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## Quarterly Economic Review

### Basic Income Grant – a critical analysis of the first results

Since January 2008 around 1,000 inhabitants of the Otjivero/Omitara settlement, 100 km east of Windhoek, receive a monthly Basic Income Grant (BIG) of N\$100 per person - children included – but excluding pensioners. The money has been raised by the Namibian *Basic Income Grant Coalition* (BIGC) from foreign and local donors. The payment is unconditional. This is a two-year pilot project. The initiators have released the first assessment report on the 2<sup>nd</sup> of October 2008. This article tries to shed some light on the results from an economic perspective.

#### Some reported effects of the BIG (all amounts in N\$)

	November 2007	July 2008
Average total HH income, per month	<b>1,196</b>	<b>2,089</b> (+75%)
Average BIG. payment, per HH, per month	---	<b>645</b> (+54%)
Second round (and later) income increase, per HH, per month	---	<b>248</b> (+21%)
Monthly expenditure per HH, per month	<b>898</b>	<b>1,299</b> (+45%)
Savings, per HH, per month	298	790
Savings rate	25%	38%
<b>Monthly HH expenditures:</b>		
-- for food	<b>262 (29.2%)</b>	<b>354 (27.1%)</b>
-- for clothing	<b>56 (6.2%)</b>	<b>195 (15.0%)</b>
-- for transport	<b>116 (12.9%)</b>	<b>119 (9.2%)</b>
-- for stationary (schoolbooks ...)	<b>17 (1.9%)</b>	<b>25 (1.9%)</b>
<b>Monthly income per adult equivalent</b>		
Lowest : highest income group	<b>50 : 1200</b>	<b>200: 1,400</b>
Percentage of HHs feeling hunger		
-- daily or once a week or every 2 weeks	<b>78%</b>	<b>26%</b>
-- never or once a month only	<b>22%</b>	<b>74%</b>
Stunted or overweight children	42%	17%
Number of children malnourished	23 of 36 (64%)	17 of 36 (47%)
<b>School attendance</b>		
Number of children of 50		

HHS surveyed, not going to school	<b>12</b>	<b>6 (-50%)</b>
Number of children of school age in 50 HHs (3 per HH)	150	150
School attendance rate	92%	96%
<b>Unemployed</b>		
-- and looking for work	<b>47%</b>	<b>45%</b>
-- but not looking for work	<b>17%</b>	<b>7%</b>
Sum:	<b>64%</b>	<b>52%</b>
Number of cases of <b>crime</b> during 5 months		
-- poverty related	<b>28</b>	<b>11</b>
-- not poverty related	<b>15</b>	<b>15</b>

Note: Figures in bold are from the assessment report, figures not in bold are from author's calculations. HH: household.

Source: BIGC (2008); author's calculations.

The average total household income in Otjivero has increased by 75% to N\$2,089 after the introduction of the BIG. The increase is in part owed to the BIG payment (54%) and in part due to indirect effects of the BIG or other external factors (21%).

The already high savings rate of 25% of the income increased substantially to 38% or N\$790. The high savings rate combined with a low level of locally provided goods and services does not support significant second-round effects.

Despite the increase in income consumption patterns have not changed substantially. Only for clothing an increase from 6.2% to 15.0% of total expenditures can be observed. Food expenditures increased in absolute terms (by N\$92 per household and month) but decreased as a share of total expenditure. The same holds for expenditure for transport and stationary such as school material. These trends somehow contradict the concerns raised by the inhabitants namely, that they could not afford sufficient food and educational material for their children and neither transport to Gobabis for HIV treatment and cheaper shopping. Although the issue of alcoholism is treated in the report, the consumption categories do not mention alcohol or cigarettes, which might be included in the category 'others', for which the average spending of N\$47 and N\$52 respectively is rather low.

Food expenditure accounts for less than 30% of total expenditure. Using Namibia's definition of poverty - a household is considered to be "poor" when its food spending exceeds 60%, to be "severely poor" when food spending is higher - the average household in Otjivero is apparently far from being poor. This would warrant some more in-depth analysis. Likewise, the incidents of hunger declined from 78% to 26% but can not be explained by the rather low increase of food expenditure per person – N\$15. This applies also to the reduction of malnourished (stunted or overweight) children - down from 42% to 17%. Including also lesser degrees of malnourishment the reduction is smaller, namely from 64% to 47%.

Only 6 children have not attend school compared to 12 before the implementation of the BIG resulting in an increase in school attendance rates from 92% to 96% based on the assumption that there are three children per household.

Unemployment in Otjivero was above the average for Namibia as a whole, but dropped by 12 percentage points. However, this has not resulted in a substantial increase in income – as explained above.

While poverty-related cases of crime as reported to the police have declined substantially, neighbouring farmers maintain that they are affected by acts of crime more often than before the introduction of the BIG. This could be explained by the influx of people to the settlement that do not receive the grant but have to survive somehow.

The BIG Coalition is convinced that a universal, not means-tested cash payment to everybody is an effective measure to combat poverty. The Coalition regards the first results as evidence for the hypothesis – hence the title "Towards a Basic Income Grant for all".

However, under closer scrutiny some of the effects do not seem to be very dramatic up to now. Furthermore, some of the changes that occurred can also be explained by other factors than the mere transfer of money: the people were educated before the introduction of the grant system about using the additional money and they have appointed 'control officers' to guide them in their spending behaviour. This could also explain the change in school attendance, malnourishment and crime. If this proves to be true, it underlines the importance of education in behavioural changes.

A BIG for all implies that all Namibians, except pensioners, would receive the grant. Is that possible? A monthly cash payment of N\$100 provided to 1.8 million citizens would amount to 9.6% of planned government expenditure for 2008/09. As suggested by the Tax Review Committee the necessary funds could be raised by increasing VAT or other taxes. A thorough analysis is however needed whether this is the best and cheapest option to reduce poverty, and improve health and education. *RO*

**Reference:** Basic Income Grant Coalition (2008), Towards a Basic Income Grant for all – Assessment Report, September 2008, Windhoek. ([www.bignam.org](http://www.bignam.org))

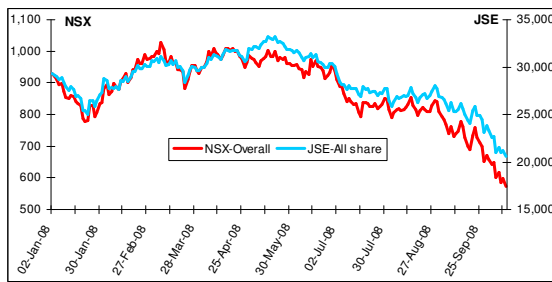
### Financial turmoil spills over to real sector economy

What started as a sub-prime credit crunch a few months ago has developed into a full-blown financial crisis around the world. Major banks have been on the brink of bankruptcy or went bankrupt such as Lehman Brothers in the USA because of liquidity constraints. Other banks in the USA and Europe survived only because governments provided substantial financial assistance or nationalised banks. The crisis is often compared with the Great depression in 1929/30 that led to massive unemployment and contributed to major political changes, most notably in Germany. Although the extent of the crisis is similar – assets worth trillions of US dollar have vanished almost overnight - the government response differs. The current liquidity crisis has seen much more coordinated and concerted efforts by governments and central banks around the world. However, despite a long history of deeper regional integration in Europe, the responses were often characterised by national rather than regional interests. The interest rate cut by 50 basic points of six central banks is one indication, although this might by far not be enough to stimulate the economy and regain investors'

confidence. Central banks are apparently still more concerned with keeping inflation at bay than avoiding a deeper recession.

Despite its integration in the world market, the Namibian financial sector has not been severely affected. This is in part due to exchange control regulations that prohibit businesses from investing unlimited amounts of money off-shore. However, Namibian businesses as well as private persons who have invested in shares at the Namibian and / or Johannesburg Stock Exchange have lost money because of the drop in share prices.

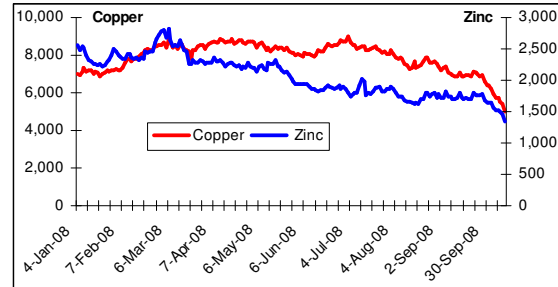
Furthermore, pensioners will feel the pinch since pension funds will record less growth than anticipated of the pension fund contributions invested in shares and other financial vehicles. Moreover, the financial crisis has spilled over into the real sector economy. Production and exports of all major economies are declining, resulting in a drop of demand for raw materials such as minerals that is affecting the Namibian economy as well.



For instance, copper prices dropped from about USD9,000 beginning of July 2008 to below USD5,000 per ton in October, while zinc prices declined by more than 50% from USD2,800 in March 2008 to below USD1,350 per ton in October 2008. Good news for consumers and producers alike is that oil prices have fallen as well to the lowest levels since October 2007.

In addition, because financial investors move funds out of emerging markets, the Namibian dollar is depreciating against major currencies such as the US dollar, the Euro and British Pound. While this is good news for exporters that become more competitive or increase their revenue in local currency – and hence might

mitigate the impact of declining demand – it also increases the costs of imports from these countries. This might fuel inflation, although most likely the South African Reserve Bank and the Bank of Namibia will not respond with interest rate hikes in order not to strangle an already weakening economy.



Overall, relative optimistic growth forecasts for Namibia of around 4.5% from the beginning of this year have been drastically reduced to about 3.5% or even below. This in turn does not bode well for the labour market, neither for government revenue and deficit. KS

**Launch of the SADC FTA: What are the benefits for Namibia?**

On the 17<sup>th</sup> August 2008, the Southern African Development Community (SADC) became a Free Trade Area (FTA). An FTA refers to a group of states that have agreed to eliminate their tariffs and to lowering non-tariff barriers (NTBs) on substantially all trade amongst member states (SADC, 2008). However, not all SADC countries have become members of the FTA. Botswana, Lesotho, Malawi, Madagascar, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe belong to the FTA, but Angola, Democratic Republic of Congo and Seychelles do not.

The launch is a result of years of policy harmonisation and some economic preparatory obligations which saw some member states beginning to comply with some pre-set macroeconomic convergence targets. An improvement in convergence matters has served as a stimulus to the launch.

While preparing the launch of the SADC FTA it was expected that inflation in member states would be in a single digit mould. This did not seem to be the case for some member states such as Angola, Madagascar, Zambia and Zimbabwe which are still maintaining double digit patterns. Macroeconomic convergent was, however, not a pre-qualification. The convergence criteria will become a more relevant topic when SADC moves to the next stages of integration, namely the Customs Union

and Monetary Union. Theoretically, an FTA provides the following opportunities: economic benefits due to lower prices, stronger competition, improved allocative efficiency of scarce resources, induced productivity gains, and a wider market with access to a variety of products (Centre for International Economics, 2000).

This presentation has demonstrated that the SADC FTA is a good development. Quick

SADC FTA tariff phase down status	
Groups of SADC member states	Category A & B tariff position
SACU	Front loaded ≥ 80% of the tariffs
SADC non-SACU FTA members	Due to FTA ≥ 80% should have been phased down
SADC non-SACU and non-FTA members	FTA tariff phase down is not effective

beneficiaries would be non-SACU SADC member states that have better access to the South African market, as a source for inputs as well as export destination.

But how can Namibia benefit from the SADC FTA? Benefits to Namibia may not be realised in a short-tem period. One of the possible ways in which Namibian entrepreneurs could benefit is by venturing into exports of manufactured products to the FTA market. This seems to be especially possible for products of a tariff category that benefits from the phase down. But the FTA may even create additional export possibilities to non-SADC countries by permitting better access to cheaper inputs from

SADC FTA members. In this way wealth creation would occur. The loss of customs revenue usually associated with an FTA is most likely minimal for Namibia because SACU had front-loaded the tariff reduction – meaning tariffs were reduced already some years ago.

Namibian entrepreneurs should consider the non-SACU SADC markets as a training ground on which to advance their future trade activities. The challenges in the meantime are first, lack of information awareness on existing markets and associated risks in the region; second, the similarity of locally produced products in most of the SADC member states which do not stimulate

new opportunities; inadequate production capacity to supply any big potential market due to domestic supply constraints; and lastly, the existence of Non-Trade Barriers in the region which continue to impede free trade. Hence, to make the FTA a success, these areas need urgent attention. JN

**References:** Centre for International Economics. 2000. Economic benefits from an AFTA-CER free trade area. A Report prepared for the Department of Foreign Affairs and Trade. Centre for International Economics, Canberra.

SADC, 2008, SADC Free Trade Area handbook. SADC Secretariat, Gaborone.

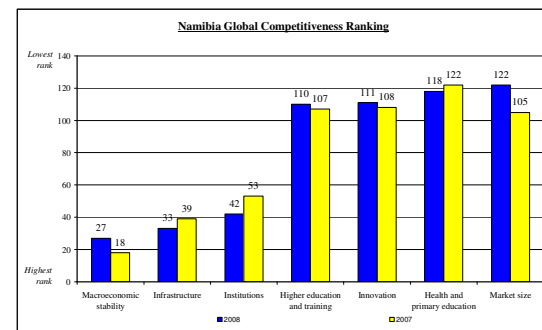
### Namibia's international competitiveness –much way for benchmarking

The World Economic Forum released the 2008-2009 Global Competitiveness Report on the 8<sup>th</sup> of October. The report contains an analysis of the countries' strength and weaknesses as well as the *Competitiveness Index* which ranks the 134 countries included in the report. The index is based on a composite measure of quantitative and qualitative scores. Overall, 110 factors influencing competitiveness are considered, which are summarized under 12 categories ("pillars") from which the overall index is finally computed. The 12 categories focus on public and private institutions, infrastructure and macroeconomic stability. Moreover, primary health and education as well as higher education are considered. Market size, goods and labour market efficiency are further aspects summarized in the index. Innovation, technological readiness and business sophistication are the final three categories contributing to the index.

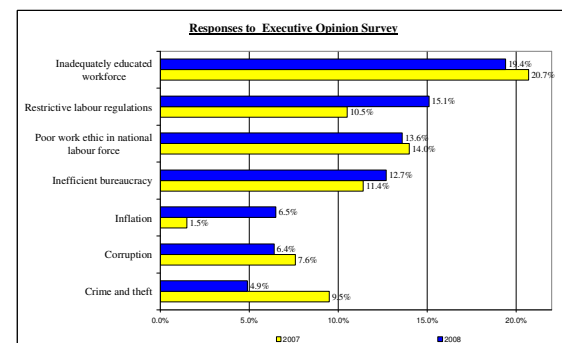
National competitiveness is generally considered to be an important determinant of a country's productivity, standard of living and potential for future economic growth. The competitiveness index aims to provide a numerical expression of a nation's economic environment and its ability to achieve sustained levels of growth and increasing prosperity. It is compiled from country information based on hard data as well as on an opinion survey which is addressed to experts and executives of enterprises and public institutions. NEPRU conducted the Executive Opinion Survey for Namibia at the beginning of 2008. In order for Namibia to be included in the Competitiveness Report it is vital that businesses respond to these surveys.

The USA, Switzerland, Denmark, Sweden and Singapore take the first five ranks. Compared to last year, Namibia's rank has slightly improved, from rank 89 to 80, as did the score, namely from 3.85 to 3.99 this year. Seven is the maximum score a country can achieve. Within sub-Saharan Africa, Namibia takes the fourth

place, after South Africa, Botswana and Mauritius.



The GCI indicates that the strength of Namibia's competitiveness lies in the well developed infrastructure, its private and public institutions as well as in macroeconomic stability. On these indicators Namibia ranks 27<sup>th</sup>, 33<sup>rd</sup> and 42<sup>nd</sup> respectively. On the other hand, in terms of health and primary education, higher education, market size and innovation Namibia takes lower ranks, which is contributing to the country's overall competitiveness level, ranking the country within the lower half of all countries analysed.



The focus of the opinion survey is on those factors which impact negatively on the country's international competitiveness. In this respect, the labour market has been mentioned most often. 19,4% of the executives are concerned about an inadequately educated workforce. 15.1% complain about restrictive labour

regulations and 14% regard the work ethic in the national labour force as poor. Besides the labour market it is an inefficient bureaucracy which was mentioned on 4<sup>th</sup> place as a factor which is negatively impacting on Namibia's international competitiveness.

The overall conclusion that can be drawn regarding Namibia's competitiveness is a mixed one. On the one hand, in terms of indicators such as macroeconomic stability Namibia is performing well. On the other hand, this positive contribution to Namibia's competitiveness is countered by challenges especially in the fields of education, health, innovation, labour market regulation and bureaucracy. When considering Namibia's competitiveness, the improvement of the rank is not an end in itself. Rather, the

Global Competitiveness Index offers an opportunity to compare Namibia with the performance of other nations. Such benchmarking allows for the acknowledgment of international best practices and to initiate government policy actions accordingly. To be more specific, the factors used to compute the index values of the 12 categories are very concrete and allow for direct comparison. For example, in Namibia it takes on average 96 days to overcome the administrative hurdles to start an enterprise. In Switzerland it is 20 days, in Australia only 2. Such information invites for and facilitates immediate and effective policy action and adoption of best practices, with an improvement in the GCI reflecting an improvement of macro and microeconomic policies. *KG*

**Zero rated VAT on food items – have prices decreased?**

With effect of 1<sup>st</sup> August 2008 Value Added Tax (VAT) on certain food items, such as cooking oil, flour, bread, animal fat for cooking and beans is zero rated. Government decided to reduce the VAT rate, formerly at 15%, on these items in an attempt to shield consumers from increasing food prices. There was concern that retailers would not pass on the VAT reduction to consumers. In order to verify to what extent retail outlets have reduced prices NEPRU collected prices at three supermarkets which have been arbitrarily selected. The prices were collected in July and in September (between 22 and 24). The same products and brands were looked at in order to make comparisons possible. This exercise must be viewed as a snapshot on how different shops have reacted with regards to the VAT zero rating, rather than a comprehensive study. The following table clearly indicates that most prices were reduced by less than the VAT reduction. The prices of only two products (Bakpro cake flour in shop 3, and Snowflake cake flour in shop 2) were reduced stronger than the VAT reduction.

According to economic theory, tax induced price changes are expected to differ across products and across sellers. Shops have their specific clientele whose price-sensitivity differs with respect to specific goods. This, again, is reflected in the table with its large spread of price changes. But how can it be explained that some goods have been even increased in price? One reason could be that supermarkets, being subsidiaries of South African firms, are not fully independent in their pricing policies, at least what concerns goods supplied by South African companies. Another reason might be that purchase prices also may have changed during

Products	Quantity	Shop 1	Shop 2	Shop 3
Flora sunflower oil	750ml	2 %	-4 %	0 %
Bakpro cake flour	1 kg	0 %	-9 %	-5 %
Bakpro cake flour	2.5kg	14 %	-7 %	-19 %
Snowflake cake flour	1 kg	0 %	-22 %	-8 %
Snowflake cake flour	2.5kg	2 %	-4 %	-5 %
Snowflake cake flour	5 kg	2 %	-12 %	-4 %
Bakpro white bread flour	1 kg	0 %	-9 %	-5 %
Bakpro white bread flour	2.5kg	5 %	-8 %	-8 %
Snowflake white bread flour	2.5kg	5 %	0 %	-4 %
Bakpro brown bread flour	2.5 kg	0 %	-10 %	-6 %
Snowflake brown bread flour	1 kg	5 %	0 %	-5 %
Brown bread		-13 %	11 %	-13 %
White bread		-13 %	8 %	22 %

the period in question due to external and even international price movements which translate finally into changed selling prices. In addition, long-term supply contracts a retailer held, may have come to an end – possibly with effects on prices. Even after only two months it has become difficult to detect the specific price effect of the VAT reduction for food items. The table however indicates that consumers who compare prices can make some savings. Whether these are the poor – the intended beneficiaries – need to be seen. *MF*

**Study reveals high potential for local production of fruits and vegetable**

The Namibian Agronomic Board commissioned PriceWaterhouseCoopers to estimate the

maximum import substitution possible for fruits and vegetables in Namibia under the Market

Share Promotion (MSP) programme. The MSP requires importers of fruit and vegetables to buy a certain percentage (currently 27.5%) of their fruit and vegetables locally and is implemented through import permit control. The report estimates that Namibia can achieve 60% import substitution in fruits and vegetables.

#### Demand, net production and imports of horticulture products in Namibia, 2007

	Demand	Local production	Imports
Potatoes	24 733	1 475	23 258
Onions	16 192	1 429	14 763
Oranges	4 648	1 042	3 606
Tomatoes	6 679	4 125	2 554
Carrots	2 876	603	2 273
Cabbage	5 807	4 741	1 066
Lettuce	561	185	376
Pepper	416	84	332
Cucumber	909	179	730
Mango	529	240	289
Apples	14 564	0	14 564
Bananas	2 329	43	2 286
Pears	673	0	673
Avocado	376	0	376
Sweet potatoes	576	388	188

Source: Agronomic Board

This was arrived at by analyzing monthly import, production and export statistics for the past four years. Climatic conditions were also taken into consideration and new potential production capacity was estimated to be 75% of current effective yields.

Potatoes and onions top the list of products with the highest development potential. According to the report an additional 23,3t of potatoes can be produced in Namibia per annum to replace imports, while for onions the figure amounts to an additional 14,8t. The implementation of recommendations from this report can potentially keep N\$68 million in the country for these two products alone. Consumers may save up to N\$46 million in annual transportation costs but may be burdened by higher production prices. 1,000ha (670 for potatoes and 330 for onions) need to be developed to realize this vision resulting in up to 547 new jobs for potato production and a further 396 new jobs for onion production.

This is merely the development potential for import substitution in a market of two million consumers who consume an average of only 165g of fruit and vegetables per day. However, according to the World Health Organization, 450g of fruits and vegetables per day should be consumed to meet a person's daily micro nutrient requirement. Thus, there seems to be plenty of scope for increasing local consumption. However, also exports may be raised. Namibian producers have proven their competitiveness in the South African markets and there are great market opportunities in other neighbouring countries. *NK*

#### Recent NEPRU publications

NEPRU Policy Brief No. 22 – Price Transparency for Namibia's Telecommunication Sector  
 NEPRU Working Paper 112 – A Social Accounting Matrix for Namibia, 2004  
 NEPRU Policy Brief No. 21 – Draft Telecommunications Bill 2008 – Lessons from South Africa  
 These and other publications are available on our Website: [www.nepru.org.na](http://www.nepru.org.na)

#### Trends in macroeconomic indicators

<b>Inflation rate</b>	Namibia <sup>1</sup>	12.0 % (↑)	South Africa <sup>2</sup>	13.6% (↑)	Euro Zone <sup>3</sup>	3.8% (↓)	USA <sup>4</sup>	5.9% (↑)
<b>Interest rate</b>	Namibia <sup>5</sup>	10.50% (→)	South Africa <sup>2</sup>	12.00% (→)	Euro Zone <sup>6</sup>	4.25% (→)	USA <sup>7</sup>	2.25% (→)
<b>Exchange rate<sup>2</sup></b>	NAD:1USD	8.31 (↓)	NAD:1GBP	15.02 (↑)	NAD:1EUR	11.94 (↑)	YEN:1NAD	12.60 (↑)
<b>Commodities</b>	Copper <sup>8</sup>	6,418 (↓)	Zinc <sup>8</sup>	1,648 (↓)	Gold <sup>9</sup>	884.50 (↓)	Uranium <sup>10</sup>	53 (↓)
<b>Agriculture</b>	White maize <sup>11</sup>	1,820 (↓)	Wheat <sup>11</sup>	3,090 (↓)				

Sources: <sup>1</sup> Central Bureau of Statistics/Namibia, <sup>2</sup> South African Reserve Bank, <sup>3</sup> Euro Stat, <sup>4</sup> Bureau of Labour Standards/USA, <sup>5</sup> Bank of Namibia, <sup>6</sup> European Central Bank, <sup>7</sup> Federal Reserve Bank/USA, <sup>8</sup> London Metal Exchange, <sup>9</sup> World Gold Council <sup>10</sup> The Ux Consulting Company, <sup>11</sup> SAFEX.

Note: Latest available figures compared to previous quarter: → no change, ↑ increase/appreciation, ↓ decrease/depreciation

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