Regional Integration and Trade

Namibia from an international perspective. The World Economic Forum released its annual Global Enabling Trade Index at the beginning of July 2009. The index is based on the main enablers of trade, namely market access, border administration, transport and communication infrastructure, and business environment. There are a total of nine sub-components. The information is sourced from the WEF Executive Opinion Survey and data from other international organisations.

Namibia improved its overall score from 3.66 in 2008 to 3.93 in 2009, on a scale from 1 to 7. The country is now ranked 60th of 121 countries worldwide, and is second to Mauritius in sub-Saharan Africa. Namibia’s score improved particularly in terms of market access – both access to the domestic market by foreign producers and access to foreign markets – and in terms of a conducive regulatory business environment. However, weaknesses remain in the area of border administration and cross-border procedures that are regarded as inefficient. Although Namibia’s transport infrastructure is rated highly, the availability of transport services and the use of ICT in the country are major drawbacks, resulting in a poor performance in this component.

The report confirms findings concerning Namibia’s strengths and weaknesses in other reports. The African Competitiveness Report 2009 launched by the WEF in June 2009 ranks Namibia fourth in sub-Saharan Africa. The report highlights Namibia’s strengths in the areas of infrastructure, macro-economic stability and institutions. However, the good performance in these components is offset by challenges in the areas of health, education and the labour market, as well as a lack of innovative capacity.

Harmonisation of customs and transport documents and the construction of one-stop border posts within SADC will address some of the weaknesses. But if Namibia is to reap the full benefits of the extension of the Walvis Bay harbour, the transport corridors to neighbouring countries and regional integration in general, investment in human resource development is needed in order to ensure more efficient and effective transport and border services. Improving Namibia’s competitiveness would contribute towards cushioning the impact of external shocks on the economy, such as the current economic crisis, and subsequently on society.

Information Communication Technology – Towards fairer competition in the sector

Regulators across Europe and Africa agree that interconnection (termination) rates should be based on the cost of providing these services. CellOne and MTC’s licences, Namibia’s ICT policy and the draft bill currently being discussed in parliament require the same.

A benchmark study conducted by Research ICT Africa, of which NEPRU is a member, on behalf of the Namibian Communications Commission indicates that the cost of interconnection in Namibia is about N$0.12 to N$0.35 based on current technologies, but will decrease over time. MTC’s estimated cost of termination is N$0.24 based on MTC’s annual report and call volume information submitted to the NCC. The study proposed setting the ceiling for symmetric converged interconnection rates at N$0.30 starting from 1 July 2009. This ceiling includes a 25% mark-up over the estimated cost of interconnection of an efficient operator (MTC’s N$0.24).

CellOne, Telecom Namibia and MTC agreed to a compromise model which was then embraced by the NCC for its directive. The interconnection rate ceiling is set from 1 July 2009 for mobile to mobile, mobile to fixed and fixed to mobile calls to N$0.60 per minute. The interconnection ceiling will be reduced further every six months until the estimated cost of an efficient operator (of N$0.30 per minute incl. a 25% mark-up) has...
been reached. High interconnection rates have shielded MTC from competition in the past. With mobile termination rates approaching cost levels, the protection will cease, resulting in lower prices for consumers. Fairer competition will also attract more investment, create more employment and lead to more Namibians gaining access and being able to use mobile phones.

Further pro-competitive interventions would be required to level the playing field, such as number portability and retail price regulation. A suitable retail price regulation would be to set a ceiling for off-net or fixed line rates, as for the on-net and interconnection rate. Namibia is among the first countries in Africa to introduce interconnection rates that are close to interconnection costs, leading the way for other African countries to follow.

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>1 July 2009</th>
<th>1 January 2010</th>
<th>1 July 2010</th>
<th>1 January 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTR</td>
<td>~ ~</td>
<td>~ ~</td>
<td>~ ~</td>
<td>~ ~</td>
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<tr>
<td>FTR</td>
<td>~ ~</td>
<td>~ ~</td>
<td>~ ~</td>
<td>~ ~</td>
<td>~ ~</td>
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<tr>
<td>Originating internationally, terminating locally via Telecom Namibia</td>
<td>0.59</td>
<td>0.60</td>
<td>0.50</td>
<td>0.40</td>
<td>0.30</td>
</tr>
<tr>
<td>Originating in Namibia and terminating internationally</td>
<td>Government Gazette</td>
<td>0.60 + international settlement rate</td>
<td>0.50 + international settlement rate</td>
<td>0.40 + international settlement rate</td>
<td>0.30 + international settlement rate</td>
</tr>
</tbody>
</table>

Social sectors – MDG report released

The Government launched the second Millennium Development Goals Progress Report on 22nd June 2009. Overall, Namibia has recorded good progress in a number of areas, with about 50% of the indicators already having been achieved, or likely to be achieved. In particular, progress made towards eradicating extreme poverty and hunger is encouraging. It is possible that most indicators for this goal can be achieved. Amongst others the target is to reduce the Gini-coefficient (as a measure of inequality) to 0.58 (currently at 0.6) and cut the proportion of poor and severely poor households from 38% and 9% in 1994 to 19% and 3.5% by 2015 respectively. Using the food consumption ratio as a measure of poverty, currently 28% and 4% of households are regarded as poor or severely poor. However, Government calculated a new poverty line in 2008 which is more robust for measuring poverty, replacing the food consumption ratio. It has not yet been applied to 1993 however, and therefore is not being used to monitor the trend towards poverty alleviation.

A number of targets in the area of education and health are unlikely to be achieved. Net primary enrolment rates and youth literacy rates have not improved to an extent such that the targets for 2012 can be achieved (99.1% and 100% respectively). The same applies to infant and under-five mortality rates, while maternal mortality rates have actually worsened - deaths per 100,000 live births doubled from 225 in 1991 to 449 in 2006. Prevailing diseases such as AIDS and Tuberculosis, lack of qualified health personnel and access to health facilities in rural areas all contribute towards the current status of health. However, there is also room to improve the implementation of health policies and programmes and revise regulations.

Achieving the targets is not just a matter of allocating more funds to these sectors, which would be a challenge at present because of the economic crisis. Better results with the same amount of money could be achieved through implementation, monitoring and review of policies and through strengthening management.

Fiscal policy – SACU deficit

Similar to the rest of the SACU countries, with the exception of South Africa, Namibia receives a significant share of its total national income from the SACU Common Revenue Pool (CRP). On average the transfers have accounted for about 35% of its total revenue since the 1999/2000 fiscal year, but on an increasing scale. It is anticipated that customs revenue will decline due to the
economic crisis, and this decline coupled with the deficit of the CRP recorded for the past fiscal year will put pressure on the national budget.

The way in which customs revenues are collected and distributed within the customs union makes it possible for the pool to incur a deficit. Revenue is paid to each country in four annual instalments, one in each quarter of the financial year in question, based on each country’s share in intra-SACU imports. Since current intra-SACU import data are not available at the time of transfer, the transfers are made based on projections. In addition, there is a time-lag between when revenue is collected and when it is paid into the common revenue pool. The forecasts are prepared each year in November for endorsement by the SACU Commission and the approval of the SACU Council of Ministers. Once approved, the Council of Ministers mandates the South African Minister of Finance, who is responsible for hosting the pool, to pay out the respective shares to member states. An audit is carried out and the accounts are reconciled for the ending financial year during its last quarter.

The audit in the last quarter of the financial year 2008/09 indicated that the revenue paid out to countries exceeded what had been collected during that year. This is the first time a deficit has been recorded since the existence of SACU, which indicates the severity of the current economic crisis. Estimates have traditionally been conservative and below actual revenue, and hence countries received additional payments during the following year. The good news is that excess collections for the financial years 2006/07 and 2007/08 have not yet been paid out to member states, and could therefore be used to partially offset the 2008/09 deficit.

This issue will be on the agenda of the upcoming SACU Council of Ministers meeting scheduled for mid July 2009. The following options exist: to credit the excess payment against the deficit; to deduct the overpayment during the current fiscal year from the transfers, or to postpone the adjustment to the next fiscal year. Postponing the adjustment to the next fiscal year would provide the SACU member states’ finance ministers with some extra time to adjust their national budgets, although they will probably have to bear the interest for financing the pool’s deficit.

While it remains an option to increase the budget deficit in the short term, adjustments on the expenditure side combined with continuous efforts to strengthen revenue collection will be inevitable if the economic crisis continues longer than anticipated and since SACU transfers are expected to decline in the near future.

Macroeconomic trends

Commodity prices showed signs of recovery over the past quarter, with oil prices increasing by more than 40% followed by copper and uranium prices by about 27%. The price increases can be attributed to some countries building up strategic reserves, rather than to a recovery of the world economy. However, the commodity price increases have not necessarily benefitted mineral exporters, since the Namibian dollar appreciated against major currencies during the same period by between 19% (USD) and 8% (GBP).

Furthermore, mining companies often sign longer-term contracts that are not immediately influenced by daily price changes on the spot market.

In addition, the currency appreciation will affect the tourism industry since it means the country becomes a more expensive destination. Tourist expenditure in local currency could therefore drop further, in addition to the decline in tourist arrivals.

On the other hand, the currency appreciation has cushioned the impact of the oil price increase on consumers and producers, although a further price hike is expected at the beginning of July. Consumers and producers will also benefit from lower prices for imported goods and services, if the impact of the currency appreciation is passed on by the importer and wholesale sector. However, government revenue from Value Added Tax and import duties will be negatively affected because of lower values in domestic currency of imported goods. This will add to the existing pressure on government revenue, even though honouring foreign debts becomes less expensive as a result of the appreciation.
The interest rate cuts by 200 basis points since March this year improve the disposable income of households that have borrowed from commercial banks (though they reduce interests earned on savings). However, it will not translate immediately into increased demand for home loans or result in additional investment, because commercial banks have turned to more conservative lending practices in order to reduce their exposure. Furthermore, consumers and businesses take also a more cautious spending approach because of the prevailing uncertainties about the length and degree of the economic crisis. The decline in mortgage loan applications and in the number of building plans approved is a clear indication of the prevailing mood. Hence it is expected that the interest rate cuts will increase consumption and investment only with a considerable time lag. On the other hand, the interest rate cut eases the cost pressure on businesses and private households, and could reduce the number of bad debts.

The interest rate cuts are in part supported by a slight decline in the inflation rate – down from 11.2% in March to 9.1% in June. In particular food price increases (11.5%), household equipment (12.8%) and miscellaneous goods (11.5%) remain high, while the increase in the cost of transport slowed down to 4.1% due to low oil prices. The prices for wheat and maize on the international markets showed a downward trend and contributed to modest increases for cereal and bread (6.5%). Expectations of a stronger decline in price increases for cereal and bread (6.5%). The prices for wheat and maize on the international markets showed a downward trend and contributed to modest increases for cereal and bread (6.5%).

The National Accounts data for the first quarter 2009 indicate the worst quarterly decline in GDP (-5.8%) since the fourth quarter of 2004 (-8.4%). Although the actual figures often turn out to be slightly more positive, a general negative trend of GDP growth was expected. It is anticipated that the second quarter data will be in the same range because of the “production holiday” at the Namdeb onshore diamond mines in addition to the general slowdown of economic activities.

Because of the sharp decline in private sector activities, both central government and local authorities have a crucial role to play in stimulating the economy through targeted investment in productive sectors and in infrastructure that have the potential of high returns, and through social spending in order to mitigate the impact of the economic slowdown on the most vulnerable. The government announced a countercyclical expansionary budget in March to this purpose, and increased expenditure by 12.5%. Due to a time lag between the approval of the budget and the implementation of capital projects, the economic impact could be felt from the third quarter if projects are speedily implemented. In addition, government created a special task force to design further strategies aimed at stimulating economic growth. The recommendations of the task force are not yet known. It will support private sector planning if government’s measures and or additional investment plans are made public sooner rather than later.

Overall, uncertainty prevails in the markets and signals from different corners of the world are mixed. For instance, while labour market data from Europe indicate an end to widespread job losses, recent data from the USA point in the opposite direction. It is therefore still too early to predict an end to the economic woes.

Trends in macroeconomic indicators - also available on NEPRU’s web site www.nepru.org.na

<table>
<thead>
<tr>
<th>Inflation rate</th>
<th>Namibia¹</th>
<th>9.1%</th>
<th>RSA²</th>
<th>8.4%</th>
<th>Euro Zone³</th>
<th>0.6%</th>
<th>USA⁴</th>
<th>0.7%</th>
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<tbody>
<tr>
<td>Interest rate</td>
<td>Namibia⁵</td>
<td>7.00%</td>
<td>RSA⁶</td>
<td>7.50%</td>
<td>Euro Zone⁷</td>
<td>1.00%</td>
<td>USA⁸</td>
<td>0.25%</td>
<td>↑</td>
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<tr>
<td>Exchange rate</td>
<td>NAD:1USD</td>
<td>7.70</td>
<td>NAD:1GBP</td>
<td>12.65</td>
<td>NAD:1EUR</td>
<td>10.84</td>
<td>YEN:1NAD</td>
<td>12.27</td>
<td>↓</td>
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<tr>
<td>Commodities</td>
<td>Copper⁹</td>
<td>5,107.50USD/t</td>
<td>↑</td>
<td>Zinc¹⁰</td>
<td>1,554.00USD/t</td>
<td>↑</td>
<td>Gold¹¹</td>
<td>934.50USD/oz</td>
<td>↑</td>
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<tr>
<td>Agriculture</td>
<td>White maize¹³</td>
<td>1,431.00ZAR/t</td>
<td>↓</td>
<td>Wheat¹⁴</td>
<td>2,392.00ZAR/t</td>
<td>↓</td>
<td>Beef¹⁵</td>
<td>21.59NAD/kg</td>
<td>↓</td>
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</tbody>
</table>


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

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