COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN NAMIBIA

Creating Resilient and Inclusive Markets

Executive Summary

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EXECUTIVE SUMMARY

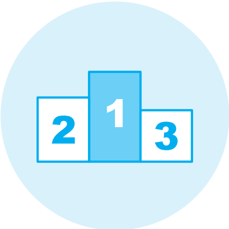
Since achieving independence in 1990, Namibia's remarkable growth has been fueled by foreign direct investment and enabled by prudent economic management. The sustained growth resulted from large private capital investments in mining and public investments in infrastructure enabled by prudent fiscal and monetary policies, a stable political and business environment, and a strong financial sector. Namibia transitioned from a lower-middle- to upper-middle-income country in 2008, with per capita incomes reaching a peak of US$6,370 in 2015.

Since 2016, however, growth has declined steadily and the economy fell into recession, exposing the vulnerability of Namibia's economic growth model to external and climate shocks. In 2019, the economy contracted 0.9 percent and, in 2020, contracted further by 8.5 percent because of external shocks arising from commodity demand and price volatilities and from drought, as well as increasing debt that limited public investment. These challenges were exacerbated by the COVID-19 pandemic, an economic slowdown in neighboring South Africa, worsening terms of trade on the back of declining global demand and commodity prices, a decline in Southern African Customs Union (SACU) revenues, and the effects of crippling droughts on agricultural and industrial production.

Namibia has very high levels of poverty and inequality, which are largely driven by high levels of unemployment. The government is the biggest employer and public investment has been a historical driver of growth; but given the fiscal pressures, the Namibian government has limited capacity to create public sector jobs or undertake large public investments, a situation that implies a more dominant role for the private sector is needed. The limited private sector growth has created a situation in which only a small segment of poor Namibians benefit from employment income, while the majority depend on social grants or subsistence farming. Namibia's gross domestic product (GDP) growth slowly recovered by 0.8 percent in 2021 and is expected to average just above 2 percent over 2022–24, premised on waning effects of the pandemic and strong prospects for the mining sector.

The primary objective of this Country Private Sector Diagnostic (CPSD) is to identify near- and medium-term reform opportunities to revitalize the private sector and help reposition Namibia's growth on a green, resilient, and inclusive trajectory. This CPSD explores priority reform opportunities to address five cross-cutting bottlenecks: (1) enhancing the role and performance of the state-owned enterprise (SOE) sector through a more effective competition policy environment; (2) strengthening implementation of the public-private partnership (PPP) framework to expand private investments, especially in infrastructure; (3) leveraging the potential for digital transformation of the economy; (4) addressing inefficiencies in logistics and trade facilitation; and (5) tapping opportunities in the water sector for green and resilient growth. The diagnostic then looks in depth at three sectors prioritized by the Namibian government—renewable energy, climate-smart agribusiness, and housing—and provides recommendations for reducing sector-specific bottlenecks to stimulate growth potential.

Addressing cross-cutting constraints to private investment

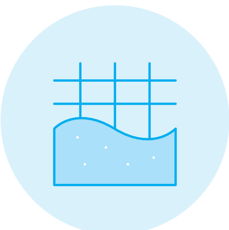


1. Establishing a more effective competition policy environment

Namibia's largely monopolistic market structure and dominant public sector create an uneven playing field for the private sector. Public sector dominance in a small economy such as Namibia's can create anticompetitive effects, especially when SOEs operate in monopolistic and privileged positions in key sectors of the economy—as they do even in sectors where private participation could be more efficient and transformative. This monopolistic nature of SOEs undermines the incentive to improve productivity and efficiency within key sectors such as water and electricity.

SOEs enjoy advantages that inhibit the entry and success of private participants. These include preferential access to finance (subsidies, guarantees, and bailouts) and land, legislated monopolies in specific sectors, preference through policies and oversight practices of shareholders, and multiple roles that create conflict between regulatory functions and operations. The artificial propping up of uncompetitive public enterprises—for example, through public subsidies and guarantees—leads to inefficiencies and imposes a fiscal burden on the government. Given the small market size, overall efficiency and productivity gains can be achieved by delineating sectors that would benefit from private participation and sectors where existing SOE performance could be enhanced.

The Namibian government has demonstrated its commitment to improving the efficiency of SOEs. In November 2021, the government announced changes to the Ministry of Public Enterprises over a five-year period. Based on the recommendation of a high-level panel on the Namibian economy, the Ministry of Public Enterprises is envisaged to become a holding company under the Ministry of Finance, which would have direct oversight into the financial and operational performance of public enterprises and ensure that subsidies are aligned to compliance and performance. This move is part of Namibian government's efforts to transform Namibia's public enterprises and streamline the administration.



2. Strengthening implementation of the PPP framework to expand private investments

Namibia has a sound albeit nascent PPP system. The country has sought to build a PPP framework through legislation, regulation, setup of a PPP Unit under the Ministry of Finance, and establishment of capacity for facilitating PPP projects. But the new framework is not fully tested yet, as no PPP transaction has reached financial close under the PPP Act of 2017. Implementation capacity is developing but remains nascent. A robust PPP framework accompanied by critical business environment reforms could attract much-needed private investments, especially in energy and water, thereby reducing fiscal burden. The new PPP framework could be more effective if broader business environment constraints are addressed. Capacity will grow over time as participants learn from successful transactions and as systematic links between the planning and budgetary processes are developed. Implementing the PPP framework will help expand and strengthen the PPP pipeline and help ensure projects are not selected simply because they have not secured budget financing.

The PPP Unit has identified ten PPP pipeline projects, five of which the Namibian government has formally announced. Projects in the pipeline cover renewable energy, water, agriculture, pharmaceutical supplies, affordable housing, a student village, and rehabilitation of housing for Ministry of Health staff as well as the redevelopment of an office building for the Ministry of Justice. The formally announced projects are in wastewater treatment, desalination, solar power, and student village development.

3. Leveraging the potential for digital transformation of the economy

Despite a mature telecommunications market, adoption of digital technologies is lagging. Although Namibia was a pioneer in Africa in launching both 3G and 4G/LTE (Long-Term Evolution) networks and has good network coverage, it lags upper-middle-income comparator countries on the World Bank Digital Adoption Index. Weak competition in the broadband market is keeping costs high; wherein 1 gigabyte of monthly prepaid data in Namibia costs an average US$8.3, compared to US$4.7 in South Africa or US$4.3 in the Democratic Republic of Congo (Heita 2022). According to the Global System for Mobile Communications Association (GSMA), in 2021, Namibia's mobile broadband adoption at 36 percent and smartphone penetration at 53 percent lagged its regional peers (52 percent and 65 percent, respectively). Fixed broadband has rolled out slowly, with just 2.5 subscriptions per 100 people. Consequently, digital adoption rates are much lower than in peer countries.

Promoting digital transformation will require a multitiered approach. This includes reducing market concentration while facilitating the entry of new operators, which could enhance investments and technology and improve service quality, access, and affordability; increasing market contestability, especially at the last-mile and wholesale levels; accelerating international connectivity and national open access fiber infrastructure through private participation, which could increase access to affordable and reliable bandwidth; and adopting new internet service provider licenses and infrastructure-sharing arrangements to accelerate the deployment of high-speed broadband services.

4. Addressing inefficiencies in logistics and trade facilitation

Opportunities are increasing for Namibia to position itself as an alternative logistics gateway for Southern African Development Community countries. For example, Walvis Bay is leveraging its four main trade corridors to attract traffic from Botswana and new attention from South Africa's Northern Cape agriculture hub. The Logistics Master Plan proposes a Logistics Hub Center in Walvis Bay; this could become a transit/transshipment cargo hub with sufficient traffic to improve connectivity to global markets and reduce logistics costs, in line with Namibia's vision to become a "logistics nation" by 2025. However, in the World Bank Logistics Performance Index, Namibia lags South Africa and is roughly on par with Mozambique and Tanzania. To gain a competitive edge, Namibia needs to improve its performance in timeliness, tracking and tracing, logistics competence, international shipments, infrastructure, and trade facilitation.

The logistics sector exhibits several challenges. Sea connectivity is infrequent or unavailable because of competing ports; air connectivity depends on passenger traffic rather than cargo needs; rail transportation is unreliable because of outdated railway and equipment; and road transportation entails high costs because of empty backhauls and a restricted trucking market. In addition, the development of logistics facilities has been delayed because of hesitancy by logistics investors, a lack of skilled logistics professionals, limited availability of data to monitor the performance of Walvis Bay corridors, and a lack of good-quality third-party storage facilities. A mapping of trade patterns and flows to identify priority areas for strengthening transport and logistics infrastructure could be a good basis to identify private investment opportunities.

Addressing these challenges will require reform in three broad areas: (1) accelerating implementation and scaling of digital systems along the trade corridors, which includes investing in digital infrastructure and adopting digital processes to enable real-time cargo monitoring, implementing the single window system, establishing a trade portal and adopting a virtual queue management system at land border posts; (2) improving the regulatory framework for domestic and international logistics services, which includes reviewing the entry barriers to road transport (including an assessment of the effects of cabotage policy and the third-country rule) and supporting implementation of the Vehicle Mass Bill, which will harmonize rules and regulations affecting road transportation in the region; and (3) improving border crossing efficiency along the trade corridors, by enhancing staff capacity at the borders and upgrading border infrastructure, can reduce border bottlenecks.

5. Tapping opportunities in the water sector for green growth

Water shortages and increasing vulnerability to climate change threaten sustainable economic growth. Namibia is the driest Sub-Saharan African country and the most vulnerable to climate change shocks. The combined effects of highly variable and low levels of precipitation, increasing temperatures and evaporation rates, and water pollution severely threaten economic growth and livelihoods, especially among the poor. Water demand is expected to increase by over 30 percent by 2030, driven by urbanization, irrigation for agriculture, and the needs of the tourism sector.

Three priority PPP water projects recently announced signal the Namibian government's commitment to attract private participation. The Wastewater Direct Reclamation Plant (City of Windhoek), Otjiwarongo Wastewater Treatment Works (Otjiwarongo Municipality), and Desalination Water Supply Project (Namibia Water Corporation Ltd.) can demonstrate the value of private sector involvement and the reduced fiscal burden on the government.

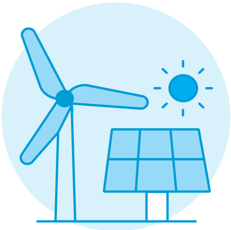
Meeting the need for financing and private investments in the water sector will require a comprehensive approach that includes decentralization, equitable tariff policy, and technical innovation. The private sector is well placed to help develop approaches for innovative water solutions such as desalination. Progress on these fronts will require addressing the concern that private participation will increase the cost of water, a social good, and adversely affect access to water, especially for the poor.

TABLE ES.2 Priority reforms to address cross-cutting constraints

Cross-cutting constraints	Priority reforms
Enhancing SOE performance and establishing a more effective competition policy environment	Level the playing field between the between SOEs and the private sector Improve service delivery across the public enterprise portfolio, in particular network companies
Strengthening implementation of the PPP framework to expand private investments	Strengthen capacity of the PPP Unit for preparation and delivery of the first-mover, priority transactions Improve interagency coordination and support for the PPP agenda
Addressing inefficiencies in logistics and trade facilitation	Accelerate implementation and scaling of digital systems along the corridors Improve the regulatory framework for domestic and international logistics services Improve infrastructure and staff capacity to enhance border crossing efficiency along the corridors
Leveraging the potential for digital transformation	Increase market contestability and private investments to improve quality and affordability of broadband services Intensify the development of digital literacy and skills
Tapping opportunities in the water sector for green growth	Strengthen the capacity of the PPP Unit for water sector projects Clarify institutional arrangements for water and sanitation infrastructure investments

Notes: SOE = state-owned enterprises; PPP = public-private partnership.

Sectoral deep dives



1. Renewable energy

Namibia's world-class—but largely untapped—renewable energy resources are well-positioned for development. The country has one of the highest solar irradiation levels in the world, at nearly 3,000 kilowatt hour per square meter over a large part of the country. Namibia also has excellent wind resources that are available when electricity demand is highest; mean wind speeds at typical turbine heights can exceed 10 meters per second. If exploited well in the medium to long term, these excellent fundamentals, coupled with recent decreases in global prices of solar photovoltaic panels and wind turbines, could enable Namibia to not only service its own rising electricity demand, but also to become a leading regional exporter to other Southern African Power Pool peers. Namibia's resources also create the opportunity to position the country as a global competitor for green hydrogen.

TABLE ES.1 Recommendations: Renewable energy

Short-term recommendations	Medium- to long-term recommendations
Strengthen implementation of the Modified Single Buyer model by increasing private sector actors' understanding and participation.	Increase the availability of specialized technical skills for the renewable energy sector.
Accelerate the regulatory reforms proposed in the National Integrated Resource Plan and the Electricity Act.	Target investments to develop a renewable energy value chain.
Enhance capacity to deliver successful renewable energy transactions.	Explore opportunities for restructuring of NamPower.
Support private participation in off-grid electrification.	
Introduce derisking and innovative financing instruments.	

2. Climate-smart agribusiness

Investments in Namibia's livestock and horticulture sectors show promise that could benefit the large share of Namibians who depend on agriculture for their livelihood. Despite Namibia's very limited arable land and vulnerability to climate shocks, over 70 percent of the population depends on the agriculture sector for their livelihood, and 23 percent of the workforce is employed in agriculture. Namibia is classified as an arid country; only about 1 percent of the country's 82.4 million ha is under production, and only 0.05 percent is identified as irrigable. Since 2008, agriculture's contribution to GDP has fluctuated substantially between 6.7 and 10.4 percent because of compounding climatic shocks. The livestock and horticulture subsectors show increasing promise for climate-smart investments that could generate income and employment. Livestock accounts for just over half of Namibia's agricultural production and 90 percent of its agricultural exports but is among the least labor-intensive agricultural subsectors. The horticulture subsector accounted for 1.5 percent (or US$101 million) of exports in 2019; grapes were the leading output, accounting for 69.8 percent of horticulture exports, followed by tropical plants (6.4 percent).

TABLE ES.3 Recommendations: Climate-smart agribusiness

Short-term recommendations	Medium- to long-term recommendations
Improve access to finance for smallholder farmers.	Increase the length of land tenures.
Improve water availability for the Green Schemes.	Enhance private participation in the Fresh Produce Business Hubs.
Explore new export markets for boneless and processed meat.	Strengthen foot-and-mouth disease monitoring.
Establish clearer rules for private operators for any future Green Scheme transfer.	Leverage Green Schemes for animal feed producers.

3. Housing

Namibia's demand for formal housing is increasing with urbanization and offers a key economic opportunity. Namibia is experiencing annual urbanization of around 3.8 percent, translating to 50,000 people or 13,500 new urban households, annually. The share of the urban population is expected to increase from 52 percent to 60 percent by 2030. Formal housing delivery is not keeping pace with demand, resulting in a rapid growth of informal settlements. The current need for about 45,000 new housing units per year offers a key economic opportunity. The housing sector creates spillovers across other sectors along the value chain, and thus has a high job-creating potential. Housing accounts for 10–30 percent of a country's consumption, and 50–90 percent of household wealth and savings. The high economic multiplier in the housing construction sector offers significant potential to support economic recovery by influencing demand for intermediate manufacturing and services inputs into the housing sector.

TABLE ES.4 Recommendations: Housing

Short-term recommendations	Medium- to long-term recommendations
Support the finalization and implementation of the housing strategy, drawing upon global experience, to promote sustainable urban development.	Introduce the Excellence in Design for Greater Efficiencies certification in Namibia in collaboration with the Construction Industries Federation.
Leverage lessons from the student village and Windhoek housing projects to refine the housing public-private partnership framework.	Create the regulatory frameworks for the issuance of green housing finance.
Implement digitalization measures to improve cost and efficiency of the entire land delivery process, including land design, titling, approval, and registration.	Introduce innovative market-appropriate financial products for the low- and middle-income housing market.

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