expected that tax collection could improve as the revenue base broadens when Namibians register for the grant.

- **The grant proposal would effectively move the majority of the population above the poverty line and reduce income inequality.** The transfer would improve basic nutrition levels and thus increase the productivity of the work force, particularly since adequate food intake is necessary for HIV/AIDS medicines to be effective.

- **A cash grant of only N$100 per month would not discourage people from looking for work.** Instead, it would enable them to get out of the vicious circle of poverty and unemployment. By increasing the income of the poor, both their capacity to look for and find work would improve.

- **A universal grant would be less prone to abuse than a targeted grant.** In addition, targeting would be relatively more costly and complicated. As the needs to be met in Namibia are urgent, a quick rollout of the program is preferable. To ensure sustainability, it would be important to finance the BIG through domestic resources and at this stage, no donors have been contacted.

46. **Although it is critical to address poverty and inequality in Namibia, the current BIG proposal may put economic stability at risk and could compromise the country's overall prudent fiscal policy stance.** According to IMF calculations, the cost of the BIG proposal could reach 5½ percent of GDP and require a doubling of the current VAT rate to 30 percent, assuming that consumption patterns do not change and that there is no additional tax evasion. Moreover, a positive effect on income distribution would only originate from intended outcomes of redistributive tax increases.[22] However, these increases could impose high dead weight losses given the narrow tax base. The affordability of the proposal, possible tax evasion, and effects on macroeconomic stability—one of Namibia's greatest assets—should be carefully analyzed.

47. **A universal cash grant may have unintended fertility and labor market effects that must be taken into account.** If all citizens, including children, are entitled to a monthly cash grant, this may distort incentives to have children and increase fertility, which may conflict with other health policies underway. Furthermore, a universal grant may have adverse labor market effects as the reservation wage for taking up low paid jobs in the informal sector—often seen as the way out of poverty—would increase with the grant

[22] Subbarao (1998) estimates that the effect of the untargeted old age pension on income distribution is very small.

amount. Finally, it remains unclear how communities that largely depend on subsistence farming will react to substantial cash injections. If the additional cash is channeled into unproductive consumption (e.g., for alcohol), the intended stimulus for local economic activity will hardly materialize.

Conditional Cash Transfer (CCT) Programs

48. **The recent introduction of CCT programs in Latin America is an innovative and increasingly popular approach to social assistance** (Box II.1). Political support for the programs is strong and, contrary to common belief, administrative costs have proven to be low. By providing cash to poor families contingent on behavior, usually investment in human capital, the programs present a new approach to long-term social assistance programs (World Bank, 2004).

49. **The CCT programs address both *future* poverty, by fostering human capital accumulation, and *current* poverty, by providing income support for smoothing consumption.**[23] Furthermore, they address equity by targeting resources to the poor and restore efficiency by addressing market failures when externalities exist in the accumulation of human capital (Das, Do, and Özler, 2005).

50. **The CCT programs explicitly tackle criticisms levied at more traditional social programs.** These include weak poverty targeting, high administrative or component costs, lack of integration of disparate projects with a multiplicity of overlapping or unrelated goals, and excessive focus on reducing immediate poverty with little attention to long-term, structural poverty (Rawlings and Rubio, 2005). Early planning has allowed for the collection of baseline data, thus permitting comparisons of households in the treatment and control groups before and after program implementation. Effective implementation has often involved the donor community.

[23] For a more extensive discussion about the impact of CCT programs, see Rawlings and Rubio (2005).

Box II.1. Conditional Cash Transfer Programs in Latin America[1]

Several successful CCT programs have been launched in Latin America during the past decade based on Brazil's first such program in the 1990s. The two largest programs, *Oportunidades* in Mexico and *Bolsa Familia* in Brazil, have helped improve the welfare of 15 percent of the population in Latin America.[2] A review of CCT programs by Coady, Grosh, and Hoddinott (2003) concludes that more than 80 percent of the benefits reach the poorest 40 percent of the families.

CCT programs seek to improve the delivery of social services. This is done by (i) providing cash, which is more flexible, efficient, and cost-effective than in-kind transfers; (ii) changing accountability relationships as cash transfers are provided to service consumers; (iii) addressing both future and current poverty; (iv) explicitly targeting the poor; and (v) fostering synergies in human development by focusing on complementarities between investments in health, nutrition, and education.

Children are the primary target group of the human capital investments promoted under these programs, and compliance with conditions is monitored. Transfer size is calculated based on opportunity costs in order to induce households to make more intensive use of existing educational and health facilities. The programs often designate mothers as recipients, as women tend to make household spending decisions more beneficial for children's welfare. The programs typically include (i) a cash grant conditional on school enrollment and regular school attendance, covering direct and/or opportunity costs for primary and secondary education, and/or (ii) a cash grant targeted to children ages 2-3 or up to primary school, lactating and pregnant mothers, and other adult household members for health center visits, health and nutrition workshops, yearly check-ups, prenatal health care, child growth monitoring, and vaccinations.

The programs have been targeted based on geographic and/or household information and have been implemented gradually. This is because of logistical complexities, fiscal constraints, and uncertainty about the magnitude of program impacts. Program eligibility is reviewed periodically. In general, total costs have been below 1 percent of GDP and administrative costs appear to be small.

1/ This box draws on Inter-American Development Bank (IDB), 2005 and World Bank, 2004.

2/ A third of the population in Latin America and the Caribbean live on less than two dollars per day, and the Gini coefficient for the region is 0.51 (IDB, 2005 and De Ferranti et al, 2004).

51. **Namibia may be a good candidate for introducing a CCT program, as its high incidence of poverty and a limited social safety net coincide with a need for catching up with respect to some MDGs.** Despite their shortcomings, Namibia's education and health sectors are fairly well developed by SSA standards. A conditional transfer could be linked to the achievement of lagging MDG indicators such as school enrollment and child health care

and thus indirectly provide more equal opportunities for Namibia's poor over time.[24] At the same time, the monthly grant would provide much needed income support for the poor and enable consumption smoothing in the short run. Furthermore, a targeted transfer would be significantly less costly than the BIG and impinge less on economic stability.

52. **By explicitly targeting the two most vulnerable groups in society—poor children and HIV-infected individuals—a CCT could reduce poverty and improve the distribution of income.** Through proxy means testing, geographical targeting, or self-selection, the poor can be targeted without fundamentally raising administrative costs. Although it is important to root program management in strong government agencies, the possibilities for donor financing and technical assistance could be explored.[25]

53. **Following the example of other countries, a cash grant in Namibia could be targeted at young children as well as lactating and pregnant mothers.** This would be contingent upon health center visits, health and nutrition workshops, yearly check-ups, prenatal health care, child growth monitoring, and/or vaccinations. A separate grant could be targeted at older children who attend school on a regular basis.[26] Such a grant would provide much needed relief to poor families for the payment of school fees and improve registration and school attendance among the growing number of OVC. However, as school fees are prevalent in Namibia, a clear government policy must prevent a corresponding increase in fees that would absorb any positive effects on poverty reduction. To avoid unintended fertility effects, the program could be limited to a specific number of children per family. Furthermore, to enhance the likelihood of the grant being spent productively on children, the recipient should generally be the mother. The transfer size should be equivalent to the opportunity cost of making more intensive use of existing educational and health facilities.

54. **To reduce poverty among those with HIV/AIDS, two options are feasible.** One alternative is to expand participation of people living with HIV/AIDS in the existing disability pension system by further destigmatizing the disease and encouraging the use of the pension among the infected. Another alternative is to provide a cash grant to the HIV-infected conditional on regular health center visits. By providing them with a cash grant that can finance a stable food intake, treatment will become more effective, with benefits to

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[24] There is considerable evidence that equity, defined as equal opportunities and avoidance of absolute deprivation, is instrumental to the pursuit of long-term development for society (World Bank, 2005b).

[25] In Latin America, both the IDB and the World Bank are currently financing CCT programs. In Zambia, the German government is financing a targeted cash transfer program and the African Development Bank, DFID, and Care International have expressed interest in financing an expansion of the program.

[26] The pros and cons of targeting all poor children or just OVC must be carefully analyzed. The existing OVC grant may have created perverse incentives for poorer households to move their children to better-off households as a coping strategy, and this needs to be discouraged.

society as a whole. The advantage of the latter approach would be to combine the investment in future health with immediate poverty reduction. The respective costs and benefits of the two alternatives would have to be further explored. Furthermore, the possibility that people would expose themselves to HIV infection to qualify for the grant is emerging as a serious issue in the region and must thus be considered.

55. **The introduction of a CCT program should take account of other grants and be accompanied by streamlining other welfare programs.** For example, eliminating the existing OVC grant and means testing the social pensions could free up additional resources. Moreover, the current health and education systems need to be upgraded to accommodate an increasing use of services provided. The success of the program will depend on the ability of the most vulnerable to access services, so that they can qualify for the transfer. In addition, the distribution system needs to be upgraded accordingly, so that all beneficiaries can be reached and obtain ID cards, even in very remote areas. A gradual roll out of the program to monitor fiscal costs, quality of services, and appropriate targeting is crucial.

E. Conclusion

56. **Namibia needs to address the various dimensions of poverty.** A well functioning but affordable social welfare system could lift many Namibians out of the vicious circle of poverty. The current welfare system does not adequately meet the needs of the poor, and many family members depend on the old age pension for their survival. Therefore, the need to upgrade the current system is pressing.

57. **Despite the benefits of immediate poverty relief, simplicity, and extensive coverage, the BIG proposal appears costly and may undermine Namibia's greatest asset—its macroeconomic stability.** Introducing a universal income grant could compromise Namibia's overall prudent fiscal stance. In addition, a large VAT increase could have high distortionary costs given the narrow tax base, and may not significantly reduce income inequality.

58. **For a less costly yet effective alternative, the authorities could study the recent successful experience in Latin America where cash grants conditional on children's school attendance and health clinic visits have been distributed to female heads of households.** If the authorities were to consider such a system, they would need to think carefully about who should be the potential beneficiaries and what conditions should apply to the CCT. While increasing the efficiency and capacity of the health care system, and improving the quality of and access to the education system, a targeted grant conditional on investment in human capital could assist Namibia in addressing both current and future poverty as well as meeting the MDGs. A gradual rollout of the program to test and fine-tune the benefits, obtain more reliable cost estimates, and avoid unexpected negative effects of a large-scale implementation is recommended. A new program should be linked to a review of existing social safety net programs—such as the universal pension grant and the OVC fund—to achieve synergies and free up resources.

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III. The Sustainability of Namibia's Universal Pension Grant in Light of Changing Demographics[27]

A. Introduction

59. **There is a growing debate on how best to organize old-age support in developing countries.** While research has traditionally focused on contributory pension schemes, recent studies highlight the use of non-contributory or even universal cash transfers for the elderly to combat old-age poverty (Barrientos, 2005; Plamondon et al., 2004).[28] Traditionally, it was feared that non-contributory programs would lead to unsustainable fiscal deficits and crowd out inter-generational support. More recently, focus has shifted to the potential advantages of non-contributory pension schemes, which are only found in a handful of developing countries (IDPM, 2003). Namibia features such a pension system, which belongs to the biggest programs of its kind, with a cost of 1¼ percent of GDP.

60. **This chapter deals with the sustainability and efficiency of the flat-rate, universal cash transfer scheme available to all Namibians 60 years and older, irrespective of income.** The pension scheme is administered through a biometric smart card system at low administrative costs. Due to its ability to reach the poor in rural areas and in the informal economy, the universal pension grant constitutes a very important part of the social safety net in Namibia. It is reported to often provide the only income for a household of three to five people. This chapter analyzes the merits of the universal pension system and assesses its fiscal sustainability. As the high prevalence rate of HIV/AIDS deeply affects Namibian society, this chapter pays close attention to the demographic development and its impact on the sustainability analysis.

61. **This chapter concludes that Namibia's universal pension grant is worthwhile to be maintained as it seems to be sustainable and reasonably efficient.** The analysis of Namibia's population dynamics—not surprisingly—yields the result that HIV/AIDS has a devastating impact on the overall population development by reducing population growth substantially. However, the ratio of old-age persons to working-age persons is projected to change only slightly over the next 20 years. From a demographic point of view, the sustainability of the old-age pension scheme is therefore not endangered. From a fiscal point of view, the same observation holds. The fear traditionally expressed in the literature that non-contributory programs cause unsustainable fiscal pressures does not seem to have merit in the context of the current set-up in Namibia. The financing burden carried by the working-age population, measured as expenditure in terms of GDP, is projected to stay constant or decline. Different assumptions underlying several different scenarios test this observation for

[27] Prepared by Jens R. Clausen (AFR).

[28] The term 'non-contributory' refers to old-age cash transfer programs in which eligibility does not depend on earlier contributions, while the term 'universal' illustrates a scheme to which all old-age persons have access, irrespective of income or contributions.

robustness. Nevertheless, these conclusions hinge on the assumption that the old-age pension benefit is not made too generous. In addition, while from a conceptual point of view further efficiency gains could be made if means-testing was introduced, this should only be done if the savings from restricting the pension to the needy is not offset by the additional administrative costs necessary to enforce the means-test.

62. **This chapter is structured as follows: Section B provides some background information on the institutional status quo**. Section C discusses the demographic projections for Namibia available from the U.S. Census Bureau as well as the United Nations and examines the demographic sustainability of the pension system. The population forecasts then feed into the expenditure projections in the following Section D, which are based on different underlying assumptions about the development of the pension grant, the number of pension recipients, and GDP growth. Section E summarizes the results and concludes.

B. Institutional Background

63. **Private pension funds and the Government Institutions Pension Fund are important sources of income at retirement age in Namibia** (Box III.1). However, these pension schemes only provide benefits to those Namibians who contributed (or to their dependents). The Social Security Act of 1994 envisaged a "National Pension Fund" with Pay-As-You-Go characteristics. However, it has not been established so far, and a detailed discussion of such a scheme is beyond the scope of this chapter.

64. **The universal monthly pension grant, available to all Namibians of retirement age, reaches an estimated 75 to 100 percent of the eligible population.** While the number of Namibians receiving a social pension is well-known (in November 2005: 119,773), estimates on the number of Namibians 60 years and older deviate. To receive the monthly grant of currently N$300 (about US$45), applications must be submitted, which must include proof of age (birth certificate) and citizenship (identity document, marriage certificate). If applicants do not possess these documents, they can rely on institutions such as churches to provide confirmation of age and citizenship.

65. **The universal pension system functions as an important part of the social safety net in Namibia.**[29] The latest available Household Income and Expenditure Survey for Namibia from 1993/94 indicated that 11 percent of households in Namibia relied on pensions as their main source of income with 35 percent of the population living on an income of less than US$1 a day. The monthly pension grant of N$300 (US$45) provides relief in this respect by contributing US$1.50 to a recipient's daily income. While the pension transfer by its own does not help to reach the monthly expenditure mean in Namibia (found to be N$462

[29] For an overview on dimensions of poverty and social welfare policies in Namibia, see Chapter II.

(US$70) by a more recent survey from 1999), the monthly grant still goes a long way by transferring 65 percent of the expenditure mean.

Box III.1. Pensions in Namibia

Well-developed private pension funds and the Government Institutions Pension Fund (GIPF) are important sources of income at retirement age in Namibia. This industry's stage of maturity is characterized by its sizable share of GDP. Pension funds have total assets representing 57 percent of GDP in 2004, nearly equivalent to the total assets of all commercial banks. Moreover, according to the recent FSAP, pension funds have been able to earn satisfactory returns, which help to generate a pension income for those contributing to these funds. Traditionally, pension funds benefited from the presence of mining companies in Namibia which secured retirement income for their employees. More and more private companies followed after independence. In addition, the number of civil servants, who contribute to the GIPF, grew substantially.

The GIPF is the biggest pension fund in Namibia, with GIPF's assets constituting 73 percent of the industry's total assets in 2004. Its 71,000 active members (compared to 26,000 pensioners) are employees of ministries and parastatals as well as other government agencies. Although the fund is privately registered, the GIPF's benefits are backed up by a government guarantee. The GIPF's main purpose is to provide defined benefits for its members once they reach the retirement age of 60. While a member contributes 7 percent of his pensionable salary to the fund, employers contribute 16 percent. The benefits are calculated based on the final average salary, age, and number of years the member has contributed.

66. **The existence of a universal cash transfer to the elderly does not seem to lead to a loss of inter-generational support in Namibia.** On the contrary, the pension income seems to be shared within the household, which typically consists of multiple generations. This intra-household, inter-generational support is especially important in the context of the HIV/AIDS epidemic, which causes many among the working-age generation to die or to become too sick to work.

67. **The universal pension income provides the resources to support children and keep them in school.** The household survey indicated that 79 percent of households with a member aged 60 or more had also school-age children. IDPM (2003) found evidence for South Africa's non-contributory pension program that a common motivation for sharing the pension income with relatives was to help with education costs.[30] Also for South Africa, Duflo (2000) found a statistically significant link between the pension transfer to the grandmother and nutrition levels of her granddaughter.

[30] IDPM (2003) constitutes a recent study which examines non-contributory programs in Brazil and South Africa and finds evidence that these cash transfer schemes constitute an effective policy instrument to successfully reduce poverty—without generating unsustainable fiscal pressures or crowding out inter-generational support.

68. **The authorities' estimates suggest that introducing a means-test would reduce the number of recipients by 30 percent.** A distinguishing feature of Namibia's old-age grant system is its universality. Individuals can apply and receive the transfer irrespective of their income. While, from a conceptual point of view, this approach seems to be suboptimal, the authorities motivate the universality with the lack of bureaucratic infrastructure to enforce a means-test. It is unclear how administrative costs would need to be adjusted if such a procedure was successfully introduced.

69. **Monthly payments can be received through a bank account, or can be picked up in cash at a post office or a mobile unit.** In November 2005, 11 percent of pensioners chose to receive their monthly grant electronically through a bank account, 18 percent picked up their transfer at a post office, while the majority of 71 percent opted to receive their cash grant through a mobile unit. The cash disbursements by mobile units are offered through a tendered private contractor at pay-points countrywide, especially in the rural areas. Grant recipients use a smart card, which includes a picture and an ID number, to identify themselves. In addition, a fingerprint is used instead of a PIN. If the database, which is updated monthly and carried by the mobile unit, matches name and fingerprint, cash is disbursed. The contractor is paid by transaction depending on the total number of transactions. The more transactions, the lower the fee he can charge. At the current number of transactions, the contractor charges the government N$9.75 for one disbursement of N$300 at a mobile unit.

70. **The administrative costs constitute only around 4 percent of total costs for the pension scheme and are relatively small compared to the costs of other countries' welfare programs.** Administrative costs actually decreased in 2005, as the transaction fee charged by the private contractor for the cash disbursement was lowered. As a comparison, welfare programs can have administrative costs of 30 percent—as Mexico's TORTIVALES program (Grosh, 1994). Coady (2003) cites Mexico's PROGRESA program with administrative costs constituting less than 10 percent of total program costs as a benchmark. The proportionally low administrative costs would speak in favor of using the smart card system when introducing a more targeted cash transfer scheme as discussed in Chapter II.

71. **Since independence, the costs of the pension scheme have declined marginally, from 1½ percent of GDP in 1990/91 to 1¼ percent of GDP in 2004/05.** Relative to total government spending, pension costs fell from 5 percent to 3¼ percent during that period. This moderation mainly reflects prudent increases of the pension level (see Section D) and changes to the eligibility criteria. At independence, the value of the pension depended on a person's race and ranged from N$382 to N$55. This procedure was only reversed in 1994 when all Namibians of retirement age became eligible to receive a monthly transfer of N$135. This amount has steadily increased up to the current amount of N$300. Future expenditure depends on the level of the pension transfer and on the number of future grant recipients. This figure again depends on the population dynamics, which will be discussed in the following section.

C. Population Dynamics

72. **The high HIV/AIDS prevalence rate of about 20 percent substantially influences population growth in Namibia.** This chapter uses population projections from the U.S. Census Bureau (USCB, 2004) which has compiled population forecasts for the focus countries of the President's Emergency Plan for AIDS Relief (PEPFAR), among them Namibia.[31] The assumptions underlying the USCB model do not explicitly incorporate the authorities' efforts to combat HIV/AIDS as summarized in the "Third Medium-Term Plan (MTP III)". The USCB projections can be interpreted as a scenario in which the implementation of MTP III largely fails. As a contrast, this chapter also uses demographic projections from the United Nations Populations Division (UN, 2005). The UN model explicitly takes into account that the authorities are expanding treatment of AIDS patients with antiretroviral drugs.[32] Therefore, the UN projections can be used as a proxy for the scenario in which the authorities successfully implement MTP III. Up-to-date detailed population projections from the Namibian authorities were not available.

73. **The difference between the actual demographic situation and a counterfactual No-AIDS scenario demonstrates the devastating effect HIV/AIDS has on population dynamics.** The factual AIDS situation is marked by a dynamic increase in the crude death rate (number of deaths per 1,000 persons) and a sharp drop in life expectancy in the middle of the 1990s (Figures III.1 and III.2). The resulting population pyramids differ vastly from those produced by hypothetically assuming that AIDS did not exist (Figure III.3).

74. **HIV/AIDS cuts life expectancy by a third.** As a result of HIV/AIDS mortality, Namibia has at present lost about 25 years of life expectancy at birth. Instead of expecting to live until 70—if AIDS hypothetically did not exist—life expectancy is estimated to be currently between 44 and 46 years, according to USCB and UN estimates, respectively.[33] The loss in life expectancy due to AIDS is much smaller in Nigeria (a country with a much lower HIV/AIDS prevalence rate of 5 percent) and comparable in South Africa (with a similar prevalence rate).

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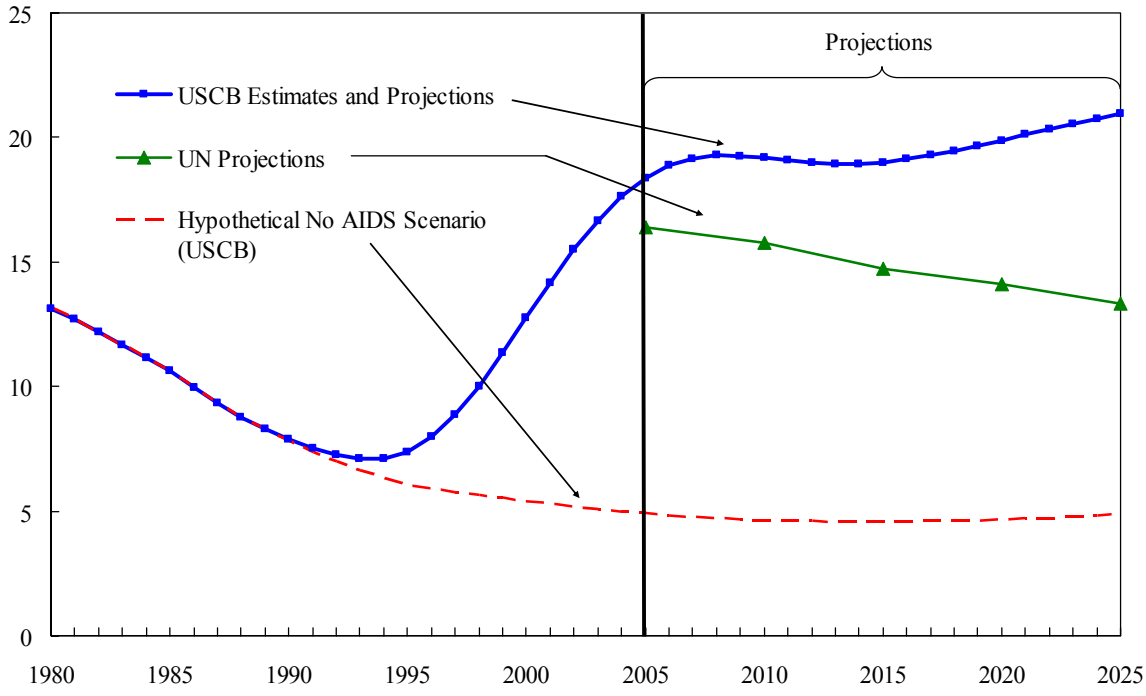
[31] The USCB data set is also used in other studies (Haacker, 2004). See Epstein (2004) for a detailed explanation of how these projections are produced.

[32] Consequently, the UN projections incorporate a longer survival period for patients receiving treatment. In addition, the model assumes that the rate of mother-to-child transmission is projected to decline. As a result, the UN model predicts a slightly more optimistic development than the USCB model with a lower death rate and a slightly higher life expectancy.

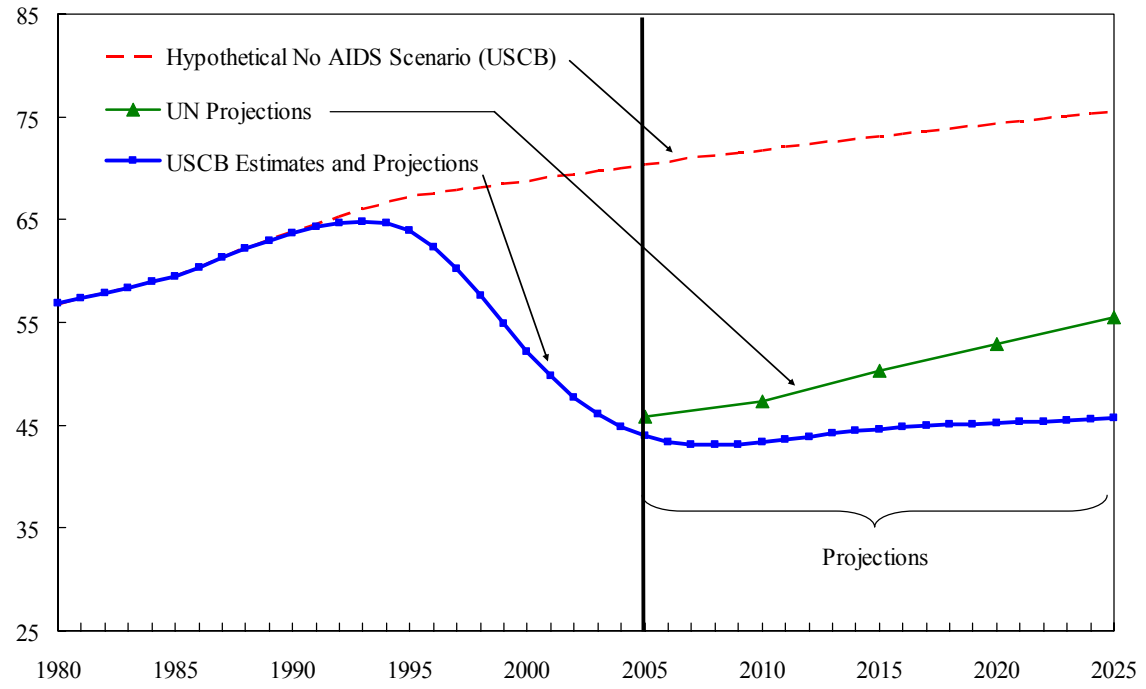
[33] The World Development Indicators database shows a slightly lower life expectancy for 2003 (see Table II.1 in the preceding chapter) than the UN and the USCB. This discrepancy is due to different underlying demographic models.

Figure III.1. Namibia: Crude Death Rate (number of deaths per 1,000 persons), 1980-2025



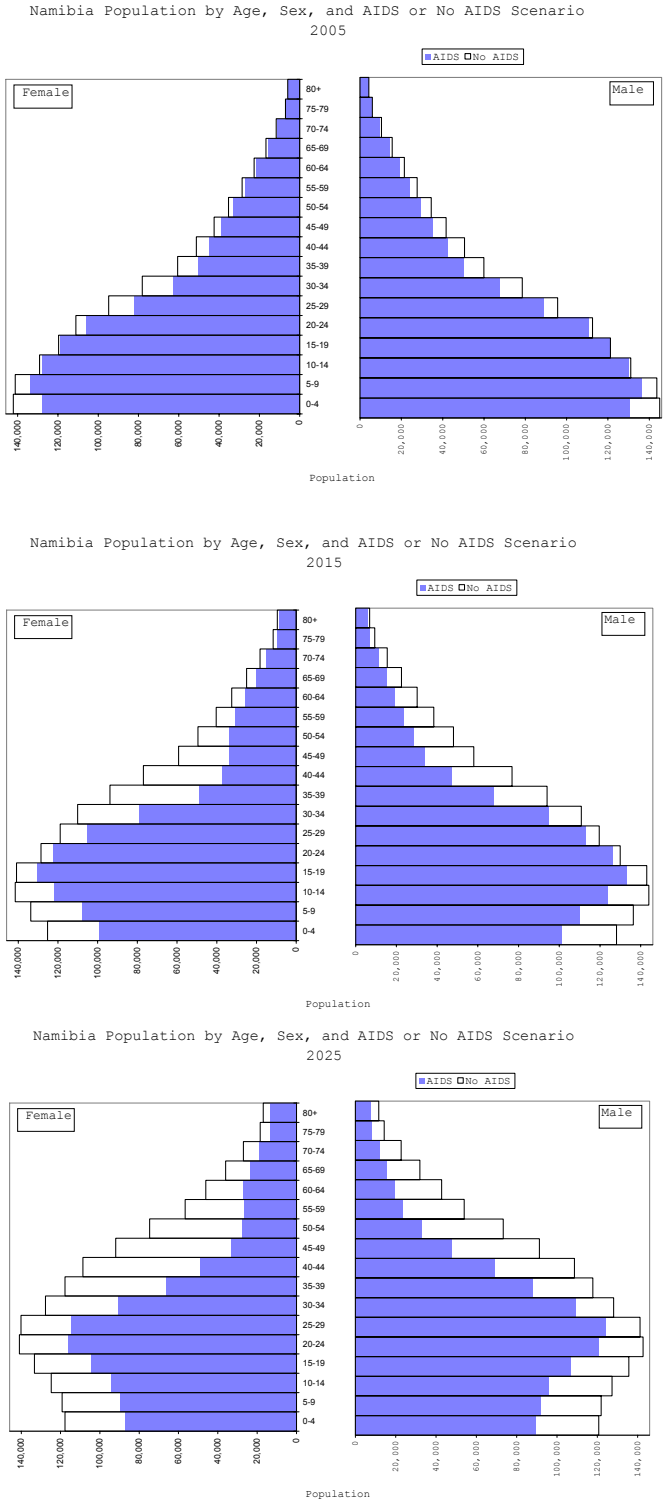
Source: USCB (2004), UN (2005).

Figure III.2. Namibia: Life Expectancy at Birth, 1980-2025



Source: USCB (2004), UN (2005).

Figure III.3. Namibia: Population Pyramids, 2005, 2015, and 2025



Source: USCB (2004).

75. **The dependency ratio—the number of children and people of retirement age divided by the adult population available to support them—is projected to decline** (Table III.1). While the mortality among adults increases with HIV/AIDS, which alone would lead to an increase in the dependency ratio, the mortality among infants and children also increases due to the transmission from mother to child, which produces a counter effect on the ratio. In addition, fewer people reach retirement age due to the epidemic. These two effects explain why, for Namibia, both the UN and the USCB model project the dependency ratio to decline in the future. Economically, this trend means that the same number of working people will have to finance grant schemes for *fewer* dependent people.

Table III.1. Namibia: Impact of HIV/AIDS on Demographic Characteristics of Selected Countries, 2005 and 2015

	Population Growth Rate			Crude Death Rate 1/			Life Expectancy at Birth			Dependency Ratio 2/		
	With AIDS		No AIDS	With AIDS		No AIDS	With AIDS		No AIDS	With AIDS		No AIDS
	USCB	UN	USCB	USCB	UN	USCB	USCB	UN	USCB	USCB	UN	USCB
2005												
Namibia	0.7	0.8	2.2	18.4	16.4	4.9	43.9	45.9	70.3	73.3	81.8	70.6
Nigeria	2.4	1.9	2.7	17.2	18.4	13.9	46.7	44.2	52.9	83.1	89.7	82.4
South Africa	-0.3	0.0	1.2	21.3	20.6	7.2	43.3	44.1	67.0	55.0	58.4	52.7
2015												
Namibia	0.0	0.8	1.4	19.0	14.7	4.6	44.6	50.3	73.1	56.7	63.6	54.6
Nigeria	2.4	1.5	2.7	14.7	15.4	11.5	50.3	48.2	56.7	82.1	80.0	81.1
South Africa	-0.5	-0.3	1.0	22.1	19.5	7.2	44.5	47.0	70.1	47.2	56.9	44.9

Source: USCB (2004), Epstein (2004); UN (2005).
1/ Crude death rate refers to number of deaths per 1,000 persons.
2/ Dependent persons per 100 persons of working age.

76. **From a demographic point of view, the old-age pension scheme seems to be sustainable.** Narrowing the focus to the number of people at retirement age relative to the working-age population (thereby excluding children from the dependency ratio), both the UN and the USCB model yield the following analysis. In 2005, 10 old-age persons faced 100 working-age persons. This ratio is projected to marginally change to 11 old-age persons per 100 working-age persons in 2015 and to 12 in 2025. Therefore, both demographic models predict that the ratio of working-age persons financing old-age pension recipients is expected to change only slightly.

D. Fiscal Sustainability of the Universal Pension Grant

77. **In general, HIV/AIDS exerts an upward pressure on the fiscal deficit.** The high prevalence of HIV/AIDS reduces population growth and destroys human capital. In the hypothetical No-AIDS scenario, the labor force would be significantly larger and more productive (see Box III.2). As a consequence, AIDS negatively affects the tax base and government revenue. The government is also confronted with the need for higher spending on social services to take care of orphans and treat the sick. Overall, HIV/AIDS exerts an upward pressure on the fiscal deficit. However, the analysis in this section will show that the old-age pension system does not contribute to increasing deficits over time. Using the demographic projections discussed above in the fiscal sustainability analysis, different simulations indicate a constant or declining cost in terms of GDP over the next 20 years, provided that the benefit is not made too generous.

Box III.2. HIV/AIDS and Economic Growth

The HIV/AIDS pandemic does not only entail a human tragedy, but also economic costs.[1] Higher mortality rates hurt economic growth as fewer qualified individuals live to obtain leading positions in society. This loss of human capital has a dampening effect on economic activity. In addition, HIV-positive individuals become sick, need to be absent from work, and require medical attention. Productivity on the job inevitably decreases and employers occur additional costs. Companies are reluctant to provide training as their investment in their employees' human capital might become obsolete fast. Therefore, HIV/AIDS not only causes a loss of human capital but also a disincentive to invest in human capital.

Yackovlev (2005; IMF Country Report No. 05/96) estimates the growth impact of HIV/AIDS in Namibia within a growth accounting framework. She concludes that human capital contributed 1.2 percentage points to the average real growth rate of 3.8 percent in Namibia for the last decade. She also quantifies the effect on economic growth for a scenario in which the authorities fail to implement their plan to combat HIV/AIDS. According to her calculations, reduced human capital and less total factor productivity would lower annual economic growth by one percentage point over the medium term. This finding is used to compute an alternative GDP growth rate under the *Alternative Scenarios 1* and *3* below.

Haacker (2002) quantifies the effect of HIV/AIDS on per capita income in Namibia using two models. An open-economy, medium-term model estimates output per capita growth to be 5.8 percent lower due to HIV/AIDS, while the closed-economy, long-run estimation yields an impact of -1.8 percent. However, real GDP per capita can still be projected to increase. Estimates for average annual growth rates of output per capita range from 3.9 to 1.9 percent. Results depend on whether one uses USCB or UN population projections (which predict average annual population growth rates of 0.1 and 1.1 percent until 2025, respectively) and whether average annual real GDP growth is assumed to be 4 or 3 percent.

1/ See Haacker (2004) for the various macroeconomic effects of HIV/AIDS.

78. **Five expenditure scenarios are computed, each based one a differing combination of assumptions** (Figure III.4) for (i) the number of persons receiving the old-age pension, (ii) the development of the level of the old-age pension, and (iii) the growth of real GDP. To keep the analysis concise, the following combinations of assumptions are used to simulate five expenditure scenarios:

- *Baseline Scenario* (baseline GDP growth; UN population projections; pensions increase with inflation).
- *Baseline With Output Shock* (like the *Baseline*, but GDP growth is one standard deviation lower);
- *Alternative Scenario 1* (low GDP growth, reflecting an unsuccessful implementation of MTP III; USCB population projections; pensions increase with inflation);
- *Alternative Scenario 2* (like the *Baseline*, but with pensions rising by 1½ times the inflation rate);
- *Alternative Scenario 3* (like *Alternative Scenario 1*, but with pensions rising by 1½ times the inflation rate).

The proportion of administrative costs[34] and the level of coverage[35] are assumed to be constant when computing the expenditure projections. In addition, the following details underlie the assumptions.

79. **Number of pension recipients:** The factual USCB and UN growth projections[36] for the number of old-age people are applied to the existing number of recipients to compute a series of old-age pensioners. While the UN projections are used in the *Baseline Scenario* (and *Alternative Scenario 2*) to represent a proxy for a successful implementation of the authorities' plan to combat HIV/AIDS, the USCB projections are incorporated in *Alternative Scenarios 1* and *3* to simulate a more pessimistic outcome of the fight against the epidemic.

80. **Development of the level of the old-age pension:** The *Baseline Scenario* (and *Alternative Scenario 1*) assume that the level of the old-age pension will increase with consumer price inflation. This is based on the historical observation that the change in the monthly pension tracked the inflation rate (Figure III.5); without having been formally

[34] If anything, distributive costs could potentially decrease. Due to technological progress, the transaction fees within the smart card system could decline; or, due to higher access to financial services, more people could opt to receive their transfer through their bank account with lower costs to the government.

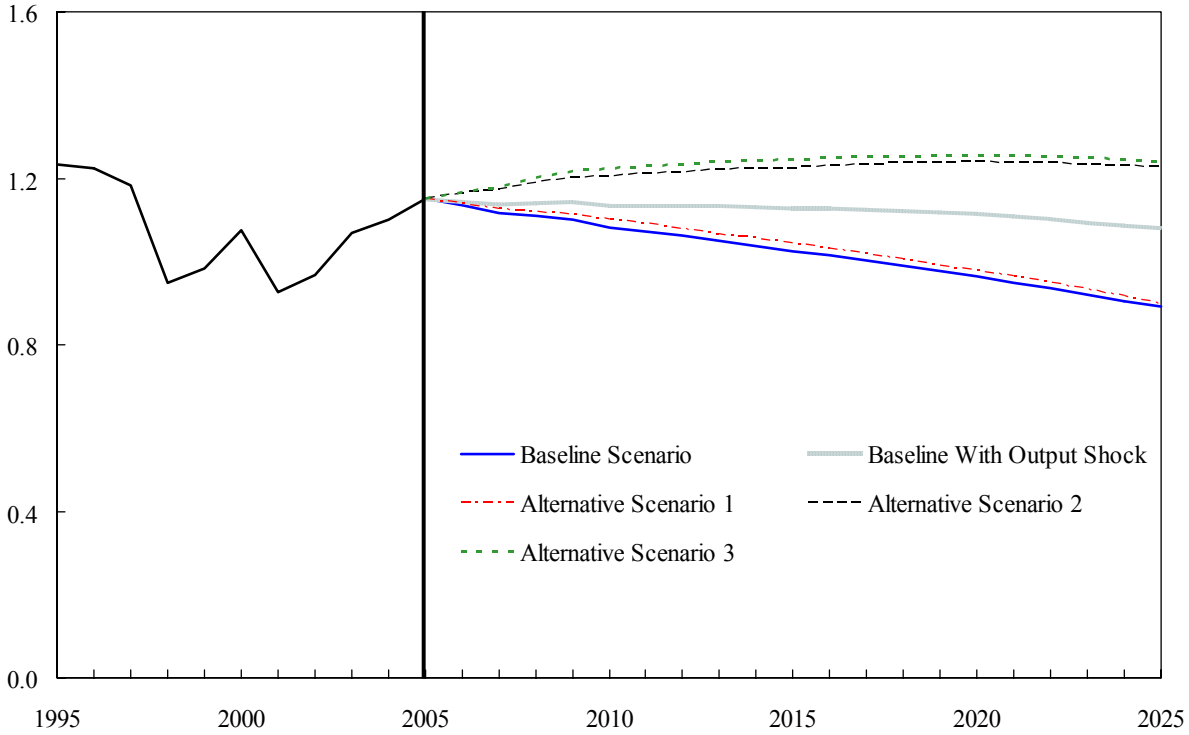
[35] The level of coverage—the proportion of people within the retirement age group receiving the old-age pension—is already very high with an estimated 75 to 100 percent. One could only expect a significant change if means-testing were to be introduced.

[36] The UN projections are only available at 5 year intervals. Interpolation was used to obtain an annual series.

indexed to it. The future consumer price levels used here to simulate a path of the pension grant are based on the projections in the accompanying Staff Report.[37] *Alternative Scenarios 2* and *3* incorporate a pension path that is based on a growth rate of 1½ times the inflation rate to test for sensitivity.

81. **Growth of real GDP:** The *Baseline Scenario* (and *Alternative Scenario 2*) incorporate the path of real GDP which is based on the baseline projections in the Staff Report.[38] *Alternative Scenarios 1* and *3* assume a lower path of real GDP, which takes into account the growth effects of a failure to successfully implement the authorities' strategy to combat HIV/AIDS (see Yackovlev, 2005; Box III.2). In addition, the *Baseline With Output Shock* incorporates a path of GDP subject to a permanent shock of one standard deviation of historic growth. The three different real GDP paths translate into different nominal GDP series—in order to compute a nominal expenditure to nominal GDP ratio—by using the same GDP deflator series.

Figure III.4. Namibia: Pension Expenditure, (in percent of GDP), 1995 to 2025

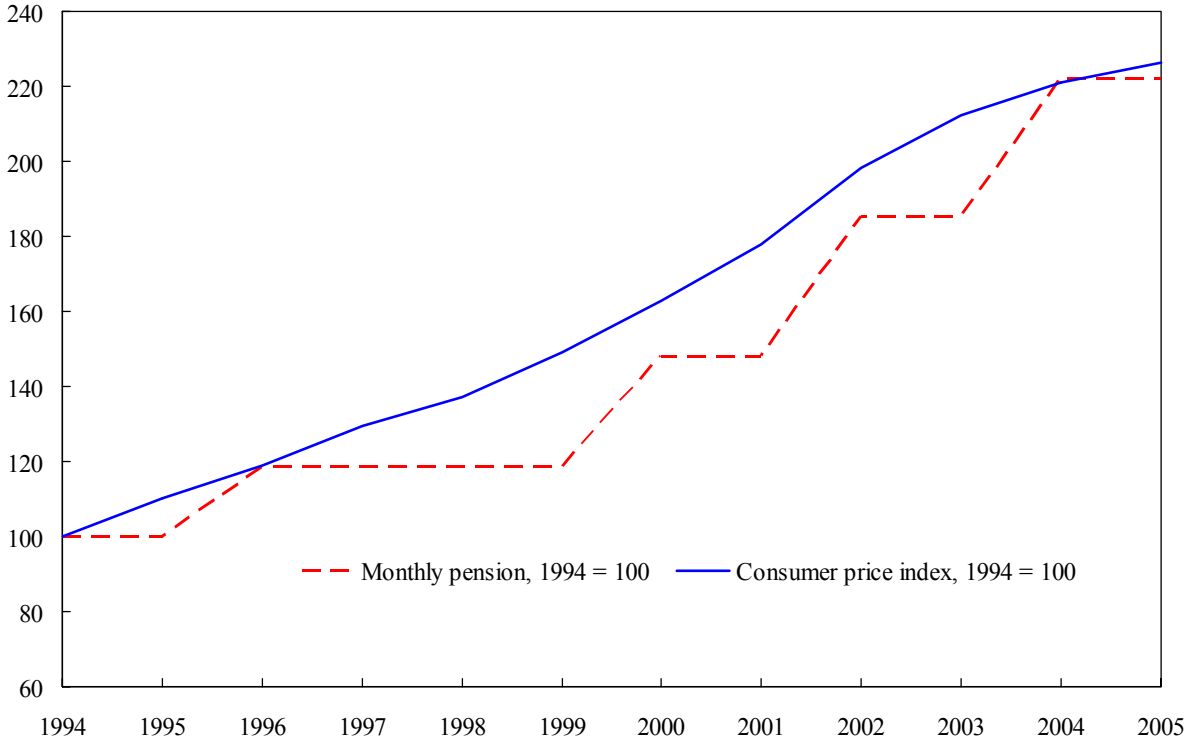


Source: Staff calculations.

[37] The Staff Report projections go only until 2010. The projections' geometric mean over this period is used to extrapolate inflation until 2025.

[38] To extend the projections beyond 2010, the same procedure as for inflation is used (see above).

Figure III.5. Namibia: Consumer Price Inflation and Monthly Pension, 1994 – 2005



Source: Staff calculations.

82. **The fiscal sustainability of the old-age pension is not endangered as different scenarios indicate a declining or constant cost in terms of GDP over the next 20 years** (Figure III.4).

- The *Baseline* and the *Alternative Scenario 2* incorporate a combination of Staff Report growth and UN population projections, assuming that the authorities' strategy to combat HIV/AIDS is implemented. The *Baseline Scenario* yields a declining trend for the cost of the pension grant in terms of GDP, starting at 1.2 percent of GDP in 2005 and declining to 0.9 percent of GDP in 2025.[39] The difference in *Alternative Scenario 2* (namely that the pension level is changed with 1½ times the inflation rate) results in a roughly constant cost for the simulation period.
- *Alternative Scenarios 1* and *3* assume low GDP growth and USCB population dynamics, consistent with a more pessimistic HIV/AIDS development. *Alternative Scenario 1* projects a declining expenditure to GDP ratio, while *Alternative Scenario 3* simulates an average expenditure to GDP ratio of 1.2 percent. The difference is again due to the different adjustment mechanism in the pension level.

[39] Simulating a permanent shock to GDP in *Baseline With Output Shock* slightly elevates the expenditure to GDP path—relative to the *Baseline*—but does not produce an increasing trend.

83. **The old-age pension system does not generate unsustainable fiscal pressures.** Using alternative population projection models does not yield a difference in the trend of costs. While the *Baseline Scenario* assumes an increasing number of pensioners, it also assumes relatively high GDP growth. In contrast, *Alternative Scenario 1* is based on lower growth in the number of pensioners as well as lower GDP growth. Both scenarios project the same declining trend in costs. The adjustment process of the pension level proves to be more important. Adjusting the pension along with inflation ensures a declining trend in the expenditure to GDP ratio, while increasing the pension with 1½ times the inflation rate only keeps expenditure constant. An even higher adjustment will yield an increasing trend in the expenditure to GDP ratio once the combined growth of both grant recipients and the pension level outpace nominal GDP growth.

84. **The largest danger to fiscal sustainability arises from overly generous adjustments to the level of the pension benefit.** This is illustrated in *Alternative Scenarios 2* and *3*. The authorities should thus carefully reflect on the fiscal consequences of any adjustment. The pension expenditure to GDP ratio could act as a useful guide for policy-makers. The simulations indicate the sustainability of an inflation-indexed pension path, which maintains the pension's purchasing power. It might be an option to define a basket of goods and services that reflects the poor's consumption decision more closely than the overall price index. The adjustment of the pension grant could then be guided by the change in this newly defined index.

85. **Means-testing should only be introduced if the additional administrative costs do not outweigh the savings achieved through reducing the number of recipients.** From a conceptual point of view, restricting the pension scheme to those in need can only be recommended. However, as pointed out earlier, it is not clear how the introduction of a means-test affects net costs. This procedure would reduce the number of recipients and at the same time increase costs to establish a sophisticated administrative system. Therefore, a more targeted approach depends on the possibility to implement a relatively simple and cost-effective means-test.

E. Conclusion

86. **In sum, the non-contributory pension scheme is an important and reasonably efficient safety net tool to combat poverty.** The universal pension system in Namibia has the following advantages: (i) it reaches old-age persons, who work(ed) in the informal economy and who live in rural areas; (ii) it does not crowd out inter-generational support; (iii) it has relatively low administrative costs; and (iv) it is fiscal sustainable.

87. **The absence of unsustainable fiscal pressures is one of the key features of Namibia's old-age pension system.** Demographic developments are not expected to substantially worsen the ratio of pensioners to the working-age population. While HIV/AIDS reduces population growth, destroys human capital, lowers productivity growth, and exerts upward pressure on the fiscal deficit, it does not endanger the sustainability of the non-contributory pension system. The analysis in this chapter shows that the old-age pension

system does not contribute to increasing fiscal deficits over time, provided that the authorities continue to show prudence in adjusting the level of the pension benefit over time. If this assumption holds true, the various scenarios in this chapter project a constant or declining trend of costs in terms of GDP over the next 20 years.

88. **Conceptually, further efficiency gains could be made if means-testing was introduced.** However, this procedure should only be adopted if the savings from restricting the pension to the needy is not overcompensated by the additional administrative costs necessary to enforce the means-test.

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IV. Prospects for a Monetary Union for Namibia[40]

A. Introduction

89. **Namibia is a member of the Common Monetary Area (CMA)**. The CMA countries—Lesotho, Namibia, South Africa, and Swaziland—peg their currencies to the South African rand and allow free flows of capital within the CMA area. However, the CMA is not a full-fledged monetary union. Each CMA member retains its own central bank that sets domestic interest rates and issues local currency.

90. **This paper examines whether the CMA is an optimal currency area and assesses the benefits and costs to Namibia of joining a full-fledged regional monetary union**. It concludes that although the current CMA is not an optimal currency area in all respects, Namibia gains significant benefits from the CMA. These benefits include lower transactions costs on trade and financial flows, a clearer framework for monetary policy, and a link to the inflation targeting framework of South Africa. The major drawback of the CMA is the lack of flexibility in adjusting the exchange rate in response to economic shocks.

91. **Namibia would likely gain additional benefits from joining a full-fledged monetary union**. The major cost—the loss of the ability to adjust the exchange rate—is already a consequence of the current fixed exchange rate system, but to the extent that monetary union is irreversible, this cost would be increased. However, additional benefits from monetary union would likely include a further lowering of the risk premium on trade and investment, a greater voice in and credibility of monetary policy, elimination of the separate foreign exchange reserves, and the possibility of a common lender of last resort. These benefits would depend on proper implementation and could be enhanced by policies that provide alternative means to adjust to economic shocks, such as fiscal transfers, labor mobility, and increased wage and price flexibility.

92. **The following sections provide an overview of the CMA, its benefits and costs, and examine what steps would be needed to implement a monetary union**. Section B gives a short history of the CMA and provides the details of the CMA agreement and a separate monetary agreement between Namibia and South Africa. Section C analyses how the CMA differs from a monetary union. Sections D and E assess the benefits and costs of the current CMA arrangement and a full monetary union, respectively. Finally, section F examines some of the steps that would be required to implement a monetary union.

[40] Prepared by Lawrence Dwight (AFR).

B. Key Features of the CMA

Economic Background

93. **The CMA countries differ significantly in their population, economic size, and standards of living (Table IV.1)**. The CMA is dominated by South Africa, which accounted for more than 90 percent of its population and 95 percent of its purchasing power parity-adjusted GDP in 2003. South Africa also had the highest standard of living as measured by GDP per capita at US$10,130 (more than twice Lesotho's).

Table IV.1 CMA Countries: Basic Indicators

Indicator	Lesotho	Namibia	South Africa	Swaziland
GNI PPP (US$ Billions, 2003)	6	13	464	5
GNI per capita (2003)	3,100	6,660	10,130	4,850
GDP (US$ Billions, 2004)	1.3	5.7	213.0	2.4
Real GDP growth (2004)	2.0	5.9	3.7	2.1
Inflation (2004)	4.3	4.1	4.3	3.5
Population (2003)	1.8	2.0	45.8	1.1

Source: International Financial Statistics and World Development Indicators 2005.

History

94. **Despite their differences, the CMA countries have a long history of monetary cooperation**. The South African Reserve Bank (SARB) was established in 1921. At that time, the South African pound became the common currency of South Africa and the territories that are now Botswana, Lesotho, Namibia, and Swaziland. In 1961, the pound was replaced by the rand. In 1974, Lesotho, South Africa, and Swaziland signed the Rand Monetary Agreement while Botswana decided to pursue an independent monetary policy with a flexible exchange rate.[41] Namibia was a de facto member as a territory under the control of South Africa. The CMA replaced the Rand Monetary Area in 1986 and Namibia joined the CMA under the terms of the Multilateral Monetary Agreement (MMA) in 1992 after becoming independent. Aside from the CMA, Namibia is a member of a number of regional groups that pursue coordination of economic policies, including the Southern Africa Customs Union (SACU) and the Southern African Development Community (SADC). These are described in Box IV.1.

[41] However, Botswana has linked the pula to the rand through a currency basket. Because the rand has a weight of 60 to 70 percent in this basket, Botswana's monetary policy and exchange rate are heavily influenced by South Africa's.

Box IV.1: Namibia's Participation in Other Regional Groupings

Namibia is a member of the Southern African Customs Union (SACU). The SACU promotes free trade in southern Africa and includes the CMA countries plus Botswana, which decided not to join the CMA. The original SACU was established in 1910 but was revised in 2002 to give Botswana, Lesotho, Namibia, and Swaziland more say in trade policy. The SACU countries have eliminated internal barriers to trade, erected a common external tariff, and agreed to adopt common policies in agriculture, industry, competition, and unfair trade practices. The SACU members also share customs and excise revenues. Customs revenue is allocated in proportion to intra-SACU import shares while excise revenue is allocated 85 percent according to each member's weight in SACU GDP and 15 percent according to deviations of a member's per capita GDP from the SACU average.[1]

The Southern African Development Community (SADC) was established in 1992 and involves a broader membership. This includes Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. The purpose of SADC is to promote development, foster growth, and alleviate poverty in member states through economic and political cooperation. The SADC agreement focuses on general objectives rather than specific obligations. The key policy objective is to strengthen trade and investment linkages among SADC countries. In this regard, the SADC has set a target date of 2008 for a free trade area.

The SADC has also proposed a monetary union. Members agreed on the goal of establishing a common central bank by 2016 and common currency by 2018. To this end, the SADC has set several macroeconomic convergence criteria:

- *Inflation*: Single digit by 2008, 5 percent by 2012, and 3 percent by 2018;
- *Budget Deficits*: Not to exceed 5 percent of GDP by 2008, 2 to 4 percent by 2012, and 1 percent between 2012 and 2018; and
- *Public and Publicly Guaranteed Debt*: Less than 60 percent of GDP from 2008 to 2018.

The SADC countries show greater divergence in economic conditions and macroeconomic policies than the CMA countries. As a consequence, this paper focuses on prospects for monetary union within the CMA rather than the SADC.

[1] For more information on the new SACU agreement and implications for Namibia, see Chapter II of last year's Selected Issues Paper (IMF Country Report 05/96).

Key Features

95. **Namibia's obligations are spelled out in the MMA of 1992 as well as a Bilateral Monetary Agreement (BMA) concluded with South Africa in 1993**. The MMA includes provisions governing currency issuance, capital flows, access to South African financial markets, and compensation for lost seignorage for countries that allow the rand to circulate. Specifically, the MMA contains the following key provisions:

- ***National Currencies*****:** Each CMA government may issue its own currency after consulting with South Africa.
- ***Capital Mobility*****:** Members may not restrict current or capital account transactions within the CMA. However, they may impose domestic investment requirements.
- ***Access to South Africa's Financial Markets*****:** The governments and financial institutions of Lesotho, Namibia, and Swaziland (the LNS countries) have the right to access South Africa's capital and money markets.
- ***Obligations*****:** Each CMA member has a central bank and responsibility for foreign exchange transactions within its territories. The MMA requires members to bring foreign exchange regulations in accord with South Africa's.
- ***Seignorage*****:** South Africa compensates LNS governments for seignorage lost due to rand circulating in their countries. The formula is:

  S = 2/3 x (yield on 15+ year South African government bonds)
  x (estimated quantity of rand in circulation)

- ***Bilateral Agreements*****:** The MMA permits bilateral agreements on monetary policy and access to temporary credit facilities with South Africa that do not conflict with the CMA.
- ***Consultations and Dispute Resolution*****:** The CMA members agree to consult at least once a year. Disputes that cannot be settled between parties may be referred to arbitration.

96. **The Bilateral Monetary Agreement of 1993 focuses on the mechanics of Namibia's peg to the rand and access to South Africa's financial markets**. It includes provisions that establish 100 percent foreign exchange backing for the Namibian dollar, separate reserve management, and guarantees Namibia's access to South Africa's foreign exchange reserves. Specifically, the BMA prescribes the following:

- ***Legal Tender*****:** Namibia agrees to allow the South African rand to be legal tender in Namibia.
- ***Exchange Rate Peg*****:** Authorized foreign exchange dealers may convert rand to/from Namibian dollars at par.
- ***Reserves*****:** The Bank of Namibia (BoN) must maintain a reserve of rand and other foreign exchange assets equal to the quantity of Namibian dollars issued by the BoN.
- ***Separate Reserve Management*****:** The BoN and SARB separately manage their own foreign exchange reserves.
- ***Access to Foreign Exchange*****:** The SARB will make foreign exchange available to the Government of Namibia that are required for its foreign exchange transactions.

- ***Foreign Exchange Controls*:** Namibia agrees to bring its exchange controls in conformity with South Africa's, and South Africa agrees to consult with Namibia prior to amending those controls.
- ***Compensatory Payments*:** As agreed in the MMA, South Africa compensates Namibia for lost seignorage. The BMA specifies that the quantity of rand in circulation be estimated as follows. Based on a survey, it was estimated that Rand 400 million was circulating in Namibia at end-1990. Starting from this base, it is assumed that Namibia's total money supply increases at the rate of 1.2 times the percentage increase in rand in circulation of the SARB. The factor of 1.2 is designed to adjust for the deepening of Namibia's financial markets. Rand in circulation in Namibia is estimated as the difference between this estimate of Namibia's total money supply and Namibia dollars in circulation as reported by the BoN.

C. How the CMA Differs from a Monetary Union

97. **The CMA agreement differs in a number of important respects from a full monetary union**. First, each CMA country has its own central bank. Thus, there is no joint policy-making and the LNS countries are constrained by their fixed exchange rates to follow monetary policies set by South Africa. Second, as the CMA countries do not share a common currency, they have not irrevocably committed themselves to exchange rate parities. Thus, the LNS countries still have the option to adjust the value of their currencies. This may result in some remaining exchange rate risk that affects trade and capital flows. Finally, the CMA countries do not share in the seignorage of a common currency although they are compensated to some extent by South Africa.

98. **The CMA has been characterized as a combination of a currency board and monetary union** (Tjirongo, 1995). Tjirongo notes that like a currency board the LNS countries' currencies are 100 percent backed by foreign exchange. However, as there is no institution that acts as an orthodox currency board, the LNS central banks have some leeway in monetary policy, and the monetary policy transmission mechanism is not as automatic.[42] The CMA also fits Corden's (1972) definition of a pseudo-exchange rate union in that there is an agreement to fix exchange rates but no explicit integration of monetary policy, no common pool of foreign exchange reserves, and no single central bank. Finally, Cobham and Robson (1994) distinguish between four types of monetary integration based on degree of integration. By their definition, the CMA would be identified as an informal exchange union, the least integrated category, because the CMA does not have single currency, single central bank, or reserve pooling.

[42] For example, the BoN maintained a varying and largely negative interest rate differential vis-à-vis South Africa's policy rate prior to mid-2004 (see Figure IV.2 below).

D. Implications of the Current CMA for Namibia

99. **This section describes the benefits and costs of the current CMA and Namibia's peg to the rand**. It concludes that the CMA countries do not constitute an optimal currency area according to standard economic criteria such as importance of intra-CMA trade or commonality of economic shocks (see Box IV.2). Moreover, neither fiscal transfers nor labor mobility across countries offer alternative means for Namibia's economy to adjust to economic shocks. Nonetheless, the benefits of lower transactions costs, more integrated financial markets, and regional integration may outweigh these considerations.

Box IV.2 The Theory of Monetary Integration

The theory of monetary integration is related to the work of Mundell (1961) and McKinnon (1963) on optimal currency areas. According to the theory of optimal currency areas, flexible exchange rates are not needed to adjust imbalances between regions/countries if there are other methods of adjustment. These include: flexible goods prices, labor mobility between countries, and/or fiscal transfers. Other factors that affect the desirability of fixed exchange rates include the benefits from lower trade and investment costs, asymmetry of shocks, the ability of the authorities to resist monetizing fiscal deficits, and the desirability of adopting the monetary policy of the anchor currency.

There is no agreed methodology for weighing the costs and benefits identified by optimal currency theory. Most analyses focus on assessing the impact of individual factors such as the extent of labor mobility or the prevalence of asymmetric shocks. However, it is inherently difficult to asses the cost of political considerations or the value of tying the hands of the authorities. Thus, different observers can place different weights on different aspects of monetary integration.

Lower Transaction Costs

100. **A fixed exchange rate system can reduce transaction costs by reducing the currency risk premium compared with a flexible exchange rate system.** A lower premium reduces the cost of trade and cross-border investment. The greater the trade and capital flows among CMA countries, the larger the potential benefits from lower transaction costs. Tables IV.2 and IV.3 show that the LNS countries conduct a large share of their trade with South Africa. In Namibia's case, four-fifths of imports come from and more than a quarter of exports go to South Africa. Similarly, Namibia's capital account has shown a large deficits (averaging close to 7 percent of GDP in the last three years). Much of these flows come from pension and insurance companies that place a substantial portion of their assets in South Africa's financial markets. Thus, lower transactions costs could have significant benefits for Namibia's economy.

Table IV.2 CMA Countries: Exports 2003 1/
(percent)

Region	Lesotho	Namibia	South Africa	Swaziland
CMA	19.4	28.6	7.3	68.2
Other Africa	0.2	5.5	12.7	11.7
Europe	0.1	49.7	30.6	1.9
United States	79.5	5.9	9.7	9.1
Other	0.8	10.3	39.7	9.1

Source: National Authorities
1/ Excludes Re-exports.

Table IV.3 CMA Countries: Imports 2003 1/
(percent)

Region	Lesotho	Namibia	South Africa	Swaziland
CMA	86.0	81.5	1.3	89.0
Other Africa	0.1	1.3	3.0	0.6
Europe	0.1	6.2	43.4	1.2
United States	0.2	0.8	9.7	0.3
Other	13.6	10.2	42.6	9.0

Source: National Authorities
1/ Excludes Re-exports.

Asymmetric Shocks

101. **Countries that are subject to similar economic shocks have less need for exchange rate adjustments to offset those shocks.** Tables IV.4, IV.5, and IV.6 and Figure IV.1 compare the CMA countries' major exports, sectoral shares of GDP, and terms of trade. The export, production, and terms of trade statistics suggest that Namibia and the other LNS countries are exposed to different economic shocks than South Africa and have thus lost some ability to adjust due to their pegs to the rand.

- ***Trade*:** Namibia's major exports differ significantly from those of its CMA partners. Namibia's two major exports, accounting for almost 60 percent, are diamonds and fish. By contrast, Lesotho's exports are concentrated in clothing while Swaziland's are concentrated in edible concentrates and cottonseed and lint. While South Africa's major exports, like Namibia's, are concentrated in minerals, the composition is quite different. South Africa's major exports are gold, iron and steel, and platinum. In addition, South Africa's trade is more diversified than Namibia's, with no individual category of exports exceeding 12 percent.

Table IV.4 CMA Countries: Top Five Export Categories 2003
(percent)

Lesotho	Namibia	South Africa	Swaziland
Clothing (71.8)	Diamonds (40.8)	Gold (11.8)	Edible Concentrates (55.1)
Telecom Equipment (8.1)	Fish (18.3)	Iron & Steel (9.0)	Cottonseed and Lint (15.9)
Footwear (3.7)	Other Minerals (14.6)	Platinum (8.2)	Wood Pulp (12.9)
Beverages and Tobacco (2.7)	Other Manu. (12.1)	Other Metals (7.2)	Sugar (8.5)
Wool (2.3)	Live Animals (6.3)	Motor Vehicles (6.9)	Plastic Products (2.7)

Source: National Authorities

- ***Production*:** With regard to the structure of production, the CMA countries also show a great deal of diversity. Agriculture is important in the LNS countries but constitutes only 4 percent of South Africa's GDP. Similarly, mining is important in Namibia and South Africa but not in Lesotho or Swaziland. All four countries have significant services sectors.

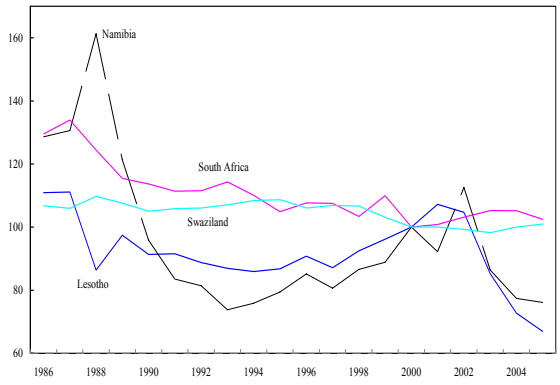
Table IV.5 CMA: Sectoral Composition of GDP

Sector	Lesotho	Namibia	South Africa	Swaziland
	(Percent of GDP)			
Agriculture, forestry, and fishing	16	11	4	13
Mining	0	15	8	0
Manufacturing and construction	38	16	24	30
Services	46	58	64	57
Total	100	100	100	100

Source: World Development Indicators 2005

- ***Terms of Trade*:** Over the last 20 years as a whole, the LNS countries' terms of trade have generally moved with South Africa's. At an annual frequency, correlations with South Africa measured 40 percent for Lesotho, 68 percent for Namibia, and 54 percent for Swaziland during this period. However, this masks some large movements for Namibia in the late 1980s. Also, correlations with South Africa's terms of trade have fallen and even turned negative in the last ten years. (For example, Namibia's correlation fell to -35 percent for the period 1996-2005).

Figure IV.1 CMA: Terms of Trade, 1986-2005



Source: Weta Database

Table IV.6 Correlation of CMA Countries' Terms of Trade with South Africa

Country	Lesotho	Namibia	Swaziland
1986-1995	80%	79%	-12%
1996-2005	-19%	-35%	49%
1986-2005	40%	68%	54%

Source: International Financial Statistics.

Tying the Hands of the Authorities

102. **The bilateral and CMA agreements could possibly restrict the BoN's ability to pursue expansionary monetary policies to boost growth or create money to finance fiscal deficits.** Namibia's bilateral agreement with South Africa requires that its currency be 100 percent backed by foreign exchange. This puts an upper limit on the quantity of currency the BoN can circulate. However, foreign exchange backing for the Namibian dollar has been about twice currency in circulation so that the constraint has not been binding. As noted earlier, the BoN has been able to use its limited flexibility within the constraint of the fixed

exchange rate to maintain its key interest rate below that of South Africa's for an extended period, in an effort to boost economic growth. This differential was eliminated in mid-2004 to help safeguard international reserves. With regard to the fiscal deficit, the government has relied on debt issuance and has not sought to finance the deficit through money creation. In sum, because the authorities' policies have been prudent and the requirement for foreign exchange backing of the currency has not been binding, the value of tying the hands of the authorities may be less than in other countries.

Fiscal Transfers

103. **While in principle fiscal transfers can offset the effects of asymmetric economic shocks, in practice transfers among CMA members do not achieve this result**. It is estimated that in the United States fiscal transfers eliminate as much as 40 percent of the decline in regional income caused by negative economic shocks.[43] The CMA does not provide for fiscal transfers; however, the SACU does. Moreover, SACU transfers are large for the smaller members. For example, from 2000 to 2005 Namibia's SACU receipts averaged 9¾ percent of GDP. Under a new revenue-sharing agreement implemented in 2004, SACU receipts include a development component that distributes 15 percent of excise tax revenue according to the deviation of a member's per-capita GDP from the SACU average. This could be expected to provide some increased income in the event of a negative shock to the economy. However, other larger components of SACU receipts depend upon shares of intra-SACU imports and intra-SACU GDP. Since a negative economic shock could cause imports and GDP to fall, these other components may amplify external shocks. It is important to note that the SACU provides transfers as part of a revenue-sharing agreement and is not meant to address shortcomings in the CMA arrangement. Thus, the CMA does not have a formal fiscal transfer mechanism, and it appears unlikely that such transfers offset the impact of external shocks.

Labor Mobility

104. **Labor mobility appears important for Lesotho and Swaziland but has less impact on Namibia and South Africa**. Like fiscal transfers, labor mobility between countries can help compensate for lack of exchange rate flexibility. Migration from countries with surplus labor to countries with low unemployment can smooth incomes by preventing employment losses in countries where demand has fallen. Similarly, net migration into countries with excess demand can mitigate inflationary pressures. Significant numbers of workers from Lesotho and Swaziland work in South Africa. For example, about 2 percent of the Swazi workforce is employed in South African mines, and remittances from expatriates amounted to about 5 percent of GDP in 2004. For Lesotho, about 15 percent of the workforce is estimated to be employed in South Africa, and remittances have accounted for 22 percent

[43] Sala-i-Martin, X., and Sachs, J. (1992), "Federal Fiscal Policy and Optimum Areas," in M. Canzoneri, V. Grilli, and P. Masson (eds.), *Establishing a Central Bank: Issues in Europe and Lessons from U.S.*, pp. 195–220 (Cambridge: Cambridge University Press).

of GDP in recent years. With regard to Namibia, labor mobility appears lower as the government limits immigration to promote Namibianization. With regard to South Africa, migration to and from the LNS countries has less impact since South Africa accounts for more than 90 percent of the CMA countries' total population. In sum, it appears that labor mobility may be a significant adjustment mechanism for Lesotho and Swaziland but is less important for Namibia and South Africa.

Linking to South Africa's Monetary Policy

105. **By linking to the rand, the LNS countries have effectively imported South Africa's inflation targeting framework.** In Namibia, this helped reduce inflation from a high of 11¼ percent in 2002 to an estimated 2½ percent in 2005. However, the LNS countries have also been subject to the fluctuations of the South African rand. For example, in 2002 the value of the South African rand fell 18 percent versus the U.S. dollar before appreciating 39 percent in 2003. In addition, the rand suffered periods of balance of payments pressure or currency crises in 1994, 1996, 1998, and 2001. Thus, linking to the rand may introduce shocks that could be avoided by floating the exchange rate or pegging to another currency or basket of currencies. However, given that Namibia's trade is concentrated with South Africa, the impact of rand fluctuations versus other currencies has been muted. For example, Namibia's real effective exchange only fell 5 percent in 2002 and rose by a relatively modest 12½ percent in 2003 despite the fluctuations of the rand. Moreover, it is not clear that if Namibia floated its currency it would experience more stable exchange rates. As a small country, Namibia's currency could be vulnerable to changes in capital flows and world demand for its exports.

Conclusions

106. **While the CMA countries do not meet many of the criteria for an optimum currency area, Namibia receives substantial benefits from the peg**. Namibia and its CMA partners do not meet some of the criteria for an optimum currency area because they have substantially different structures of trade and production and faced different terms of trade. For Namibia, this means that fixing its exchange rate to the rand has subjected it to the shocks that affect South Africa. The lack of a fiscal transfer mechanism and low labor mobility also mean that there are few alternative avenues for adjustment. However, given the large trade and financial flows with South Africa, Namibia gains significantly from the lower transactions costs associated with the fixed exchange rate system. The exchange rate peg also helps to clarify the operation of monetary policy and allows Namibia to gain from the inflation targeting framework of South Africa.

E. Additional Benefits and Costs of a Full Monetary Union

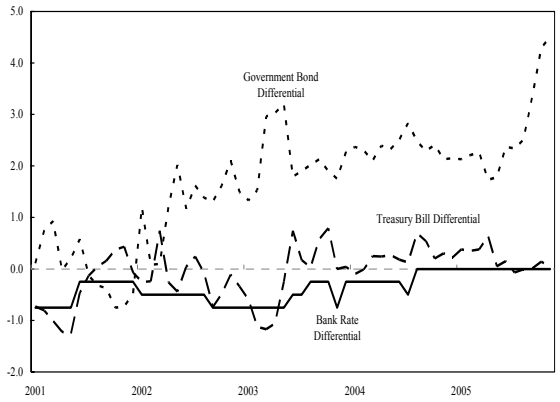
107. **This section discusses the benefits and costs of proceeding to a full monetary union**, **i.e., of adopting a single currency, pooled foreign exchange reserves, and a single central bank that sets policy for the entire CMA region**. It concludes that most of the costs are already a consequence of fixed exchange rates. To the extent that monetary union is irreversible, one additional cost is the loss of the option to use exchange rates to adjust to economic shocks. However, benefits include a greater voice and increased credibility in monetary policymaking through a common central bank, no need to maintain separate foreign exchange reserves, and the possibility of a centralized lender of last resort. Thus, proceeding to a full monetary union would have few additional costs but could have important additional benefits for Namibia.

Even Lower Transaction Costs

108. **Since under the current setup the LNS countries could adjust the value of their currencies in the event of a crisis, the currency risk premium may not be completely eliminated.** Adoption of a monetary union, including a common currency, would make exchange rate adjustment impossible unless the country exits the monetary union.

109. **Since exiting a monetary union is more expensive than simply adjusting the exchange rate, joining a monetary union could further reduce risk premiums**. The size of the reduction would depend upon the size of the initial premium. Figure IV.2 shows that the premium on treasury bills has been small or negative in the last five years and slightly positive on average in the last two years. The interest rate premium on government bonds has been much larger, averaging 2½ percent over the period. These figures suggest Namibia could benefit from a reduction in the interest rate premium from joining a monetary union.[44]

Figure IV.2 Namibia: Interest Rate Spreads versus South Africa



Source: International Financial Statistics

[44] A complicating factor is that the interest rate premium could arise from default risk, not just exchange rate risk. However, Namibia's overall fiscal deficit and government debt are similar in magnitude to those of South Africa. In addition, Namibia has an investment grade rating for local currency debt (a rating of BBB compared to A for South Africa. This suggests the default premium is moderate.

Greater Voice in Monetary Policy

110. **A monetary union would require setting up a common central bank with a joint decision-making body, and would likely give the LNS countries somewhat greater say in monetary policy.** Currently, monetary policy is effectively set by the SARB and transmitted to the LNS countries via the currency pegs. The CMA members have taken some steps to increase dialogue among their central banks. For example, the CMA central bank governors have been meeting on a quarterly basis since 2002. However, these meetings have focused on exchange of information, are not formally recognized by the CMA agreement, and have not had much influence in SARB policy making.

Enhanced Credibility of Monetary Policy

111. **Joining a full monetary union could enhance the credibility of monetary policy but credibility has not been a major issue for the BoN**. In theory, although the CMA restricts Namibia's ability to pursue an independent monetary policy, the BoN can attempt to adjust interest rates at the margin. To the extent that a monetary union eliminates this remaining degree of freedom, it could enhance the credibility of monetary policy. However, as noted earlier, the BoN has kept interest rates in line with those in South Africa and confidence in the peg remains high. A second reason that joining a monetary union could enhance credibility is that a common central bank might be better able to resist pressures from country governments for money creation to finance government budget deficits. In Namibia, however, the government has pursued generally prudent fiscal policies and public debt remains relatively low. These factors suggest that the additional credibility gained from monetary union may be limited.

No Need for Foreign Exchange Reserves

112. **Joining a monetary union with a common pool of international reserves would eliminate the need for the BoN to manage its own foreign exchange reserves.** By several measures, Namibia's current level of international reserves is relatively low. For example, international reserves amounted to only 1¾ months of imports at end-2004 and 40 percent of short-term debt at end-2003. (However, reserves amounted to almost twice the quantity of Namibia dollars in circulation, implying that the BoN could purchase the entire stock of Namibia dollars without fully draining reserves). With a common currency, the BoN would no longer need to hold foreign exchange to back the Namibia dollar. Monetary union would thus eliminate the risk of a run on Namibia's currency.

Lender of Last Resort

113. **A single lender of last resort could provide a more comprehensive view of risks and provide a more integrated regulatory and supervisory framework.** In theory, the requirement that the Namibia dollar be 100 percent backed by foreign exchange could limit the BoN's ability to act as a lender of last resort. If international reserves are not sufficient, then the BoN would not be able to issue currency to bailout a distressed financial institution

in case of need. In this case, an agreement on a common lender of last resort within the monetary union could significantly increase funds available to support Namibian financial institutions. In practice, however, since Namibia's international reserves are almost twice currency in circulation, additional currency could be provided without breaching the bilateral agreement with South Africa. Another reason to have a common lender of last resort would be that Namibia's four major banks are South African owned or have significant South African investment. Thus, a single regulator could take a more integrated view of the CMA countries' financial systems.

Loss of the Option to Adjust the Exchange Rate

114. **Under a fixed exchange rate regime, Namibia still has the option to adjust the value of its currency if faced with a large asymmetric economic shock.** However, with a common currency, this option is no longer available.

Seignorage

115. **As current calculations may overestimate the quantity of rand circulating in Namibia—the basis for South Africa's compensation to Namibia for lost seignorage—Namibia could possibly lose from moving to a monetary union.** Most currency unions have a mechanism to share seignorage. For example, the European Central Bank (ECB) allocates seignorage to member countries based on their capital shares in the Bank. In the case of the CMA, South Africa is already compensating the LNS countries for seignorage lost due to rand circulating in those countries. Thus, it appears likely that the LNS countries would receive some share in the seignorage of a common central bank. However, the net benefits or losses will depend on how the new central bank allocates this seignorage under a monetary union as compared with the current system.

Political Considerations

116. **Political considerations may make it more or less desirable to move toward a monetary union.** Giving up monetary sovereignty is often part of a larger political exercise aimed at economic integration. If the CMA countries believe that economic integration is desirable, they may be willing to pursue monetary union even if the CMA is not an optimal currency area based on economic criteria. On the other hand, to the extent that currency reflects national pride or acts as a national symbol, there may be political pressures not to enter a monetary union. While a full national debate on the merits of a monetary union has not yet taken place, the Namibian authorities appear to see the benefits outweighing the possible costs from such a step (Box IV.3).

Box IV.3 Namibia's Views on Monetary Union

The Bank of Namibia has made several statements regarding the possibility of implementing a monetary union within the SADC and/or the CMA.[1] These statements have emphasized a number of points. First, the BoN does not see monetary union as an end in itself. Rather, monetary integration is viewed as part of a process to promote macroeconomic stability, growth, and economic integration in southern Africa. Monetary union within the SADC and the CMA are both seen as ways to pursue these goals. However, as integration and convergence have progressed further in the CMA countries, it may make sense to establish a CMA central bank ahead of a SADC central bank.[2] Second, the BoN notes that the CMA operates as a de facto monetary union. However, monetary policy is effectively set by one country alone. The Namibian authorities do not consider this an acceptable arrangement and have argued the LNS countries should have greater say in setting monetary policy.

With regard to economic criteria, the BoN has expressed its views on the costs and benefits of monetary union. The benefits include increased regional trade, increased aggregate investment, improved price stability, and the elimination of exchange rate risk. The costs are seen as the loss of the ability to use autonomous monetary policy to dampen economic shocks and constraints on fiscal policy imposed by members to prevent free rider and moral hazard problems. However, the BoN has downplayed these last two problems. First, the BoN notes that the effectiveness of an independent monetary policy is questionable in the context of large global financial flows. In addition, even if the Namibian dollar were allowed to float, monetary policy would be constrained by the need to maintain price stability. Second, constrained fiscal policy may be a benefit rather than a cost because it encourages prudent fiscal management.

Given these considerations, the BoN has indicated that it believes the benefits of membership in the CMA outweigh its costs. The BoN has also stated that Namibia would benefit from development of the CMA toward a full monetary union. However, this is seen as requiring closer coordination of economic policies and the establishment of appropriate political structures. The BoN also argues the CMA could be used as the basis for extension of the coordination of economic policies within southern Africa.[3]

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[1] For example, see Alweendo, Tom (2004), "Prospects for a Monetary Union in SADC," An Address by the Bank of Namibia Governor, at the Bank's Annual Governor's Address.

[2] South African Reserve Bank Governor Mboweni has echoed this view saying that the CMA could form the basis for the creation of a monetary union and emphasizing the need for economic convergence before proceeding with the SADC monetary union. See Mail & Guardian Online, "SADC 'Has Much to Learn' about Monetary Union," July 12, 2005.

[3] The Namibian, "Central Bank wants Namibia's Affiliation to the CMA to Continue," November 22, 1999.

Conclusion

117. **In summary, Namibia could gain some additional benefits from joining a full monetary union within the CMA**. Most of the costs of the CMA—especially the lack of the ability to adjust the exchange rate and possible negative shocks transmitted from South Africa—are already inherent in the current fixed exchange rate system. There would be some

additional cost related to the loss of the option to adjust the value of the currency and, possibly, lower seignorage. However, there would likely be greater benefits in the form of lower transactions costs for trade and investment, a greater voice in monetary policy, elimination of the need to manage separate foreign exchange reserves, and a common CMA lender of last resort.

F. Steps toward a Monetary Union

118. **A number of steps would be required before the CMA countries could proceed to a monetary union**. An important consideration will be the views of the other CMA members, South Africa in particular. Since the LNS countries are small relative to South Africa, South Africa has less to gain economically. Accommodating the LNS countries' views on monetary policy could mean changes in policy that are not optimal based solely on South Africa's self-interest.

Convergence Criteria

119. **Monetary unions generally require convergence of macroeconomic and policy indicators to ensure that less prudent members do not attempt to gain at the expense of others**. For example, a country with an expansionary fiscal policy may have higher inflation. The common central bank would have to impose higher interest rates on the low inflation members in order to address inflation concerns in that country. Similarly, if a country defaults on its debt and the common central bank acts as a lender of last resort, the fiscally prudent countries may be forced to bear some costs.

120. **Table IV.7 shows how the CMA countries measure up on various potential convergence criteria.** Convergence criteria generally fall into four categories: fiscal deficits, debt to GDP, inflation, and interest rates. For reference, the criteria in Table IV.7 can be compared with the requirements for convergence established by the SADC. All four countries had fiscal deficits at slightly above 4 percent of GDP or lower in 2004. Similarly, public debt-to-GDP ratios are close to 60 percent of GDP or lower in 2004. Interest and inflation rates have largely converged. These statistics suggest that the CMA countries could largely satisfy common convergence criteria.

Table IV.7 CMA Countries: Convergence Criteria, 2004

Indicator	Lesotho	Namibia	South Africa	Swaziland	SADC Criteria by 2012
			(in percent)		
Real GDP growth	2.0	5.9	3.7	2.1	
Inflation (period ave)	4.3	4.1	4.3	3.4	≤ 5
Treasury Bill Rate (period ave)	8.6	7.8	7.5	7.9	
			(in percent of GDP)		
Fiscal Balance (excluding grants)	6.5	-4.1	-1.7	-5.0	≥ -4
Public and Publicly Guaranteed Debt 1/	53.1	40.1	35.8	17.0	≤ 60
Current Account	-2.8	10.2	-3.2	1.6	

Source: IMF Statistics
1/ Public Sector Debt for South Africa and Swaziland

Parities

121. **All of the CMA countries' currencies are pegged to South African rand at par.** Once a monetary union is established, parities cannot be adjusted. Thus, the CMA countries will need to consider policies to promote wage and price flexibility as an alternative means to adjust to economic shocks. Thus, if Namibia and the other CMA countries agree to a monetary union, it will be important to promote flexible labor and goods markets.

Implementation and Sequencing

122. **The CMA countries would need to agree on the structure of the central bank, the objective for monetary policy, convergence criteria, and common economic policies before implementing a monetary union**. In addition, they need to consider how a monetary union would affect their participation in other regional groupings like SACU and SADC.

- ***Setting Up a Central Bank*:** In proceeding to monetary union, the CMA countries would need to establish a schedule for implementing a joint central bank. These steps could include enhanced consultation on monetary policy, preparing the legal framework and establishing a joint committee on monetary policy, issuing a single currency, and beginning operations of the new central bank. The CMA countries would also need to determine the level of independence of the joint central bank. As central banks of the CMA members are already relatively independent, the joint central bank should gather sufficient political support for a high degree of independence.
- ***The objective for Monetary Policy*:** In setting up a joint central bank, the CMA countries would also need to specify the objective for monetary policy. They could adopt the current inflation targeting framework of the SARB. In moving from monetary policy set by the SARB to a policy set by a joint central bank, inflation-targeting would have to move from a focus on South Africa to a focus on the CMA countries as a whole.
- ***Convergence and a Stability Pact***: CMA members would need to agree on appropriate convergence criteria and how they will be used in the process of monetary integration. For example, is monetary union contingent on all members meeting all convergence criteria? The CMA countries have so far shown considerable fiscal prudence. They will have to decide whether a stability pact would enhance credibility, help deal with the free rider problems mentioned earlier, and demonstrate commitment to monetary union.
- ***Policies to Make Monetary Union Work*:** The CMA countries do not currently meet the traditional criteria of an optimal currency area. However, if they are committed to monetary union, they could take steps to implement policies that enhance a union's benefits. Thus, the CMA countries may want to consider agreements that (i) integrate their economies more closely; (ii) make labor more mobile across countries within the CMA; (iii) transfer resources across countries to compensate for regional

economic shocks; and (iv) coordinate policies in non-monetary areas such as industrial policy, trade, and finance. Taking these steps would help to ensure that convergence among CMA countries continues, fiscal policies remain prudent, and the new central bank would be independent of the CMA governments

- ***Relationship between the CMA, the SACU, and the SADC*:** The CMA countries will have to decide how much emphasis to place on integration within the CMA, SACU, and SADC. Creating a CMA monetary union could provide the basis for monetary union with SADC, as stated by several CMA central banks. Similarly, the recent SACU agreement on sharing customs revenues could serve as a model for negotiating various aspects of monetary union within the CMA. As the CMA countries are much closer to convergence the SADC countries and already have practical experience with monetary integration, it makes sense to proceed with monetary union among the CMA countries first.

G. Conclusion

123. **The Multilateral and Bilateral Monetary Agreements promote monetary integration in Namibia and the CMA but fall short of creating a full monetary union**. As part of the CMA, Namibia fixes its dollar to the South African rand at par, allows free flows of capital to and from other CMA members, receives payments for rand circulating in Namibia, and obtains the right to access South Africa's financial markets. However, unlike a full monetary union, Namibia has its own central bank, a separate currency, and separate foreign exchange reserves.

124. **The CMA does not fulfill many of the criteria for an optimal currency area**. Namibia's terms of trade and structure of production and export are quite different from South Africa's, suggesting that economic shocks could have different effects on the two economies. In addition, alternative methods of adjustment do not appear to be available. Labor mobility between Namibia and South Africa is low. While there are significant fiscal transfers under the SACU agreement, these are not designed to address the shortcomings in the CMA and in fact may not be stabilizing.

125. **Nonetheless, Namibia gains significant benefits from the peg**. Given the large volume of trade and financial flows with South Africa, the peg significantly reduces transaction costs on trade and capital flows. The peg also enhances macroeconomic stability by clarifying the framework for monetary policy, reducing the ability of the government to monetize fiscal deficits, and linking Namibia to South Africa's inflation targeting framework.

126. **Over the medium term, joining a full-fledged monetary union would likely have a number of additional benefits for Namibia**. First, a monetary union could further lower transactions costs on trade and investment. Second, membership in a CMA central bank could give Namibia greater voice in the setting of monetary policy. This would depend on the composition and structure of the central bank's policy board. Third, Namibia would no longer need to manage a separate pool of foreign exchange to back its currency. Fourth, it may be possible to create a lender of last resort with greater freedom of action and greater

resources than are available under the current system. This would also make sense as Namibia's banking system is dominated by South African banks. Finally, Namibia's leaders may feel that greater economic integration in the region provides significant social and political benefits.

127. **The major drawback of monetary union would be the loss of the exchange rate as a tool to adjust to economic shocks.** However, this drawback is a consequence of the fixed exchange rates rather than monetary union per se. Under a fixed exchange rate regime, Namibia cannot operate an independent monetary policy or adjust the exchange rate to respond to shocks. The main additional drawback of monetary union appears to be the irrevocable nature of this commitment. Thus, the additional benefits of a full monetary union would need to outweigh this additional cost.

128. **To make the most of a monetary union, the CMA countries would need to set up appropriate institutional arrangements**. Initial considerations would include agreeing on convergence criteria, establishing the new CMA central bank, and providing transitional arrangements for monetary policy. The CMA countries would also need to consider alternative means to allow their economies to adjust to economic shocks. These alternatives might include creating a fiscal transfer scheme, enhancing the flexibility of labor markets, allowing more labor mobility among the CMA countries, and improving wage and price flexibility. The appropriate institutional arrangements should be agreed and in place before the CMA countries take steps towards monetary union. Without these arrangements, adjustment to asymmetric shocks will be more difficult.

129. **In conclusion, Namibia would benefit from joining a full regional monetary union.** Even though the CMA may not have all the aspects of an optimum currency area, Namibia's peg to the South African rand appears to have significant benefits in terms of reduced transaction costs and support for regional integration. Taking the additional step of creating a full monetary union could have additional benefits in the form of enhanced credibility of the exchange rate, giving Namibia a greater voice in monetary policy, and stronger institutional arrangements.

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Table 1. Namibia: GDP and Gross National Income (GNI) at Current Prices, 1999–2004 1/

(In millions of Namibia dollars, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004
GDP at factor cost	18,069	21,629	25,192	29,878	30,929	33,434
Compensation of employees	8,307	9,352	10,616	12,012	13,064	13,846
Consumption of fixed capital	2,851	3,103	3,561	4,073	5,304	5,922
Net operating surplus	6,912	9,174	11,015	13,793	12,561	13,666
Taxes on production and imports	2,771	2,671	3,158	3,582	3,051	3,680
Subsidies	-156	-610	-663	-552	-140	-213
GDP at market prices	20,684	23,690	27,686	32,908	33,840	36,901
Net primary incomes from rest of world	-106	230	-10	356	1,732	482
Receivable from rest of world	1,129	1,721	1,704	1,803	2,123	2,374
Payable to rest of world	-1,235	-1,491	-1,714	-1,447	-391	-1,892
GNI at market prices	20,578	23,920	27,677	33,264	35,572	37,383
Net current transfers	2,543	3,010	2,985	2,894	3,467	4,303
Receivable from rest of world	2,906	3,272	3,297	3,202	3,670	4,528
Payable to rest of world	-363	-262	-312	-308	-203	-225
Gross national disposable income	23,120	26,930	30,661	36,158	39,039	41,686
Memorandum items:						
Real GNI at constant 1995 prices	15,486	16,606	17,541	19,054	18,941	19,686
Percentage change	0.1	7.2	5.6	8.6	-0.6	3.9
Per capita GDP at current market prices	11,163	12,466	14,257	16,733	17,023	18,374
Per capita GNI at current market prices	12,477	14,171	15,788	18,386	19,638	20,756

Source: Central Bureau of Statistics and Fund staff estimates.

1/ Columns may not sum due to rounding error.

Table 2. Namibia: GDP by Industrial Origin at Current Prices, 1999–2004 1/

(In millions of Namibia dollars)

	1999	2000	2001	2002	2003	2004
GDP at basic prices	18,231	21,372	24,916	29,747	31,185	33,549
Agriculture	1,101	1,299	1,137	1,687	1,814	1,846
Commercial agriculture	532	792	711	1,309	1,353	1,258
Subsistence agriculture	569	507	425	378	461	589
Fishing	971	1,044	1,445	1,608	1,757	1,470
Mining and quarrying	1,949	2,610	3,663	4,565	2,975	3,837
Diamond mining	1,697	1,934	2,854	3,427	2,630	3,444
Other mining and quarrying	253	677	809	1,138	345	393
Subtotal, primary industries	4,021	4,953	6,244	7,859	6,546	7,153
Manufacturing	2,074	2,371	2,604	3,305	3,870	4,519
Meat processing	139	121	142	143	139	125
Fish processing	451	548	494	703	876	920
Food products and beverages	1,014	1,090	1,215	1,515	1,650	1,670
Other manufacturing	470	612	753	944	1,205	1,805
Electricity and water	541	605	620	854	1,003	1,166
Construction	483	473	789	725	1,029	1,124
Subtotal, secondary industries	3,097	3,448	4,013	4,884	5,902	6,808
Wholesale and retail trade and repairs	1,857	2,682	3,004	3,428	3,987	4,147
Hotels and restaurants	344	403	477	576	648	651
Transport and communications	1,226	1,383	1,533	2,083	2,382	2,516
Transport and storage	787	877	975	1,289	1,409	1,418
Post and telecommunications	439	506	558	794	973	1,098
Finance, real estate, and business services	2,503	2,794	3,131	3,562	3,971	4,228
Financial intermediation	739	833	964	1,088	1,246	1,236
Financial services indirectly measured	-259	-273	-330	-359	-431	-413
Real estate and business services	2,023	2,235	2,497	2,832	3,156	3,405
Owner-occupied dwellings	1,070	1,194	1,317	1,449	1,593	1,734
Other real estate and business services	953	1,041	1,180	1,382	1,563	1,672
Community, social, and personal services	171	201	216	244	281	301
General government	4,620	5,071	5,810	6,553	6,863	7,107
Other producers	392	437	487	558	606	637
Subtotal, tertiary industries	11,112	12,971	14,659	17,002	18,737	19,588

Sources: Namibian authorities; and Fund staff estimates.

1/ Columns may not sum due to rounding error.

Table 3. Namibia: Sector Shares of GDP at Current Prices, 1999–2004

(In percent of GDP)

	1999	2000	2001	2002	2003	2004
Agriculture	5.3	5.5	4.1	5.1	5.4	5.0
Commercial agriculture	2.6	3.3	2.6	4.0	4.0	3.4
Subsistence agriculture	2.7	2.1	1.5	1.1	1.4	1.6
Fishing	4.7	4.4	5.2	4.9	5.2	4.0
Mining and quarrying	9.4	11.0	13.2	13.9	8.8	10.4
Diamond mining	8.2	8.2	10.3	10.4	7.8	9.3
Other mining and quarrying	1.2	2.9	2.9	3.5	1.0	1.1
Subtotal, primary industries	19.4	20.9	22.6	23.9	19.3	19.4
Manufacturing	10.0	10.0	9.4	10.0	11.4	12.2
Meat processing	0.7	0.5	0.5	0.4	0.4	0.3
Fish processing	2.2	2.3	1.8	2.1	2.6	2.5
Food products and beverages	4.9	4.6	4.4	4.6	4.9	4.5
Other manufacturing	2.3	2.6	2.7	2.9	3.6	4.9
Electricity and water	2.6	2.6	2.2	2.6	3.0	3.2
Construction	2.3	2.0	2.8	2.2	3.0	3.0
Subtotal, secondary industries	15.0	14.6	14.5	14.8	17.4	18.4
Wholesale and retail trade and repairs	9.0	11.3	10.8	10.4	11.8	11.2
Hotels and restaurants	1.7	1.7	1.7	1.7	1.9	1.8
Transport and communications	5.9	5.8	5.5	6.3	7.0	6.8
Transport and storage	3.8	3.7	3.5	3.9	4.2	3.8
Post and telecommunications	2.1	2.1	2.0	2.4	2.9	3.0
Finance, real estate, and business services	12.1	11.8	11.3	10.8	11.7	11.5
Financial intermediation	3.6	3.5	3.5	3.3	3.7	3.3
Financial services indirectly measured	-1.3	-1.2	-1.2	-1.1	-1.3	-1.1
Real estate and business services	9.8	9.4	9.0	8.6	9.3	9.2
Owner-occupied dwellings	5.2	5.0	4.8	4.4	4.7	4.7
Other real estate and business services	4.6	4.4	4.3	4.2	4.6	4.5
Community, social, and personal services	0.8	0.8	0.8	0.7	0.8	0.8
General government	22.3	21.4	21.0	19.9	20.3	19.3
Other producers	1.9	1.8	1.8	1.7	1.8	1.7
Subtotal, tertiary industries	53.7	54.8	52.9	51.7	55.4	53.1
Taxes less subsidies on products	11.9	9.8	10.0	9.6	7.8	9.1
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Namibian authorities; and Fund staff estimates.

Table 4. Namibia: GDP by Industrial Origin at Constant 1995 Prices, 1999–2004 1/

(In millions of Namibia dollars)

	1999	2000	2001	2002	2003	2004
GDP at constant basic prices	12,724	13,211	13,488	14,439	14,985	15,903
Agriculture	1,009	1,056	899	975	1,010	1,025
Commercial agriculture	495	648	589	723	755	687
Subsistence agriculture	514	408	310	252	255	338
Fishing	559	641	631	703	732	666
Mining and quarrying	1,210	1,190	1,117	1,296	1,237	1,692
Diamond mining	908	847	803	942	909	1,264
Other mining and quarrying	303	343	314	355	328	428
Subtotal, primary industries	2,779	2,887	2,647	2,974	2,979	3,383
Manufacturing	1,515	1,570	1,657	1,816	1,911	2,024
Meat processing	111	101	107	109	97	86
Fish processing	281	241	204	183	277	271
Food products and beverages	759	774	808	875	872	874
Other manufacturing	364	455	538	648	665	792
Electricity and water	268	299	228	230	266	273
Construction	364	344	527	459	564	573
Subtotal, secondary industries	2,148	2,214	2,412	2,505	2,741	2,870
Wholesale and retail trade and repairs	1,380	1,455	1,496	1,607	1,674	1,685
Hotels and restaurants	251	269	292	316	332	321
Transport and communications	968	1,049	1,196	1,332	1,372	1,500
Transport and storage	631	671	725	837	753	834
Post and telecommunications	337	379	471	494	619	666
Finance, real estate, and business services	1,628	1,677	1,733	1,854	1,957	2,039
Financial intermediation	461	489	498	514	563	636
Financial services indirectly measured	-152	-151	-158	-155	-178	-206
Real estate and business services	1,319	1,338	1,393	1,494	1,572	1,609
Owner-occupied dwellings	677	694	711	740	759	778
Other real estate and business services	642	645	682	754	813	832
Community, social, and personal services	122	133	133	137	144	146
General government	3,162	3,236	3,281	3,408	3,475	3,644
Other producers	286	292	298	307	310	314
Subtotal, tertiary industries	7,798	8,111	8,428	8,959	9,265	9,650
Taxes less subsidies on products	1,866	1,889	1,974	2,055	2,083	2,181
GDP at constant 1995 prices	14,591	15,100	15,462	16,494	17,068	18,084
Memorandum items:						
GDP at current basic prices	18,231	21,372	24,916	29,747	31,185	33,549
GDP deflator	142	157	179	200	198	204
GDP at current market prices	20,684	23,690	27,686	32,908	33,840	36,901

Source: Central Bureau of Statistics.

1/ Columns may not sum due to rounding error.

Table 5. Namibia: GDP by Industrial Origin at Constant 1995 Prices, 1999–2004

(Annual percentage change)

	1998	1999	2000	2001	2002	2003	2004
GDP at constant basic prices	3.4	3.1	3.8	2.1	7.1	3.8	6.1
Agriculture	-1.8	11.0	4.7	-14.9	8.5	3.6	1.5
Commercial agriculture	-5.8	1.1	31.1	-9.2	22.8	4.4	-9.0
Subsistence agriculture	3.2	22.4	-20.7	-24.0	-18.7	1.2	32.5
Fishing	21.9	-1.4	14.5	-1.5	11.4	4.2	-9.0
Mining and quarrying	-2.5	8.4	-1.7	-6.1	16.0	-4.6	36.8
Diamond mining	1.3	14.5	-6.7	-5.1	17.3	-3.5	39.1
Other mining and quarrying	-10.8	-6.5	13.3	-8.5	13.1	-7.6	30.5
Subtotal, primary industries	2.2	7.2	3.9	-8.3	12.4	0.2	13.6
Manufacturing	8.9	-3.7	3.6	5.5	9.6	5.2	5.9
Meat processing	8.0	12.6	-9.7	6.4	2.1	-11.2	-11.3
Fish processing	35.7	-21.1	-14.2	-15.3	-10.3	51.4	-2.2
Food products and beverages	10.9	4.7	1.9	4.4	8.3	-0.4	0.2
Other manufacturing	-10.0	-7.5	24.9	18.3	20.5	2.6	19.1
Electricity and water	4.3	20.2	11.5	-23.8	1.1	15.4	2.6
Construction	15.3	-13.9	-5.4	53.1	-13.0	22.9	1.6
Subtotal, secondary industries	9.6	-3.2	3.1	8.9	3.9	9.4	4.7
Wholesale and retail trade and repairs	7.1	3.3	5.4	2.8	7.4	4.2	0.7
Hotels and restaurants	11.9	-11.7	7.2	8.4	8.4	4.9	-3.3
Transport and communications	-10.3	12.2	8.4	14.0	11.4	3.0	9.3
Transport and storage	-20.8	18.4	6.3	8.1	15.4	-10.0	10.8
Post and telecommunications	14.0	2.3	12.4	24.3	5.0	25.3	7.6
Finance, real estate, and business services	9.9	3.1	3.0	3.4	7.0	5.6	4.2
Financial intermediation	6.5	2.4	6.2	1.7	3.3	9.5	13.0
Financial services indirectly measured	5.1	5.5	-0.8	4.5	-1.9	15.1	15.7
Real estate and business services	2.4	3.7	1.4	4.1	7.3	5.2	2.4
Owner-occupied dwellings	2.5	2.5	2.5	2.5	4.1	2.6	2.5
Other real estate and business services	2.2	4.9	0.4	5.8	10.6	7.8	2.3
Community, social, and personal services	0.0	0.3	8.7	0.2	2.9	5.2	1.4
General government	2.7	3.4	2.3	1.4	3.9	2.0	4.9
Other producers	2.0	2.0	2.0	2.2	2.9	1.0	1.3
Subtotal, tertiary industries	2.1	3.6	4.0	3.9	6.3	3.4	4.2
Taxes less subsidies on products	5.1	4.9	1.2	4.5	4.1	1.4	4.7
GDP at constant 1995 prices	3.3	3.2	3.5	2.4	6.7	3.5	5.9
Memorandum items:							
GDP at current basic prices	3.4	8.8	17.2	16.6	19.4	4.8	7.6
GDP deflator	8.6	6.7	10.7	14.1	11.4	-0.6	2.9
GDP at current market prices	12.2	10.1	14.5	16.9	18.9	2.8	9.0

Source: Central Bureau of Statistics.

Table 6. Namibia: Expenditure on GDP, 1999–2004 1/

	1999	2000	2001	2002	2003	2004
	(In millions of Namibia dollars)					
Expenditure on GDP at market prices	20,684	23,690	27,686	32,908	33,840	36,901
Gross domestic expenditure	22,909	24,998	29,466	33,554	35,060	36,443
Final consumption expenditure	18,509	21,026	23,949	26,981	27,763	28,284
Private	12,240	14,196	16,094	18,289	18,794	19,235
General government	6,268	6,830	7,856	8,692	8,969	9,049
Gross capital formation	4,760	4,460	6,073	6,964	9,867	9,286
Public	2,270	1,451	2,417	2,052	2,383	2,667
Producers of government services	935	952	1,059	1,042	1,058	1,333
Public corporations and enterprises	1,335	499	1,358	1,010	1,325	1,334
Private	2,490	3,008	3,656	4,912	7,484	6,619
Changes in inventories 2/	57	171	412	-468	220	120
Discrepency 2/	-416	-659	-968	77	-2,790	-1,246
Net exports	-2,225	-1,308	-1,780	-646	-1,220	458
Exports of goods and services	9,548	10,811	12,446	16,320	17,396	17,080
Imports of goods and services	11,773	12,119	14,226	16,966	18,616	16,622
	(In percent of GDP)					
Gross domestic expenditure	110.8	105.5	106.4	102.0	103.6	98.8
Final consumption expenditure	89.5	88.8	86.5	82.0	82.0	76.6
General government	30.3	28.8	28.4	26.4	26.5	24.5
Private	59.2	59.9	58.1	55.6	55.5	52.1
Gross capital formation	23.0	18.8	21.9	21.2	29.2	25.2
Public	11.0	6.1	8.7	6.2	7.0	7.2
Private	12.0	12.7	13.2	14.9	22.1	17.9
Changes in inventories 2/	0.3	0.7	1.5	-1.4	0.7	0.3
Discrepency 2/	-2.0	-2.8	-3.5	0.2	-8.2	-3.4
Net exports	-10.8	-5.5	-6.4	-2.0	-3.6	1.2
Exports of goods and services	46.2	45.6	45.0	49.6	51.4	46.3
Imports of goods and services	56.9	51.2	51.4	51.6	55.0	45.0

Sources: Namibian authorities; and Fund staff estimates.

1/ Columns may not sum due to rounding error.

2/ Changes in inventories includes only livestock, ores and minerals. Discrepency includes other changes in inventories.

Table 7. Namibia: Output of Selected Minerals, 1999–2004

	1999	2000	2001	2002	2003	2004
Diamond (thousands of carats)	1,634.8	1,551.6	1,495.0	1,552.0	1,481.0	2,042.7
Uranium (tons)	3,495.7	3,201.0	2,640.0	2,751.0	2,401.0	3,946.0
Copper (thousands of tons)	0.1	24.2	110.4	17.9	26.3	24.7
Lead (thousands of tons)	5.1	20.7	26.2	...	...	27.4
Zinc (thousands of tons)	70.5	73.5	70.6	77.6	107.9	124.4
Gold (kilograms)	2,005.0	2,417.0	2,851.0	2,815.0	2,425.0	2,209.0
			(In percent change)			
Diamond	11.4	-5.1	-3.6	3.8	-4.6	37.9
Uranium	-2.6	-8.4	-17.5	4.2	-12.7	64.3
Copper	-98.9	24,081.0	356.5	-83.8	46.9	-6.1
Lead	1,600.0	305.2	26.7	...	...	...
Zinc	-10.4	4.3	-4.0	9.9	39.0	15.3
Gold	6.6	20.5	18.0	-1.3	-13.9	-8.9

Source: Ministry of Mines and Energy.

Table 8. Namibia: Harvest of Main Commercial Fishing Species, 1999–2004

	1999	2000	2001	2002	2003	2004
			(In metric tonnes)			
Fish species	577,838	587,832	554,998	623,391	631,121	567,133
Pilchard	44,653	25,388	10,763	4,160	22,255	28,605
Hake	164,250	171,397	173,277	154,588	189,305	173,902
Horse mackerel	320,394	344,314	315,245	359,183	360,447	310,405
Monk	14,802	14,358	12,390	15,174	13,135	8,961
Kingklip	3,706	3,922	6,607	7,210	6,603	7,067
Tuna	1,155	2,401	3,198	2,837	3,371	3,581
Crab	2,074	2,700	2,343	2,471	2,092	2,400
Rock lobster	304	365	365	361	269	214
Other species	26,500	22,987	30,810	77,407	33,644	31,997
Other species						
Seals (numbers)	25,161	41,753	44,223	40,000	34,000	59,407
Seaweed (gracilaria collection)	6,600	829	800	500	288	0
			(In percent change)			
Fish species	...	1.7	-5.6	12.3	1.2	-10.1
Pilchard	...	-43.1	-57.6	-61.3	435.0	28.5
Hake	...	4.4	1.1	-10.8	22.5	-8.1
Horse mackerel	...	7.5	-8.4	13.9	0.4	-13.9
Monk	...	-3.0	-13.7	22.5	-13.4	-31.8
Kingklip	...	5.8	68.5	9.1	-8.4	7.0
Tuna	...	107.9	33.2	-11.3	18.8	6.2
Crab	...	30.2	-13.2	5.5	-15.3	14.7
Rock lobster	...	20.1	0.0	-1.1	-25.5	-20.4
Other species	...	-13.3	34.0	151.2	-56.5	-4.9
Other species						
Seals (numbers)	...	65.9	5.9	-9.5	-15.0	74.7
Seaweed (gracilaria collection)	...	-87.4	-3.5	-37.5	-42.4	-100.0

Source: Ministry of Fisheries and Marine Resources.

Table 9. Namibia: National Consumer Price Index (NCPI), January 2002–November 2005

(Index, December 2001=100)

	Food	Beverages and Tobacco	Clothing and Footwear	Housing, Fuel, and Power	Household Goods	Health	Transport	Communi-cations	Recreation and Culture	Education	Hotels, cafes and Restaurants	Miscellaneous Goods and Services	All items
Weights	29.6	3.3	5.1	20.6	5.6	1.5	14.8	0.9	2.5	7.4	1.6	7.1	100.0
2001													
December	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2002													
January	102.0	99.3	99.8	98.3	99.9	101.3	102.1	101.1	101.5	106.2	101.7	99.8	100.9
February	103.9	101.1	101.1	100.1	100.2	101.8	103.2	101.4	102.4	105.9	102.2	99.8	102.3
March	105.8	104.9	102.0	102.1	100.9	101.8	105.0	101.4	103.6	108.8	102.8	99.8	103.9
April	107.8	106.0	100.5	103.2	102.5	102.2	106.4	101.4	104.3	108.8	104.6	100.9	105.1
May	108.6	107.6	103.2	107.1	102.6	102.0	107.9	101.4	105.8	108.8	104.4	101.6	106.7
June	110.1	108.6	105.9	106.4	103.3	102.3	108.6	101.4	107.7	108.8	104.6	101.9	107.3
July	111.2	108.0	104.7	107.8	103.9	102.2	111.6	101.6	109.1	108.8	106.2	101.9	108.4
August	111.9	109.3	105.8	109.2	104.8	102.4	112.0	101.6	109.2	108.8	106.4	103.3	109.2
September	114.4	108.5	107.0	111.7	107.6	102.7	112.0	101.4	108.3	108.8	108.0	102.8	110.6
October	117.9	104.4	106.6	111.8	107.3	103.9	114.4	103.8	109.3	108.8	109.7	103.0	111.9
November	119.8	104.5	108.2	111.9	107.0	104.1	114.9	103.8	108.0	108.8	111.2	105.1	112.7
December	120.0	104.4	109.4	112.6	108.0	104.5	115.0	103.8	107.8	108.8	110.3	104.8	112.9
Average	111.1	105.6	104.5	106.8	104.0	102.6	109.4	102.0	106.4	108.3	106.0	102.1	107.7
2003													
January	121.1	104.6	108.6	113.4	107.9	105.8	115.8	104.1	107.2	118.6	111.6	102.5	114.0
February	120.8	104.9	107.9	113.5	107.8	106.5	114.9	104.0	107.2	118.6	113.4	102.8	113.9
March	121.0	107.9	110.0	113.6	110.2	107.5	116.6	104.2	107.6	118.6	112.5	103.0	114.6
April	121.4	109.8	108.2	113.5	109.0	107.6	117.9	104.2	108.2	118.6	112.8	104.0	114.9
May	121.4	110.8	107.8	113.6	110.6	107.8	118.1	104.2	110.1	118.6	113.7	104.0	115.1
June	122.5	111.9	108.6	113.8	111.4	108.4	118.1	104.2	109.9	118.6	113.7	104.3	115.7
July	122.1	111.6	108.8	114.8	110.6	109.5	118.0	104.2	108.9	118.6	114.0	103.9	115.7
August	122.2	112.4	109.8	114.8	111.7	110.1	118.7	104.2	109.3	118.6	114.5	106.0	116.0
September	122.5	113.5	109.0	116.0	111.1	110.2	118.7	104.2	110.0	118.6	114.8	106.2	116.4
October	121.8	114.4	107.7	116.0	111.9	110.0	118.6	104.2	109.4	118.6	115.2	106.6	116.1
November	121.7	114.6	109.6	116.0	112.7	110.8	118.6	105.0	110.3	118.6	116.0	106.7	116.1
December	120.9	114.5	109.4	116.0	112.9	110.8	118.8	106.6	109.8	118.6	116.4	106.7	115.8
Average	121.6	110.90	108.8	114.6	110.6	108.7	117.7	104.4	109.0	118.6	114.1	104.7	115.4
2004													
January	121.5	114.8	108.8	120.5	112.0	111.6	120.1	106.9	112.5	135.5	117.9	108.0	118.7
February	121.7	115.6	108.3	120.8	111.5	111.3	120.7	107.2	110.9	135.5	117.6	108.2	118.8
March	122.6	118.5	108.8	121.6	111.4	111.2	120.5	107.2	110.8	135.5	119.1	109.9	119.3
April	122.8	120.6	109.0	121.6	110.6	111.4	124.0	107.2	110.2	135.5	120.2	110.1	119.9
May	124.0	121.6	108.8	121.7	111.3	113.3	123.4	107.2	110.8	135.5	121.2	110.1	120.3
June	123.2	122.2	109.1	121.8	110.6	113.2	123.2	107.2	109.4	135.5	121.2	109.9	120.1
July	122.8	122.3	109.5	124.0	110.8	113.4	124.5	107.2	109.6	135.5	121.6	110.0	120.6
August	122.4	123.0	109.8	124.1	111.3	113.6	125.8	107.2	109.6	135.5	122.6	109.8	120.9
September	122.2	123.2	109.5	123.2	111.8	111.7	125.8	107.2	109.2	135.5	122.8	109.7	120.6
October	123.1	123.9	109.7	123.2	111.5	110.6	126.1	107.3	110.0	135.5	122.6	109.6	121.0
November	122.4	124.2	109.9	123.4	111.5	110.3	126.1	108.8	109.9	135.5	122.6	109.3	120.7
December	122.5	124.3	110.1	123.6	111.3	110.2	126.2	108.8	110.3	135.5	121.2	109.1	120.8
Average	122.6	121.2	1093.0	122.4	111.3	111.8	123.9	107.4	110.3	135.5	120.9	109.5	120.2
2005													
January	122.9	124.1	109.8	123.8	112.5	113.4	128.7	108.6	110.7	138.8	124.9	109.4	121.7
February	123.0	124.2	109.7	122.6	112.5	113.6	129.7	108.5	111.7	140.8	126.0	109.5	121.9
March	122.8	127.3	109.4	122.6	112.4	113.1	128.2	108.5	110.1	140.8	125.6	107.5	121.3
April	123.7	129.5	109.4	122.3	112.5	113.3	129.1	108.5	110.9	140.8	126.3	108.2	121.8
May	121.8	130.6	108.8	122.3	112.8	113.7	130.0	108.5	111.9	140.8	126.3	108.0	121.4
June	122.2	131.2	108.6	122.4	113.5	113.6	130.5	108.5	111.3	140.8	126.7	107.8	121.6
July	123.1	131.9	108.6	125.3	113.8	113.6	130.5	108.5	111.2	140.8	127.5	108.1	122.6
August	124.3	132.1	108.6	126.0	114.6	113.3	133.8	108.5	110.7	140.8	127.8	107.6	123.5
September	125.7	132.3	106.6	126.1	115.0	113.8	136.6	108.5	110.9	140.8	127.7	107.5	124.2
October	127.2	132.4	107.0	126.1	115.7	109.5	136.7	108.8	111.0	140.8	128.5	107.3	124.5
November	127.9	132.5	106.2	126.1	116.2	109.9	136.7	108.8	111.2	140.8	129.1	107.5	124.8

Source: Central Bureau of Statistics.

Table 10. Namibia: Financial Operations of the Central Government, 1999/00–2004/05 1/

(In millions of Namibia dollars)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Est.
Revenue and grants	7,228	8,209	8,960	10,469	9,754	11,388
Revenue	7,183	8,166	8,902	10,435	9,720	11,317
Tax revenue	6,486	7,461	8,054	9,196	8,633	10,358
Personal income tax	1,509	1,507	1,833	2,181	2,334	2,662
Corporate income tax	713	903	1,335	2,113	1,198	1,222
Diamond mining	143	440	764	1,157	175	301
Other mining	212	36	106	284	3	8
Non-mining	359	426	465	672	1,020	913
VAT and sales taxes	1,470	1,766	1,938	2,009	1,756	1,828
International taxes (SACU receipts) 2/	2,241	2,877	2,641	2,597	3,036	4,207
Other	553	407	306	296	309	439
Nontax revenue	697	704	847	1,239	1,087	959
Diamond royalties	270	240	286	479	302	385
Administrative fees, including license revenues	210	237	258	388	461	349
Other	217	227	303	372	324	225
Grants (tied)	44	44	58	34	34	70
Expenditures	7,736	8,566	10,256	11,573	12,335	12,914
Current expenditure	6,705	7,253	8,717	9,482	10,387	10,889
Personnel	3,615	3,720	4,326	4,709	5,117	5,527
Goods and services	1,421	1,571	2,034	2,057	2,150	2,025
Interest payments	492	533	587	823	865	1,040
Domestic	479	520	559	772	814	936
Foreign	13	13	28	52	51	104
Subsidies and current transfers	1,141	1,395	1,770	1,893	2,255	2,297
Other	36	34	0	0	0	0
Capital expenditure	941	1,182	1,082	1,457	1,561	1,697
Acquisition of capital assets	907	1,152	1,038	1,370	1,470	1,479
Capital transfers	33	30	44	87	91	217
Net lending	89	131	456	634	387	329
Overall balance 3/	-508	-357	-1,296	-1,104	-2,581	-1,527
Primary balance 3/	-16	176	-709	-280	-1,716	-487
Statistical discrepancy	95	345	-132	-27	22	1
Financing	603	702	1,164	1,076	2,603	1,527
Domestic	596	401	1,062	815	2,387	1,374
External	6	301	103	261	216	153
Disbursements	7	308	110	275	235	181
Amortization	-1	-7	-7	-14	-19	-27

Sources: Namibian authorities; and Fund staff estimates.

1/ Fiscal year begins April 1.

2/ Transfers from the common revenue pool (customs and excise) of the Southern African Customs Union.

3/ Includes externally financed project spending (except for roads) that is not channeled through the state account.

Table 11. Namibia: Central Government Revenue and Grants, 1999/00–2004/05 1/

(In millions of Namibia dollars)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Est.
Tax revenue	6,486	7,461	8,054	9,196	8,633	10,358
Taxes on income/profits	2,315	2,610	3,286	4,442	3,618	4,024
Personal	1,509	1,507	1,833	2,181	2,334	2,662
Corporate	713	903	1,335	2,113	1,198	1,222
Mining	354	476	871	1,441	179	309
Diamond	143	440	764	1,157	175	301
Other mining	212	36	106	284	3	8
Other sectors	359	426	465	672	1,020	913
Other income/profits taxes	93	200	117	149	86	140
Property taxes	47	63	64	79	75	86
Taxes on goods and services	1,883	1,911	2,063	2,077	1,903	2,041
VAT and sales taxes	1,470	1,766	1,938	2,009	1,756	1,828
Fuel levy	361	90	58	-7	64	119
Stamp duties	51	55	68	76	83	94
Taxes on international trade (SACU receipts) 2/	2,241	2,877	2,641	2,597	3,036	4,207
Nontax revenue	697	704	847	1,239	1,087	959
Property income	476	446	571	831	607	594
Diamond royalties	270	240	286	479	302	385
Fishing quota levies	73	83	108	128	118	104
Interest on loans, investments, and central bank deposits	27	27	54	62	27	30
Dividends from parastatals	32	17	124	81	79	15
Compensation for use of the Rand	75	79	0	81	81	60
Administrative fees, including license revenues	210	237	258	388	461	349
Fines and forfeitures	11	21	18	20	19	17
Total revenue	7,183	8,166	8,902	10,435	9,720	11,317
Grants (tied)	44	44	58	34	34	70
Recurrent activity	44	25	3	10	34	70
Development projects	0	18	55	24	0	0
Revenue and grants	7,228	8,209	8,960	10,469	9,754	11,388
Memorandum item:						
GDP at current market prices	21,435	24,689	28,992	33,141	34,605	37,422

Sources: Namibian authorities; and Fund staff estimates.

1/ Fiscal year begins April 1.

2/ Transfers from the common revenue pool (customs and excise) of the Southern African Customs Union.

Table 12. Namibia: Central Government Revenue and Grants, 1999/00–2004/05 1/

(In percent of GDP)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Est.
Tax revenue	30.3	30.2	27.8	27.7	24.9	27.7
Taxes on income/profits	10.8	10.6	11.3	13.4	10.5	10.8
Personal	7.0	6.1	6.3	6.6	6.7	7.1
Corporate	3.3	3.7	4.6	6.4	3.5	3.3
Mining	1.7	1.9	3.0	4.3	0.5	0.8
Diamond	0.7	1.8	2.6	3.5	0.5	0.8
Other mining	1.0	0.1	0.4	0.9	0.0	0.0
Other sectors	1.7	1.7	1.6	2.0	2.9	2.4
Other income/profits taxes	0.4	0.8	0.4	0.4	0.2	0.4
Property taxes	0.2	0.3	0.2	0.2	0.2	0.2
Taxes on goods and services	8.8	7.7	7.1	6.3	5.5	5.5
VAT and sales taxes	6.9	7.2	6.7	6.1	5.1	4.9
Fuel levy	1.7	0.4	0.2	0.0	0.2	0.3
Stamp duties	0.2	0.2	0.2	0.2	0.2	0.3
Taxes on international trade (SACU receipts) 2/	10.5	11.7	9.1	7.8	8.8	11.2
Nontax revenue	3.3	2.9	2.9	3.7	3.1	2.6
Property income	2.2	1.8	2.0	2.5	1.8	1.6
Diamond royalties	1.3	1.0	1.0	1.4	0.9	1.0
Fishing quota levies	0.3	0.3	0.4	0.4	0.3	0.3
Interest on loans, investments, and central bank deposits	0.1	0.1	0.2	0.2	0.1	0.1
Dividends from parastatals	0.1	0.1	0.4	0.2	0.2	0.0
Compensation for use of the Rand	0.3	0.3	0.0	0.2	0.2	0.2
Administrative fees, including license revenues	1.0	1.0	0.9	1.2	1.3	0.9
Fines and forfeitures	0.1	0.1	0.1	0.1	0.1	0.0
Total revenue	33.5	33.1	30.7	31.5	28.1	30.2
Grants (tied)	0.2	0.2	0.2	0.1	0.1	0.2
Recurrent activity	0.2	0.1	0.0	0.0	0.1	0.2
Development projects	0.0	0.1	0.2	0.1	0.0	0.0
Revenue and grants	33.7	33.3	30.9	31.6	28.2	30.4

Sources: Namibian authorities; and Fund staff estimates.

1/ Fiscal year begins April 1.

2/ Transfers from the common revenue pool (customs and excise) of the Southern African Customs Union.

Table 13. Namibia: Central Government Expenditure, 1999/00-2004/05 1/

(In millions of Namibia dollars)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Est.
Current expenditure	6,705	7,253	8,717	9,482	10,387	10,889
Personnel	3,615	3,720	4,326	4,709	5,117	5,527
Wages and salaries	3,078	3,104	...	4,106	...	...
Pension contributions	432	445	...	508	...	...
Cash benefits	105	171	...	95	...	...
Goods and services	1,421	1,571	2,034	2,057	2,150	2,025
Interest payments	492	533	587	823	865	1,040
Domestic	479	520	559	772	814	936
Foreign	13	13	28	52	51	104
Subsidies and current transfers	1,141	1,395	1,770	1,893	2,255	2,297
Other current expenditure	36	34	0	0	0	0
Capital expenditure	941	1,182	1,082	1,457	1,561	1,697
Acquisition of capital assets 2/	907	1,152	1,038	1,370	1,470	1,479
Capital transfers	33	30	44	87	91	217
Net lending	89	131	456	634	387	329
Lending	109	152	478	650	400	366
Repayments	-20	-21	-21	-16	-13	-37
Total expenditure and net lending	7,736	8,566	10,256	11,573	12,335	12,914
Memorandum item:						
GDP at current market prices	21,435	24,689	28,992	33,141	34,605	37,422

Sources: Namibian authorities; and Fund staff estimates.

1/ Fiscal year begins April 1.

2/ This includes externally financed project spending (except for roads) that is not channeled through the state account.

Table 14. Namibia: Central Government Expenditure, 1999/00-2004/05 1/

(In percent of GDP)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Est.
Current expenditure	31.3	29.4	30.1	28.6	30.0	29.1
Personnel	16.9	15.1	14.9	14.2	14.8	14.8
Wages and salaries	14.4	12.6	...	12.4	...	...
Pension contributions	2.0	1.8	...	1.5	...	...
Cash benefits	0.5	0.7	...	0.3	...	...
Goods and services	6.6	6.4	7.0	6.2	6.2	5.4
Interest payments	2.3	2.2	2.0	2.5	2.5	2.8
Domestic	2.2	2.1	1.9	2.3	2.4	2.5
Foreign	0.1	0.1	0.1	0.2	0.1	0.3
Subsidies and current transfers	5.3	5.7	6.1	5.7	6.5	6.1
Other current expenditure	0.2	0.1	0.0	0.0	0.0	0.0
Capital expenditure	4.4	4.8	3.7	4.4	4.5	4.5
Acquisition of capital assets 2/	4.2	4.7	3.6	4.1	4.2	4.0
Capital transfers	0.2	0.1	0.2	0.3	0.3	0.6
Net lending	0.4	0.5	1.6	1.9	1.1	0.9
Lending	0.5	0.6	1.6	2.0	1.2	1.0
Repayments	-0.1	-0.1	-0.1	0.0	0.0	-0.1
Total expenditure and net lending	36.1	34.7	35.4	34.9	35.6	34.5

Sources: Namibian authorities; and Fund staff estimates.

1/ Fiscal year begins April 1.

2/ This includes externally financed project spending (except for roads) that is not channeled through the state account.

Table 15. Namibia: Functional Classification of Central Government Expenditure, 1999/00–2004/05 1/

(In millions of Namibia dollars)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Budget 2/
General government services	2,224	2,579	3,114	3,593	3,576	3,598
General public services	981	1,174	1,236	1,631	1,429	1,363
Defense	559	617	905	935	994	1,088
Public order and safety	684	788	973	1,026	1,153	1,147
Community and social affairs and services	3,745	4,191	5,179	5,362	6,101	6,067
Education	1,863	1,970	2,344	2,367	2,650	2,613
Health	837	925	1,025	1,097	1,205	1,173
Social security and welfare	447	540	715	749	897	978
Housing and community amenity	418	556	880	949	1,054	1,031
Recreational, cultural, and religious	179	200	216	200	294	272
Economic affairs and services	1,178	989	1,045	1,306	1,289	1,486
Fuel and energy	34	39	35	38	38	39
Agriculture, forestry, fishing, and hunting	521	523	580	625	617	645
Mining and mineral resources	37	46	54	52	57	61
Transportation and communications	415	122	73	109	162	247
Other	170	258	304	482	416	494
Expenditure not classified by function 3/	495	536	678	819	877	1,176
Statistical discrepancy	5	140	-218	-140	105	258
Total excluding lending	7,646	8,435	9,800	10,939	11,948	12,585
Total expenditure and net lending	7,736	8,566	10,256	11,573	12,335	12,914
Memorandum item:						
GDP at current market prices	21,435	24,689	28,992	33,141	34,605	37,422

Sources: Namibian authorities; and Fund staff estimates.

1/ Fiscal year begins April 1.
2/ Actual data on functional spending for 2004/05 is not available yet.
3/ Includes public debt transactions.

Table 16. Namibia: Sectoral Share of Central Government Expenditure, 1999/00–2004/05 1/

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Budget 2/
	(In percent of total expenditure and net lending)					
General government services	28.8	30.1	30.4	31.0	29.0	27.9
General public services	12.7	13.7	12.0	14.1	11.6	10.6
Defense	7.2	7.2	8.8	8.1	8.1	8.4
Public order and safety	8.8	9.2	9.5	8.9	9.3	8.9
Community and social affairs and services	48.4	48.9	50.5	46.3	49.5	47.0
Education	24.1	23.0	22.9	20.5	21.5	20.2
Health	10.8	10.8	10.0	9.5	9.8	9.1
Social security and welfare	5.8	6.3	7.0	6.5	7.3	7.6
Housing and community amenity	5.4	6.5	8.6	8.2	8.5	8.0
Recreational, cultural and religious	2.3	2.3	2.1	1.7	2.4	2.1
Economic affairs and services	15.2	11.5	10.2	11.3	10.5	11.5
Fuel and energy	0.4	0.5	0.3	0.3	0.3	0.3
Agriculture, forestry, fishing, and hunting	6.7	6.1	5.7	5.4	5.0	5.0
Mining and mineral resources	0.5	0.5	0.5	0.4	0.5	0.5
Transportation and communications	5.4	1.4	0.7	0.9	1.3	1.9
Other	2.2	3.0	3.0	4.2	3.4	3.8
Expenditure not classified by function 3/	6.4	6.3	6.6	7.1	7.1	9.1
Statistical discrepancy	1.2	4.0	-1.3	-0.2	0.2	0.0
Total excluding lending	98.8	98.5	95.5	94.5	96.9	97.5
Total expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0
			(In percent of GDP)			
General government services	10.4	10.4	10.7	10.8	10.3	9.6
General public services	4.6	4.8	4.3	4.9	4.1	3.6
Defense	2.6	2.5	3.1	2.8	2.9	2.9
Public order and safety	3.2	3.2	3.4	3.1	3.3	3.1
Community and social affairs and services	17.5	17.0	17.9	16.2	17.6	16.2
Education	8.7	8.0	8.1	7.1	7.7	7.0
Health	3.9	3.7	3.5	3.3	3.5	3.1
Social security and welfare	2.1	2.2	2.5	2.3	2.6	2.6
Housing and community amenity	2.0	2.3	3.0	2.9	3.0	2.8
Recreational, cultural and religious	0.8	0.8	0.7	0.6	0.9	0.7
Economic affairs and services	5.5	4.0	3.6	3.9	3.7	4.0
Fuel and energy	0.2	0.2	0.1	0.1	0.1	0.1
Agriculture, forestry, fishing, and hunting	2.4	2.1	2.0	1.9	1.8	1.7
Mining and mineral resources	0.2	0.2	0.2	0.2	0.2	0.2
Transportation and communications	1.9	0.5	0.3	0.3	0.5	0.7
Other	0.8	1.0	1.0	1.5	1.2	1.3
Expenditure not classified by function 3/	2.3	2.2	2.3	2.5	2.5	3.1
Statistical discrepancy	0.4	1.4	-0.5	-0.1	0.1	0.0
Total excluding lending	35.7	34.2	33.8	33.0	34.5	33.6
Total expenditure and net lending	36.1	34.7	35.4	34.9	35.6	34.5
Memorandum item:						
GDP at current market prices	21,435	24,689	28,992	33,141	34,605	37,422

Sources: Namibian authorities; and Fund staff estimates.

1/ Fiscal year begins April 1.

2/ Actual data on functional spending for 2004/05 is not available yet.

3/ Includes public debt transactions.

Table 17. Namibia: Outstanding Debt of Central Government, 1999/00–2004/05 1/

(In millions of Namibia dollars, unless otherwise indicated)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05 Est.
Domestic debt	4,457	4,731	5,947	6,712	8,606	10,543
Treasury bills	2,483	2,495	3,211	3,618	5,041	5,615
91 days	1,345	1,175	1,449	1,004	300	310
182 days	888	820	1,190	1,236	2,190	1,180
365 days	250	500	572	1,378	2,551	4,125
Internal registered stock (IRS)	1,974	2,236	2,736	3,094	3,565	4,927
less than 2 years term-to-maturity	802	912	669	1,164	1,069	1,815
3 - 5 years term-to-maturity	503	618	985	442	655	1,702
6 - 10 years term-to-maturity	0	0	0	0	0	1,114
above 11 years term-to-maturity	669	706	1,082	1,488	1,842	296
External debt	752	970	1,561	1,212	1,607	2,016
African Development Bank	97	118	169	156	225	322
Kreditanstalt für Wiederaufbau (Germany)	389	462	669	489	599	721
European Investment Bank	109	155	376	155	254	259
Nordic Development Fund	12	12	21	16	14	16
International Fund for Agricultural Development	23	23	40	28	24	6
People's Republic of China	98	139	185	135	226	211
Caisse Francaise de Developpement	23	25	35	29	23	22
Development Bank of Southern Africa	0	32	57	110	150	190
Arab Bank for Economic Development in Africa	0	5	7	5	15	41
Kuwait Fund for Arab Economic Development	0	0	1	0	0	10
EKSPORT FINANS ASA	0	0	0	56	48	40
Instituto de Credito Oficial	0	0	0	34	30	99
Banco Bilabao Vizcaya	...	...	...	...	...	79
Total government debt	5,208	5,701	7,507	7,924	10,213	12,559
Government-guaranteed debt	1,883	2,718	3,808	3,258	3,422	2,438
Government and government-guaranteed debt	7,091	8,419	11,315	11,183	13,635	14,997
			(In percent of GDP)			
Government and government-guaranteed debt	33.1	34.1	39.0	33.7	39.4	40.1
Government debt	24.3	23.1	25.9	23.9	29.5	33.6
Domestic	20.8	19.2	20.5	20.3	24.9	28.2
External	3.5	3.9	5.4	3.7	4.6	5.4
Government-guaranteed debt	8.8	11.0	13.1	9.8	9.9	6.5
Memorandum item:						
GDP at current market prices	21,435	24,689	28,992	33,141	34,605	37,422

Sources: Namibian authorities; and Fund staff estimates.

1/ Fiscal year begins April 1. Unless otherwise indicated, data correspond to debt stocks at the end of each fiscal year.

Table 18. Namibia: Monetary Survey, 2002–2005 1/

	2002	2003	2004				2005		
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
				(In millions of Namibia dollars)					
Net foreign assets	2,083.8	1,259.6	978.7	503.5	1,517.3	970.3	1,576.5	94.8	-60.5
Bank of Namibia	2,886.1	2,110.3	1,824.1	1,783.2	1,808.2	1,977.3	1,912.7	1,874.1	1,818.2
Deposit money banks	-802.3	-850.7	-845.4	-1,279.7	-290.9	-1,007.0	-336.2	-1,779.3	-1,878.7
Net domestic assets	10,349.8	12,367.0	13,829.1	13,906.7	14,296.2	14,858.6	14,911.2	17,095.6	17,158.2
Domestic credit	14,932.7	17,346.6	18,432.1	19,436.8	20,233.8	21,169.4	22,035.5	23,509.3	24,632.3
Net claims on central government	-150.9	506.7	772.6	726.2	735.3	871.7	814.4	1,395.5	1,334.2
Claims on other sectors	15,083.6	16,839.9	17,659.4	18,710.6	19,498.5	20,297.7	21,221.2	22,113.8	23,298.1
State and local government	10.3	19.3	18.1	17.9	12.7	15.6	8.3	8.2	13.1
Public nonfinancial corporations	225.0	144.3	144.0	351.2	368.3	351.7	355.7	367.2	238.5
Other financial corporations	14.0	0.0	0.0	0.0	10.2	11.7	57.3	59.3	59.3
Private sector	14,834.3	16,676.3	17,497.3	18,341.5	19,107.2	19,918.7	20,799.9	21,679.1	22,987.1
Other nonfinancial corporations (businesses)	5,061.5	6,527.0	6,909.1	7,392.4	7,756.9	7,563.7	7,554.7	8,181.7	8,081.5
Other resident sectors (individuals)	9,772.7	10,149.3	10,588.2	10,949.1	11,350.3	12,355.0	13,245.2	13,497.4	14,905.6
Other items, net 2/	-4,582.9	-4,979.5	-4,603.0	-5,530.1	-5,937.6	-6,310.8	-7,124.3	-6,413.7	-7,474.1
Broad money	12,433.7	13,626.7	14,807.8	14,410.2	15,813.5	15,828.9	16,487.7	17,190.4	17,097.7
Currency	543.7	584.6	574.8	606.1	631.5	632.7	628.8	656.3	697.8
Deposits	11,890.0	13,042.1	14,233.0	13,804.1	15,182.0	15,196.2	15,858.9	16,534.2	16,399.9
				(In percent change)					
Net foreign assets	...	-39.6	...	-51.6	6.1	-23.0	61.1	-81.2	-104.0
Domestic credit	...	19.5	...	20.1	22.4	22.0	19.5	21.0	21.7
Net claims on central government	...	16.2	...	64.4	58.0	72.0	5.4	92.2	81.4
Claims on the domestic economy	...	11.6	...	18.9	21.3	20.5	20.2	18.2	19.5
Claims on the private sector	...	12.4	...	17.9	20.1	19.4	18.9	18.2	20.3
Broad money	...	9.6	...	12.4	12.7	16.2	11.3	19.3	8.1

Source: Bank of Namibia, *Quarterly Bulletin*.

1/ Following Fund advice, the authorities revised the monetary statistics from June 2003 onwards, involving several reclassifications in the central and commercial bank balance sheets. As a result, growth rates for 2003 refer to the previous series and growth rates under the revised series do not begin until June 2004.
2/ Includes liabilities: shares and equity, securities, loans, trade credit and advances.

Table 19. Namibia: Summary Accounts of the Bank of Namibia, 2002–2005 1/

(In millions of Namibia dollars)

	2002	2003	2004				2005		
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Net foreign assets	2,886.1	2,110.3	1,824.1	1,783.2	1,808.2	1,977.3	1,912.7	1,874.1	1,818.2
Assets	2,893.3	2,117.2	1,840.4	1,802.2	1,823.6	1,985.7	1,925.3	1,890.4	1,832.8
Liabilities	7.2	6.9	16.3	19.0	15.4	8.4	12.6	16.3	14.6
Net Domestic assets	-1,905.2	-937.4	-663.3	-710.3	-648.1	-738.7	-699.3	-642.5	-478.7
Net claims on central government	-1,114.8	-430.1	-224.7	-336.6	-607.2	-889.7	-908.4	-334.5	-194.4
Claims on central government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities to central government	-1,114.8	-430.1	-224.7	-336.3	-607.2	-889.7	-908.4	-334.5	-194.4
Claims on other depository corporations	117.5	95.3	96.8	113.1	163.1	238.7	265.4	235.1	244.7
Claims on other sectors	16.6	19.0	15.0	13.9	13.1	13.6	14.5	14.5	13.6
State and local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public nonfinancial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other nonfinancial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other resident sectors	16.6	19.0	15.0	13.9	13.1	13.6	14.5	14.5	13.6
Shares and other equity	-1,103.8	-743.4	-664.4	-660.6	-692.8	-611.2	-668.2	-708.2	-691.3
Other items, net 2/	179.3	121.7	114.0	159.9	475.7	509.9	597.4	150.6	148.7
Reserve money	980.8	1,172.9	1,160.7	1,073.2	1,160.2	1,238.6	1,213.4	1,231.6	1,339.6
Currency issued	819.2	918.9	813.3	852.1	881.0	945.8	918.8	906.4	954.5
Deposits of DMBs	161.6	254.0	347.4	221.1	279.2	292.9	294.7	325.2	385.1
Reserve accounts	154.0	168.3	176.2	205.1	279.2	292.9	294.7	325.2	385.1
Other liabilities	7.6	85.7	171.3	16.0	0.0	0.0	0.0	0.0	0.0
				(In percent change)					
Net foreign assets	...	-26.9	...	-17.7	-17.1	-6.3	4.9	5.1	0.6
Net domestic assets	...	-50.8	...	-42.7	-43.2	-21.2	5.4	-9.5	-26.1
Net claims on central government	...	-61.4	...	-82.3	2.3	106.9	304.3	-0.6	-68.0
Claims on other depository corporations	...	-18.9	...	91.5	109.0	150.4	174.2	107.9	50.0
Claims on other sectors	...	14.7	...	-25.2	-35.8	-28.5	-3.3	4.3	3.8
Reserve Money	...	19.6	...	15.8	11.6	5.6	4.6	14.8	15.5
Currency issued	...	12.2	...	12.7	11.3	2.9	13.0	6.4	8.3

Source: Bank of Namibia.

1/ Following Fund advice, the authorities revised the monetary statistics from June 2003 onwards, involving several reclassifications in the central and commerical bank balance sheets. As a result, growth rates for 2003 refer to the previous series and growth rates under the revised series do not begin until June 2004.

2/ Includes securities, loans and trade credit and advances.

Table 20. Namibia: Interest Rates, 1999–2005

(Annual averages in percent; unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005 Oct.
Short-term interest rates							
Bank rate (end of period)							
In South Africa 1/	12.00	12.00	10.50	13.50	8.00	7.50	7.00
In Namibia	11.50	11.25	9.25	12.75	7.75	7.50	7.00
Treasury bill discount rate 2/	13.30	9.65	9.13	11.37	10.00	7.78	6.91
Deposit money bank overdraft rate	13.70	11.25	6.48	11.50	15.70	7.50	7.00
Money market rate							
In South Africa	14.00	9.50	8.00	11.11	10.93	7.15	6.52
In Namibia	13.20	9.24	12.13	10.46	10.03	6.93	7.81
Treasury bill rate 2/							
In South Africa	13.60	10.11	9.20	11.16	10.69	7.54	6.73
In Namibia	13.30	9.62	9.30	11.05	10.51	7.78	6.75
Commercial bank deposit rate 3/							
In South Africa	13.00	9.70	8.99	11.33	10.72	7.29	6.48
In Namibia	10.80	7.63	6.48	7.81	8.74	6.35	6.13
Commercial bank lending rate 4/							
In South Africa	18.00	14.50	13.77	15.58	15.17	11.31	10.50
In Namibia	18.50	15.28	13.76	13.84	14.67	11.31	10.77
Long-term interest rate							
Government bond yield in South Africa	14.90	12.80	11.63	11.50	9.62	9.53	8.14
Government (five-year) bond yield in Namibia	14.90	13.81	11.39	12.86	12.72	11.88	12.43
Memorandum items							
Consumer price inflation							
In South Africa 5/	5.2	5.1	5.7	9.2	5.9	1.4	4.6
In Namibia 5/	8.6	9.3	9.3	11.3	7.2	4.1	2.9
Real interest rates 6/							
Commercial bank deposits							
In South Africa	7.99	4.77	3.31	1.83	4.57	6.07	2.07
In Namibia	4.33	0.34	0.03	-0.26	3.10	3.49	3.74
Commercial bank lending							
In South Africa	12.17	8.94	7.63	5.88	8.80	9.79	5.67
In Namibia	9.12	5.52	4.11	2.24	6.98	6.87	7.65
Government bond yield in South Africa	9.2	7.3	5.6	2.1	3.5	8.0	3.4
Government bond yield in Namibia	5.8	4.2	1.9	1.4	5.2	7.4	9.3

Sources: South African Reserve Bank; Bank of Namibia; and IMF, *International Financial Statistics* .

1/ South African Reserve Bank's repo rate.

2/ Average tender rate for 91-day bills.

3/ For South Africa, rates are upper margin of interest on time deposits of 88-91 days. For Namibia, rates are weighted averages of demand deposits, 88-day notice deposits, savings deposits, and deposits with a maturity of more than one year of two largest commercial banks.

4/ For South Africa, prime overdraft rate of major banks. For Namibia, weighted average of different lending instruments.

5/ Headline inflation for South Africa; Windhoek consumer price index for Namibia until 2004, NCPI from 2005 on.

6/ Deflated by consumer price indices.

Table 21. Namibia: Financial Soundness Indicators, 1999–2004

(In percent, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004
Banking indicators						
Capital adequacy						
Capital to assets	...	...	8.7	7.5	8.3	8.8
Regulatory capital to risk-weighted assets	14.9	14.8	15.5	14.1	14.8	15.4
Regulatory tier I capital to risk-weighted assets	13.1	13.2	12.4	11.0	12.2	12.7
Nonperforming loans net of provisions to capital	53.8	14.3	8.3	11.1	11.8	20.2
Asset quality						
Large exposure to capital	...	...	146.0	179.0	186.0	183.9
Nonperforming loans to total gross loans	9.7	4.7	4.0	3.9	3.9	2.2
Sectoral distribution of loans to total loans						
Agriculture	10.8	8.7	9.0	8.6	5.5	3.1
Mining	1.0	0.7	0.7	1.5	2.6	2.0
Manufacturing	2.7	5.3	5.4	5.4	3.8	2.3
Construction	4.3	3.8	3.9	4.5	4.1	5.5
Electricity and water	0.7	0.3	0.3	4.4	3.4	0.7
Trade and accommodation	6.6	4.9	4.8	5.2	2.6	3.7
Transport and communications	3.1	3.9	3.7	3.6	4.6	2.3
Finance, real estate, and business services	14.7	15.1	15.5	11.1	9.6	11.4
Other services (including government)	9.5	11.4	11.6	7.0	8.6	8.2
Individuals	44.2	44.1	44.1	47.1	47.1	51.2
Other	2.3	2.0	1.1	1.8	8.3	9.4
Earnings and profitability						
Trading income to total income	...	...	10.6	11.5	10.9	6.7
Return on assets	2.5	2.6	2.5	2.8	2.5	1.7
Return on equity	25.8	28.1	26.4	34.3	21.9	15.7
Interest income to gross income	152.2	119.8	116.4	123.9	137.0	118.2
Noninterest expenses to gross income	47.7	47.9	50.6	49.1	53.9	61.8
Spread between reference lending and deposit rates	...	...	7.3	6.2	6.0	4.4
Personal expenses to noninterest expenses	...	...	51.2	48.9	46.0	48.2
Liquidity						
Spread between highest and lowest interbank rate	...	...	...	9.3	9.0	0.2
Liquid assets to total assets	12.5	9.7	9.6	9.2	11.0	10.4
Liquid assets to short-term liabilities	22.5	15.8	15.6	15.7	19.3	17.6
Customer deposits to total (non-interbank) loans	...	...	88.0	84.0	87.0	87.1
Exposure to foreign exchange risk						
Net open position in foreign exchange to capital	0.6	0.5	0.2	0.1	0.0	0.5
Foreign currency-denominated loans to total loans	...	...	6.0	5.0	3.0	1.9
Foreign currency-denominated liabilities to total liabilities	...	...	5.1	5.2	4.5	2.0
Financial system structure						
Number						
Banks	...	...	5	5	4	4
Private commercial	...	...	2	2	1	1
State-owned	...	...	0	0	0	0
Foreign-owned subsidiaries	...	...	3	3	3	3
Branches of foreign banks	...	...	0	0	0	0
Assets (in billions of Namibia dollars)						
Banks	...	...	1.3	17.8	20.0	23.4
Private commercial	...	...	3.7	5.7	4.3	5.2
State-owned	...	...	...	...	...	0
Foreign-owned subsidiaries	...	...	10.0	12.1	15.8	18.2
Branches of foreign banks	...	...	...	...	...	0
Deposits (in billions of Namibia dollars)						
Banks	...	...	9.9	12.7	14.3	17.2
Private commercial	...	...	3.0	4.7	3.5	2.5
State-owned	...	...	...	...	...	0.0
Foreign-owned subsidiaries	...	...	6.9	7.9	10.7	14.7
Branches of foreign banks	...	...	...	...	...	0.0

Sources: Bank of Namibia; and Fund staff estimates and projections.

Table 22. Namibia: Selected Indicators of Stock Exchange Activity, 1999–2004

(Based on calendar years, with listings and share price figures stated as of December 31)

	1999	2000	2001	2002	2003	2004
Tradings on the Namibia Stock Exchange						
Number of deals	4,582	6,133	5,038	2,951	2,294	2,582
Volume (millions of shares traded)	208	221	143	117.9	121.4	108.4
Value traded (millions of Namibia dollars)	2,015	2,498	2,030	1,380	2,037	3,042
Listings and share price figures						
Overall market						
Number of listed companies overall	41	41	37	35	35	32
Market capitalization (millions of Namibia dollars)	333,916	337,500	511,651	386,617	460,315	573,878
Index (year-end)	275.0	292.0	392.0	305.0	347.0	425.9
Local market						
Number of local listed companies	14	14	14	12	11	9
Local market capitalization (millions of Namibia dollars)	4,258	2,326	1,805	1,728	2,054	2,492
Local index (year-end)	157.0	92.0	59.0	47.0	58.2	66.5

Source: Namibian Stock Exchange.

Table 23. Namibia: Balance of Payments, 1999-2004

(In millions of U.S. dollars; unless otherwise stated)

	1999	2000	2001	2002	2003	2004 Est.
Current account	246.6	370.7	103.8	169.9	226.9	585.7
Trade balance	-204.5	9.2	-199.2	-207.6	-460.2	-283.6
Exports, f.o.b.	1,196.1	1,320.9	1,142.1	1,072.4	1,250.9	1,823.4
Of which: diamonds	494.4	612.5	523.8	533.3	510.9	824.5
other minerals	183.7	185.7	194.4	200.3	182.6	227.5
fish	268.8	184.8	157.4	149.8	229.5	178.7
Imports, f.o.b.	-1,400.6	-1,311.7	-1,341.3	-1,280.0	-1,711.1	-2,107.0
Services	-122.2	-107.3	16.5	57.2	170.9	134.9
Transportation (net)	-115.6	-52.2	-45.3	-27.6	-1.1	-64.0
Travel	197.7	75.2	163.3	162.0	256.7	316.3
Other services	-204.3	-130.3	-101.5	-77.2	-84.7	-117.4
Income	174.9	34.6	-59.5	45.2	57.9	67.0
Compensation of employees	11.0	10.7	10.2	10.0	-3.7	-4.3
Investment income	163.9	23.8	-69.7	35.2	61.6	71.3
Current transfers	398.4	434.3	346.0	275.1	458.3	667.5
Government (net)	377.3	418.1	333.0	264.0	437.3	645.1
Of which: SACU receipts 1/	348.7	391.9	313.9	248.0	386.8	606.8
Capital and financial account	-178.1	-204.0	29.7	-228.0	-412.0	-614.0
Capital account	22.9	112.1	94.8	40.8	67.4	77.1
Financial account	-201.0	-316.1	-65.2	-268.8	-479.4	-691.1
Direct investment	20.3	183.9	378.1	186.9	158.4	245.7
Portfolio investment	-5.8	-139.2	-196.5	-187.8	-293.4	-336.6
Other investment	-173.7	-398.7	-291.2	-155.7	-361.7	-566.4
Of which: life insurance	-152.2	-160.7	-70.5	-48.0	-87.2	-86.6
pension funds	-117.6	-140.8	-41.8	-28.5	-51.7	-51.3
Reserve assets (increase -)	-41.9	37.9	44.5	-112.2	17.3	-33.8
Net errors and omissions	-68.5	-166.8	-133.4	58.1	185.0	28.3
Memorandum items:						
Current account (excluding official transfers)	-130.7	-47.4	-229.2	-94.2	-210.3	-59.4
Current account/GDP (in percent)						
Excluding current official transfers	-3.9	-1.4	-7.1	-3.0	-4.7	-1.0
Including current official transfers	7.3	10.9	3.2	5.4	5.1	10.2
International reserves (end-of-period) 2/	306.4	268.5	224.0	336.2	318.9	352.7
In months of imports of goods and services	2.0	2.0	1.7	2.7	2.0	1.7
Exchange rates						
US$ per Namibia dollars (period average)	0.16	0.14	0.12	0.10	0.13	0.16
US$ per Namibia dollars (end-of-period)	0.16	0.13	0.08	0.12	0.15	0.18

Sources: Bank of Namibia and Fund staff estimates.

1/ Southern African Customs Union.
2/ Gross foreign assets of the Bank of Namibia.

Table 24. Namibia: Merchandise Exports by Commodity Group, 1999-2004

	1999	2000	2001	2002	2003	2004 Est.
	(In millions of U.S. dollars)					
Exports, f.o.b.	1,196.1	1,320.9	1,142.4	1,072.0	1,250.9	1,823.4
Diamonds	494.4	612.5	523.8	533.3	510.9	824.5
Other minerals	183.7	185.7	194.4	200.2	182.6	227.5
Fish	268.8	184.8	157.4	149.7	229.5	178.7
Unproceesed fish, lobster & crab	10.6	31.0	41.0	38.0	27.9	44.8
Processed fish	258.2	153.8	116.5	111.7	201.6	133.9
Other manufactured products	32.7	69.6	69.4	50.6	151.6	292.2
Live animals	72.1	39.6	39.4	56.6	78.3	87.6
Meat & meat preparations	105.2	107.0	73.0	53.2	78.2	99.7
Other commodities	30.4	104.7	75.3	21.1	15.0	106.2
Other food products	8.9	17.1	9.3	7.5	4.8	7.1
	(Annual change in percent)					
Exports, f.o.b.	-0.5	10.4	-13.5	-6.2	16.7	45.8
Diamonds	26.5	23.9	-14.5	1.8	-4.2	61.4
Other minerals	-7.0	1.1	4.7	3.0	-8.8	24.6
Fish	-29.7	-31.2	-14.8	-4.9	53.2	-22.1
Unproceesed fish, lobster & crab	-15.1	192.1	32.3	-7.2	-26.6	60.7
Processed fish	-30.2	-40.4	-24.3	-4.1	80.4	-33.6
Other manufactured products	-0.1	112.5	-0.3	-27.1	199.6	92.7
Live animals	-19.6	-45.1	-0.5	43.6	38.3	11.9
Meat & meat preparations	17.7	1.8	-31.7	-27.2	47.2	27.4
Other commodities	52.6	245.0	-28.1	-71.9	-28.9	606.3
Other food products	…	92.6	-45.5	-19.9	-35.3	47.6
	(Percent of total)					
Exports, f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0
Diamonds	41.3	46.4	45.9	49.7	40.8	45.2
Other minerals	15.4	14.1	17.0	18.7	14.6	12.5
Fish	22.5	14.0	13.8	14.0	18.3	9.8
Unproceesed fish, lobster & crab	0.9	2.3	3.6	3.5	2.2	2.5
Processed fish	21.6	11.6	10.2	10.4	16.1	7.3
Other manufactured products	2.7	5.3	6.1	4.7	12.1	16.0
Live animals	6.0	3.0	3.4	5.3	6.3	4.8
Meat & meat preparations	8.8	8.1	6.4	5.0	6.3	5.5
Other commodities	2.5	7.9	6.6	2.0	1.2	5.8
Other food products	0.7	1.3	0.8	0.7	0.4	0.4

Source: Bank of Namibia.

Table 25. Namibia: Mineral Exports, 1999-2004

	1999	2000	2001	2002	2003	2004 Est.
	(In millions of U.S. dollars)					
Diamonds	494.4	612.5	523.8	533.3	510.9	824.5
Copper	0.0	8.3	23.3	24.8	24.3	33.0
Lead	1.4	3.1	3.6	4.6	7.5	7.1
Zinc	21.8	16.9	15.6	13.3	26.2	32.7
Silver	0.0	2.6	2.9	6.0	3.7	4.8
Gold	19.6	23.1	24.1	28.6	29.0	24.6
Other	141.0	131.7	124.8	122.9	91.8	124.9
Total	678.4	798.2	718.1	733.5	693.5	1,051.7
Statistical discrepancy	0.3	0.0	-0.1	-0.1	0.0	-0.3
	(In percent of total)					
Diamonds	72.9	76.7	72.9	72.7	73.7	78.4
Copper	0.0	1.0	3.2	3.4	3.5	3.1
Lead	0.2	0.4	0.5	0.6	1.1	0.7
Zinc	3.2	2.1	2.2	1.8	3.8	3.1
Silver	0.0	0.3	0.4	0.8	0.5	0.5
Gold	2.9	2.9	3.4	3.9	4.2	2.3
Other	20.8	16.5	17.4	16.8	13.2	11.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Namibia.

Table 26. Namibia: External Trade Indices, 1999–2004

(In U.S. dollar terms unless otherwise indicated)

	1999	2000	2001	2002	2003	2004 Est.
			(Indices; 1998=100)			
Exports						
Value	99.4	109.8	94.9	89.1	104.0	151.5
Volume (Namibian dollar terms)	104.4	103.5	98.9	100.9	122.0	132.6
Price	95.2	106.0	96.0	88.3	85.2	114.3
Imports						
Value	94.1	88.1	90.1	86.0	114.9	141.5
Volume (Namibian dollar terms)	101.4	96.1	99.9	120.3	126.5	134.1
Price	92.8	91.7	90.2	71.5	90.8	105.6
Terms of trade	102.6	115.7	106.5	123.5	93.8	108.2
			(Annual change in percent)			
Exports						
Value	-0.6	10.4	-13.5	-6.1	16.6	45.8
Volume (Namibian dollar terms)	4.4	-0.9	-4.5	2.1	20.9	8.7
Price	-4.8	11.4	-9.5	-8.0	-3.5	34.1
Imports						
Value	-5.9	-6.3	2.3	-4.6	33.7	23.1
Volume (Namibian dollar terms)	1.4	-5.2	4.0	20.3	5.2	5.9
Price	-7.2	-1.2	-1.6	-20.7	27.1	16.2
Terms of trade	2.6	12.8	-8.0	16.0	-24.0	15.4

Sources: Bank of Namibia; and Fund staff estimates.

Table 27. Namibia: Merchandise Imports by Commodity Group, 1999-2004

	1999	2000	2001	2002	2003	2004 Est.
	(In millions of U.S. dollars)					
Total imports, c.i.f.	1,575.8	1,478.7	1,524.7	1,256.0	2,214.4	2,198.2
Food, live animals, beverages, and tobacco	288.4	240.9	231.1	208.0	335.6	375.4
Textiles, clothing, footwear	108.3	97.0	84.2	78.2	180.6	214.0
Wood, paper and paper products, furniture	129.9	141.2	115.1	92.9	128.5	126.5
Mineral fuels and lubricants	121.2	137.4	204.0	147.3	220.4	277.2
Chemicals, plastic, medical, rubber	215.8	212.1	253.3	184.7	276.0	284.0
Metal and metal products	108.5	103.4	114.8	110.1	160.9	189.5
Machinery and electrical goods	281.9	318.7	319.0	271.1	377.8	447.6
Vehicles and transport equipment	347.5	251.0	229.7	189.9	266.8	316.4
All other imports	27.0	26.8	21.6	8.7	337.1	28.8
Adjustment for re-exports	-52.5	-49.9	-48.0	-34.9	-69.3	-61.2
	(In percent of total)					
Total imports, c.i.f.	100.0	100.0	100.0	100.0	100.0	100.0
Food, live animals, beverages, and tobacco	18.3	16.3	15.2	16.6	15.2	17.1
Textiles, clothing, footwear	6.9	6.6	5.5	6.2	8.2	9.7
Wood, paper and paper products, furniture	8.2	9.5	7.5	7.4	5.8	5.8
Mineral fuels and lubricants	7.7	9.3	13.4	11.7	10.0	12.6
Chemicals, plastic, medical, rubber	13.7	14.3	16.6	14.7	12.5	12.9
Metal and metal products	6.9	7.0	7.5	8.8	7.3	8.6
Machinery and electrical goods	17.9	21.6	20.9	21.6	17.1	20.4
Vehicles and transport equipment	22.0	17.0	15.1	15.1	12.0	14.4
All other imports	1.7	1.8	1.4	0.7	15.2	1.3
Adjustment for re-exports	-3.3	-3.4	-3.1	-2.8	-3.1	-2.8
Memorandum items:						
Total imports, f.o.b. (in millions of U.S. dollars)	1,400.6	1,311.7	1,341.3	1,280.0	1,711.1	2,107.0
Imports, f.o.b./ imports, c.i.f. (in percent)	88.9	88.7	88.0	101.9	77.3	95.9

Source: Bank of Namibia, and Fund staff estimates.

Table 28. Namibia: Imports (c.i.f) by Country of Origin, 1999–2004

	1999	2000	2001	2002	2003	2004 Est.
	(In millions of Namibia dollars)					
Belgium	31.3	27.1	43.1	88.1	77.5	61.2
Canada	370.4	...	...	121.4	5.6	5.5
China	32.0	45.0	141.4	121.4	194.6	182.1
France	52.9	61.9	71.2	150.3	93.7	29.8
Germany	177.8	194.8	253.8	426.7	375.6	284.7
India	26.6	...	29.1	48.6	74.2	97.3
Isreal	...	40.5	24.0	...	91.5	4.7
Japan	32.5	26.3	23.7	...	94.7	55.9
Netherlands	16.7	42.6	49.9	46.9	43.8	33.0
New Zealand	56.1	...	...	...	0.5	1.0
Russian Federation	57.7	40.7	...	...	17.2	9.2
Singapore	...	...	...	141.9	94.0	48.8
South Africa	7,584.0	8,546.5	10,736.0	10,507.7	14,573.4	13,132.7
Spain	36.7	56.5	108.4	169.4	258.5	102.1
Switzerland	32.0		253.8	169.4	88.9	42.1
United Kingdom	365.7	196.2	152.0	357.7	211.9	400.1
United States of America	370.4	124.6	117.0	272.5	149.3	115.8
Zimbabwe	57.7	23.0	46.0	...	235.1	120.9
Sub-total	9,300.7	9,425.6	12,049.3	12,622.1	16,680.1	14,726.8
Other	-14.3	487.7	493.3	964.2	1,203.8	652.1
Total	9,286.4	9,913.3	12,542.6	13,586.3	17,883.9	15,378.9
			(In percent of total)			
Belgium	0.3	0.3	0.3	0.6	0.4	0.4
Canada	4.0	...	...	0.9	...	0.0
China	0.3	0.5	1.1	0.9	1.1	1.2
France	0.6	0.6	0.6	1.1	0.5	0.2
Germany	1.9	2.0	2.0	3.1	2.1	1.9
India	0.3	...	0.2	0.4	0.4	0.6
Isreal	...	0.4	0.2	...	0.5	0.0
Japan	0.3	0.3	0.2	...	0.5	0.4
Netherlands	0.2	0.4	0.4	0.3	...	0.2
New Zealand	0.6	...	...	...	...	0.0
Russian Federation	0.6	0.4	...	...	...	0.1
Singapore	...	...	...	1.0	0.5	0.3
South Africa	81.7	86.2	85.6	77.3	81.5	85.4
Spain	0.4	0.6	0.9	1.2	1.4	0.7
Switzerland	0.3	0.0	2.0	1.2	0.5	0.3
United Kingdom	3.9	2.0	1.2	2.6	1.2	2.6
United States of America	4.0	1.3	0.9	2.0	0.8	0.8
Zimbabwe	0.6	0.2	0.4	...	1.3	0.8
Sub-total	100.2	95.1	96.1	92.9	93.3	95.8
Other	-0.2	4.9	3.9	7.1	6.7	4.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics.

Table 29. Namibia: Exports by Country Destination, 1999–2004

	1999	2000	2001	2002	2003	2004 Est.
	(In millions of Namibia dollars)					
Angola	296.5	634.2	603.0	1,944.0	3,152.2	1,523.4
Australia	36.3	44.4	...	53.0	60.9	35.0
Belgium	254.8	167.9	64.0	78.5	58.8	48.9
Botswana	26.2	54.1	53.3	63.6	107.5	78.8
Canada	384.0	204.0	...	42.5	136.6	187.7
China	...	...	54.7	...	107.2	186.0
Congo	23.9	29.0	41.8	95.1	355.1	355.1
France	149.2	360.6	201.7	842.4	161.3	68.5
Germany	74.2	95.9	102.2	153.6	150.0	126.5
Ghana	...	...	...	73.7	155.0	9.0
Iceland	...	...	...	126.5	55.2	9.0
Italy	88.3	143.1	204.6	243.1	309.6	266.0
Japan	73.0	57.5	79.1	178.9	108.7	106.5
Netherlands	180.6	233.1	157.5	179.7	160.5	135.8
Russian Federation	21.2	31.2	...	...	56.4	11.0
South Africa	2,313.1	2,328.8	2,471.7	3,396.8	3,202.8	3,079.3
Spain	1,035.5	918.6	1,538.1	1,622.8	2,035.8	1,061.2
Switzerland	266.5	286.1	...	40.7	38.8	35.4
United Kingdom	2,301.8	2,996.2	4,103.4	3,281.7	2,641.9	1,652.7
United States of America	230.9	274.1	346.0	421.2	655.9	1,213.3
Zimbabwe	29.1	27.7	36.4	...	27.6	22.8
Sub-total	7,785.0	8,886.3	10,057.5	12,837.9	13,737.8	10,212.1
Other	220.0	271.7	391.7	522.0	601.0	850.9
Total	8,005.0	9,158.0	10,449.2	13,359.9	14,338.8	11,063.0
			(In percent of total)			
Angola	3.7	6.9	5.8	14.6	22.0	13.8
Australia	0.5	0.5	...	0.4	0.4	0.3
Belgium	3.2	1.8	0.6	0.6	0.4	0.4
Botswana	0.3	0.6	0.5	0.5	0.7	0.7
Canada	4.8	2.2	...	0.3	1.0	1.7
China	...	...	0.5	...	0.7	1.7
Congo	0.3	0.3	0.4	0.7	2.5	3.2
France	1.9	3.9	1.9	6.3	1.1	0.6
Germany	0.9	1.0	1.0	1.1	1.0	1.1
Ghana	...	...	...	0.6	1.1	0.1
Iceland	...	...	...	0.9	0.4	0.1
Italy	1.1	1.6	2.0	1.8	2.2	2.4
Japan	0.9	0.6	0.8	1.3	0.8	1.0
Netherlands	2.3	2.5	1.5	1.3	1.1	1.2
Russian Federation	0.3	0.3	...	...	0.4	0.1
South Africa	28.9	25.4	23.7	25.4	22.3	27.8
Spain	12.9	10.0	14.7	12.1	14.2	9.6
Switzerland	3.3	3.1	...	0.3	0.3	0.3
United Kingdom	28.8	32.7	39.3	24.6	18.4	14.9
United States of America	2.9	3.0	3.3	3.2	4.6	11.0
Zimbabwe	0.4	0.3	0.3	...	...	...
Sub-total	97.3	97.0	96.3	96.1	95.8	92.3
Other	2.7	3.0	3.7	3.9	4.2	7.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bureau of Statistics.

Table 30. Namibia: Developments in the Exchange Rate of the Namibia Dollar, 1995–2005

(Period averages; 1995=100)

	Effective Exchange Rate		Namibia dollar per foreign currency index			
	Nominal	Real	U.K. Pound	U.S. Dollar	Botswana Pula	Zimbabwe Dollar
1995	100.0	100.0	100.0	100.0	100.0	100.0
1996	94.9	97.4	117.1	118.5	98.8	103.3
1997	93.7	98.8	131.8	127.0	96.5	91.3
1998	87.6	93.3	159.9	152.4	99.9	55.8
1999	84.2	94.1	172.6	168.4	100.9	38.1
2000	82.5	96.9	183.4	191.3	104.0	37.3
2001	77.3	95.2	216.3	237.1	112.6	37.3
2002	69.8	90.4	275.7	290.5	127.9	45.7
2003	76.4	101.8	215.5	208.4	118.4	7.9
2004	77.9	106.1	206.5	178.0	105.0	0.3
January	75.7	103.1	221.6	192.0	114.8	0.4
February	76.2	104.0	220.6	186.5	107.0	0.4
March	77.5	105.6	211.9	183.0	109.0	0.5
April	78.3	106.9	207.3	181.5	101.3	0.3
May	77.4	106.0	212.8	188.1	109.4	0.4
June	77.7	105.7	204.8	176.9	105.0	0.4
July	80.6	109.9	196.8	168.7	100.2	0.3
August	80.4	109.5	205.2	178.0	101.3	0.4
September	77.4	105.8	205.5	180.9	104.6	0.3
October	76.9	104.5	200.6	175.3	103.4	0.3
November	77.3	104.6	197.6	167.7	103.1	0.3
December	79.5	107.6	193.0	157.9	101.2	0.3
2005						
January	80.2	109.0	194.5	163.0	101.3	0.3
February	79.0	107.8	194.9	163.0	100.8	0.3
March	81.5	109.4	198.4	164.4	101.9	0.3
April	78.7	105.9	203.9	169.9	103.3	0.2
May	78.3	105.0	205.8	174.9	102.8	0.2
June	77.2	103.6	214.3	186.0	93.2	0.2
July	78.2	105.3	205.0	184.8	92.3	0.1
August	78.5	106.1	202.2	178.0	90.9	0.1
September	79.2	107.1	200.6	175.1	90.0	0.1
October	78.8	106.6	203.1	181.7	90.7	0.1

Sources: IMF, Information Notice System; and Fund staff calculations.

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(All amounts in Namibia dollars)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Taxes on net income and profits			
1.1. Taxes on companies			
1.11 Company income tax (Income Tax Act No. 24 of 1981, as amended)	Income tax is levied on the taxable income of any company registered in Namibia and on the taxable income generated in Namibia by foreign companies. Taxable income is defined as gross income less allowable deductions and loss offsets. The year of assessment is the financial year of the company. Companies are required to make two provisional tax payments in respect of each year of assessment, i.e., the first within six months after the commencement of the year of assessment, and the second at the end of such year. Companies are subject to self-assessment and must render returns of income within 210 days after the end of the year of assessment. Each return must include a computation of taxable income and of the amount of tax payable (to-up-payment). Any tax due must be paid simultaneously with the furnishing of the return. Any shortfall will attract interest as from the first day following the 210 days after the end of the assessment year.	Deductions include normal operating costs and interest, but exclude dividends declared and capital expenditures. Capital expenditure allowances granted to nonmining companies are as follows: Expenditure incurred during the year of assessment in respect of machinery, implements, utensils, and articles used by the taxpayer for the purposes of his trade is allowed as follows: one-third in the year of acquisition, one-third in the second year; and one-third in the third year.	Nonmining: 35 percent on taxable income derived in Namibia for years of assessment commencing on or after 1/1/99. All mining except diamond mining: 37.5 percent on taxable income derived for years of assessment commencing on or after 1/1/2000.

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Tax	Nature of Tax	Exemptions and Deductions	Rates
	Comprehensive agreements for the avoidance of double taxation and fiscal evasion ratified, published, and in force: South Africa, Germany, France, Sweden, India, Mauritius, Romania, Russia, and Malaysia. An old, pre-independence agreement with the UK is still honored, but a new treaty is expected to be finalized soon. The following agreements are in various stages of finalization: Singapore, Tunisia, Zimbabwe, Botswana, and Poland. Mining companies are subject to special taxation provisions. (Comment: The revised strategy with respect to double taxation and fiscal evasion agreements is to first concentrate and prioritize on treaties within SACU and SADC, before embarking upon any further bilateral agreements.) Tax incentives are granted to manufacturing enterprises and to exporters of manufactured goods (excluding fishing and meat products). Eighty percent of the profits resulting from the export of qualifying manufactured goods are exempt from income tax. An allowance of 25 percent in respect of land-based transportation costs is provided.	The principal assets on which depreciation is not allowed are intangible assets such as goodwill, patents, and trademarks. However, the cost of patents and trademarks can be written off over the expected life of the patent or trademark or 25 years, whichever is the lesser. Capital expenditure initial and annual allowances for buildings are as follows: In respect of buildings used by the taxpayer for the purposes of his trade, a deduction of 20 percent of the cost of erection of the building is allowed in the year in which it is brought into use, and 4 percent a year for 20 years following the year of erection. However, in the case of a manufacturer, the initial deductions following the 20 percent are enhanced to 8 percent for the following 10 years.	Diamond mining: 50 percent of taxable income plus a surcharge of 10 percent, yielding an effective rate of 55 percent. The rate of taxation was extended to companies rendering services in connection with mining for diamonds on behalf of any person licensed to conduct such mining operations as from January 1995. Registered manufacturers, 18 percent on taxable income derived for years of assessment commencing on or after 1/1/2003.

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Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 Taxes on individuals 1.21 Individual income tax: general (Income Tax Act No. 24 of 1981)	Wage and salary earners are subject to a withholding tax at source (pay-as-you-earn). Self-employed taxpayers are registered as provisional taxpayers. Provisional taxpayers are required to estimate their income for the year of assessment, calculate tax thereon, and pay this amount of tax in two half-yearly installments. Capital gains are not subject to tax. Dividends are tax exempt, except building society dividends. Interest received on investments with NamPost are exempted from tax (companies do not enjoy this exemption) Individuals (excluding those wage and salary earners who do not have to render returns) are subject to self-assessment on the same basis as companies.	Capital expenditure allowances for mining companies are as follows: Capital expenditure consists of development and exploration expenditure. Exploration expenditure can be written off in full in the assessment year during which it is incurred. Development expenditure can be deducted on the following basis: one-third in the assessment year in which the expenditure is incurred; one-third in the ensuing assessment year; and one-third in the second ensuing assessment year. Individuals may deduct an aggregate of N$30,000 from their gross income in respect of contributions to retirement annuity funds, provident and/or pension funds, and premiums paid on educational policies for their children. Husbands and wives are taxed independent of each other.	The tax payable is calculated by applying the rates shown below to the taxable amount. The tax rates are as follows:

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Tax	Nature of Tax	Exemptions and Deductions	Rates	
	Persons whose income comprises remuneration for a full year of assessment from one employer and who are not entitled to deductions incurred in the production of income and who receive interest income of less than N$500 are not required to submit returns of income. Assessments will be issued to such persons on the basis of information received from their employers. Refunds due on income tax, value-added tax, sales tax, and additional sales levy may be set off against any other tax, levy, interest, or penalty that is administered by the minister before any payment is made to the taxpayer.		Taxable amount: where the taxable amount	Rates of tax:
			does not exceed N$24,000,	no tax payable;
			exceeds N$24,000 but does not exceed N$40,000,	17.5 percent of the amount over N$24,000;
			exceeds N$40,000, but does not exceed N$80,000,	N$2,800 plus 29.5 percent of the amount by which the taxable amount exceeds N$40,000;
			exceeds N$80,000, but does not exceed N$200,000,	N$14,600 plus 34.5 percent of the amount by which the taxable amount exceeds N$80,000;
			exceeds N$200,000.	N$56,000 plus 35 percent of the amount by which the taxable amount exceeds N$200,000.

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Tax	Nature of Tax	Exemptions and Deductions	Rates
1.3 Other 1.31 Taxes on royalties and know-how (Income Tax Act No. 24 of 1981)			Normal tax rate applicable to companies, computed on 30 percent of the royalty paid.
1.32 Tax on nonresidential shareholders (Income Tax Act No. 24 of 1981)	Tax on nonresidential shareholders is a tax on dividend income derived by nonresidents. The tax is withheld by the company declaring the dividends.		10 percent on the amount of the dividend.
2. Taxes on property			
2.1 Property transfer taxes (Transfer Duty Act No. 14 of 1993)	Property transfer taxes are taxes payable on the purchase consideration or fair value (whichever is the greater) of transfers of immovable property.		**Transfer duty:** Where the said value or the said amount, as the case may be- ➢ Does not exceed N$ 100 000, nil per cent; ➢ Exceeds N$ 100 000 but does not exceed N$ 200 000, one per cent of so much of the said value or the said amount, as the case may be, as exceeds N$ 100 0000; ➢ Exceeds N$ 200 000 but does not exceed N$400 000, N$1 000 plus five per cent of so much of the said value amount, as the case may be, as exceeds N$200 000; ➢ Exceeds N$400 000, N$11 000 plus eight per cent of so much of the said value or the said amount, as the case may be, as exceeds N$400 000,

Tax	Nature of Tax	Exemptions and Deductions	Rates
			In the case of the acquisition of agricultural land by a person to whom an advance for the purposes of such acquisition is made by the Agricultural Bank of Namibia, in accordance with the provisions of Section 46(1)(*a*) of the Agricultural Bank Act, 1944 (Act 13 of 1944) ➢ does not exceed N$ 100 000, nil per cent; ➢ exceeds N$100 000 but does not exceed N$ 200 000, one per cent of so much of the value of the agricultural land as exceeds N$100 000; ➢ exceeds N$200 000, N$ 1 000 plus three per cent of so much of the value of the agricultural land as exceeds N$200 000; Eight per cent of the said value or the said amount, as the case may be, if the person by whom the property is acquired or in whose favor or for whose benefit the said interest or restriction is renounced is a person other than a natural person.
3.0 Taxes on goods and services (General Comment: The former General Sales Tax and the Additional Sales taxes were repealed on November 26, 2000 and substituted by the Value-Added Tax System)	An invoice based VAT system is applied.	**Denial of input tax deduction** A registered person is not entitled to claim input tax on the following: • Entertainment, unless the person is in business as a tour operator or supplies entertainment, or is a transport operator as part of a taxable service.	Transactions (supplies) that are not exempt are taxable supplies and are subject to VAT at one of two rates: • a standard rate of 15 percent • a zero rate of 0 percent.

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Tax	Nature of Tax	Exemptions and Deductions	Rates
3.1 Value-Added Tax (VAT Act, 2000, Act. No. 10)		• "Entertainment" means the provision of food, beverages, tobacco, accommodation or hospitality of any kind. • Subscription and membership of any sporting, social or recreational nature. • Passenger vehicles, unless such supplier is in the business of dealing in or hiring of vehicles, or is a tour operator, or the vehicles are acquired for the purpose of business or acquired by a short-term insurer for indemnification. • "Passenger vehicle" means a vehicle designed for adopted and used solely for the transport of nine or fewer seated persons, including double cab vehicles. • Petroleum products, unless wholly for use in the business.	**Zero-rated supplies** A registered person making a zero-rates supply charges VAT a 0 percent on the supply and is entitled to recover the input tax on goods and services acquired to make such supplies. Goods and services exported are normally treated as zero-rated supplies, as are • International transport services to persons and goods • Leaded or unleaded petrol, distillate fuels, etc. bring goods subject to the fuel levy • Services to a non-resident person who is not a registered person for the arranging of goods to be exported from Namibia and transport of goods within Namibia • Services physically rendered outside Namibia • Supply of services to a non-resident person who is outside Namibia at the time of service, other than o Directly in connection with immovable property situated in Namibia o Directly in connection with moveable property in Namibia unless subsequently exported, or o By a tour operator

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Tax	Nature of Tax	Exemptions and Deductions	Rates
		Exemption supplies A person who makes exempt supplies only, is not a taxable person and cannot be registered. VAT is not charged on supplies and no amount may be recovered in respect of input tax. Goods and services exempted: o Interest o Educational services o Residential accommodation o Unit trusts o Long-term insurance contracts and the arranging thereof o Public transport of passengers (excluding tour operators) o Margin-based financial services o Asset management services o Intermediation services and management of medical aid fund and buy-aid society o Medical services o Services supplied by a body corporate to its members o Services by a trade union	• Supply of taxable activity as a going concern • Mahango, mahango meal and maize meal • Supply of goods and services by charitable organizations • Telecommunication services to a foreign operator • The sale of immovable property or the erection of or extension to a building, used or to be used for residential purposes • Supply of postage stamps excluding collector's pieces • Supply of electricity, water, refuge removal and sewerage to a residential account • Parts and services rendered in pursuance of any guarantee of new goods • Telecommunication services to residential accounts. • A supply of livestock (other than game) • A supply of o Goods (excluding any other than an invalid vehicle carriage) designed,

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Tax	Nature of Tax	Exemptions and Deductions	Rates
		○ Services in the ordinary course of operation a registered hospital, maternity home, nursing home, or clinic ○ Supplies to foreign Heads of State ○ Fringe benefits to employees ○ Supply of a benefit fund, retirement annuity fund, pension fund, preservation fund and provident fund and the arranging and management thereof	manufactured, adjusted or modified solely as aids or devices for the use of any physically handicapped person who is blind, deaf or crippled or is a chronic invalid; or ○ Repair or maintenance services rendered in respect of goods and parts and materials required to effect such services; or ○ Adjustment or modification services rendered in respect of any vehicle intended for the use of any physically handicapped person where such service is required solely to enable such person to operate such vehicle, and parts and materials required to effect such services.
		Exempt imports ○ Import of goods and services by Z enterprise or EPZ management company ○ Certain goods for welfare or charitable purposes ○ Goods originally exported from Namibia (and not zero-rated when exported) and then brought back by the exporter without having been subjected to any manufacturing process or permanent change in ownership	• A supply of agricultural land to the State to be used solely for resettlement purpose • A supply of water to or by a local water committee approve by the Minister of Agriculture, Water and Rural Development

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Tax	Nature of Tax	Exemptions and Deductions	Rates
		○ Imported or locally manufactured returned empty packing containers ○ Goods sent abroad for processing or repair, exported under customs and excise supervision, and retaining their essential character, returned to the exporter ○ Used personal or household effects (excluding motor vehicles) bequeathed to persons resident in Namibia ○ Goods temporarily imported for processing, provided they do not become the property of the importer ○ Goods temporarily imported for specified purposes ○ Goods imported as accompanied passengers' baggage ○ An import of goods (excluding any vehicle other than an invalid carriage) by any person (other than a registered person) designed,	

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Tax	Nature of Tax	Exemptions and Deductions	Rates
		○ manufactured, adjusted or modified solely as aids or devices for the use of any physically handicapped person who is blind, deaf or crippled or is a chronic invalid; ○ An import of goods which are donated to the State ○ An import of goods or services by the State.	
3.2 Selective Excises (Customs and Excise Act No. 20 of 1998, as amended)	Duties are payable by the manufacturer or importer of certain commodities. Most are specific, but some ad valorem rates exist.	A rebate is granted on dutiable goods that are used by diplomatic representatives, etc., and on taxable goods used by producers in the manufacture of taxable goods for industrial or commercial purposes.	For alcohol products, the following rates apply: • for beer: 3,364.98c per liter of abs. alcohol; • for beer made from malt: 7.82c per l. of a.a.; • for beer powder: 34.7c per kg; • for wine, fortified and sparkling, rates vary from 263.14c to 387.99c per liters; • for unfortified wine: 140.52 c per liter; • for spirits, rates range from 4,945.88c to 5,042.01c per liters. The following rates apply to manufactured tobacco products: • for cigars: 141,676.55c per kg net; • for cigarettes: 252.43c per 10; • for cigarette tobacco: 14,946.05c per kg. • for pipe tobacco: 7,624.01c per kg. The following rates apply to petrol products: • Excise and customs duty, 4c per liter; • Fuel levy, 12c per liter. The following rates apply to diesel products: • Excise and customs duty, 4c per liter: • Fuel levy, 10c per liter.

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Tax	Nature of Tax	Exemptions and Deductions	Rates
4. Taxes on international trade and transactions			
4.1 Customs duties (Customs and Excise Act No. 20 of 1984, as amended)	A three-column tariff schedule based on the Harmonized System 2002 nomenclature with general, most favored nation, and preferential rates of duty is applied. Namibia is in a customs union with South Africa, Botswana, Lesotho, and Swaziland. Most duties are assessed ad valorem at f.o.b. value, but there are a number of specific duties.	Rebates are allowed for certain goods used in manufacture by approved industries or by particular institutions and bodies.	Import duties vary widely.
5. Other taxes			
5.1 Stamp duties (Stamp Duties Act No. 15 of 1993)	Ad valorem or specific taxes are payable on a wide range of legal documents, such as agreements, bills of exchange, bonds, fixed-deposit receipts, leases, marketable securities, and transfer deeds.	Most securities issued by certain public corporations and public authorities are exempt from stamp duty on issue and transfers. Where a marketable securities tax is chargeable, brokers' notes do not attract stamp duty.	Rates of stamp duty vary for different instruments and also for a particular instrument. Examples are agreements of lease (N$5–15 per N$1,000); bills of exchange (N$2 per N$1,000); and fixed-deposit receipts (N$1 per N$1,000).
6. Compound interest on outstanding income tax and value added tax is payable at 20 percent a year, calculated daily and compounded monthly before 01 October 2004. From 01 October 2004, any person who fails to pay any VAT by the due date for payment shall be liable for the payment of simple interest at the rate of 20 per cent per annum on the amount of unpaid tax in respect of the period reckoned from the first day after the date on which the payment was due to the date of payment of such unpaid amount.			
7. Any person who fails to pay any Value Added Tax payable under this Act on or before the due date for payment shall be liable for the payment of a penalty equal to 10 per cent of the amount of unpaid tax for each month or part thereof reckoned from the first day after the due date to the date of payment of such unpaid amount.			

Source: Ministry of Finance.