

**AN ASSESSMENT OF DEVELOPMENT AID TO  
NAMIBIA: ‘*A POLICY AND ECONOMIC IMPACT  
STUDY (1990-2005)*’**

**A Research Paper submitted in partial fulfillment of the  
requirements of the degree of Master of Public Policy and  
Administration**

**OF**

**THE UNIVERSITY OF NAMIBIA (UNAM)  
Faculty of Economics and Management Science  
Department of Political and Administrative Studies  
AND  
THE INSTITUTE OF SOCIAL STUDIES (ISS)**

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**APRIL 2007**

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**ABSTRACT**

This paper presents an empirical exploration and analysis of the economic and policy impact of development aid to Namibia since independence 1990. Namibia has been receiving a large amount of economic and humanitarian aid, in the form of financial, technical and material support from both bilateral and multilateral development co-operation partners with a common objective to promote good governance, economic growth and reducing poverty. International aid did not come as a surprise, the independence of Namibia came as a result of an international peace settlement and a large number of nations promised to help Namibia in her process of social and economic development, right from the day of independence. As a result a donor roundtable conference for Namibia was held in Geneva in 1995, and the prepared background document on Namibia's development needs and priorities was adopted as the First National Development Plan (NDP1) for Namibia by the post independence government and covered the period from 1990-2000. Development assistance to Namibia was based on this and the subsequent Second National Development Plan (NDP2) for Namibia covering the period from 2001/2002 to 2005/2006.

However, a large amount of development aid to Namibia was disbursed outside the government's state revenue fund in the form of free standing technical assistance. A significant amount of aid was channeled as budgetary or balance of payment support, but huge chunk of aid went to the social sectors mainly to education, health and sanitation, housing, water and electricity, infrastructure development and to the transport sector.

The main aim of development assistance to developing countries and to Namibia in particular is to help boost the country's capacity for economic development, to achieve sustained economic growth and to reduce poverty, unemployment and income inequality. Much of development aid to Namibia took the form of human and institutional capacity building through technical and financial support in the area of education, institutional capacity building and policy reforms.

This paper is the first academic research to be undertaken on the impact of development aid to Namibia at macro-level by focusing on the main socio-economic policies and indicators for development. The objective is to measure the significance and effectiveness of development aid in boosting Namibia's economic growth, employment, reducing income inequality and poverty.

The study came out of curiosity to determine the level of development assistance to Namibia and, understand its policy and economic impact. The central question that guided this research can be stated as follow: To what extent has development aid been significant to Namibia's economic growth and poverty reduction? This study can be described as descriptive and analytical in nature.

The major findings are that development aid though constitutes a small mount of domestic resources it proved to have been of significant importance to Namibia's socio-economic development. Economic aid impact and significance is implicit at the macro-level of analysis (macroeconomic aggregates), but explicit and the micro-level of analysis (microeconomic) affirming the micro-macro paradoxes of economic aid impact on developing countries' economies.

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## **ACKNOWLEDGEMENTS**

I would like to thank the Ministry of Environment and Tourism for the financial support and information they offered me to pursue this academic inquiry.

Also to my family who patiently endured my prolonged absence from home during my studies and especially when I went to The Hague for almost six weeks to pursue the second leg of my study program.

My special thanks goes to the University of Namibia (UNAM) and the Institute of Social Studies in The Hague, The Netherlands for offering me the opportunity to further my studies and this academic inquiry in particular.

To my supervisors, Prof. S. Ikhide and Prof. Paschal Miyho at the University of Namibia and Dr. K. Knio at the Institute of Social Studies for constant guidance during my studies.

Special appreciation for the entire study group for a good companionship and support especially during our trip to the Hague.

Lastly but not least I dedicate my greatest thank to Dr. Hoze. Riruako, our Project Leader and Ms. Linda Lehmann for their valuable support.

## **DEDICATION**

I dedicate this major academic achievement to my entire family and friends for their moral support and encouragement.

**DECLARATIONS**

I, Olimpio Nhuleipo, do hereby declare that this study is a true reflection of my own research, and that this work or part thereof has to the best of my knowledge, not been submitted for a degree in any other institution of higher education.

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**Signed:** \_\_\_\_\_

**Olimpio Nhuleipo**

**Date:**

<b>Day</b>	<b>Month</b>	<b>Year</b>

## ABBREVIATIONS

### Appendix 1.1: Abbreviations used

CBNRM	Community Based Natural Resources Management
CMA	Common Monetary Area
DRFN	Desert Research Foundation of Namibia
EPZ	Export Processing Zone
GDP	Gross Domestic Product
NNF	Namibia Nature Foundation
NDPI/II	National Development Plans I and II
NEPRU	Namibia Economic Policy Research Unit
NGOs	Non Governmental Organization
IPPR	Institute of Public Policy Research
ODA	Official Development Assistance
WWI	World War I
WWII	World War II
UNDP	United Nations Development Program
SIDA	Swedish International Development Cooperation
GTZ	Germany Technical Corporation
EU	European Union
HIV/AIDS	Human Immune
MET	Ministry of Environment and Tourism
LDCs	Least Developed Countries
IMF	International Monetary Fund
WB	World Bank
PRSPs	Poverty reductions Strategies Papers

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## **CHAPTER 1: GENERAL INTRODUCTION**

### **1.1 Introduction**

Namibia is a Sub-Saharan African country, situated in the South-Western corner of Southern Africa. The country shares borders with Botswana in the East and the Atlantic Ocean in the West. In the North Namibia shares her boundary with Angola, and in the South with South Africa. The strategic Caprivi Strip in the Northeastern corner provides Namibia access to Zambia and Zimbabwe's territorial boundaries.

The country's territory covers 824,295 square km, which translate into 82426900 million hectares, and has a population of 1.9 million people (WFB, 2006). Namibia is sparsely populated with an average population density of 1.6 people per square km (Oden, et al, 1994). Between 1990 and 1994, annual population growth rate was 3.1 percent, while the economy/real GDP grew by 2.6 percent on average in the same period. The country is divided into 13 administrative regions with diverse economic potential and production capacities.

Namibia's economy is open -a mixture of free market and social oriented economy. The economy is characterized as transit economy due to the country's strategic location in Southern Africa. Namibia is wedged between the major economies of Southern Africa, namely South Africa, Angola and Zimbabwe. On the other hand the country's strategic sea Port of Walvis Bay provides land locked neighboring countries mainly Botswana, Zambia and Zimbabwe, access to shorter road and rail network for the export and imports of their goods and services.

Namibia is a small market of 1.9 million people compared to Angola's big market of 12.5 million and South Africa with the largest market of more than 40 million people. The Namibian economy is dominated by the South African business interests, due to the fact that the country was a de-facto fifth province of Apartheid South Africa (Oden, 2001 et al). Namibia's foreign trade pattern shows strong links with its former colonial masters, and more than 80 percent of the country's foreign trade in the form of exports of minerals, fish and meats products and imports of goods and services is with South Africa. The peace in Angola also presents some tangible benefits to the Namibian economy due to a large volume of business transactions with Angola and an increase in Angolan visitors on shopping tours. Though this might be temporary in nature the country's industries stand a good chance to benefit from the process of Angola's reconstruction. Other major trading partners of Namibia are Japan, the United State of America, Britain and Germany.

At independence the country inherited a colonial legacy of a divided and unequal society. The government inherited a large civil service about 44,000 composed of various ethnic administrations (Oden, et al, 1994). By 1993 the civil service increased to 63,000. Today, there are about 80,000 people in government employment. The colonial public service was complemented by the new elites, the new middle class to form a public service of an independent Namibia.

The white minority administration played a central role in social and economic sphere of pre- independence Namibia and as a result the white owned most of the country's productive assets land and water. There was also a black middle class which benefited from high salaries associated with pre-independence collaborative

ethnic administrations. These black land owners and business people became the new collaborative elites who teamed up with the new political and economic elites of an independent Namibia. The poor remained the majority making a living on subsistence agriculture, though the degree of freedom of movement from one class to the other became wide in post independence Namibia. The government inherited a society of high social inequality which is the highest in the world amid high level of poverty and unemployment.

The key sectors of the economy are primary and export oriented industries and ranges from mining, fishing, agriculture and services. The mining sector is capital intensive and dominates the economy. For example during 2004, the sector registered a growth rate of 36.8 percent which is very high compared to lower growth of 4.6 percent in the previous year. The sector's strong performance in 2004 can be attributed to the increase in diamond, uranium and zinc production and prices and other minerals (BoN, 2006). The agricultural sector often suffers from sporadic drought and its output is highly volatile especially communal agriculture production. In 2004 the agricultural sector grew by 1.5 percent compared to 3.6 percent in 2003. This increase can be attributed to high growth in subsistence agriculture of 32.9 percent due to good rains in the North West, North central and North Eastern parts of the country during 2004.

At independence agricultural sector production was dominated by 4000 commercial farmers with extensive livestock ranching, while 120 000 households depended on

small scale subsistence agriculture. To date more than 70 percent of the Namibian people depend on agriculture for a living.

The country's economy is dual consisting of a modern commercial/industrial sector and a traditional backward sector and is dominated by South African interests. A large number of private companies are or were branches of South African parent companies. The economy is also experiencing a lack of expertise and technical skills necessary for development. The country experiences a host of problems such as deterioration in quality of life, illiteracy, poor quality of education, lack of access to portable water and electricity, poor state of health and lack of food sufficiency, despite development aid and huge public expenditure on the key social sectors aimed at reducing these social ills.

The country is generally characterized by acute social inequality and the transformation of the traditional economy into a knowledge based economy became central to the broader government's development agenda (World Bank, 2001).

At independence the government of the Republic of Namibia faced high expectations from citizens after centuries of colonization and discrimination. At independence the country had high level of poverty, high level of unemployment, high level of illiteracy among the black majority, lack of skilled labor force and highly skewed income distribution. The government of Namibia also inherited an apartheid debt burden and lacked financial resources necessary to reduce the prevailing socio-economic imbalances. On its part the government of Namibia set for itself

macroeconomic objectives of ensuring sustainable economic growth, low level of unemployment and poverty reduction as well price stability.

The international community came to the aid of the country by committing huge amount of development aid since 1990 to help boost its economic growth and improve the living standard of the Namibian people through poverty reduction tailored rural development projects. But one wonders as to how effective development aid interventions to Namibia. Aid to Namibia came at the height of an academic discourse on the effectiveness of economic aid in boosting economic growth and achieving poverty reduction in recipient countries or what is generally known as developing countries. Namibia has been receiving economic aid since independent in 1990. However, it is worth looking at the general aid discourse before coming to economic performance of Namibia. The debate on aid effectiveness span from the 1950s throughout to the 1990, till to date. The debate on aid centers on the effectiveness of economic aid in achieving economic growth and lifting citizens of the third world out of poverty.

The debate on development aid is divided into nearly three camps, western proponent and devotee believer in aid effectiveness such as the IMF, the World Bank and individual development economists. On the other side of the aid debate are some western think tanks and private foundations and individual academics, which see the entire aid establishment as a failure and waste of time and resources. The aid critics focus on the bureaucratic nature of aid agencies and on the way aid is implemented and on lack of accountability on the party of aid agencies.

The third group is of those who regard aid with suspicion, these are individual citizens of developing countries and some western institutions and individuals who see aid as burden to recipient countries because of conditions attached which much of aid spend on purchases from donor countries and less is used to benefits the recipient economy. This group also sees aid agency or donor just caring about their economic interest rather than the real development and economic growth of a recipient nation.

For example Easterly (2006) criticize aid planner for not realizing the complexity of society they deal with in administering and implementation development aid. The aid agencies are criticized for their boldness in believing that, they can transform the complex societies of developing countries they do not understand. Easterly argue against the case that outside aid can raise country's entire growth rate permanently. He further argue that, it is wrong for one to assume that hundreds of aid officials, administrators, and foreigner experts can devise hundreds of integrated and coordinated programs such as roads, immunization, teachers, wells, raising GDP growth, grain mills, poverty reduction strategies (PRSPs), clinics, microfinance, oral dehydration therapy, development strategies such as the millennium development goals, and successfully implement them in foreign societies. He argues that this bureaucratic approach has never worked and will never work.

He further argued that to the contrary rich societies had well developed free markets and democracy, with property rights and individual freedoms for each actor. He provided the example of firm that supplies a specialized product such as grain mill to

its consumers and held accountable if grain mills customers are not happy, they stop buying the product, return to the store, the firm is threaten with extinction if it does not take serious step to improve the quality of its product. The same applies to elected politicians in developed societies, politician supplies roads, or teachers, or water supply to the voters, each done via separate bureaucracy specializing in that task with a PRSP in sight, if the voters are not happy they vote the non delivering elite out of office (Easterly, 2006). The politician try to prevent the debacle by making sure the specialized bureaucracies keep the voters happy with roads, water and teachers which is not really the case in developing countries. According to Easterly, rich societies work well enough to be rich because of the decentralized way that complex problems are simplified where every one has a specialized role, incentives and accountability to play that role well.

To the contrary in the world of foreign aid, each foreign aid bureaucracy is responsible for everything and all aid workers are collectively responsible for all this everything and in this bureaucratic maze with no exits, nobody is individually responsible for anything (Easterly, 2006).

Aid agencies collectively talk when they set big goals with no consequences when the miss to meet the goals. Individuals in the aid system should take responsibilities for example seeing to it that oral dehydration salts reach dying babies, that twelve-cent doses of medicine reach dying malaria victims, that the wells get drilled and maintained to give content clean water so that babies do not get sick. It is only with individual responsibility aid searchers will find a way to make this work.

Though acknowledge the fact that aid does much good for the poor, Easterly argued that it is a fallacy to think that overall poverty can be ended by a comprehensive of things like malaria medicines and clean water. Easterly strongly argued that the complex poverty of low-income societies will slowly give way to prosperity the same way it in rich countries. For Easterly there is a need for a gradual homegrown rise of political and economic freedom in developing countries of which is not any easy quick fix. For him democracy and free markets evolve from below with a lot of supporting social norms and institutions and can not be imposed from top by the IMF, World Bank or a developed country. Easterly, however acknowledge that there is a good news of the evolution of freedom from below, and the concomitant decline in poverty in many parts of the world, but affirmed that before the benefits of freedom arrive for the poorest people in the world aid agencies should be held responsible and accountable for seeing that billions in annual foreign aid does finally reach the poor.

A number of aid critic points out the weakness with aid and proposed solutions. Some see aid as a complete failure. Development aid programs seen as equals the big push, the seekers win; planner loses and PRSPS are seen central planning by aid critic.

Radelet (2006) argue that where aid failed it should be condemn, but credit must be given where it became successful and build on rather than dismiss. Radelet argue that countries which introduce poverty reduction strategies, though damped failure plan by some aid critics, their average post -PRSP growth rate in 2004 was 5.9 percent per

year including nineteen African countries which adopted PRSP their growth rates 5.7 percent. Radelet took a middle ground in the whole aid debate, he does not say PRSPs are fabulous or neither dismissed them, but he is concerned with back handed dismissal of development aid efforts by some aid critics. He (Radelet) argue that some developing countries are doing well with their development strategies and is concern about the writing of these countries' progress and supporting aid programs. Radelet argued that market often works, but not always, he is against the simple absolute argument that aid is a failure or aid is a miracle answers and advocates hard work on understanding were aid work and were it does not.

Bill (2006) argued that, aid failure should not be hidden behind establishment clichés and pointed out the weakness with development aid before proposing innovative solutions. In response, to Bill, Radelet (2006) argued that one should also learn from aid success stories be it from Indonesia's government-planned school expansion program or the Mozambique's success story. He (Radelet) argues that, there is a need to allocate more aid to countries that are implementing sensible development strategies. That more aid should be given to local communities in recipient countries for them to decide how best to use it for them to be able to hire or fire a teacher, sink a well, buy a grain mill, or build a clinic. According to Radelet, aid can be well targeted to support well developed plans and strategies to build rural road networks to connect the poor to markets or to support nation-wide immunization programs which has saved millions of lives in the past.

## 1.2 Statement of the problem

The problem that this exercise will address can be defined as follow: to determine or assess the extent to which development aid has been significant to Namibia in boosting economic growth and addressing poverty and unemployment. It seems that despite huge amount of development aid since 1990, political stability and good governance a conducive policy environment, Namibia's economic performance was not quite impressive during 16 years of independence and the standard of living of the Namibia does not seem to have improved that much.

Economic growth has undergone upswings and downswings below the minimum targets set by the First National Development Plan and the Second National development Plan. This scenario goes against the argument contained in most literature on development aid that, aid serves to supplement domestic saving and fill the investment gap created by less domestic saving thereby promoting domestic investment and economic growth of a recipient country. To the contrary, the idea that aid boosts economic growth seems not to be the case with Namibia.

The country is a net saver and a large amount of Namibia's domestic saving is invested in South Africa. A number of aid literature also pointed out that development aid help reduce income inequality and poverty in a recipient country, but the Namibian case proved contrary still, the country has a high level of income inequality , with Gini-coefficient of about 0.707 and the majority of the population live on less than \$2.00 a day. One wonders as to what is the real role and impact of development aid on policy and economic growth in Namibia. Aid is meant to

promote economic growth, create employment, reduce poverty and social and economic inequality which does not seem to be the case for Namibia despite billions of dollar in aid since 1990. On the policy arena a number of recent literatures on development aid concluded that development aid tends to be effective in a good policy environment (Dollar, 2000). Namibia does not only have a good governance record and a democratic government, but aid came at the right time at the beginning of socio-economic reforms, as some argue that the failure of aid can often be blamed on the fact that aid comes as a prescription to the effects of bad economic policies. For Namibia, aid started with the new democratic government, and donors were involved to a certain extent in the policy formulation and implementation. Yet key social and economic indicators paint a negative picture, throwing some doubt on the real effect of development aid to the country's economy.

Namibia has been a stable country throughout the period under study despite the 1999 attempt to de-link the Caprivi Region from the rest of Namibia. However, there were no abrupt change of government or opposition takeover of government that may lead to discontinuation or delays in policy implementation as argued in a number of literature on development aid.

In general development aid which seems to be a good humanitarian gesture is at times used by developed countries, as a tool to discipline and manipulate the political establishment of recipient countries. Several literatures on aid and development concluded that, donors are more interested in promoting their commercial interests rather than economic development of their aid recipient countries. Development aid

also tends to create a dependency syndrome in some cases as far as the relations between developed and developing countries are concerned. A number of developing countries particularly in Africa depend on aid as source of revenue to meet their development objectives as well as to finance current expenditure. However, Namibia does not fall into that category as the country can mobilize domestic resources to meet both current and capital expenditure and aid is used mainly for capital expenditure and on current expenditure in emergency situations.

The perceptions and acceptance of aid seem to be contradicted by citizens of recipient nations, the general tendency and feeling that developed countries owe much to Africa due to centuries of colonialism, therefore they have to donate, might negatively influence the use of resources and relations in aid implementation and management. One wonders as to whether what is put on the table under some of those assumptions will be implemented honestly to improve the living standards of the citizens of a recipient country if the reality is that people were more of victims rather than beneficiaries of colonialism.

At independence the government of Namibia faced high expectations from citizens who just emerged out of colonialism and expected the new government to help address their plight of poverty and unemployment. The government set itself socio-economic goals and objectives as well as national aspirations and started with the national development planning as documented in National Development Plans I and II. In general Namibia aspires to be in the class of high income, developed countries

and to attain a high quality of life for her citizens comparable to European standard of living of high social equity (Ogawa, 2003, et al).

However, since 1990, economic growth was characterized by peak and slump. Real economic growth rate fell from 4.9 percent for the period 1994-1996 to 2.4 percent in 2001 (Ogawa, 2001 et al).

Between 1990 and 1993 annual economic growth increased by 0.4 percent in 1990, 3.8 per cent in 1991 and 3.5 percent in 1993 which is slightly above the rate of population growth. At independence the government pursued prudent and strict fiscal policy to guard against high level of fiscal deficit and unsustainable public debts bearing in mind intergenerational equity issues (Ikhide, 2004).

In the first five years of independence the Namibian Government set it self macro and micro-economic goals and objective to address the imbalances of the past. These goals and objectives range from the reduction of social inequality through income and wealth redistribution, to ensuring sustainable poverty reduction, increased economic productivity and high value addition, reduced unemployment, to ensure a rapid economic growth rate (GDP growth rate), a low level of inflation, low level of public debt, favorable balance of payment and of late to curb the scourge of HIV/AIDS, which affect the economy negatively because it is prevalent in the 14-50 age group which is the most productive.

At government's disposal are the fiscal, monetary and trade policies and legislations as major economic and legal tools to facilitate the achievement of government goals

and objectives. On the other hand the international community made funds available to assist the country achieve its development objectives. The implementation of government's development goals and objective did not require financial resources alone but also home grown skills and innovative and creative ideas to complement policies and aid money. Government has to rely on its own sources of revenue and on its development partners who promised support at independence (Oden et el 1994).

The international community has been channeling development aid to Namibia since 1990, in the form of financial and non financial resources especially to support education, health and rural development. A large amount of development aid went to infrastructure development and to rural development projects aimed at poverty alleviation in the area of agriculture, small and medium enterprise development, rural electrification and provision of portable water to remote areas. The assumption is that the number of aid agencies as well as the number of donor funded development projects and programs increased dramatically from 1990 to 2005.

This study aims at determining the role development aid played in the Namibian domestic policy. Here the focus is to identify the real contribution of development aid to macroeconomic aggregates in the form of income generating activities, job creation and poverty reduction.

The central question that will guide the research can be stated as follows: To what extent has aid been paramount to Namibia's economic growth (GDP growth) and poverty reduction?

### **1.3 The objective of the study**

The purpose of this study is to assess the impact and significance of development aid on economic growth and poverty reduction in Namibia.

The sub- research objectives;

5. What has been the trend in development aid inflow in Namibia?
6. What role did development aid play in the area of equitable distribution of national income and poverty reduction in Namibia?
7. To what extend has dollar in development aid managed to feel the saving-investment gap or boost private and public investments in Namibia?

### **1.4 Significance of the study**

This study contributes to the understanding of the effectiveness of development aid in boosting economic growth and improving the living standard of the majority of people in Namibia. It fills the information gap on the impact of development aid to Namibia at the aggregate level and will be of use to development officers, researchers and students of development economics, policy and program analysis. The study also shed some light on country specific problems that might hamper the impact of aid in improving the living standard of developing countries and Namibia in particular. The study came at a time when major donor countries are considering

withdrawing aid by 2008, and at the same time the country is experiencing high income inequality, high level of unemployment and wide spread poverty.

The study fills the existing gap in the literature on the macro-economic impact of development aid to Namibia. There is a lot of literature on development aid especially by the World Bank and other international aid agencies which focused on aid distribution at a global level rather than at specific country level.

There is limited literature on the impact of development aid to Namibia but were not focused on aid impact at the macro economic level, but to specific sectors. A number of studies on the impact of aid to Namibia seem to have been driven and funded by aid agencies which wanted to evaluate the impact of their assistance to specific social sectors on the Namibian economy.

This study is useful to students of economics, researchers, aid agencies and government officials who want to understand the significance of development aid to Namibia.

The study findings can be used by practitioners in the area of aid implementation, evaluation and management and help them understand the wider impact of their activities at macro level through the multiplier effects

The result could be of use to policy makers by providing a variety of policy options and will help them by identifying the country's strength and weakness that are responsible for poor performance.

### **1.5 The scope of the study**

The study covers the period from 1990-2005. The study is limited to the analysis of the relationship between development aid and macroeconomic aggregates such as investments, GDP growth, and government revenue, government debt, and balance of payment, poverty level and employment.

### **1.6 Research methodology**

This study will make use of qualitative methods and required the use of secondary data. The targeted donors source of secondary information are a few major ones such as the European Union (EU), Swedish International Development Agency SIDA), GTZ and the United Nation Development Program (UNDP). The aim is to establish their policy and level of economic support to Namibia.

The assumption is that data exists on the macro aggregate variables such as level of aid disbursement, GDP, population and aid of which can be obtained from the National Planning Commission and UNDP on request. The researcher will make use of relevant institutions' resource centers and contact key people in these institutions. The research also makes use of the internet to access the web pages of the relevant institutions to down load essential publications.

My interest is to record the number of aid agencies which are funding projects across sectors, direct and indirect jobs created as a result of projects and program interventions.

### **1.7 Source of data**

**Central Bureau of Statistics**-National account –statistical data and census reports

**Ministry of Finance** -National Budget documents

**Aid Agencies Document**- Multilateral and bilateral Aid reports

**United Nations Development Program**- Human Development Reports for Namibia

**Bank of Namibia** - Annual reports and other publication

**National Planning Commission** -National Development Plan Document & Vision 2030

**Namibia Economic Policy Research Unit (NEPRU)** – research papers

### **1.8 Data analysis**

The collected data is analyzed using the Microsoft excel program to draw basic graphs establishing the level of aid to Namibia in total and in ratio terms, the level of GDP growth. The same applies to other variable such as the level of investment, both domestic private and foreign direct investment.

### **1.9 Chapter outline**

This study can be described as descriptive and analytical in nature and is arranged as follow. The descriptive part of the study focus on the socio-economic reform undertaken by the Namibia government with the assistance of its development

partners a subject of chapter 2. This part described briefly the process of nation and institutional building and policy reforms and development planning. It also looked at the level of investment, GDP growth, government debts, inflation and unemployment level as important indicators of good governance and sound economic management and effectiveness for success of aid. The analytical part of this chapter focuses on the outcome of the social and economic reform compared to its level before independence. It will use all the social indicators to judge the country's performance amid aid resource, own national resources and good policy environment both essential for economic growth.

Chapter 3 is a literature review highlighting what others say about development aid and economic growth and poverty reduction. It presents the findings and conclusion of various empirical studies on development aid across the globe.

Chapter 4 presents the trend in development assistance to Namibia since 1990. This chapter identified the sources and looked at the level of aid and its distribution to different key sectors of the Namibian economy. The same chapter looked at aid as a share of government expenditure and GDP and at the role aid played in the area of policy formulation. Chapter 5 provides the analysis of the macro-micro paradoxes of development aid to Namibia with a detailed analysis of the significance of economic aid to the key sectors of the economy.

Chapter 6 constitutes the summary policy recommendations and conclusion based on the findings in chapters 2, 3, 4 and 5. The recommendation will be based on the

findings of the study, on the significance of aid to Namibia in contributing to policy and economic growth and on the outcome of both government and donor funded development program in achieving high level economic growth and employment, reduce poverty and inequality in Namibia.

It seeks to affirm or disapprove the need and role of development aid to Namibia by looking at the country's performance compared to experience highlighted in the literature review. It will also provide judgment on the findings of the entire thesis and look at the prospects in post-aid period, whether Namibia can spearhead its own development in the absence of development aid by looking at the role that aid play in the development of the country so far. It also listed Namibia's pressing development challenges.

## **CHAPTER 2: HISTORICAL AND SOCIO- ECONOMIC**

### **BACKGROUND**

#### **2.1 Introduction**

This chapter provides the general background on socio-economic development, especially the performance of the main economic aggregates of the Namibian economy since 1990. It also highlighted upon socio-economic conditions in the decade preceding the independence of Namibia, with a view of comparing and measuring the country's social economic progress before and after independence. This chapter also provides the highlights of socio-economic reforms undertaken by the post colonial government of Namibia in an attempt to rectify the imbalance of the past. It also looked at macro-economic management and economic performance during the last 15 years of independence. This chapter is a crucial one because it provides an analysis of the performance of the Namibia economy during the aid era (independence period) by comparing it to the non aid era before independence period. Though development aid is a subject of chapter four it played a role in the socio-economic development of the country presented in this chapter, and in the areas of development planning, legislations, policy formulation and institutional capacity building.

#### **2.2 National Development Planning**

Namibia adopted a centralized, but consultative process of national development planning. This includes both the short term and long term planning for sustainable

socio-economic development. Namibia makes use of short term development planning in the form of Five year development plans. So far Namibia has worked with two rounds of these short term development plans namely the First National Development Plan (NDPI) and the Second National Development Plan (NDPII). The First National Development Plan (NDPI) covered the period from 1995/96 to the year 1999/2000 (UNDP, 1997). The Second National Development Plan (NDPII) covers the period from 2001/2002 to 2005/2006.

The other type of National development planning is of a longer term nature of which expresses the aspirations of the Namibia people. The “Vision 2030” contains the mission and vision of the Namibian nation and provides a sense of direction to the government, private sectors and the development co-operation partners in the process of socio-economic development and uplifting of the living standard of the Namibian people.

The First National development Plan (NDP1) spelled out the following national development goals:

6. Reviving and sustaining economic growth
7. Creating employment opportunities
8. Reducing inequalities in income distribution
9. Eradicating poverty

These were the priorities of the Namibian Government for the fiscal period 1995/96-1999/2000. In order to achieve the above mentioned development goals the

Namibian government identified and developed strategies to achieve those national goals. These strategies included the provision of an enabling environment for the private sector development, human resources development/ investment in the people, increasing people's participation in the process of national development and planning, ensuring sustainable development and making government efficient and responsive to the needs of the nation (NDPI). Some progress was achieved under the NDPI, but a lot of major challenges remained which became the subject matter of the NDPII.

The Second National Development Plan which covers the period from 2001/2002 to 2005/2006 contains eight national objectives of which four emerged from NDPI. The goals of NDPII are as follows:

1. to reduce poverty
2. to stimulate and sustain economic growth
3. to create employment
4. to reduce inequalities in income distribution
5. to reduce regional inequalities
6. to promote gender equality and equity
7. to enhance environmental and ecological sustainability and
8. to combat the spread of HIV/AIDS

For the achievement of the national goals contained in the NDPII document the strategies of NDPI remained applicable.

Namibia has national goals and aspirations set out in the Vision 2030, an official policy framework document that spells out the long-term national development goals. The vision 2030 document set measurable targets level for the nation's development, which can be seen as observable indicators of progress toward achieving the set level of development of the country by 2030. The country aspires to be an industrialized nation by the year 2030, a quite ambitious development goal. Namibia wants to join the group of developed, high income countries where high economic growth, even distribution of national income, and citizens are enjoying a high standard of living.

Namibia set herself the goal of eliminating poverty, income inequality, unemployment and less productivity. The indicators, targets and strategies in place across sectors are outlined in the vision 2030 document.

The vision 2030 was a missing link in Namibia's development planning cycle, which consisted of short and medium term development planning. Since independence in 1990, the country operated with (medium term) five-year development plans. The first five-year Development Plan was borne out of the 1995 Geneva donor conference for Namibia and was adopted as the transitional development plan. With the establishment of the National Planning Commission the country has seen the development of various sectoral plans and regional development plans were put in place for the period 1992-1997.

The Vision 2030 took a long term perspective of the country's development process. It is a document that opens the eyes and reduces concentration on the ground or on short term development goals and objectives. The Vision 2030 makes it easier for the implementation of the medium term development plans. The Vision 2030 has set targets or beacons and strategies for achieving those targets. The implementers of the medium term development plans are guided by the Vision 2030 in achieving the national development objectives.

### **2.3 Socio-economic reforms**

At independence Namibia was deeply divided and this division has reinforced the natural social, cultural and traditional differences. The colonial homeland policy which created the second tier administration for all Namibian ethnic groups has prevented Namibians from socialization and divided them further by designing settlement or separate locations for different ethnic groups in urban areas across the country. This has continued to thrive even after independence. The Damara location, Ovambo location, Herero location, Baster and Tswana locations are still intact and hold the potential to further divide Namibians, if social living conditions are not improving in these locations or in their home regions on equal footings.

After independence all Namibians became equal before the law as stipulated in the country's constitution. No more spatial limitation or segregated areas for racial or ethnic groups. The Namibian government ensures that there are equal opportunities for all. Equal pays for similar job and qualification, freedom to settle and move into any corner of the country. All forms of discrimination were done away with and the

government adopted a policy of national reconciliation. Government removed all of the social obstacles and adopted a policy of schools for all, hospitals for all, recreational areas for all, business opportunity for all and employment opportunity for all and access to productive assets for all in an independent Namibia.

However challenges remained that made it difficult for the government to implement its liberal agenda of freedom and justice for all. These same hidden impediment also prevented the previously disadvantage Namibians from benefiting or from realizing their potentials. These obstacles are in fact the effects of segregation and policies of unequal development. They range from a lack of skills among the unemployed Namibians, lack or general absence of property rights and lack of collateral to access financial resources for development. These benefits were only being enjoyed by the few before independence and continued even after independence. The government then undertook policy measures to rectify the situation and took action to provide skills, proclaim rural towns and established the Development Fund of Namibia and later the Development Bank of Namibia and the Agricultural Bank. These banks together with the Affirmative Action program and the Black economic empowerment policy turned out to be the main vehicle for the rectification of socio-economic, structural, geographic and systemic imbalances of the past.

The post independence government of Namibia has undertaken major steps towards addressing the imbalances of the past. The government upholds the country's constitutional provisions and managed to put in place suitable policies and legislative frameworks. In the social sectors, the government launched and successfully

implemented extensive country-wide immunization campaigns which reduced infant mortalities, trained health workers and received technical assistance from both bilateral and multilateral development partners.

Government spent a large amount in addition to development aid on education and managed to provide basic education for all and high education for a large number of people. Education and health sectors have been receiving a large share of budget allocation throughout the 1990s and the 2000s. Since independence, Namibia has allocated close to 40 percent of the national budget to education, health and social services.

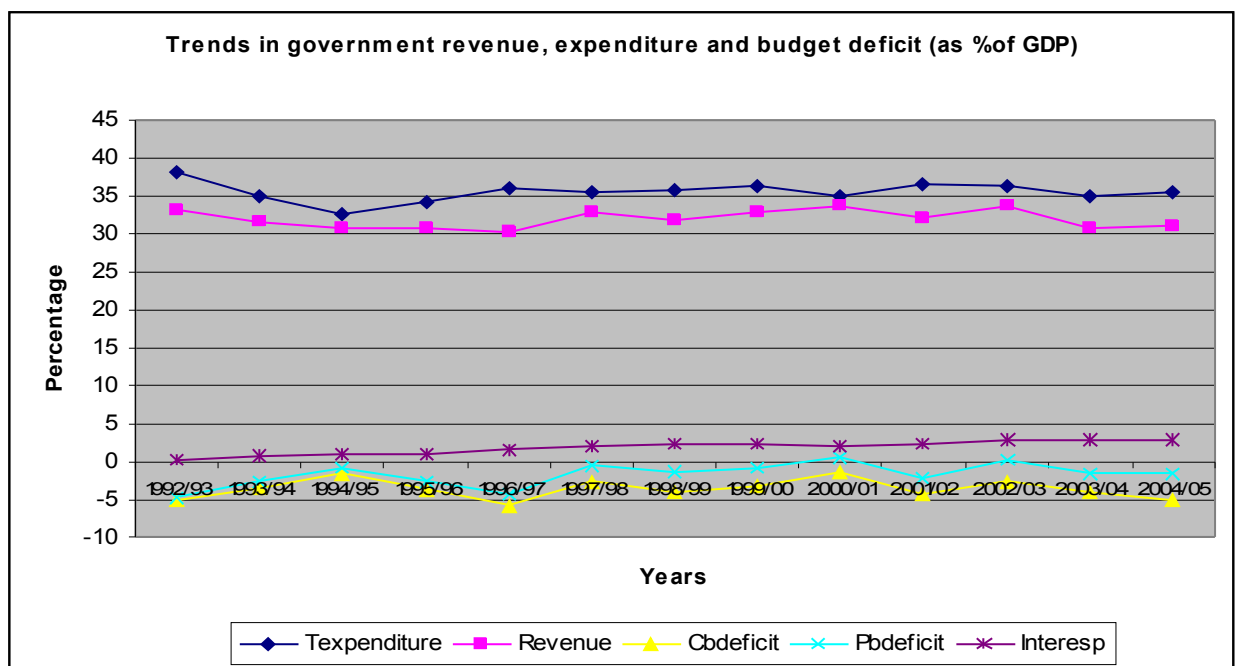
#### **2.4 Economic management**

Macro economic management strengthened during the transitional period 1990-1995. The Auditor-General's Office is independent and produces penetrating reports. A parliament committee on Economic Affairs and Public Finance calls in accounting officers of ministries and other state agencies to explain the under and over expenditure gaps during each financial year. Budgeting and accounting procedures were fortified to enable better analysis and control of public finance. The medium term expenditure frameworks were introduced and additional budget done away with. The medium term expenditure frameworks aid government to control expenditure.

Namibia is not dependent on foreign aid as the government manages to raise enough revenue through the state revenue fund mainly from income taxes and royalties and administrative fees. The other most important source of government revenue is

Southern Africa Customs Union (SACU). Aid serves as supplementary resources but is crucial to the country's development programs and policy formulation. The Namibian Government only uses development aid on capital projects not much on recurrent expenditure.

**Figure 2.1: Government revenue expenditure and budget deficit**

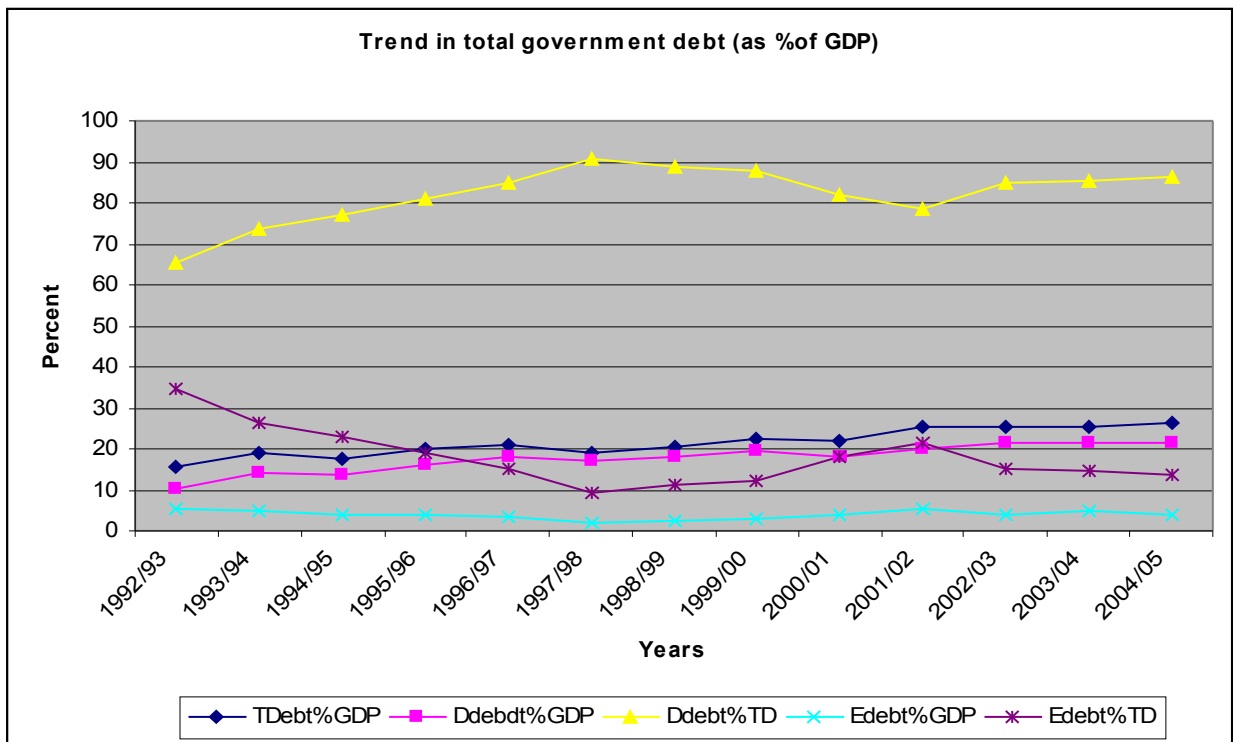


Source: Bank of Namibia (2005)

Government expenditure remained above revenue throughout the period, but nearly conversed in the fiscal year 2000/01. Revenue as percent of GDP declined from 33.2 percent in 1992/93 to low level of 30.2 percent in 1996/96. Thereafter revenue increased to 33.0 percent of GDP in 2000/01. The primary budget deficit which is the overall balance excludes interest payment and was in a deficit of -4.7 percent in 1992/93 fiscal year, but had improved to a surplus of 0.2 percent in 2002/03.

Total government debt to GDP ratio increased from 15.5 percent in 1992/93 to 26.2 percent in 2002/03 and this ratio has been slightly below the 25 percent of GDP benchmark spelt out in the NDPII document. The need to finance the budget deficit led to an increase in the domestic debt stock. Government domestic debt increased since 1990 from 10.2 percent of GDP to 21.3 percent of GDP in 2002/03.

**Figure 2.2: Public debts as percentage of GDP**



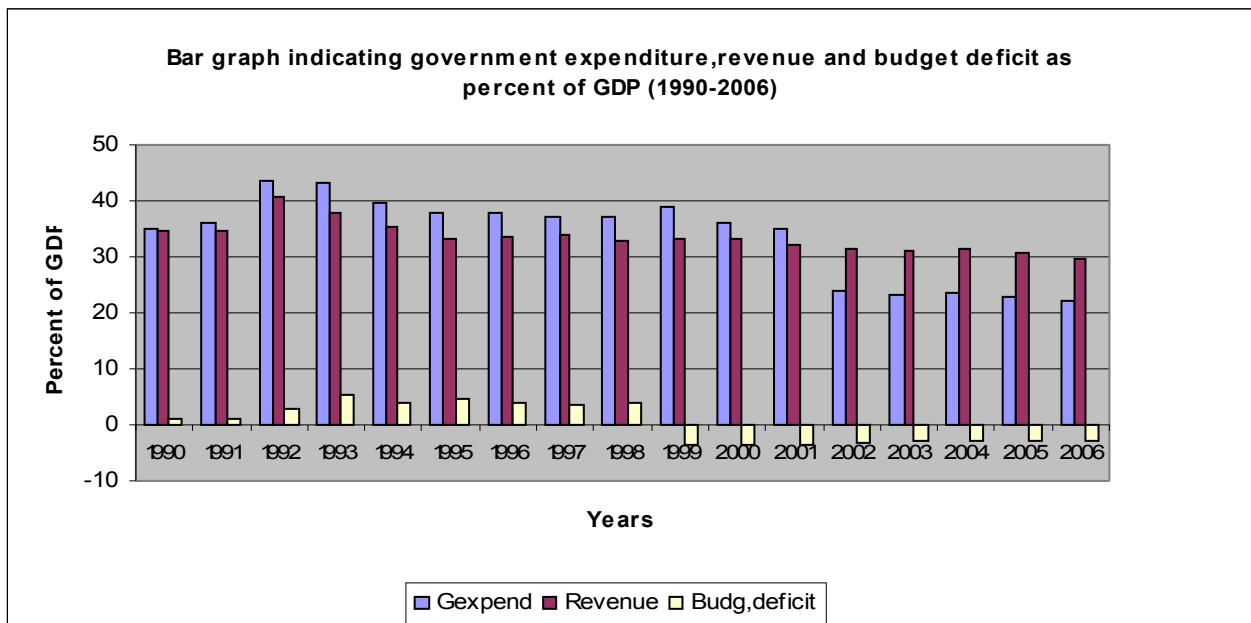
Source: Ministry of Finance budget Documents and Bank of Namibia

The composition and structure of domestic debt has changed over the period. Treasury bill accounted for 38.7 percent of total domestic debts in 1993 replacing internal registered stocks as the main domestic debt instrument and account for 54 percent of total domestic debt in 2002/03. The rising government debt and its

concentration into short term maturity instrument is a cause for concern as it exposes government to rollover risk and complicates cash flow management.

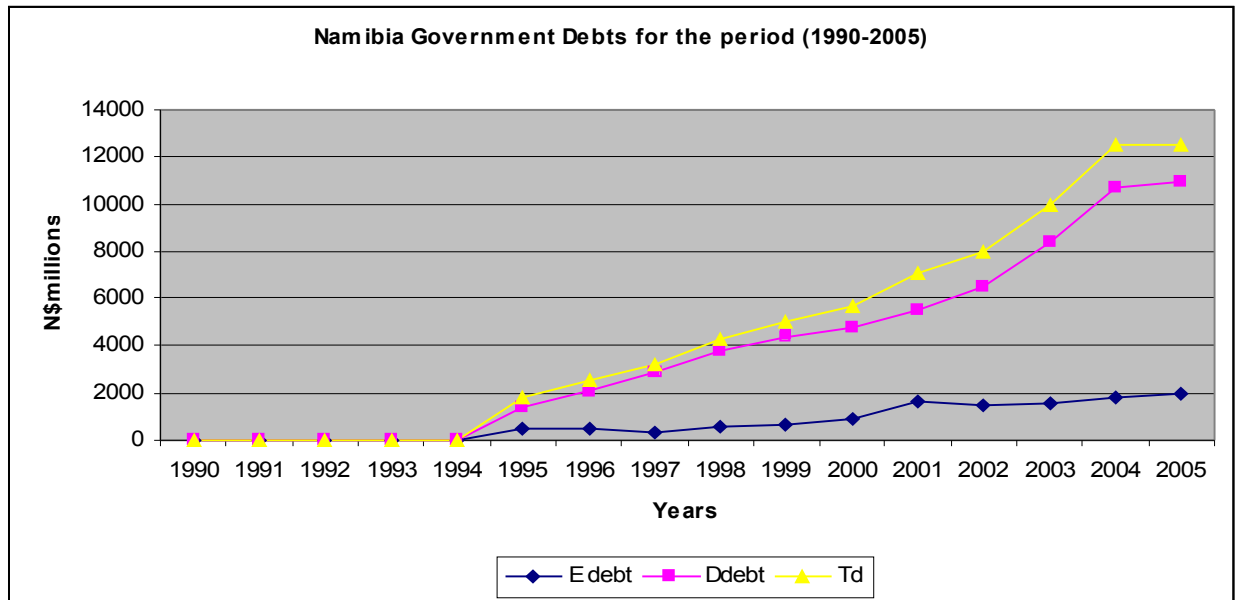
External debt as percentage of total debt declined from 34.6 percent in 1992/03 to 9.5 percent in 1997/98. Namibia's foreign debt as percentage of GDP increased slightly from 1.8 percent in 1997/98 to 5.5 percent in 2001/02.

**Figure 2.3: Government expenditure revenue and deficit**



Source: NDPII Ministry of Finance and Bank of Namibia (2002-2005)

The Namibia government adopted prudent and strict fiscal policy, but the socio-economic challenges it faces made it to fail in controlling budget deficit. As a result government has been running a budget deficit since 1990. The government finance deficit with domestic resources via treasury bills and other financial instruments. Thus domestic debt constituted a large share of total government debts.

**Figure 2.4: Trend in government debt**

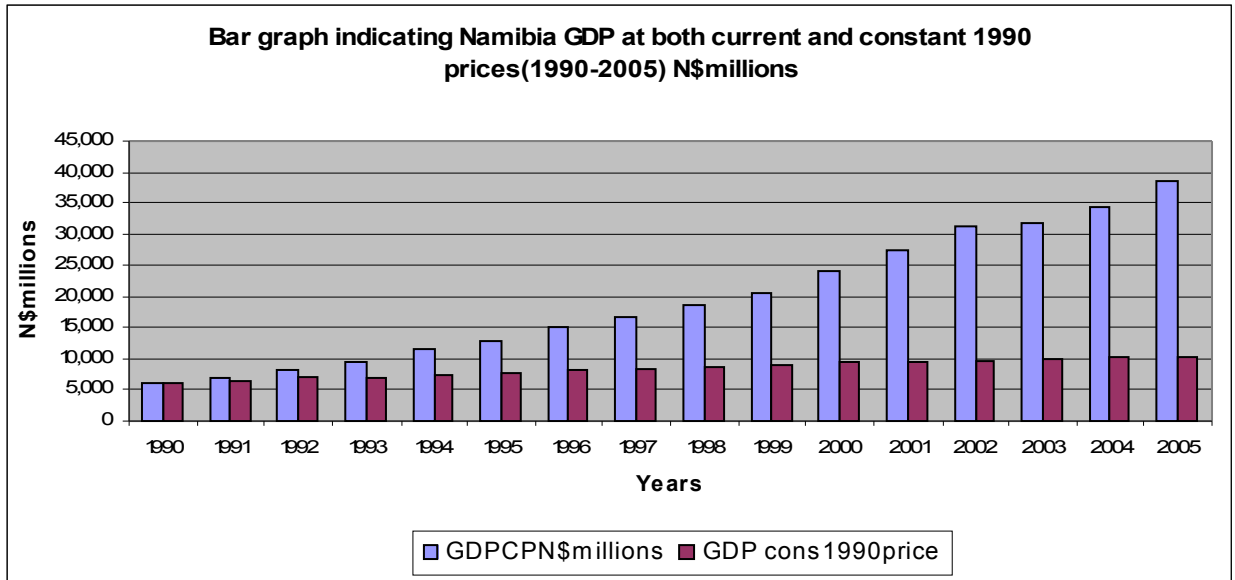
Source: Ministry of Finance and Bank of Namibia (1995-2004)

Namibia's public debt has been rising since 1990. Domestic debt remained higher than external debt with some implications on income distribution because the beneficiary lenders are mostly the previously advantaged citizens and residents. However, the country's rising debt is a cause for concern given the debt servicing burden at the time where there is no economic expansion.

## 2.5 Economic performance

Namibia's economic growth has not been satisfactory throughout the period from 1990 to 2005, falling short of the five percent target set in the first and second national development plans.

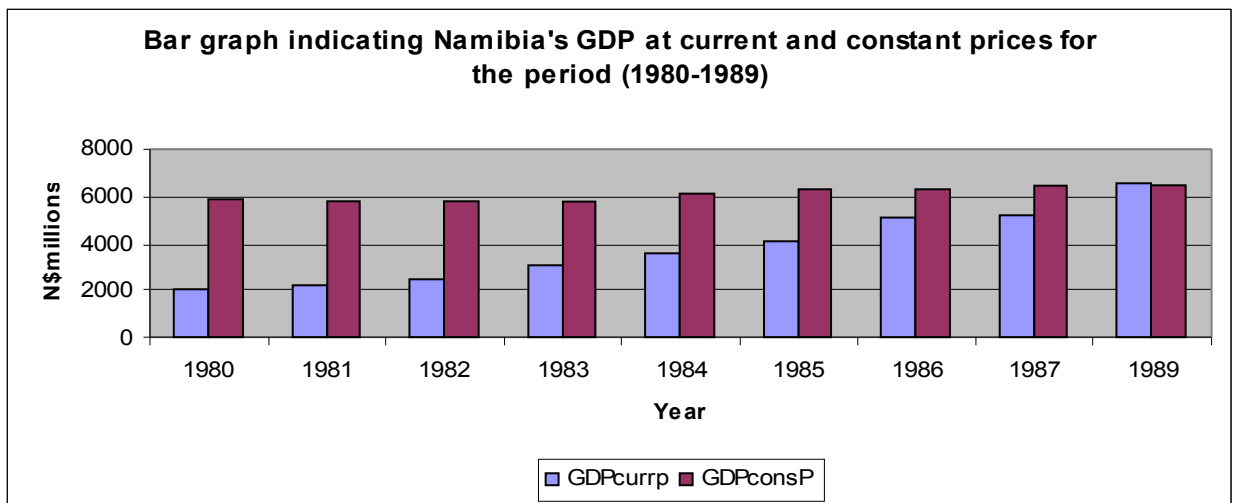
**Figure 2.5: Namibia GDP at constant and current prices**



Source: UN Statistical Division (2006)

Throughout the 1990s Namibia GDP at constant prices almost averaged and remained very low at about N\$6 billions, 2005 Namibia's GDP at constant prices averaged N\$9 billions.

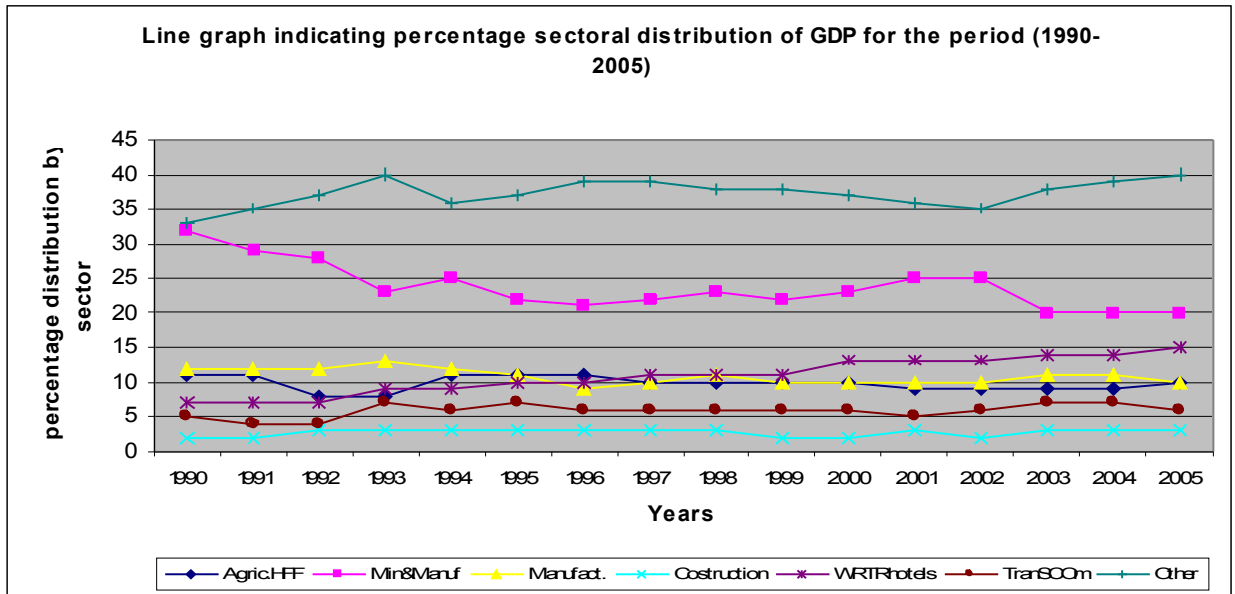
**Figure 2.6: Namibia's before independence GDP at constant and current prices**



Source: UN Statistical Division (2006)

Namibia's economy depend on primary sectors mainly agriculture, minerals and fishery. Mining has been the leading economic sector in terms of its contribution to GDP.

**Figure 2.7: Percentage sectoral distribution of GDP**

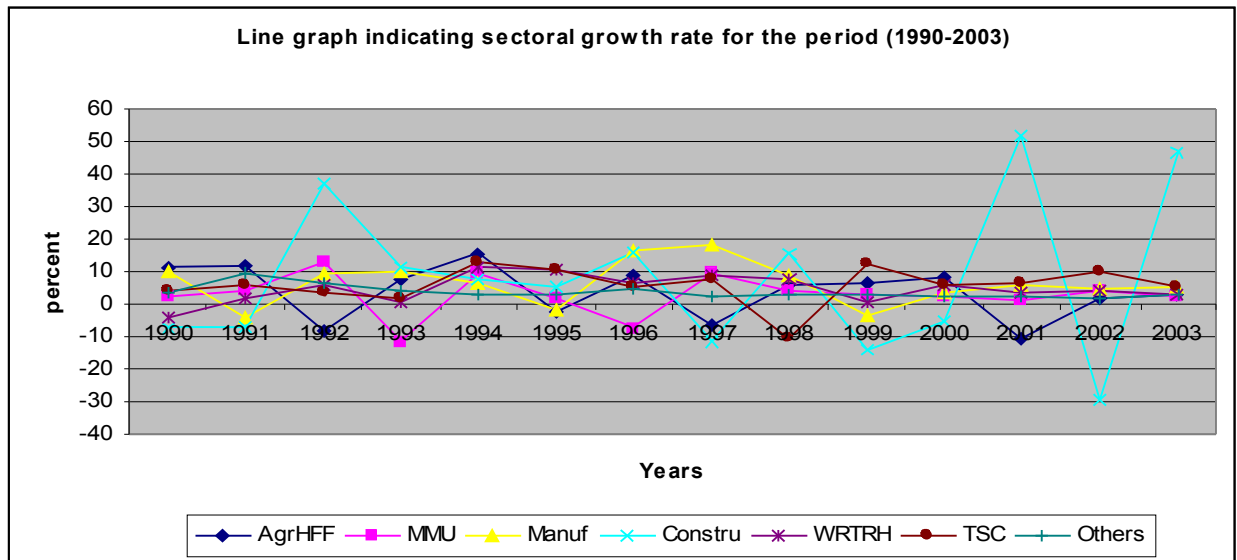


Source (UN Statistical Division 2006)

The sector category “others” which include government took up the highest percentage of GDP throughout the period (1990-2005). For the years 1993 and 2005, the sector took up 40 percent of GDP. The mining sector followed in the second position, throughout the period under study constituting about 33 percent of GDP in 1990. However, the mining sector though remained important it has been declining in terms of its share of GDP. The manufacturing sector was very strong from 1990 to 1994, but declined from 1994 level of 10 per cent to a lower level of 5 percent from 1995 to 2005. Wholesale, retail trade and restaurant and hotels have been raising its

share of GDP, since independence in 1990 to 2005. The tertiary sector surpassed the agricultural sector in 1997 in terms of GDP distribution.

**Figure 2.8: Economic sectors' growth rates**

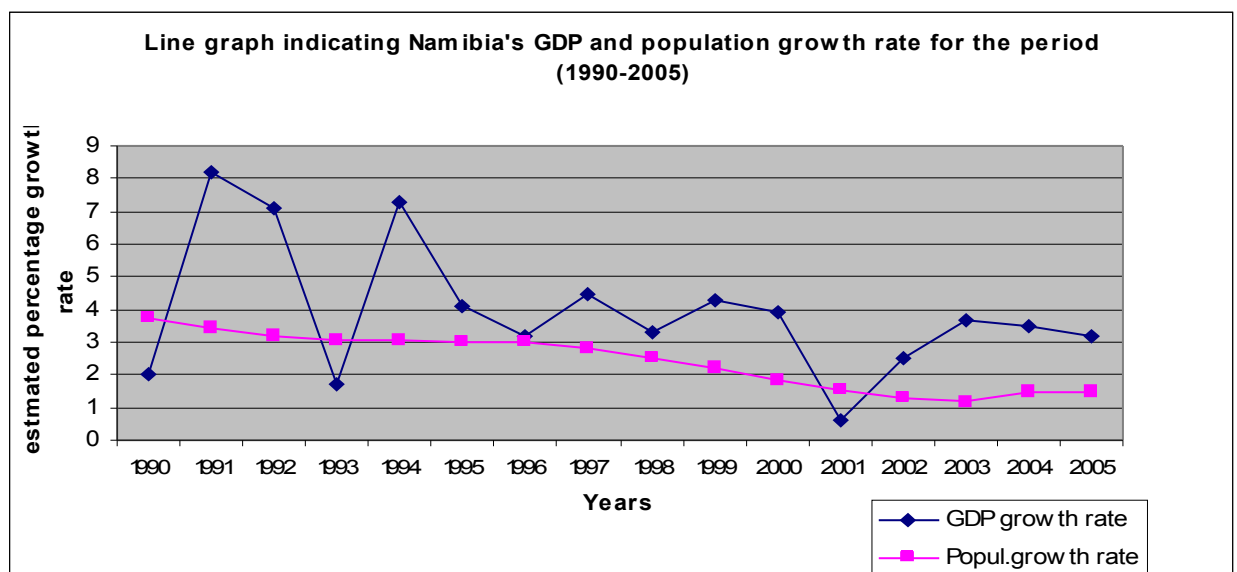


UN Statistical Division (2006)

The economic sector experienced upswing and downswing growth pattern throughout the period under study. In 1992, the construction industry grew at a rate of about 38 percent. In 2001 the same industry reached a peak of 50 percent growth rate. The manufacturing industry has been growing below a 10 percent growth rate, throughout the period from 1990 to 1995. In 1997 the manufacturing sector was growing at the rate of about 19 percent. The Agriculture, Forestry and Fishery sectors had been experiencing positive and negative growth rate, growing at about 11 percent in 1994.

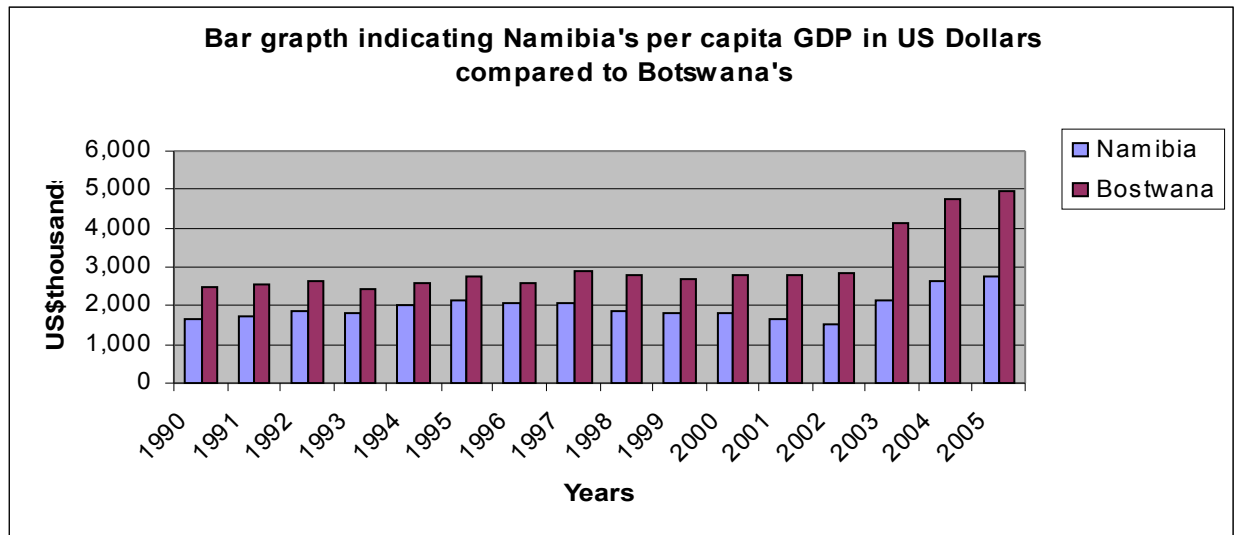
Economic theory advocates that, for citizens to enjoy a good standard of living economic growth has to surpass population growth rate. The figure below compare Namibia's GDP growth rate for the period 1990-2005 to its population growth rate for the same period.

**Figure 2.9: Economic versus population growth rate**



Source: NDP II and UN Statistical Division (2006)

On average the Namibian economy grew by 5.7 percent between 1990 and 1995, while the population growth rate stood at 3.1 percent on average. For the period 1996 to 2000 the economy grew by 3.84 percent on average while population growth was 2.5 percent. For the period 2001 to 2005 the economy grew at 2.7 percent on average while population grew by 1.42 percent on average. The balancing factor seems to have been HIV/Aid rather than economic growth.

**Figure 2.10: Namibia's per capita GDP**

Source: UNSD and Vision 2030 Document

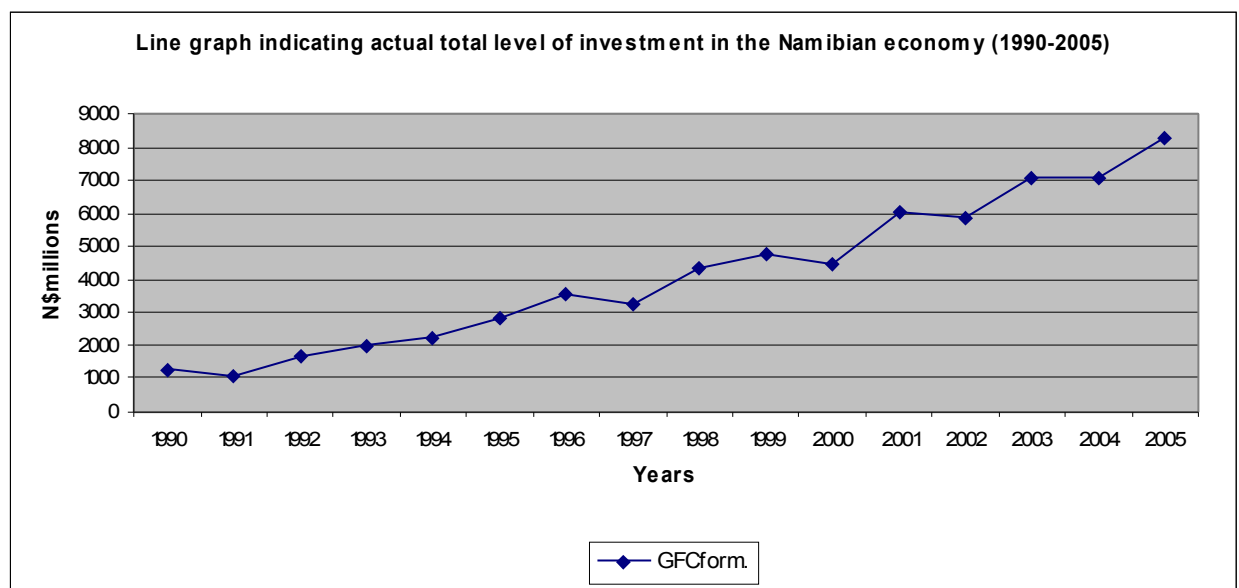
Namibia is classified as a lower middle income country due to its high GDP per capita. The bar graph above compares Namibia's GDP per capita to Botswana's for the period 1990-2005. In terms of purchasing power parity and welfare Botswana citizen are enjoying good standard of living. In 2004 Botswana's GDP per capita equaled almost US\$5 thousands, while Namibia's GDP per capita was almost US\$ 3 thousands. Namibia's GDP per capita declined from US\$ 2 thousands in 1997 to US\$1, 7 thousand seven hundred in 2002. Inflation and currency depreciations might have been responsible for the decline.

## 2.6 Investments

Investment in human and infrastructures is said to be the back bone of the economy. Namibia provides a good condition for private sector investments. The country introduced generous incentive for foreign direct investment and provided EPZ status

to a number of foreign companies. However corporate tax remained high in Namibia. Despite political stability, private sector incentive for investment such as tax exemption and export tax exemption the economy find it hard to attract foreign direct investments, perhaps due to the size of the market.

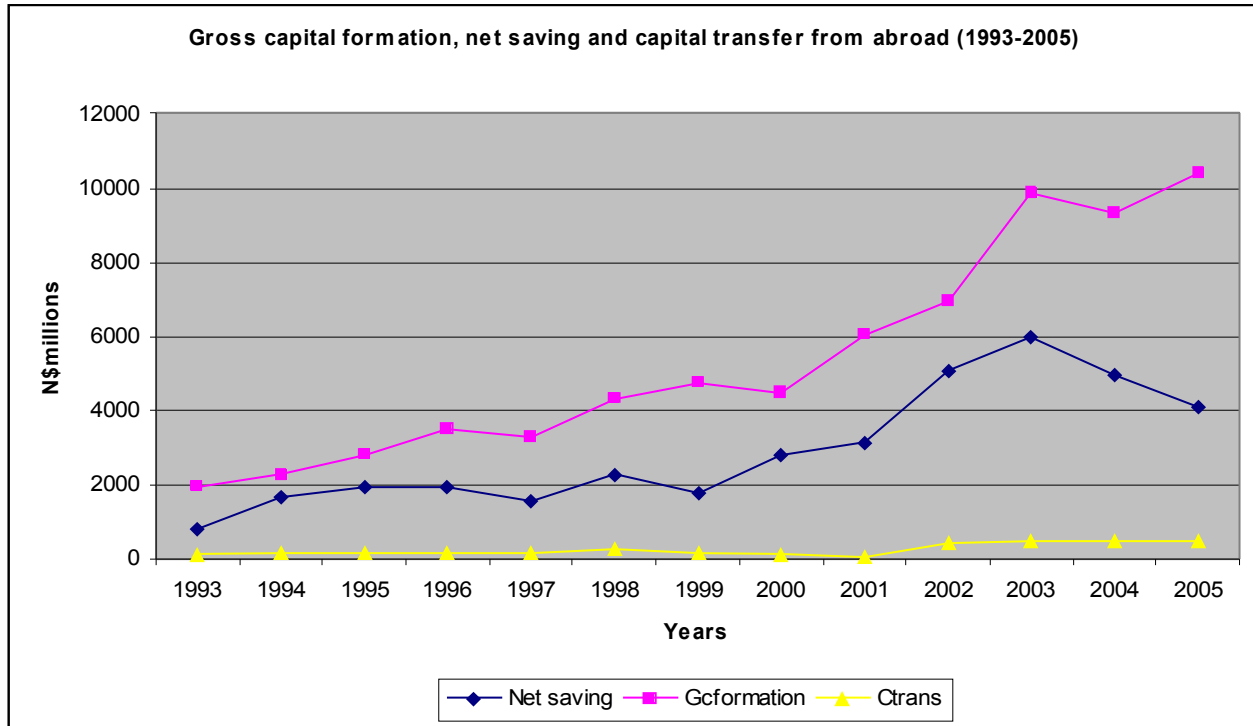
**Figure 2.11: Domestic investments in the Namibia economy**



Source: CBS and UN Statistical Division (2005 & 2006)

Investment has been increasing since 1990 and reached almost eight Billion Namibian Dollars in 2005. The Namibian economy finds it hard to attract foreign direct investment.

This is partly due to the size of the economy and to the fact that the country is wedged between the largest and most competitive economies of South Africa, Angola and Botswana.

**Figure 2.12: Gross domestic investments**

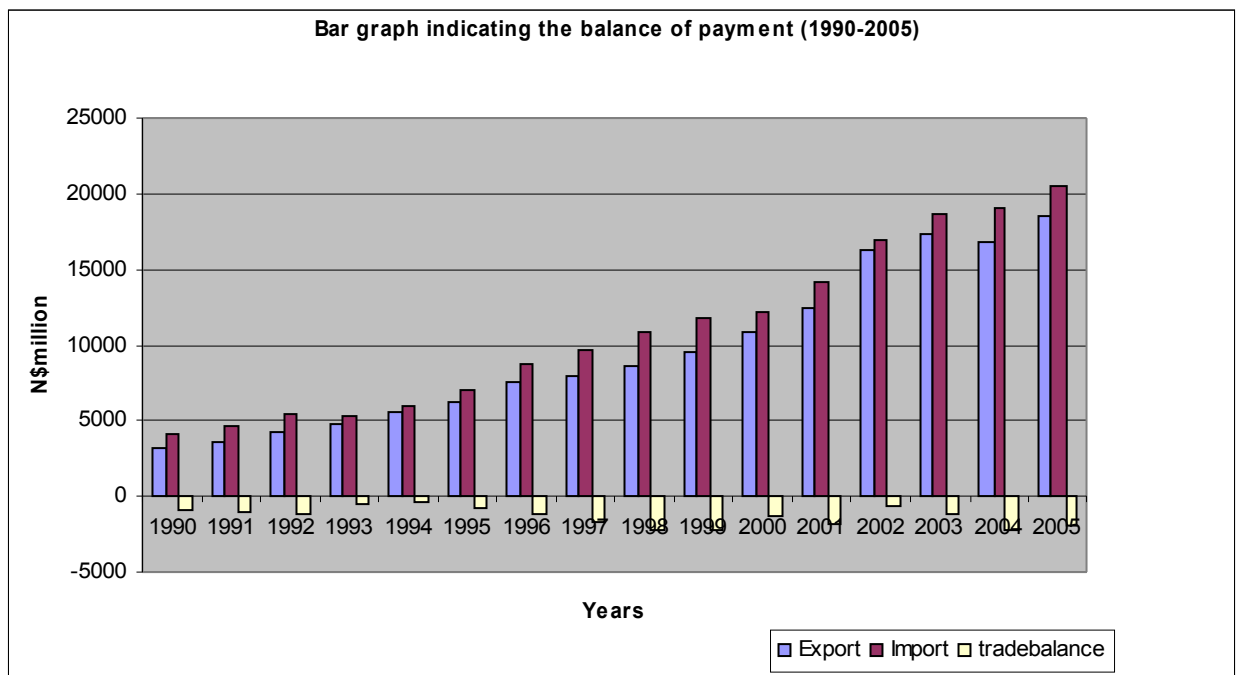
Source: CBS, national accounts

It seems there has been a saving-investment gap in the Namibian economy. The commercial banks do not lend to the productive sectors of the economy and other pension and national saving institutions invest the country's national saving in South Africa. Development aid played a crucial role in supplementing the government's capital budget aimed at investment in infrastructural developed and creating conducive environment for private sector investment. The country ends up in demand of foreign direct investments for job creation but at the same time experience capital flight at an alarming rate.

## 2.7 Balance of Payment

Namibia's external trade remained vital for satisfying the country's demand for essential imports such as machineries and consumptive goods and services. Aid is said to promote foreign direct investment and economic growth via increased production. It seems to be the contrary in the Namibian case. The country has sustained a balance of payment surplus and trade deficit since 1990 despite aid flood.

**Figure 2.13: Balance of trade**



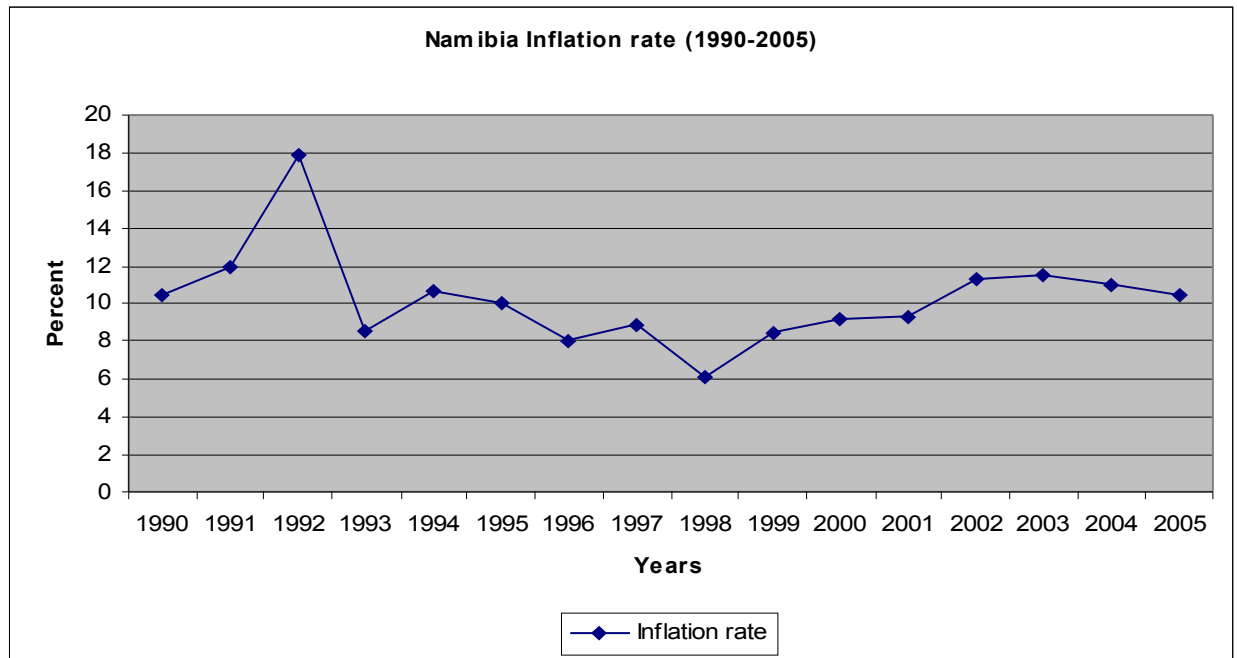
Source: National Accounts and Bank of Namibia (2005)

The trade deficit the country enjoys is due to lack of manufacturing entities in the country. Despite the EPZ initiatives and attractive private sector investment incentives the country failed to develop a vibrant manufacturing sector for exports.

The economy depends on the primary industries such as mining and fisheries of which are dependent on external developments. Thus, government has had to depend on balance of payment support from its development partners since 1990.

## **2.8 Inflation**

Inflation is defined as a general increase in the price of goods and services in the economy in a particular period. The government managed to control the level of inflation during the period under study. The inflows of aid and foreign direct investment as well as increased government expenditure are some of the factors responsible for inflation. The only policy instrument at government's disposal as far as macroeconomic stabilization is concerned is the fiscal policy because the monetary policy is driven and controlled by the South African monetary authority due to the pegging of the Namibia Dollar to the South Africa Rand and Namibia is a member of the Common Monetary Area (CMA)

**Figure 2.14: Rate of inflation**

Source: Bank of Namibia (2005)

Inflation rate reached its highest point in 1992 when it stood at 18 percent. In 1993 inflation rate reduced to 8.5 percent and continued to decline till 1998 when it reached its all year low level of 6 percent. From 1999 inflation rate has been steadily rising reaching 8.5 percent in 2003.

## **2.9 Trends in the Namibian labor force, employment and unemployment**

The labor force dynamics is determined by the forces of supply and demand (Odada and Nhuleipo, (2001). On the supply side of the labor market is the labor force which is made up of the employed and the unemployed. The employed can be defined as people of working age, who are available for work and have actually found work. The unemployed as defined by the international statistical standards should in

principle satisfy the following criteria; that they must be without work, be available for work and actively seeking for work.

Namibia applies the strict measure of unemployment both in the national census and in the household income and expenditure surveys.

**Table 2.1: Employment and unemployment level**

	Employed	Unemployed	Labor force	Unemployment rate (%)
<u>1991NPC:</u>				
Urban	130232	45757	175989	26.0
Rural	257782	46008	303790	15.0
National	388014	91765	479779	19.1
<u>1993/94 NHIES:</u>				
Urban	134407	44247	178654	24.8
Rural	215873	40151	256024	15.7
National	350280	84398	434678	19.4
<u>1997 NLFS:</u>				
Urban	178033	55749	233781	23.8
Rural	223170	41373	264543	15.6
National	401203	97121	498324	19.5
<u>2001NPC:</u>				
Urban	196960	90630	287590	31.5
Rural	212631	94628	307259	30.8
National	409591	185258	594849	31.1

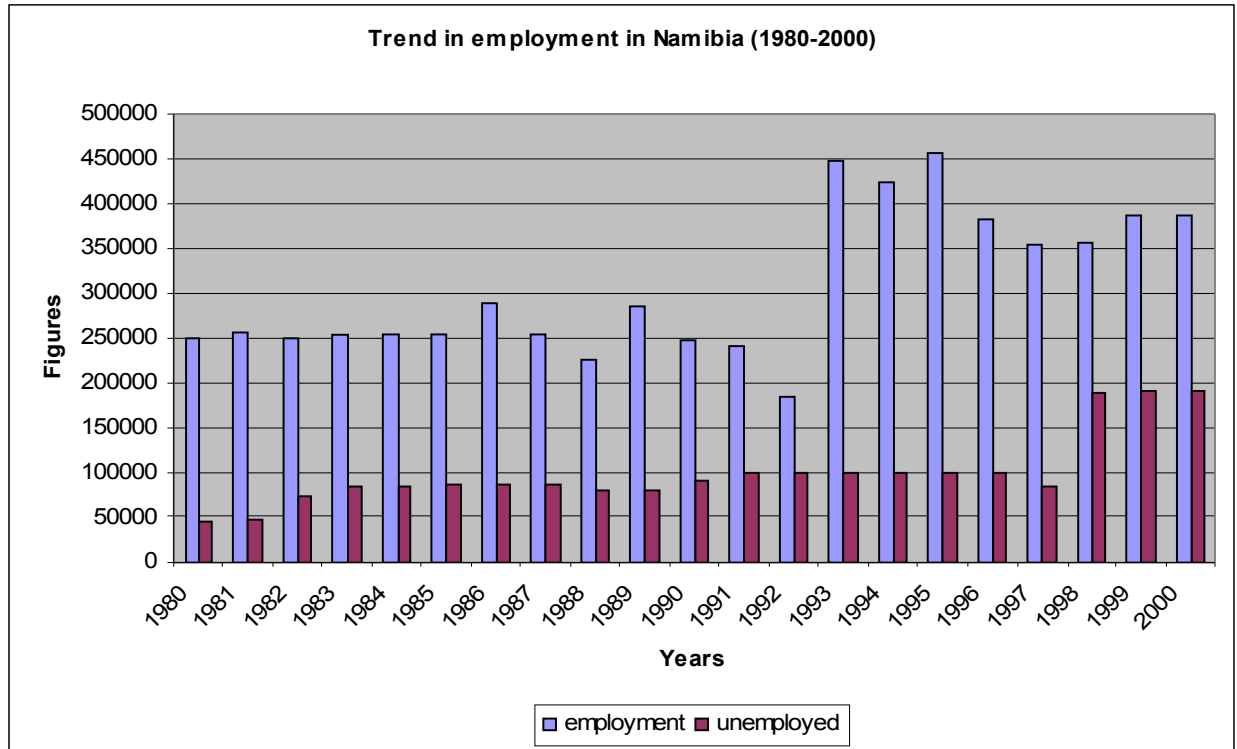
Source: Odada and Nhuleipo, 2002; NPC: 1991 and 2001 Ministry of Labor and NPC, CBS (2000):

The NLFS 1997

Unemployment in Namibia is mostly prevalent among the Namibian urban population. In 1991 urban unemployment rate stood at 26 percent while the national unemployment rate was 19.1 percent. In 1994 urban unemployment rate declined to 24.8 percent from 26 percent in 1991 a reduction by 1.2 percent, while national unemployment rate remained at 19 percent throughout to 1997.

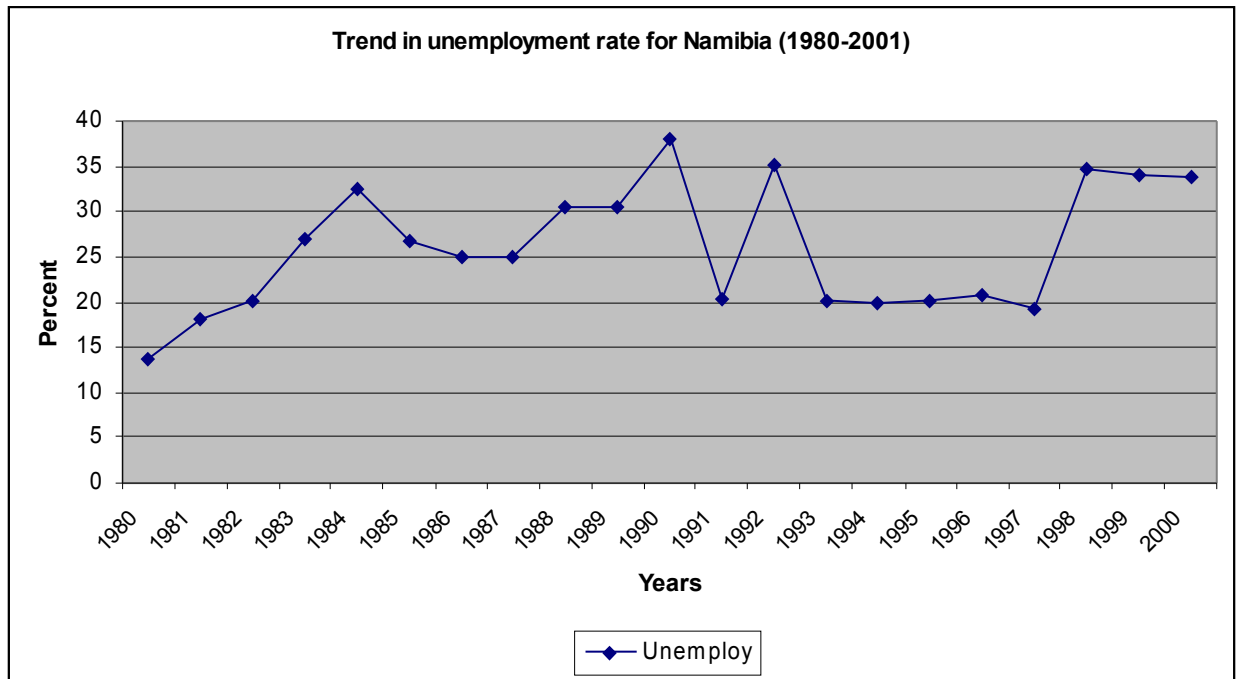
In 2001, urban unemployment rate stood at 31.5 percent while the national unemployment rate was also 31.5 percent a dramatic increase from 19.1 percent in 1991. Despite aid and huge government expenditure on education and health and on infrastructural development, unemployment rate continued to increase mainly due to school dropouts and to young people graduating from tertiary institution who enter the labor market each year in large numbers. Unconventional remedial measures were initiated to reduce unemployment among the youth who constitute the largest number of the Namibian population.

This included provision of skills to the youth in brick laying, construction and carpentry works, and promotion of sports to keep the youth busy.

**Figure 2.15: Employment and unemployment in Namibia**

Source: South –West Africa/ Republic of Namibia, various issues of population Census and Ministry of Labor Surveys reports

Unemployment in Namibia is high forcing the Ministry of Youth and Sports to initiate a National Youth Service Program in addition to job opportunity creation in the main stream economy via public and private investment in the traditional sectors of the economy. Notable were the promotion of export processing zones, development of small and medium scale enterprises through training and financial support from government through loan guarantee with the commercial banks. The government also supports the music and film or entertainment industry and the creation of small and medium enterprises across the country funded by donor community and the government through the development Bank of Namibia.

**Figure 2.16: Trends in unemployment**

Source: Ministry of Labor annual labor surveys

Unemployment remained high in Namibia during the decade prior to independence and during the post independence period. The cause for unemployment ranges from economic structure, macro economic policies and other social economic factors such as shortages of skills prevalent among Namibians.

In 1984 unemployment rate stood at 35 percent while in 19990 it stood at 38 percent. Drought and lay offs and demobilization of security forces seem to have influenced the level of unemployment in the country. It is obvious that the attempt to reduce the level of unemployment led to unhealthy expansion of the public sector. There is a need for Namibia to develop the private sector by giving full support to prospective entrepreneurs.

## **2.10 Conclusion**

Namibia succeeded in socio-economic reform, development planning, nation and institutional building. The country enjoyed political and economic stability. The government adopted strict fiscal policy, though public debt has been rising. The trend in government debt is worrisome, not only the burden it place on the shoulders of tax payers but its sustainability. Public domestic investment has been rising throughout the period despite the fact that there is demand for investments as indicated by the gap between total demand for investment and national saving.

## CHAPTER 3: LITERATURE REVIEW

### 3.1 Introduction

The discourse on aid and development dates back to the period immediately after the two major world wars namely WWI and WWII and are rich and diverse. It was immediately after the war that the major victors established the International Bank for the Development and Reconstruction of Europe at Breton Woods Conference, and later to the formation of the International financial institutions such as the World Bank and the International Monetary Fund which became major players in financing the developing countries.

The debate about the economic impact of development aid is divided along the lines of those who support aid and view aid as a moral obligation of developed nations to help the poor nations of the world to emerge from poverty. This group of aid moralists consist of developed nations' national governments, organizations and individuals as well as developing countries governments, interest groups and individuals who view aid as an important vehicle for improving the living standard of the majority of the poor citizens of the world, of whom are living in the developing world.

While on the other side of the divide are development aid critics, who view aid especially in the form of World Bank and IMF concessionary loans as a burden to developing countries' economies.

Some critics point to the World Bank's structural adjustment program of the 1990s' actual failure to bring about desired economic results (Mosley, 1991). Some aid critics argue that global aid distribution is unequal as it punishes some bad performers and reward others. The global distribution of development aid seems to favor former colonies and friendly regimes. For example Namibia enjoys close economic relations with Germany due to historical ties. The Nordic countries also maintain strong support for Namibia which seems to come as a result of the historical relations pioneered by missionaries and strengthened during the struggle for independence of Namibia.

The assumption is that one should adopt a developmental theoretical perspective in order to understand the intricacies of economic aid for development and social advancement. The development theory is classified into three phases. The first phase of development theory is the dependency phase, defined by Simon in Pataki (2003) as an era of faith, hope and charity among the developed and developing partners, with a strong feature of central planning and decision making. In the first five years of independence, Namibia embarked upon a process of centralized planning and decision making to ensure national unity, national reconciliation and nation building. The second phase of development theory is the one defined by Griffin (1998) as a golden age of industrialization, infrastructural development, employment creation and efforts to alleviate poverty. Namibia as a developing country went through this phase of development, but the country did not embark upon aggressive industrialization for import substitution as evidenced in South East Asian economies, but rather attempted at infrastructure development and poverty alleviation projects

and programs. This phase of development theory ought to observe a rise in what is understood as an alternative to state controlled agencies, which emerged as private run NGOs. The same phase of development anticipated an increase in private companies to contribute to economic growth.

In a relatively short period of time from independence Namibia went through a rapid development process and almost covered all the phases of the development theory including the third phase, which is defined as an era of decentralization and mobilization of local communities to enable the transition to the era of independence. This phase of development is characterized by shared responsibilities across sectors with interrelated roles between the government, donors, the market, the local communities and non-governmental organization for success of development efforts. Padaki and Maujulike Vaz (2003) argued that the base of an interdependence phase is a facilitating social structure, which determines the relations between the parts, the various constituent groups. These constituent groups are not static they are naturally changing in features, numbers and relations (Padaki, 2003 p30). Namibia's social structure is characterized by social in-equity, with a few well organized constituency and disorganized majority.

### **3.2 Aid and economic growth**

Samida (1999) defined economic growth as the additional goods and services produced in an economy over the previous year due to improvement in the efficiency and quantities of labor and capital. He further argued that if economic growth surpasses population growth the standard of living of that particular nation improves,

and if a country experiences a divergent level of growth its standard of living varies as well. Past record of economic growth is an important determinant of the living standard of a country in terms of development. On the other hand future economic growth is important in bringing the standard of living of citizens of developing countries to the level found in developed nations. For aid to have long term significance, it should promote conditions that result in economic growth.

Several studies tried to assess the effectiveness of development aid at both micro and macro-level. In most cases micro evaluation found foreign aid to have positive impact on growth while macro-level assessment of aid is often ambiguous producing mixed results. A large number of literature on development aid assessed the impact of development aid on growth used a large samples of developing countries. Burberry and others (2000) used augmented Fischer-Easterly type model and estimated it using cross section and panel data techniques in gauging the impact of development aid on growth. Their findings supported the view that foreign aid does have positive impact on growth on condition that there are stable macroeconomic policy environment in a recipient country. They also found that the results of their regression on the relationship between aid and growth differ based on income level, level of aid allocated and the geographical location of a recipient country. They further identified the main objectives of official development aid to developing countries as the promotion of economic development and welfare measured by impact on economic growth.

However, a number of aid literature confirmed that after decades of capital transfers to developing countries and several empirical studies on the relationship between aid and growth, the effectiveness of foreign aid in achieving growth and poverty alleviation objectives remains questionable. A lot of resources were directed at financing the assessment of development with a view to improve the implementation of development aid to bring about efficiency and aid effectiveness in bringing about economic growth and poverty reduction in developing countries. However, after decades of capital transfer to developing countries as pointed out by several empirical relationship studies between aid and growth, the efficiency of development aid in achieving economic growth and social welfare leave much to be desired.

Development aid literature spans from the 1950s to the 2000s. This body of knowledge is subdivided into first generation, second and the new literature on development aid. A large number of empirical studies applied econometric techniques in the analysis of the relationship between aid and growth at macro- level and are complemented by case studies at micro or project level. Micro-based evaluations found aid to work while macro based evaluation studies often fail to find significant growth effect a conflict dubbed the micro-macro paradox by Mosley (1987). The reasons for the micro-macro paradox remain unclear. On the other hand econometric aid-growth literature is criticized on several grounds ranging from ignorance about theoretical innovations, sample size and composition of recipient countries to data quality, econometric techniques and growth model specifications.

Most of the critics of aid point to the growth models which are often poorly specified and produce uncertainty ridden results. A number of aid-growth assessments either pre-date or ignore recent advances in economic growth theories which allowed more sophisticated empirical growth questions to be specified. Burberry et al (2000) argued that if aid is to be a reliable growth determinant it is essential that it is included within a robustly specified empirical growth model. In their study they examined the aid-growth impact within the framework of augmented two prominent endogenous growth models namely: 1) the Fischer-Easterly model and the Barro model. The Fischer-Easterly model emphasized the role of stable macroeconomic policies for sustained growth and has found increased empirical support in recent literature. The Fischer- Easterly model provided a natural context for the study of aid-growth relationship, by stressing the role of economic policies of a recipient country for the effectiveness of aid. As a result a number of development aid literature argued that the development impact of foreign aid is conditioned by the local policy environment in a recipient country. The finding that the success of foreign aid depend on the local policy environment led to the linking of aid from multilateral lending organizations to macro economic reform and structural adjustment programs since the 1980s. In attempt to over come the criticisms of previous aid growth econometrics studies, Burberry et al (2000) compared panel data and cross-section econometric techniques for a sample of 68 developing countries over the period, 1970-93 and examined the rigorousness to equation specification, sample composition at alternative time periods.

Historically aid-growth literature is dominated by cross-section studies which used single equation estimation techniques and produced mixed results. The 1970s' literature by Papanek(1973) overturned negative results of Griffin (1970) and Griffin and Enos (1970) by dividing capital flow to developing countries into foreign aid, private capital and other inflows and reported a positive and significant aid-growth relationship. Some studies such as the one by Voivodas (1973), found negative impact of development aid on growth for a sample of 22 less developed countries for the period 1956-1968. Quality of earlier time data might have also contributed to the negative relationship between aid and economic growth in the 1950s and the 1960s. Dowling and Hiemenz (1982) using pooled data, found a positive and significant impact of aid on growth. Their study also controlled on a number of policy variables such as trade, finance and government interventions. For Sub-Saharan Africa, Levy (1988) reported significant and positive relationship in a regression model including aid and income per capita for the period 1968-82. Hadji Michael et al. (1995) find positive evidence for aid and growth relations for the period 1986 to 1992 using a sample of 41 countries. They used a sophisticated model than previous studies by attempting to capture potential side effects of foreign aid and other policy variables that are hypothesized to effect growth. Burnside and Dollar (1997), in their model used a variety of policy variables and found the aid GDP ratio, often does not have significant effect on growth in LDCs. However they find that, since aid interacted with policy variables it does have significant impact on growth. Other studies such as the one by Boone (1996) cast some doubts on growth effect of aid and argued that for a sample of LDCs, aid has no impact on income growth or on investments.

Burberry et al (2000) argues that most of the studies on aid and growth can be criticized on a number of grounds including endogenous problem of single equation models whereby the feedback of lower growth into larger aid allocation is ignored. The study of aid growth effect should include estimate of a negative effects of foreign capital. The limitation of much of the aid growth literature stem from incompleteness of the underlying growth models used in the assessment of aid. A number of studies model growth as a function of capital accumulation and only a few addressed proper or sufficient model specification issues such as policy issues, governance and economic freedom seriously. Some literature introduced variables that capture the role played by government and trade in promoting economic growth and concluded that aid alone can not affect economic growth takeoff, the same way as one can not expect a mechanically broken aircraft to takeoff once it is filled with fuel.

Hadjimichal et al (1995). And Burnside and Dollar (1997) are among the first to include macroeconomic policy variable into the assessment of the impact of development aid on economic growth of developing countries. Literatures on growth determinants in LDC which examined the role of policy in development, missed on the examination of the impact of aid including any aggregate savings/investment variables. From an economic theoretical perspective aid is provided based on the assumption that, poor countries do not save that much, because they are poor, citizens utilize their little earnings to finance current consumption, mainly on basic necessities such as water and electricity, housing, food, education, health and transport services. As a result the countries' economies mobilize enough saving to

finance investment in fixed capital forming the bases for the generation of wealth. Aid was thought to fill the developing countries' saving-investment gaps and it was assumed that once a country receives an injection of aid money it will automatically grow because lack of funds was a developmental obstacle. To the contrary the development aid experience presented in a number of literature across the globe bear testimony that aid alone cannot achieve its original objectives of accelerating economic growth and reducing poverty in developing countries. Burberry et al (2000) tried to improve model specification by examining the growth impact of aid within a model that included policy variables and other major sources of investment finance, foreign aid, private and other inflows and domestic savings.

A number of recent literature, characterized as a new crop of aid and growth study-argue for a case on stable macroeconomic policy environment as a necessary condition for rapid economic growth and for effective implementation of aid. The World Bank and the IMF advocated the case for a supportive macroeconomic framework for successful structural adjustment and effectiveness of development aid. The World Bank (1990) in particular argued for low and predictable inflation, appropriate real interest rates, real exchange rate, competitive and predictable, stable and sustainable fiscal policy and a viable balance of payment situation. The effectiveness of aid and other capital inflow on growth of a developing country is assumed to be greater if there is macroeconomic stability and a few distortions. The World Bank (1990) further argued that distortion policies such as trade restrictions and financial repression reduce the efficiency of capital investment and the rate of growth for a given level of capital investment. The new growth literature, test a set of

macroeconomic growth determinants such as monetary variance, government spending, inflation and trade. Moreover, macroeconomic stability is necessary for sustainable growth and is conducive for growth. Distortions and macroeconomic instability are bad condition for growth.

Burberrys's (2000) cross-section result for the augmented Fischer-Easterly type model for the period 1970 to 1993. Their model explained 57 percent of variation in country growth rates. They found macroeconomic policy variable to be correctly signed and statistically significant. They find that larger budget surpluses and stable inflation seem to be good condition for faster growth and that financial liberalization is beneficial to growth. In their contribution to the debate on aid ability to stimulate faster growth in developing countries, Burberrys et al (2000) used the augmented Fisher-Easterly type growth model in which macroeconomic and policy variables in addition to aid and domestic saving and other foreign private sources of investment are allowed to affect long-run growth rates. Their finding stressed the need to control for other growth determinants when measuring the impact of aid on growth. Their model confirmed that the external economic environment has important implications for growth performance of developing countries. They further find robust evidence using a variety of samples and alternative econometric techniques that greater foreign aid inflows have beneficial effect on LDC growth, but conditional on stable macroeconomic policy environment. Their finding also suggests negligible growth effect of aid in low income countries. They argued that it is also a matter of sample and period of studies. Studies that used data up to the mid 1980s found evidence of insignificant impact of foreign aid on growth while the 1990 literature results suggest

stronger aid impact on growth. They further argued that pre-trade liberalization period aid was less effective at generating faster growth contrary to the post-liberalization aid linked to policy reform which proved more effective.

Generally, aid is a significant growth determinant even when policy variables are entered independently; reform and no-reform countries tend to show different results on the impact of aid on growth. For Burberry et al (2000) argued that it is worth to note that private capital inflow growth effects appear robustly positive when using panel techniques. They found that private capital inflow had greater impact higher than other sources of capital and there is strong statistical support for the inclusion of this source of investment finance in the growth model.

Moreira (2005) confirmed the existence of different branches of literature on aid effectiveness attempting to measure the contribution of foreign aid to economic growth of developing countries. He confirmed that the results of micro studies on the impact of foreign aid on growth are more explicit and encouraging by concluding that aid is beneficial to economic growth. He however acknowledged that, until recently the results of macro studies on the growth impact of foreign aid are inconclusive and lack consensus. The findings of the literature on the impact of aid at macro level varies from positive to negative impact or even non-existent in statistical terms, a contradiction called micro-macro paradox. He further argued that the micro-macro paradoxes in the literature on the impact of foreign aid on growth can be attributed to methodological and econometric flaws inherent in the assessment designs up to the mid 1990. Using a larger panel data set in his assessment of

development aid impact Moreira (2005) found aid to have positive impact on economic growth. Based on his findings he concluded that earlier-generation of work converge with new and recent generation of aid effectiveness studies and argued that less importance should be given to “micro-macro paradox” as an overall appraisal of aid effectiveness. He also finds aid to have less effect on growth in short-run than in the long term. He concluded that the time lags in the aid-growth relationship should not be ignored as it takes time for the impact of aid to show effects.

Johnson and Subramanian (2005) argued that good governance is central for growth agenda and for aid effectiveness in low income countries. They further stressed that it is clear, that there is strong evidence that deep-rooted economic institutions are of greater importance for sustained economic growth. They however acknowledge that, little is known about the specific policies or political institutions which are necessary or sufficient for good economic governance. For them there is no detailed road map for policies and political institutions conducive for sustained growth but only some sensible general directions. They also confirmed that outside agents rarely have positive effect on deep institutions and argued that aid to date has failed to improve institutions, which is a top priority for growth and aid effectiveness, but remains a local matter. Johnson and Subramanian (2005) concluded that countries without a natural institutional anchor will find it difficult to achieve or surpass the Millennium Development Goals. Though there is nothing wrong with advocating macroeconomic stabilization, trade liberalization, deregulation and privatization program for aid effectiveness and sustained growth, strong political and economic institutions proved essential for sustainable growth. These policy reforms could be insufficient for

growth and might be harder to implement if institutions are weak. In the 1980s' Latin America and Africa undertook long term reforms and portrayed the importance of institutions for sustained growth. However they acknowledged considerable uncertainty in literature on the knowledge of promoting and initiating institutional change. It is also obvious that policy levers that outsiders can control or influence to promote institutional development is limited.

Neandis and Varvarigos (2005) examined the effects of aid transfers and their degree of volatility on economic growth. They developed a theoretical framework that differentiates the allocation of foreign aid between productive and non productive uses. They find that aid inflow to productive public spending promotes growth and related aid flow volatility has a damaging effect. On the other hand they find aid transfers to non-productive use have adverse effects on growth, but their volatility is found not to be growth enhancing. They used panel of 74 aid-recipient countries over the period 1972-1998. Their theoretical implications were supported by the empirical specifications and their empirical results are robust in different sensitive test. Neandis (2005) et al. concluded that when development aid is used productively it often has on average a positive effect on growth while volatility has a negative growth effect. On the other hand they found that if aid is spent on unproductive activities it will have negative effect on growth while its volatility will have positive growth effect. They find that the scope for higher effectiveness of aid on stimulating growth lies both with donors and recipient countries and include the process of resource transfer. They recommended that recipient countries should allocate aid to most productive uses while donors should ensure a stable inflow of aid.

Rojan and Subramanian (2005) in their paper examined why it is hard to find a robust effect of aid on long term growth of poor countries even those with good policies. They used methodologies that exploit cross-country and within country variations. They concluded that, aid inflow have systematic adverse effects on a recipient country's competitiveness which is reflected by the decline in the share of labor intensive and tradable industries of which is caused by exchange rate overvaluation as a result of aid inflow. They also argued that private to private inflow such as remittance do not seem to create adverse effect on growth as aid do. The overall conclusion is that aid inflow stifles growth, wages and employment in labor intensive and export sector via exchange rate appreciations that lend the domestic exportable commodities uncompetitive. They further argued that despite the fact that a number of aids receiving countries' manufacturing sectors are less important than agriculture, but it should be noted that it is true that many fast growing countries when first embarked upon development, used the manufacturing sectors as champion. They also argued for quality of government spending, that aid is spent effectively for productivity improvement from public investment can offset any adverse effect from the export sector's competitiveness. They acknowledged the last two decades namely the 1980s and the 1990s were not particular good ones for some poor countries of the world ravaged by conflicts and deterioration in commodity prices and terms of trade. Many developing countries seem willing to develop their countries using their people. They place emphasis on the level of aid for take-off and how that aid is ought to be delivered. They argued that poor countries do not need to have an absorptive capacity to take in massive quantity of aid up front without adversely affecting their export competitiveness. It is better to build local capacity or

supply of local resources needed to utilize aid effectively, such as skilled workers. It should also be noted that education and training of the unskilled takes time. They also touched upon measures to mitigate for bad aid inflow effect through sterilization. These measures are harsh and damaging at times. Sterilization can cause a rise in domestic interest rates thereby crowding out private investment and retard the growth process.

Their central conclusion is that there is no robust positive relationship between aid and growth in the cross-section studies despite the fact that their instrumentation strategy correct for the bias inherent in conventional estimation procedure of finding a negative impact of aid on growth. Their conclusion hold cross time horizons, periods and types aid distinguished by use, donors, recipient sectors, geographical and resources endowment and time lag for aid to take effect. The results of their model are reported to be uniform across different subcategories of aid suggesting a high degree of fungibles. They argued that economic, social and food aid has similar effect on growth as well as multilateral and bilateral aid. They argue that one is likely to find significant impacts of aid on growth positive and negative

### **3.3 Aid and poverty reductions**

Samida (1999) in his assessment of the role Canadian development aid argued that aid is to be assessed on the basis of whether or to what extent it benefits the poor in a recipient country. Aid facilitates the creation of an institutional environment that enables citizens of poor countries to better provide for themselves. He assumed that

for aid to be effective it should encourage economic growth and its benefits such as lower infant mortality. For him aid is meant to create economic growth.

Samida (1999) had some doubt on the growth role of development assistance, based on facts listed in his report that 68 per cent of Bangladesh children fewer than five years are malnourished. In Sub-Saharan Africa, only 43 percent of Zambian population has access to safe drinking water. In South East Asia 76 per cent of Pakistan's female over age 15 are illiterate. In Sudan 60 per cent of phone call fail and in Ghana 61 per cent of paved roads are in poor state. He argues that all this countries are poor and have been recipients of massive amounts of aid.

The comparison of the records of these countries to that of Japan, South Korea and Chile once less developed nations which received little aid but produced superior results leads to the natural question whether aid facilitate or deter growth. However if aid dollar are used effectively it could help make a difference in the lives of people benefiting from Canadian assistance by increasing their self reliance. Based on the objectives of the Canadian Department of Foreign Affairs and International Trade Samida (1999) argued that if self reliance is the ultimate goal, then aid should seek to increase the self generated incomes and eventually eliminate aid flows. Economic growth benefits all members of society. He also acknowledges the role of time lag in economic growth in improving the lives of citizens of growing societies so aid should elicit growth. Samida (1999) concluded that foreign aid to countries with less economic freedom is a waste and should be stopped with immediate effect.

### **3.4 Conclusion**

The discourse on aid is divided into two camps of those whose argue that aid impact positively on economic growth and those who argue to the contrary.

There is also a micro-macro paradox in the findings on the relationship between development aid and growth. At the micro level analysis aid seems to explicitly have a positive impact on economic growth and poverty reduction. While at the macro level analysis the relationship between aid and growth is less visible. The argument that aid work in a good policy environment is found to be less convincing.

## **CHAPTER 4: NAMIBIA AND DEVELOPMENT AID**

### **4.1 Introduction**

This chapter deals with the trends of aid flow to Namibia per annum from 1990-2005. It identifies the type and sources of development aid to Namibia. It investigates the macro economic significance of development aid to Namibia and identifies the economic sector to which aid was channeled determining the contribution of some of these sectors to GDP and poverty reduction.

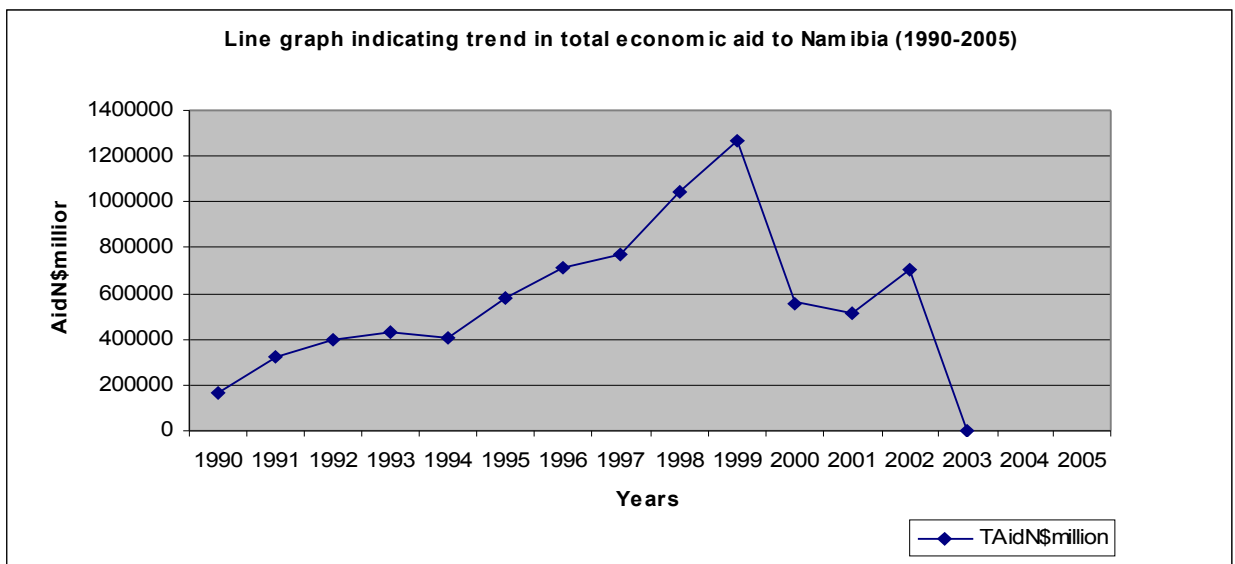
The data on foreign aid to Namibia are sourced from the Namibia Development Aid Cooperation reports first prepared by the United Nations Development Program, the de facto aid coordinator for Namibia from 1990-2000. The National Planning Commission took over the responsibility of aid coordinating and compilation of development cooperation reports in 2003.

As it is difficult to clearly see the impact of aid on policy and economic growth and poverty reduction at the macro level this study undertake to analyze the outcome of the Community Based Natural Resources Management program a donor and government co-funded program to portray the significance of aid on the distribution of wealth and income to rural poor households and on poverty reduction of a micro-level.

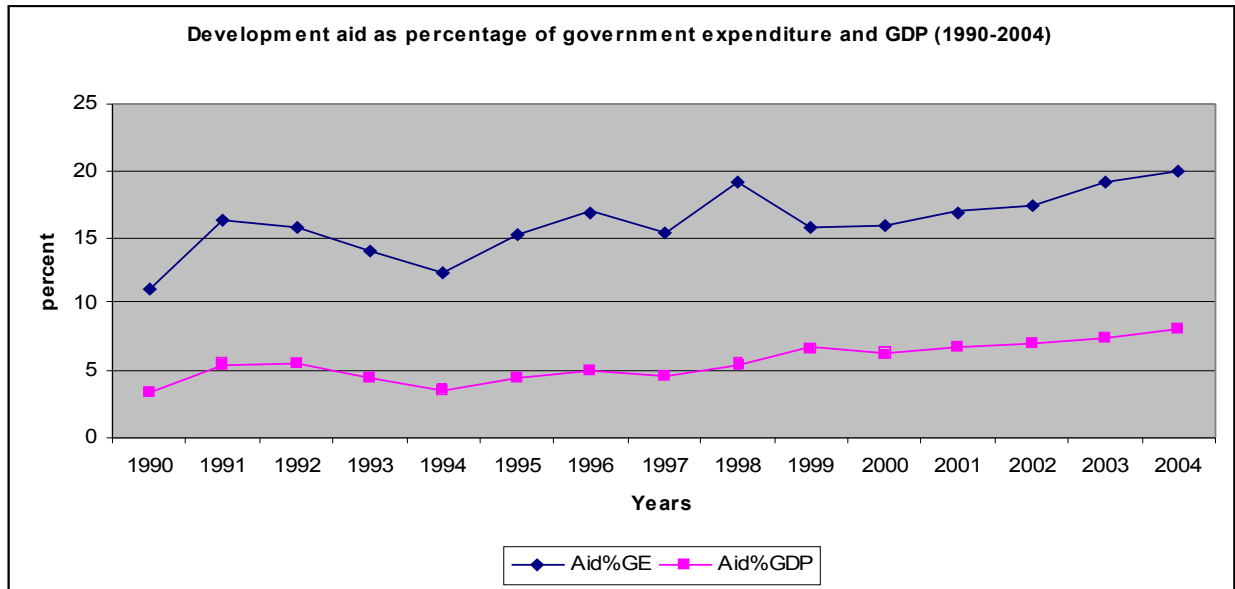
## 4.2 Macroeconomic analysis of development aid

Official Development Assistance to Namibia was not stable inflow. There was also no good coordination of aid between aid agencies, government and NGOs. There was also a duplication of effort and concentration of too many resources in one particular sector. Government for example did not keep proper record of the amount of actual aid resources used in the country's development process 1990-1994.

**Figure 4.1: Trends in Official Development Assistance to Namibia (1990-2005)**



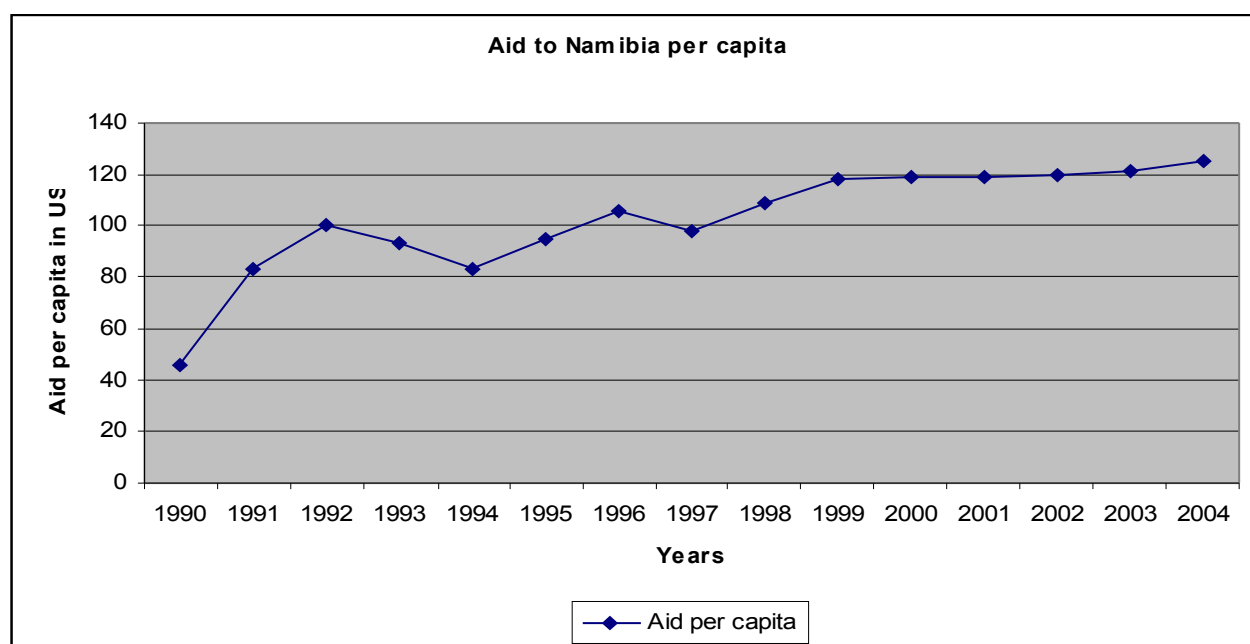
Development aid to Namibia has been increasing since 1990 till it reached a peak in 1998/99 when it totaled N\$120millions. However, aid has been declining from 1999 to 2003.

**Figure 4.2: Macroeconomic significance of development aid**

Source: UNDP, 2000 and own calculation

Total aid disbursement to Namibia in the first decade of independence from 1990-1999 averaged 6.2 percent of GDP. Development aid as a percentage of government expenditure averaged 15.17 percent per annum. Aid as percentage of government expenditure stood at about 16.3 percent in 1991 and declined to 12 percent in 1994. In 1998 aid constituted 19.2 percent of government expenditure.

In 1994 aid constituted 3.6 percent of GDP and increased to 6.6 percent in 1999. Development aid also constitute a large share GDP, averaged 5.33 percent of Gross Domestic Product during the period under study an indication that aid is crucial to Namibia's national income and government expenditure and advancing social economic and environmental objectives.

**Figure 4.3: Aid per capita**

Source: NPC, NDPII

Aid disbursement to Namibia averaged 84.1US\$ in per capita terms. Development aid per capita reached a US\$100 in 1992 and declined to US\$83 in 1994. This decline in aid per capita was due to donor withdrawal. In 1999 aid per capita stood at US\$118 and maintained a steady increase afterward to US\$125 in 2004.

#### 4.2.2 Main sources of development aid

**Table 4.1: The table below presents the main source of ODA to Namibia by type in thousands US\$**

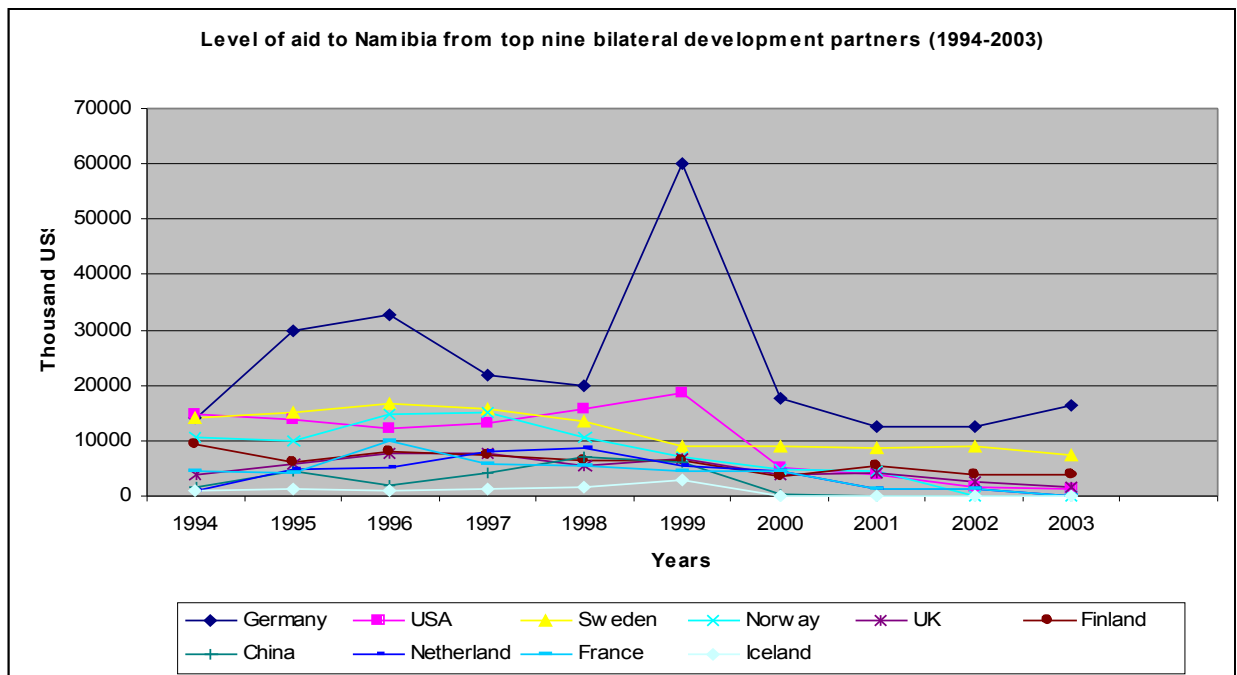
Main sources	Free-standing technical cooperation	Investment projects assistance	Investment related technical co-operation	Budgetary aid support	Food aid
1. UN	71.1	28.1	0.5	0.3	0
2. EU	13.2	40.0	46.8	0	0
3. Bilateral	73.4	15.9	8.6	2.1	0
4. NGOs	67.8	27.3	2.5	2.4	0

Source: National Planning Commission (2003/04)

In 1999 the UN agencies, EU and other bilateral donors disbursed US\$20,991 in 1999 to Namibia. But a large amount of development assistance went to the category free-standing technical co-operation.

There is an acknowledgement in the Development Co-operation reports, that coverage of NGOs activities continued to be slow crowding the portion of ODA to Namibia.

**Figure 4.4: Top nine bilateral development partners of Namibia**



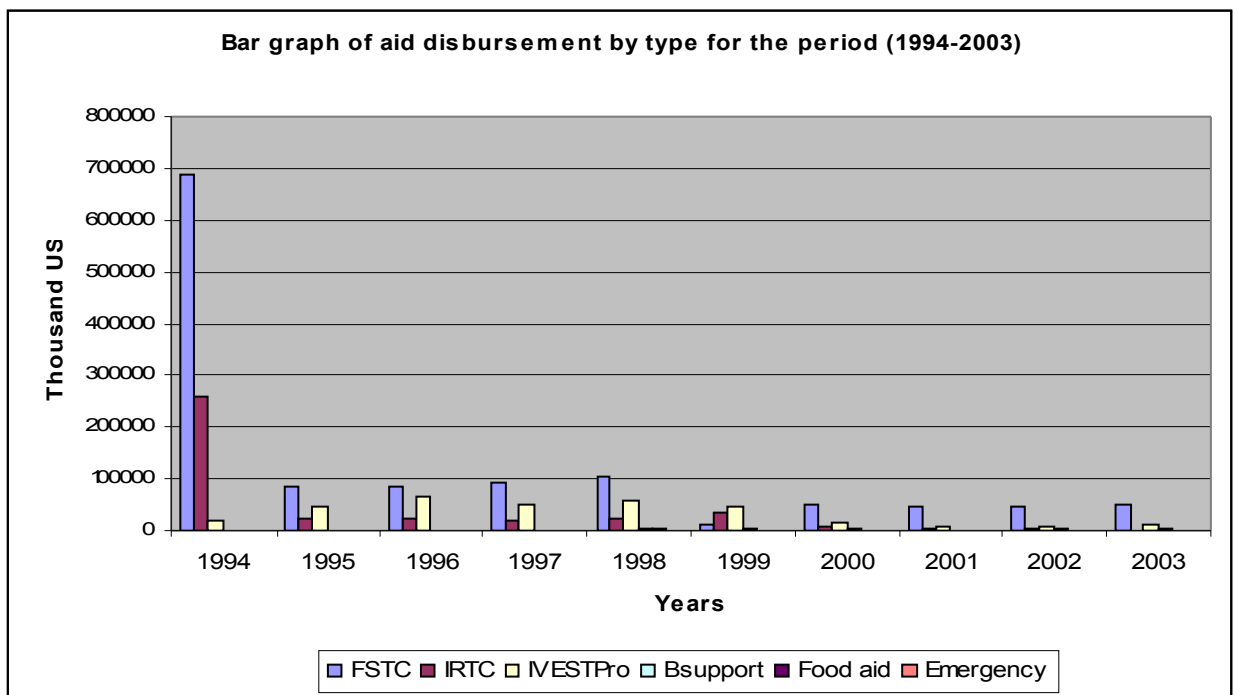
Source: UNDP Development cooperation report, 2000

The top nine bilateral donors for Namibia since 1990 are Germany, USA, UK and the Nordic countries contributing US\$ 142, thousands in total in 1999. The share of the Nordic countries in total aid to Namibia was reduced in 1999. And most of them

cut back by 18 percent their bilateral economic assistance to be assessment. The UN family also experienced cut in aid delivery to Namibia and contributed 11,417 in 1999.

**Figure 4.5: Development aid disbursement by type of assistance (1994-2003)**

**thousand US\$ from all sources**



Source: Namibia Development Co-operation Reports, 1996, 1997, 2000& 2004

The category of free-standing technical assistance to Namibia has been on the increase compared to investment related technical co-operation and other type of assistance. Investment project related technical assistance together with the investment project assistance is the second biggest category of development assistance to Namibia. The fact that huge amount of development assistance went to free standing technical assistance and to investment project related technical assistance implies that, a large amount of aid financial resources did not benefit poor

Namibians, but rather foreign experts or expatriate and seem to have inflate private domestic consumption expenditure part of GDP.

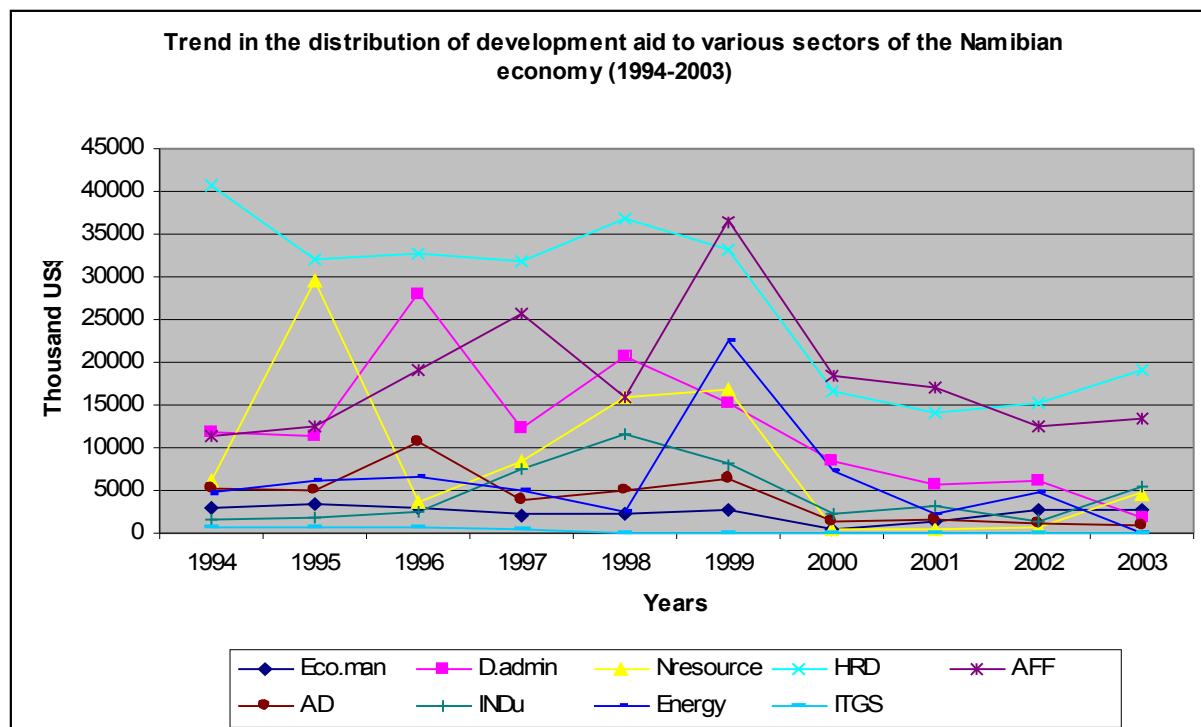
Budgetary support to Namibia has been very low throughout the 1990, due to the fact that Namibia has a wide variety of sources of domestic revenues. The country has well organized system of domestic taxation from the personal income tax, cooperate tax to investment returns and resources royalties. Dividend from state owned enterprises all constituted the country's source of domestic revenue to finance economic and social development. The other important source of government revenue is the Southern African customs Union (SACU).

### **4.3 Aid distribution to socio-economic sectors**

Development aid was disbursed to various sectors of the Namibian economy (1990-2005) in US\$ thousands. Large amount of aid was disbursed outside the state revenue fund direct to NGOs and to various programs run by aid agencies themselves. Though aid was channeled outside the state revenue fund there were consultations and coordination in the implementation of these projects and program funded by donors.

Development aid channeled through government went to policy, democratic institutional building, good governance and legislations in the form of technical assistance. A number of policies and legislations were supported by donors through experts and financing options. Donors were deeply involved in the process of development planning in Namibia.

**Figure 4.6: Aid distributions to sectors**



Source: Namibia Development co-operation reports, 1996, 1997 & 2000, figure from 2000-2005

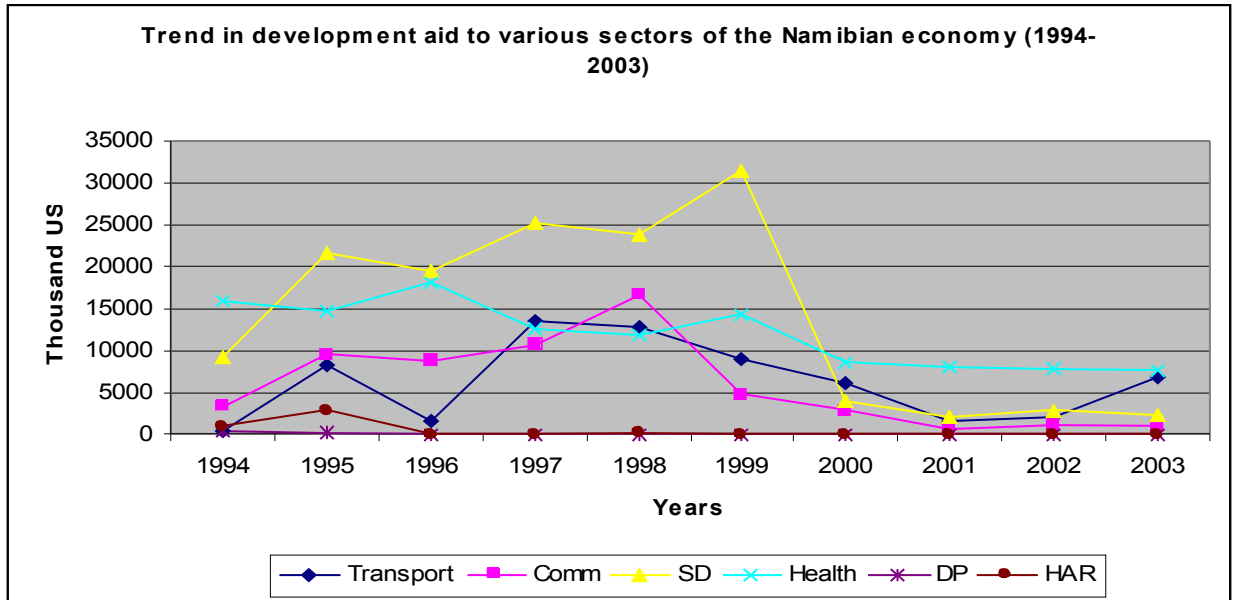
Figure 4.6 above indicate that development aid to Namibia is well targeted to the socio-economic sectors considered to be of vital importance for sustainable social and economic development, which are of crucial importance to the country's sustainable social advancement. Development aid to the social sectors such as education and health services provision were high in monetary terms since 1990. This aid was well targeted because education and health intervention could lead to poverty reduction and sustainable development, by preparing citizens to be able to live longer and take care of themselves by embarking upon productive activities. Investment in human resources had a potential to ensure sustainable development.

Improving provision and accessibility to social services such as education, health and sanitation can positively change the living conditions of the people. The Agriculture, Fishery and Forestry sector received more than US\$35 thousands in 1999.

The human development sector received a large amount of aid. In 1994 the education sector received US\$40 thousands. However aid to education has been declining since 1995, though bounced back in the years 1998/99 to about US\$ 36 thousands, before it declined to below US\$ 5 thousands in 2000. Aid to economic management has been low throughout the period under study because it fund policy research and formulation of which implementation, monitoring and evaluation is the responsibility of the national government. While aid to the real productive sector (industries) also remained low during the same period fund export services and balance of payment support.

Aid to development administration and natural resources remained high though experienced some fluctuations. Democracy, biological diversity and policy research support through both foreign consultancy and local policy research institutions and think-tanks such as the Desert Research Foundation (DRFN), Namibia Nature Foundation (NNF) and Namibia Public Policy Research unit (NPRU) and the Institute of Public Policy Analysis (IPPA)

**Figure 4.7: Aid distributions to sectors**



Aid to social development sector has been increasing since 1994, reaching its peak of about US\$30 thousands in 1999, before it declined to below US\$5 thousand from 2000-2003. Development aid to the health sector was high in 1996 at US\$19 thousands, but has declined afterward till 2003. Aid to communication sectors reached its height in 1998 when it stood at US\$17 thousands and declined afterward till 2003. Aid to the transport sector one of the key sectors of the country's economy has been experiencing a spiral pattern of growth. In 1997 it stood at US\$14 thousands.

#### **4.4 Microeconomic aspects of development aid's significance in poverty reduction**

It is very difficult to observe the impact of development aid on economic growth at a macroeconomic level. However, the trend in internal distribution of aid suggests that most of aid to Namibia was channeled to the education and health and environmental sectors of which are vital for poverty alleviation and for sustainable development. However the productive sectors and other industries received less of development aid. To assess the contribution of development aid to income or wealth distribution and poverty reduction this study looked at the impact of development aid to Namibia's environmental sector.

The aim is to look at the level of aid to the environmental sector with specific analysis of the impact of Community Based Natural Resources Management (CBNRM) program on the livelihood of the rural communities. CBNRM is one of the donor funded program in Namibia which affects the redistribution of wealth and income in its attempts reduce poverty through environmental conservation.

The CBNRM program is one of the most successful donor funded programs with direct impact on rural people's livelihood and an enormous contribution to national income. This program is selected for micro-level analysis to demonstrate the impact of development aid on a recipient country's distribution of national income and poverty reduction. Since the Rio De Janeiro Earth Summit, Namibia ratified most of the international conventions including the Convention to Combat Desertification and on Convention Biodiversity Conservation and on Climate Change Since then,

Namibia reformed its environmental laws and regulations to allow the previously disadvantaged communities enjoy the economic benefits of natural resources especially wildlife and reduce poverty which contribute to environmental degradation.

The country amended the colonial nature conservation laws to provide the formerly disadvantaged people access and the right of use and benefits from natural resource. Since 1992/93 the donor community began to direct funding to Namibia's environmental sector in support of the government's conservation efforts. The link between poverty and environmental degradation in Namibia, one of the fragile arid -environment in the world was realized. It was realized that the only way to protect the environment is to address poverty and reduce human pressure on natural resources. On the other hand, there was a need to ensure that all Namibians benefits from wildlife and other natural resources in order to redress the social imbalances.

Government and the donors poured large amount of financial resources to the environmental sector through the Ministry of Environment and Tourism. A large amount of fund was channeled to the Community Based Natural Resources Management Program (CBNRM). The CBNRM is government-donor co-funded program which provides technical support to the establishment of community conservancies throughout Namibia. The government granted communities the right of access, management and use of wildlife. This means that communities have to organize themselves and register as legal entity as prerequisite for them to be granted the right of use and management of wildlife. The law requires the communities to

form management committees, to have register of membership and defined boundary for the ministry to grant them the right of wildlife use. As of 2005 there were 44 registered conservancies in Namibia. The CBNRM program assist the communities by providing training on natural resources management, institutional capacity building at community level, bookkeeping and provide financial support.

These projects are categorized by the author into national and community level projects in term of impact.

**Table 4.2: Environmental related projects**

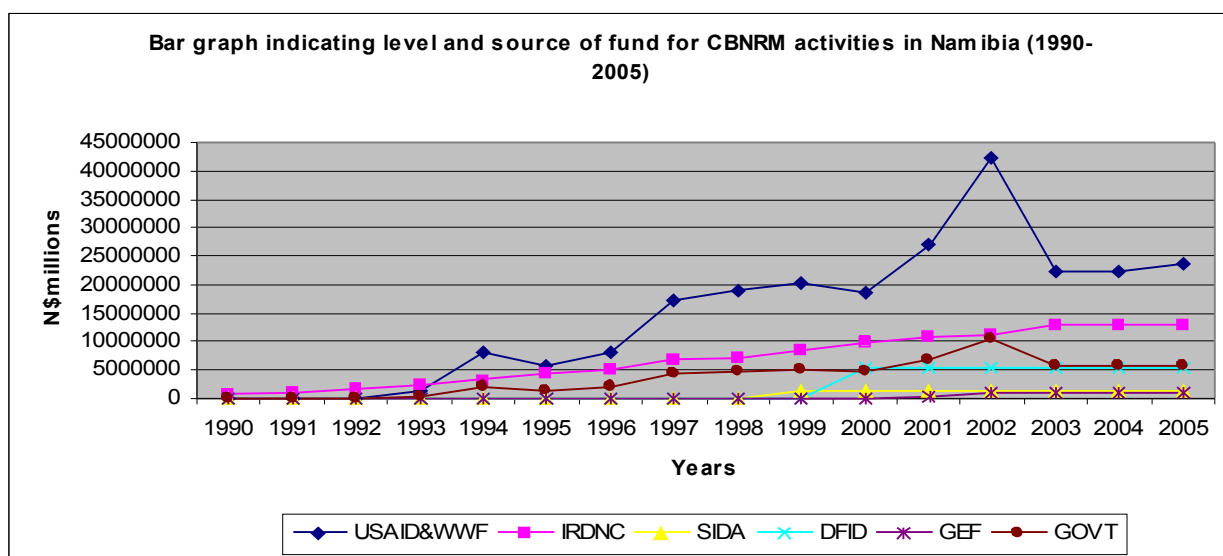
Projects/Programs (US\$) thousands	Impact level					
		2002/3	2003/4	2004/5	2005/6	2006/7
National Forestry	National	4,800	5,765	3,480	4,322	0
Tourism development	community	10,590	8,500	11,424	0	0
Biodiversity conservation	National	1,503	2,114	1,200	750	0
Combat desertification	National	2,210	1,712	0	0	0
Life on CBNRM conservation	community	9,120	16,000	22,100	13,000	13,000
Community forestry	community	1,920	960	4,096	0	0
Rhino conservation (ENP)	National	0	174	0	0	0
Rhino conservation	National	153	0	0	0	0
Rhino conservation	National	0	141	0	0	0
Indigenous trees domestication	community	0	3,840	0	0	0
National forest	National	0	510	0	0	0
Community forestry	community	392	1,200	1,600	0	0
Enhance strategies & capacity	community	2,252	0	0	0	0
Infocom	National/intuitional	2,390	2,250	0	0	0
Bush encroachment study	National	954	954	0	0	0
Environmental economics capacity	National/intuitional	1,130	1,335	1,332	575	0
Wild integration (livelihood diversify)	community	3,530	3,530	0	0	0
Enabling activities for CCP	National/intuitional	525	290	642	0	0
MET capacity SNRM	institutional	0	0	0	4,250	3,500
North-east parks support	National	0	0	0	0	6,732
Clean production tech	National/intuitional	0	0	0	3,400	3,400
National capacity needs assessment	National	0	657	509	0	0
ICEMA on CBNM	community	0	0	8,703	14,984	12,106
Coastal conser.NACOMA	National	0	0	1,190	7,855	7,153
SPAN strength PA network	nation/institution	0	1,118	1,247	1,624	9,775
Country for sus.Land manage	National	0	728	1,451	9,350	9,350
Sust.land &nature. Resource. Manage.	National	0	847	847	257	257
Improved sust. land use planning	National	0	0	165	333	333
Proclamation of Sperr. NP	National/intuitional	0	0	0	400	860
Environmental legislation	National	0	250	0	0	0
Tran frontier P. develop	National	0	0	0	1,300	2,200
Biodiversity conservation	National	587	138	92	223	0
Totals		41,469	52,883	59,986	62,400	68,666

Source: MET (2005)

The program brought about the establishment of 44 registered conservancies in the country. CBNRM helps communities in identifying private investors for joint venture agreements to establish lodges on community conservancy land for wildlife view tourism. In the process the private lodge on the community becomes sources of employment for community members and sources of income to the conservancy committees in the form of rental and royalties fees.

The joint venture agreement made provision that once the investor is no longer interested the lodge will remain the conservancy property. All the income generated from the communities conservancies are deposited into the conservancy account and dividends are distributed to household members from time to time. Another source of conservancy income is trophy hunting fees. The conservancy gets their hunting quota approval from the Ministry of Environment and Tourism based on the sustainable yield principal.

**Figure 4.8: Source of funding to CBNRM**

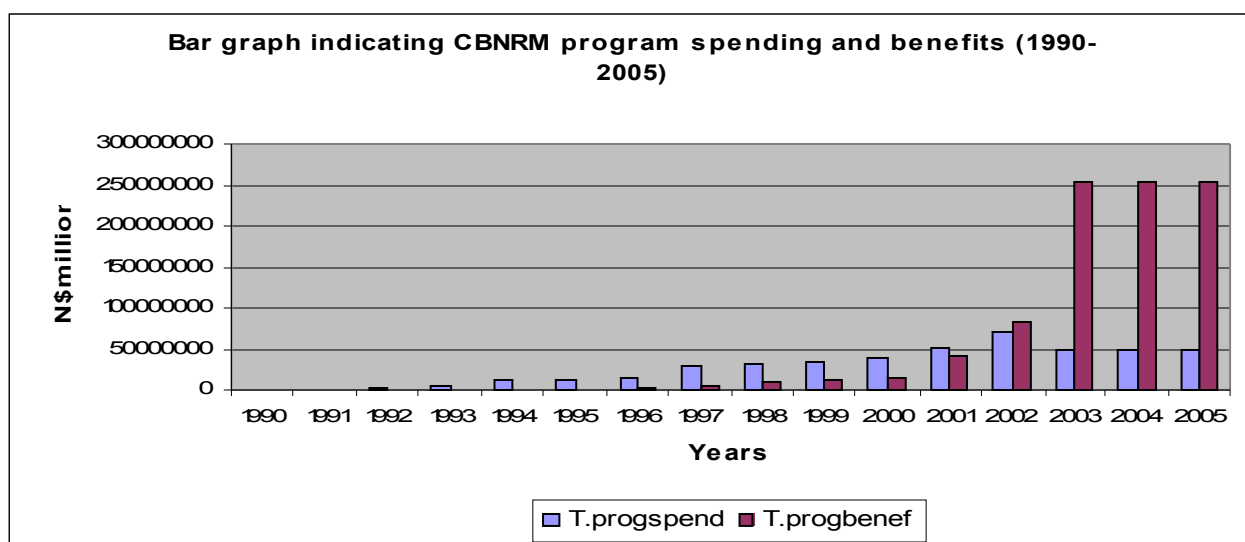


Source: MET (2005)

The United States International Development agency (USAID) and the World Wildlife Fund (WWF) have been the leading financiers of the CBNRM program since 1993 over taking IRDNC which started funding community based natural resources activities since 1990. USAID and WWF funding of CBNRM reached a peak in the year 2002 totaling more than N\$400m. IRDNC is in the second position followed by the Namibia government in the third place. IRDNC funding remained stable reaching a peak in 2003 when it amount to more than one hundred million Namibian Dollars. Government funding to support the CBNRM program mainly on the establishment of conservancies has been increasing since 1993 and reached its peak in 2002 when it reached one hundred million Namibian Dollars.

From 1993, the government and donors have been putting seed money into the national CBNRM program and the cost of the program remained above its benefits throughout the period from 1994 to 2001. The bar graph below indicates the level of CBNRM program spending and benefits from 1990-2005.

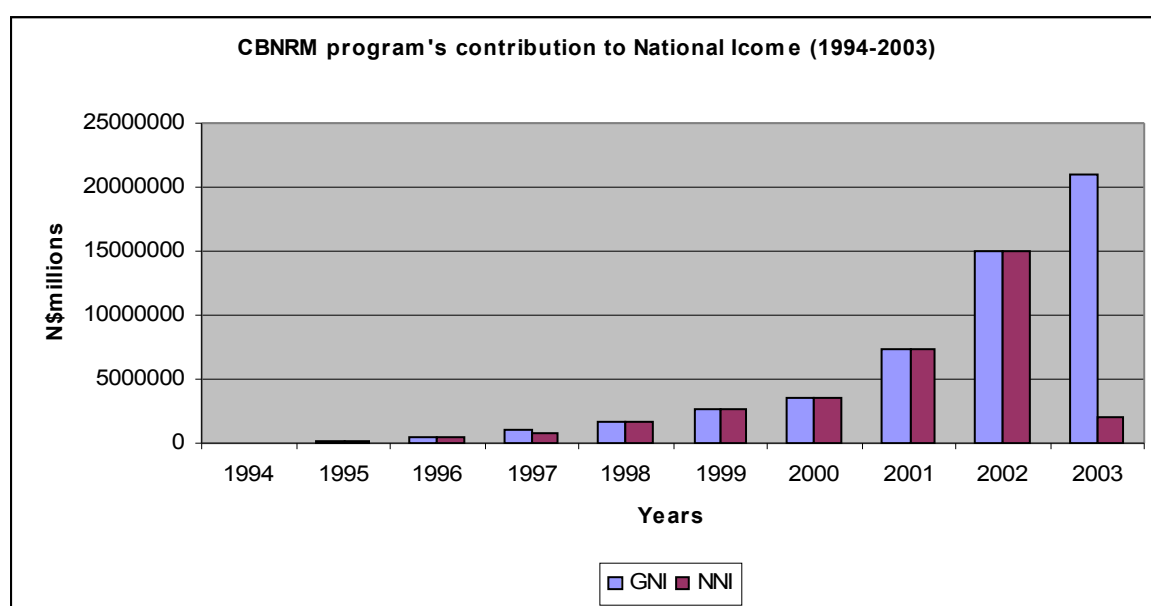
**Figure 4.9: Total CBNRM program spending and benefits**



Source: (Barnes, 2005)

The CBNRM benefits are the benefits to the economy and to the communities involved in the CBNRM funded community conservancy's establishments. From 2002 to 2005 the CBNRM program benefits far exceeded the program spending reaching N\$250m for the period 2003 to 2005.

**Figure 4.10: CBNRM programs' contribution to national economy**



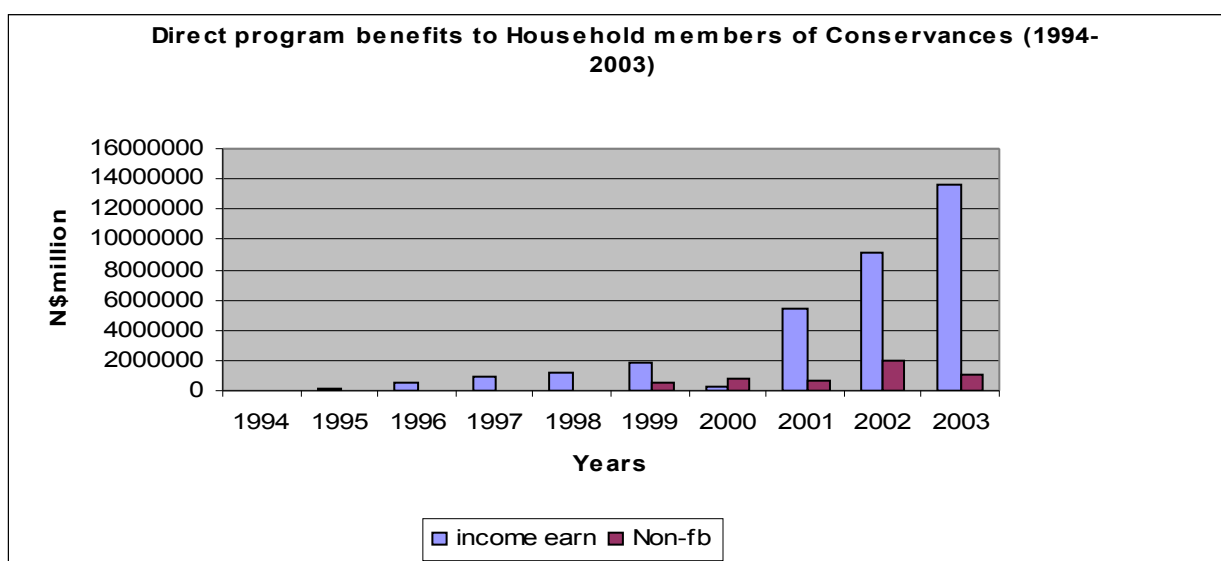
Source: Barnes (2005)

In 2002 the CBNRM program contributed N\$15million to net national income while its contribution to gross national income stood at about N\$25million. The components that make up the national CBNRM program benefit range from payment received by communities from joint ventures with the private sector (tourism lodges, trophy hunting), wages and salaries received by community members involved with these activities as well as gross income received by communities from their own economic activities ( community campsites, thatch grass production and craft sales.

The benefits also include annual increase in capital wealth (wildlife numbers in community hands and additional annual contribution to national income.

The CBNRM program benefits to households members of conservancies from 1994-2003 has been increased. There is a diversity of program benefits put into broader categories of income earned and non-financial benefits. The figure 4.11 below shows the level of benefit to household members of the conservancies established with the assistance of the national CBNRM program.

**Figure 4.11: CBNRM program benefit to households**

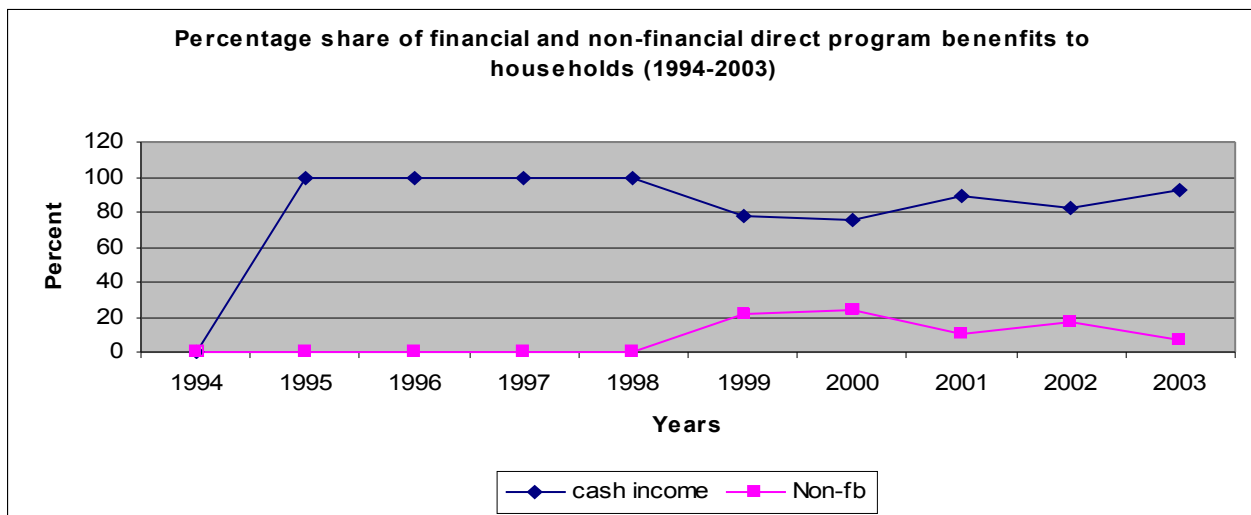


Sources: MET, 2005

The benefits to households from the conservancies across the country have been increasing overtaking the costs involved in establishing community conservancies from the scratch. In the first place the conservancy establishment bring wildlife closer to the community for viewing, give them a sense of ownership though natural

resources by law belongs to the state. Communities have the right of use and management of wildlife. Institutions and organizing capacities are created for the first time at community level to strengthen social capital. Conservancies have also created a market for the sale of crafts and promote cultural tourism. The CBNRM program benefits to rural household and its contribution to the national income proved to be benefits that did not exist before a program intervention and its evaluation indicates enormous benefits.

**Figure 4.12: Percentage shares of financial and non-financial benefits to households**



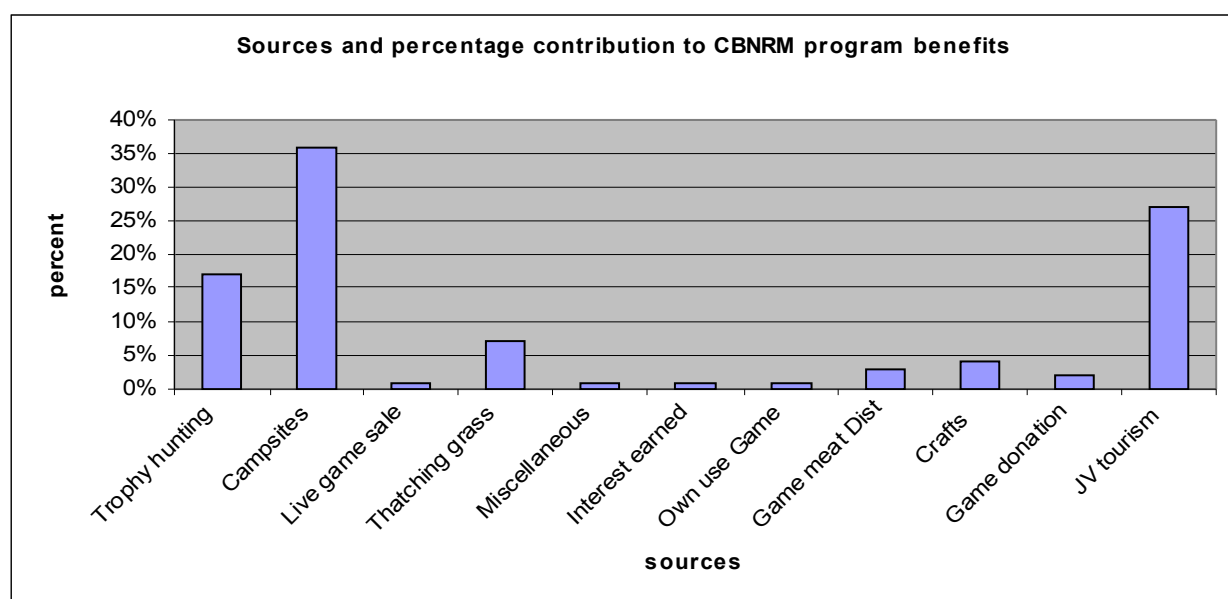
Source: MET (2005)

The cash income from the CBNRM program remained at 100 percent from 1994 to 1998. One should take note that in the first years of the establishment of the conservancies, incomes were not distributed but rather kept within the conservancy or invested to generate further earnings for future distribution to household members.

This was done to sustain the conservancies because they have wide membership and the income generated in the early stages of the conservancy establishment could not be sufficient for distribution, but to pay for the administrative costs of the conservancies. In 1998, cash income to household was 80 percent. The financial benefits to households started to peak in 1999 and declined in 2001.

The figure below indicates the percentage contribution and the main income generating activities for the CBNRM program.

**Figure 4.13: Sources of CBNRM program benefits**



Source: MET 2005

The main sources of program benefits to household members of conservancies include campsites' fees used by tourist interested in viewing wildlife on community conservancies. The campsite income generating activities contributed 35 percent of the total program benefit. The second major sources of program benefits to

households are Joint Venture Tourism which entails a private lodge on community conservancy land. This activity contributed 27 percent of the total program benefits. Joint venture agreement constitutes the marketing aspect of conservancy and is crucial for the operation of the conservancy as far as the sale of crafts, job creation and rental fees and royalty payment to the conservancies. The third major source of program benefit is trophy hunting which contributed 15 percent of the total benefits also the sale of thatch grass, craft and cultural tourism.

There are 44 registered conservancies as legal entities and more than 30 non-registered starting up conservancy being assisted by the CBNRM program as going concerns since the early 1990s.

**Table 4.3: Actual conservancies' income to the member households from 1997 to 2003**

Total income to Namibian Conservancies committees and individuals (1997-2003)							
Conservancies	1997	1998	1999	2000	2001	2002	2003
Nyae Nyae	182,000	227,835	518,687	983,200	487,306	1,236,407	1,234,086
Salambala	0	10,378	263,149	114,660	242,921	476,345	383,713
Torra	0	329,949	507,761	583,713	514,304	931,900	1,069,351
Khaodi/hoas	0	0	45,000	97,000	136,814	182,390	134,184
Uibasen	0	0	0	0	847,407	1,506,150	1,818,453
Doros!Nawas	0	0	0	0	45,400	154,220	86,997
Kwandu	0	0	5,760	800	0	0	275,873
Mayuni	0	0	132,631	51,000	241,500	109,837	757,692
Wuparo	0	0	3,616	21,500	0	0	238,496
Purros	0	0	0	78,650	20,486	33,662	149,811
Tsiseb	0	0	0	0	132,193	244,931	409,902
Ehirovipuka	0	0	0	0	0	160,025	156,325
Marienflus	9760	24,305	38,435	25,735	38,372	52,193	250,194
Oskop	0	0	3,097	2,200	0	0	0
Sorris Sorris	0	0	0	0	0	0	63,525
Mashi	0	0	0	0	0	0	0
Omatendeka	0	0	0	0	0	0	0

Otjimboyo	0	0	0	0	0	0	0
Uukwaluudhi	0	0	0	0	0	0	0
!Khob-!Naub	0	0	0	0	0	0	0
//Gamaseb	0	0	0	0	0	0	0
//Huab	0	0	0	0	0	0	0
Orupembe	0	0	0	0	0	0	0
Sanitatas	0	0	0	0	0	0	0
Anabab	0	0	0	0	0	0	0
Sesfontein	0	0	0	0	0	0	0
Okangundudumba	0	0	0	0	0	0	0
N'a Jaqna	0	0	0	0	0	0	0
Ozondundu	0	0	0	0	0	0	0
<b>Total income Cons. committees and individuals (1999-2003)</b>	<b>191,760</b>	<b>592,467</b>	<b>1,518,136</b>	<b>1,958,458</b>	<b>2,706,703</b>	<b>5,088,060</b>	<b>7,261,905</b>
Source: MET 2005							

Nyae Nyae, Salambala, Torra and Marienflus are the most successful community conservancy projects of the CBNRM program. These conservancies are self sustaining and have created permanent employment and secure sources of income to the household members. The conservancy projects of the donor funded CBNRM program carries a lot of benefits to communities ranging from game meat, income from trophy hunting and joint venture tourism, sales of crafts and promotion of cultural tourism and boosting local economies.

**Table 4.4: CBNRM income earned by households**

<b>CBNRM Program income earned by conservancy household members (1990-2003)</b>										
<b>Year</b>	<b>1999</b>		<b>2000</b>		<b>2001</b>		<b>2002</b>		<b>2003</b>	
<b>Items</b>	<b>income</b>	<b>percent</b>	<b>income</b>	<b>percent</b>	<b>income</b>	<b>percent</b>	<b>income</b>	<b>percent</b>	<b>income</b>	<b>per</b>
<b>Activity</b>										
Campsites	618,463	25%	1,563,687	46%	2,063,422	34	3,105,016	28	5,055,512	35%
Trophy hunting	448,486	18%	398,533	12%	734,372	12	1,952,455	18%	2,529,436	17%
Joint Venture										
Tourism	401,699	16%	373,750	11%	1,536,636	25	2,179,874	20%	3,901,627	27%
Game Donation	355,100	19%	796,200	31%	417,460	8%	1,026,600	9%	271,800	2%
Crafts	195,917	8%	111,389	3%	234,827	4%	561,221	5%	616,100	4%
Game meat donation	32,000	1%	35,000	1%	158,830	3%	402,014	4%	470,014	3%
Own use game	0	0%	0	0%	54,320	1%	536,472	5%	196,834	1%
Cultural Tourism	18,000	1%	38,000	1%	0	0%	0	0%	0	0%
Interest earned	0	0%	39,701	1%	0	0%	156,500	1%	181,353	1%
Miscellaneous	0	0%	15,000	0%	17,320	0%	0	0%	118,000	1%
Campsite donation	126,500	5%	0	0%	0	0%	0	0%	0	0%
Campsite manage	23,812	1%	0	0%	0	0%	0	0%	0	0%
Thatching grass	219,847	9%	40,000	1%	898,000	15%	1,077,500	10%	1,054,006	7%
Live game sale	0	0%	0	0%	0		132,300	1%	211,749	1%
<b>Sub-Total, IGA</b>	<b>1,902,412</b>	<b>78%</b>	<b>2,580,060</b>	<b>76%</b>	<b>5,484,585</b>	<b>90%</b>	<b>9,164,866</b>	<b>82%</b>	<b>13,667,783</b>	<b>94%</b>
<b>Sub-Total, Non-FB</b>	<b>537,412</b>	<b>22%</b>	<b>831,200</b>	<b>24%</b>	<b>639,610</b>	<b>10%</b>	<b>1,965,086</b>	<b>18%</b>	<b>938,648</b>	<b>6%</b>
<b>Total Fin.benefits</b>	<b>2,439,824</b>	<b>100%</b>	<b>3,411,260</b>	<b>100%</b>	<b>6,124,195</b>	<b>100%</b>	<b>11,129,952</b>	<b>100%</b>	<b>14,606,431</b>	<b>100%</b>

Source: Ministry of Environment and Tourism (2004)  
Note: IGA= income generating activities  
Non-Fb= Non-financial benefits

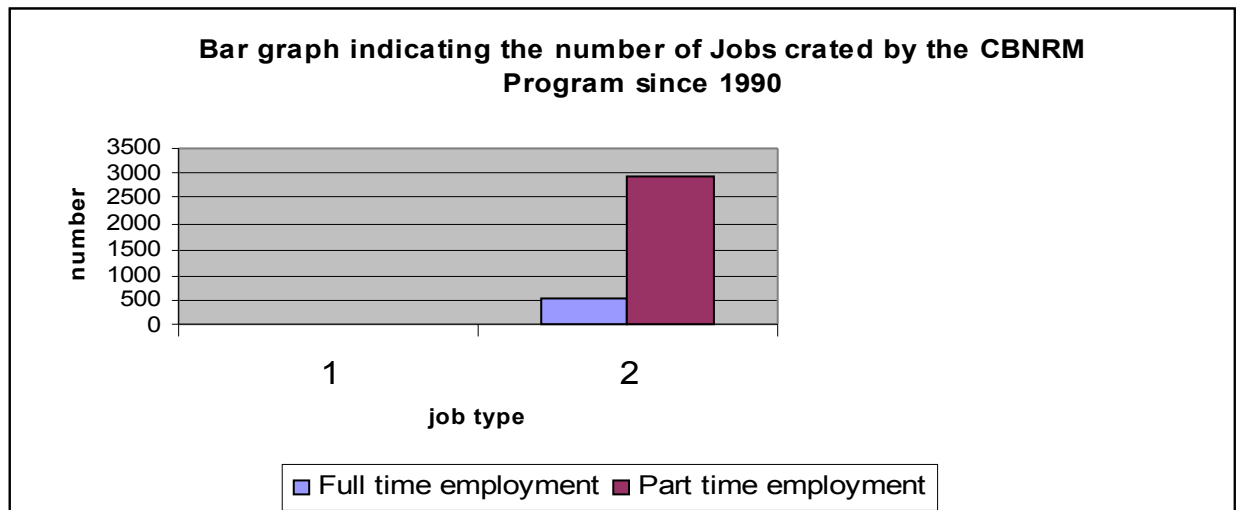
The household income from campsites fees averaged 33.6 percent for the period 1999 to 2003, while income from joint venture tourism averaged 19.8 percent. Household or conservancy income from trophy hunting averaged 15.4 percent. Game donation from government and donors benefit averaged 13.8 percent. Craft sales as community part of cultural tourism made products for cash sale averaged 4.8 percent. While thatching grass income for the conservancy averaged 8 percent.

**Table 4.5 Registered and non-registered conservancy income and non-financial benefits**

Registered and non-registered conservancy income and non-financial Benefits (2001-2003)						
	2001		2002		2003	
	Conservancy	Non-Rcon-nonaff	Conser	non-Conser	Conser	Non-conserve
Conserve/enterprise comm.	1,433,342	759,080	3,221,578	1,852,824	4,252,319	3,573,444
NR-based HH/wage income	1,273,361	2,018,802	1,866,482	2,223,982	3,009,586	2,764,934
Conser. Non Benefits	639,610	0	1,038,986	926,100	1,006,148	0
<b>Total program benefits</b>	<b>3,346,313</b>	<b>2,777,882</b>	<b>6,127,046</b>	<b>5,002,906</b>	<b>8,268,053</b>	<b>6,338,378</b>
	<b>total 2001:</b>	<b>6,124,195</b>	<b>total 2002:</b>	<b>11,129,952</b>	<b>total 2003:</b>	<b>14606,431</b>
Income earned	2,706,703	2,777,882	5,088,060	4,076,806	7,261,905	6,338,378
% cash	80,89%	100,00%	83,04%	81,49%	87,83%	100
Non-financial benefits	639,610	0	1,038,986	926,100	1,006,148	0.00%
% cash	19,11%	0,00%	16,96	18,51%	12,17%	0

Registered conservancy enterprises earned N\$3,3millions in 2001 while non-registered conservancies enterprises earned N\$2,8millions. In 2002 registered conservancies earned N\$ 6,1millions while non-registered conservancies earned N\$ 5,0millions. In 2003 registered conservancies earned N\$8,2millions while non-registered ones earned N\$ 6, 3 millions in total.

**Figure 4.14: Total actual jobs created by the CBNRM program since 1990**



Source: MET (2005)

The CBNRM Program has created five hundred permanent jobs which could not have been created in the absence of the program. The program has also created additional two thousands nine hundred and thirty three jobs. This is in addition to the other financial and non financial benefits of the program.

#### **4.5 Conclusion**

The analysis of the direct impact of development aid at a micro-level in Namibia used the CBNRM a government and donor co-funded program. The analysis of the

impact of donor funded CBNRM program on community livelihood in Namibia confirms evidence of actual aid effectiveness in improving the standard of living of the poor people in a recipient country, and the distribution of income and poverty reduction in Namibia.

The analyses of the CBNRM program find aid to Namibia to have positive impact on rural community livelihoods and confirmed the micro-macro dilemma.

## **CHAPTER 5: THE MACRO-MICRO PARADOXES AND THE SIGNIFICANCE OF DEVELOPMENT AID TO NAMIBIA**

### **5.1 Introduction**

Development aid to Namibia come at the height of an academic debate among development economists that, aid is effective when it is channeled to coincide with

regime changes, and that because there is a time lag for aid to take effect and to be felt, the regime or the administration of the day must stay longer because regime changes reverse the achievements of previous administrations. Another argument put forward in the literature on development assistance is that, often it is very difficult for developing countries to introduce unpopular prudent and strict economic reforms with carry with it some negative political consequences. This kind of policies, though crucial and healthy for the economy, often lead to regime changes and once the new political elites took over power, they tend to discontinue or will benefit from those policy reforms initiated by the previous regime. Namibia seems to have benefited from some good policies of the apartheid era.

But what is crucial is that aid to Namibia came at the right time, immediately after independence after the end of the cold war, and there has been political stability and no regime changes in the sense of the opposition take over of government in Namibia.

It is obvious that, though development aid represent a small percentage of government expenditure on the major social sectors of the economy aid has been significant in the delivery of education, health and other basic services as well as job creation and income distribution. Though aid did not create a dependency syndrome for Namibia it has been crucial to the functioning of the country's economy as it served the purpose of oiling and smoothing socio-economic development in a facilitating role.

However, the aim of this chapter is to shed some light on the macro-micro paradoxes of development aid to Namibia. It will mainly attempt to answer the following questions: 1) at what level of analysis one would clearly see the impact and significance of economic aid to Namibia? 2) Is it at a macro or at a micro-level of analysis?

## **5.2 Sectors targeted by development aid funding and socio-economic implications**

The sectors targeted for development aid ranged from economic management, which includes macro-economic policy formulation, funding and technical assistance in the planning arena. The donors' community also provided financial and technical assistance to macro-economic policy research, planning and formulation. The aid was provided to finance research in the area of fiscal, monetary and employment policies for informed decision making process. The Namibian government also received both financial support, training and technical assistance in the area of public administration, of which included foreign aid co-ordination, planning and help in the generation of essential general statistics and cartography for national development planning.

The government also received technical assistance in the area of development planning as part of institutional capacity building. Aid has been significant to Namibia as a supplement funding of development programs or capital projects. The fact is that public debt has been rising as government continues to borrow in order to finance development expenditure. This indicates that though government can

mobilize enough revenue from domestic source to fund its development activities it still needed additional resources to supplement its borrowed resources to finance the production and provision of public goods and services. The positive side is that the Namibian Government relied on domestic market for borrowing with a view to keep external debt to the minimum. This is one of the prudence aspects in Namibia's fiscal regime management. However, domestic borrowing has some equity and income distributions implications due to the fact that, the majority of Namibians missed the opportunity to create wealth during the apartheid era, and the government policy to keep a low level of external debt end up perpetuating the status quo as it continue to enrich the previously advantaged citizens who got the opportunity to create wealth during the racial era and could now lend to the government and earn dividend. It seems that in the case of Namibia every single cent of aid money counts and seems to have significant contribution to the betterment of the Namibia people. Aid funding proved to be significant given the scarcity of financial and technical resources needed for the country's socio-economic development.

In the case of Namibia one can argue that development aid played a significant role in improving the standard of living of a large number of Namibians assuming that all donor funded development programs and projects has created income generating activities and employment opportunities for Namibian people in each respective sectors of the Namibian economy, as it is portrayed by the CBNRM program at the micro-level analysis of aid impact in chapter four of this thesis. The other reason to justify the significance of development aid to Namibia is the Namibian government's call for Namibia to be categorized as a least developed country and plea for the for

the international community to continue assisting Namibia in her development process due to the existence of widespread poverty in the country.

### **5.3 Macro-micro paradoxes of development aid**

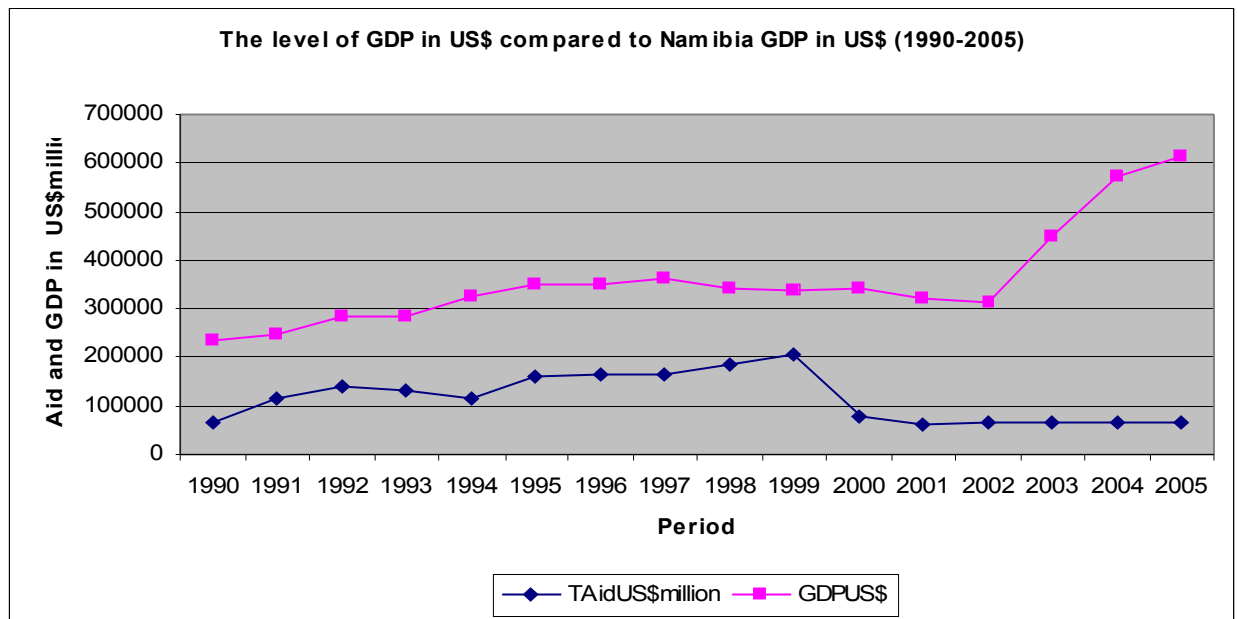
Donor funded projects or donor-government co-funded programs have a chance to reduce poverty, and in Namibia some donors indeed did help improve the living standard of the people via projects and programs interventions. An individual program or projects funded by a donor has direct and tangible contribution to the country's development process in the form of number job created and income generating activities created, jobs and overall project contribution to national income. However, for a government- donor co-funded development programs or projects it is a bit complicated to identify or associate certain part or portion of program outcome to each stakeholders, more especially if resources were pooled together without much differentiation in terms of how much capital government provided and how much the donors have provided. But if a program information categorize or separate donor funding and other inputs from government funding, then it will be easy to apportion part of income or output to donor and government in proportion to their resource or capital contribution. The problem of identifying, the portion of program output due to donor funding, get worse if one tries to do it a macro-level. At National income level a pool of all sectors of the economy's output, which is due public capital formation, private sector investment and donor funding it is not easy to clearly see the impact or significance of development aid to a particular economy. It is only at a micro-level (project and program) analysis one would clearly observe the

impact and significance of economic aid to a recipient economy. At the micro-level the outcome of most donor funded development programs are visible and tangible.

In some cases government development expenditure or capital projects and programs funding include donor funds and this makes it difficult to identify that part of sectoral output, which is due to donor funding, because in the first place the program or project or government ministries do not draw the line between government and donors contributions to the programs to make it easier to apportion output to shareholders in proportion to their resources and capital contribution. In the area of job creation it is very difficult to identify the portion of total national employment due to development aid at aggregate level, while it is easy to do so at a program or project level solely funded by a donor. On the other hand the macro-level is a multi-sectoral stakeholder and some of the outcome and services are not quantifiable for apportionment to different stakeholders, based on their resource contributions.

Development aid input to the sectors compared to sectoral output or outcome and investments can be useful to explain the macro-micro paradoxes on significance and impact of development aid to Namibia. An expression or analysis of the level of aid to various sectors as percentage of sectoral GDP will help explain or portray the significance of development aid to Namibia.

**Figure 5.1: Level of development aid compared to GDP**



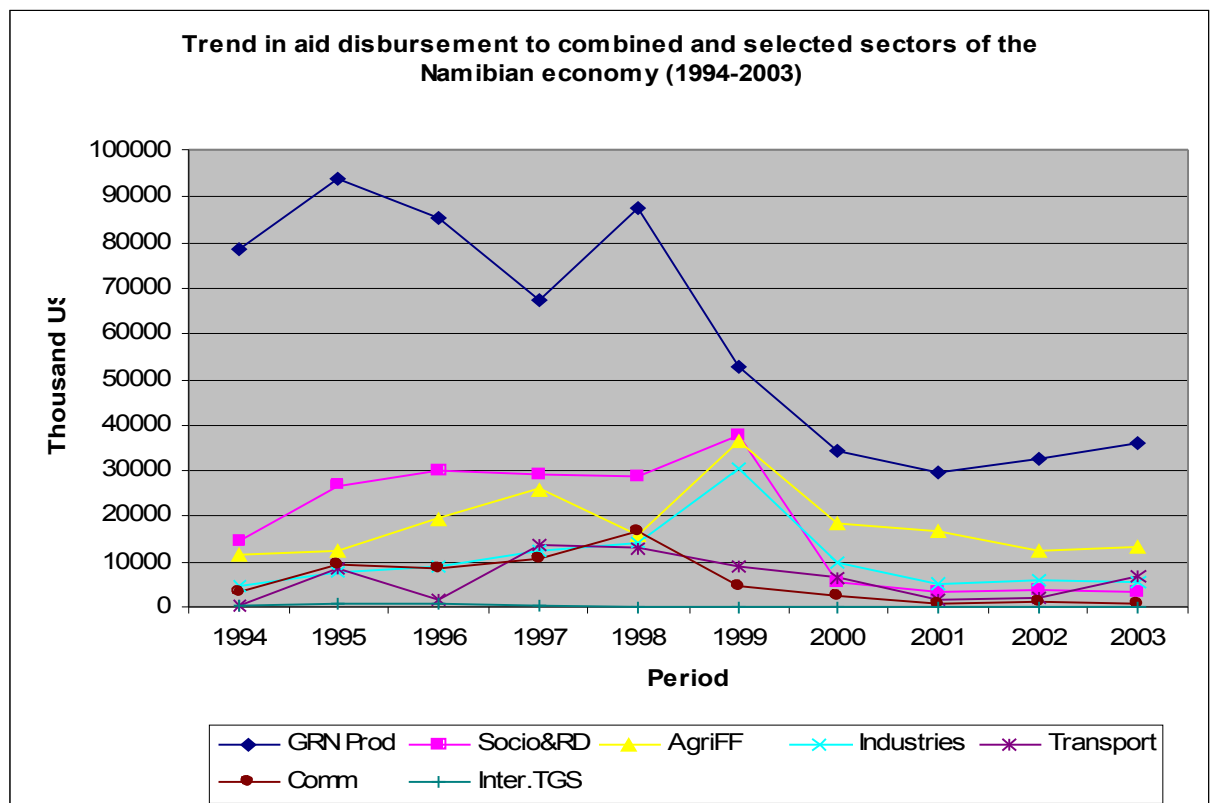
Source: UNDP & UN (2002-2005)

Development aid is not the only input variable in development funding responsible for economic growth. However, the level of development aid to each sector means a lot. The level of GDP though is higher than the level of aid to Namibia, the two variable shows a parallel and tends to respond to changes in each others in a similar pattern. However, no valid conclusion can be delivered at this level of analysis, of just looking at levels, but one can see that aid to Namibia has been significant. When development aid started to slightly decline in 1998/99, GDP also experienced a very slight decline, before it started to shot up in 2002 -2005. The relationship is not an explicit and direct one, but aid tend to have an implicit influence or impact on GDP.

The analysis of development aid to various socio economic sectors is complicated by the fact that there is a difference between Namibia's differentiation of sectors and donors categorization of sectors. Therefore the author combined similar sectors as categorized by donors and government into one sector, given that there is no much

difference or if sectors are related to each other, though different according to government and donor categorization. The categorization of sectors in this chapter relied or is based on similarity factors of sectors.

**Figure 5.2: Aid distributions to combined and selected sectors**

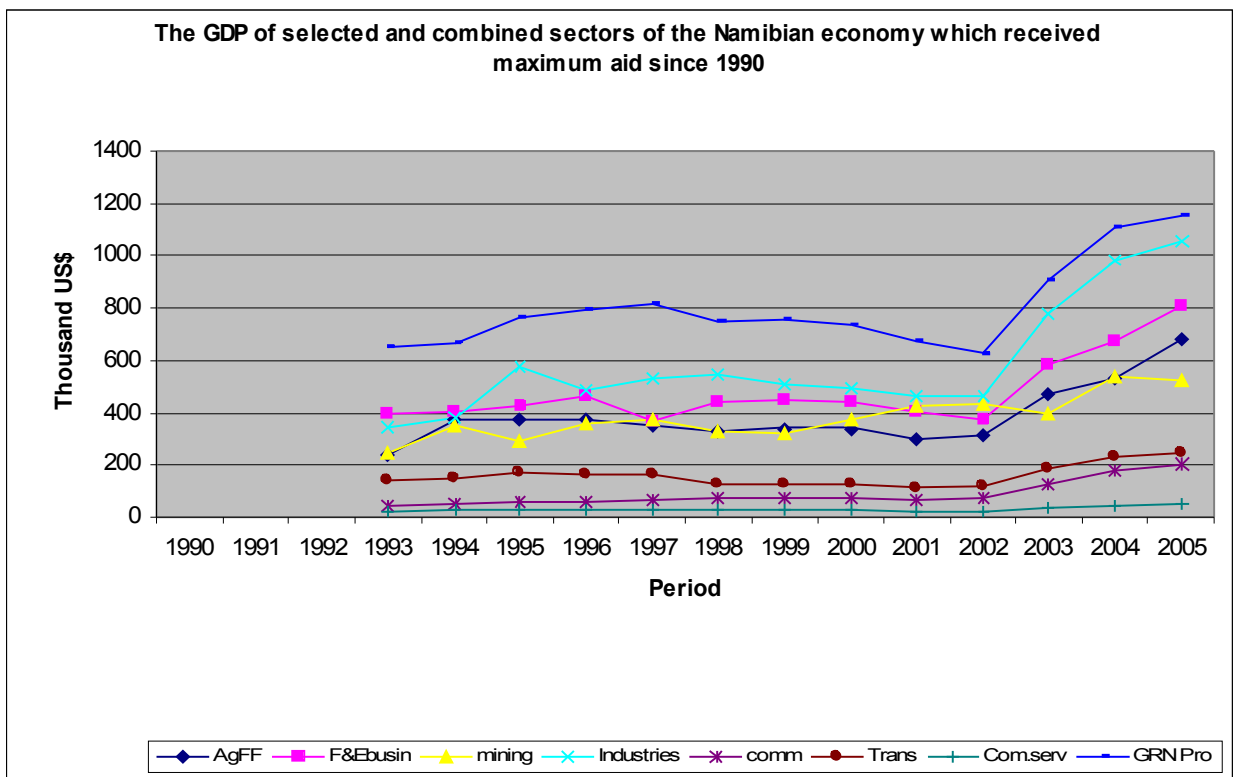


Source: CBS & UN (2003&2005)

Development aid to producers of government services reached a peak in 1995, when it stood at US\$95 thousands, then declined to about US\$68 thousands in 1997, and again went up to US\$80,thousands and then started to decline to US\$30 thousands, before it started rising up again in 2002 to US\$ 39 thousands. Also aid to community and social services and area/rural development such as rural road construction, water supply, school and other donor funded sanitation projects has been rising since 1994,

reaching a level of US\$40 thousands in 1999, before plugging to less than US\$1 thousand in 2000. It seems that development aid though, constitute a small amount or percentage of government revenue, and capital formation it proved to be a crucial resource in the development process of the country (Namibia).

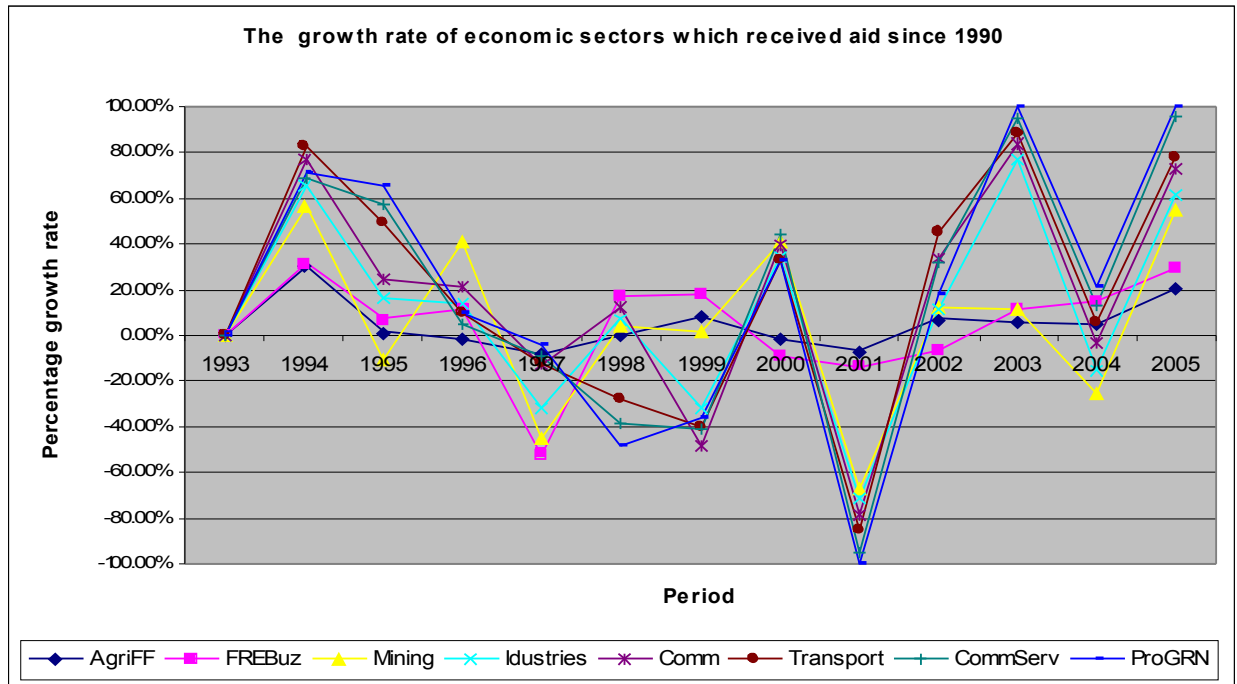
**Figure 5.3: GDP of combined and selected sectors which received more aid since 1990**



Source: CBS & UN (2003 & 2005)

Producers of government services, community and social services are the sectors which received a large amount of development aid. As a result the GDP of producers of government services has been rising since 1990 from US\$600 thousands in 1993 to about US\$800 thousands in 1997/98. Though started to decline from US\$780 thousands to US\$600 thousand in 2003. The movements in sectoral GDP seem to correspond to the rise and decline in aid in terms of figure levels.

**Figure 5.4: Growth rates of economic sectors which received aid since 1990**

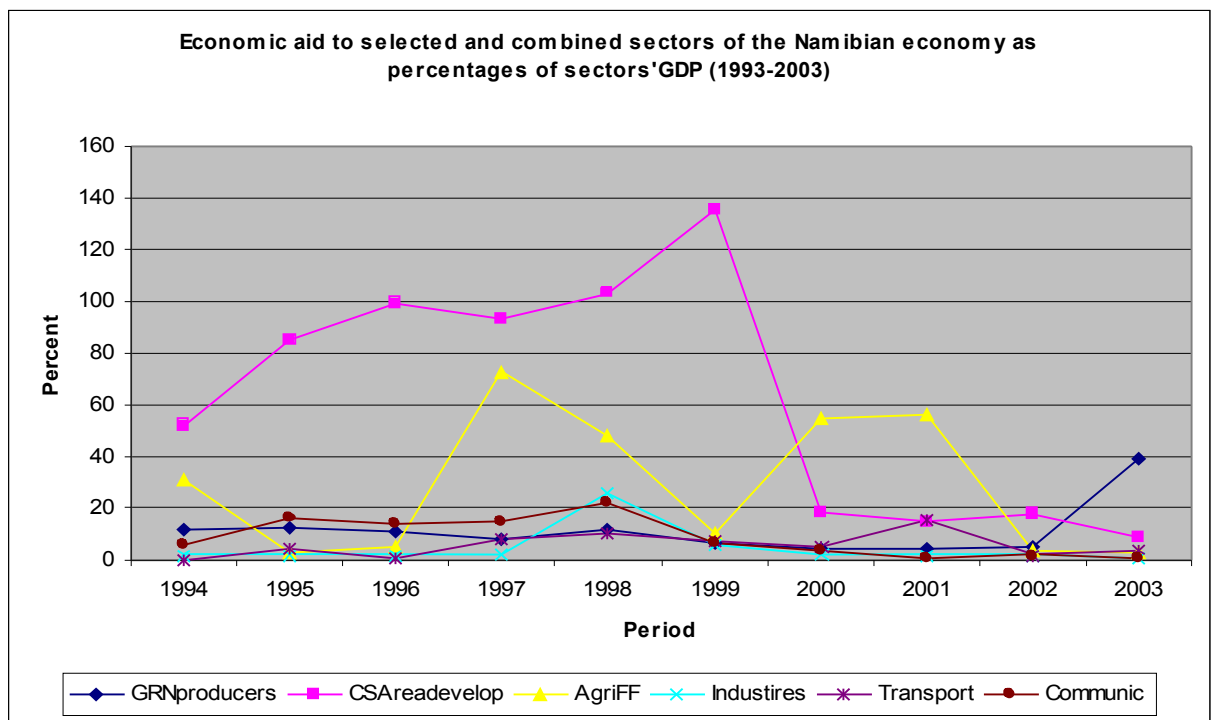


Source: Own calculation based on UNDP and UNSD data, (2001&2005)

The nominal or current prices sectors' GDP growth rate of the Namibian economy has not been stable, implying that the injection and decline in aid from time to time have significant influence on the growth pattern of sector's GDP at current prices. For example in 1994, the combined Agriculture, Fishery and Forestry sectors grew at the rate of about 25 percent, before it declined to negative -10 percent in 1997. The mining sector has also been experiencing an up and down swing growth rate pattern. In 1994, the growth rate for the sector stood at 59 percent, but it experienced a negative growth rate of about 19 percent in 1995.

The industrial sector grew at a rate of more than 60 percent in 1994, before experiencing a negative growth rate of about 17 percent in 1997. Community and social services sectors had a growth rate of more than 60 percent in 1994, before declining to negative 40 percent in 1999. On the other hand producers of government services sector grew at a rate of 65 percent in 1994, before experiencing a negative growth rate of 40 percent in 1998.

**Figure 5.5: Aid to economic sectors as a percentage of those sectors' GDP**

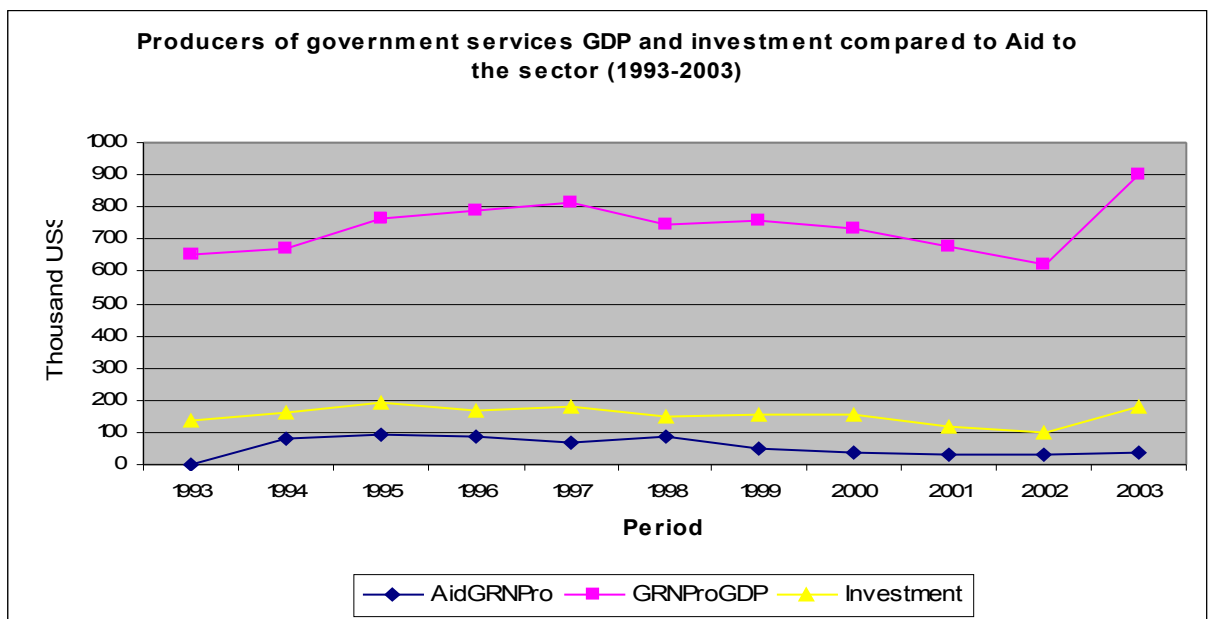


Source: Author's calculation based CBS and UNDP data

Development aid to communities, social services and area/ rural development in the form of donor funded primary schools, community halls, toilets, and other social projects proven significant. In 1994, aid to the sector constituted about 46 percent of social sector's output or GDP. In 1998/99 aid as a percentage of community services GDP stood at more than 100 percent. This is an indication that, this sector is dependent on aid and government expenditure and does not produce that much. Aid

as a percentage of agriculture, forestry and fishery GDP stood at about 65 percent in 1997, but plunged to less than 20 percent in 1999, before rising again to close to 49 percent for the year 2000/01.

**Figure 5.6: Producers of government services GDP compared to Aid**



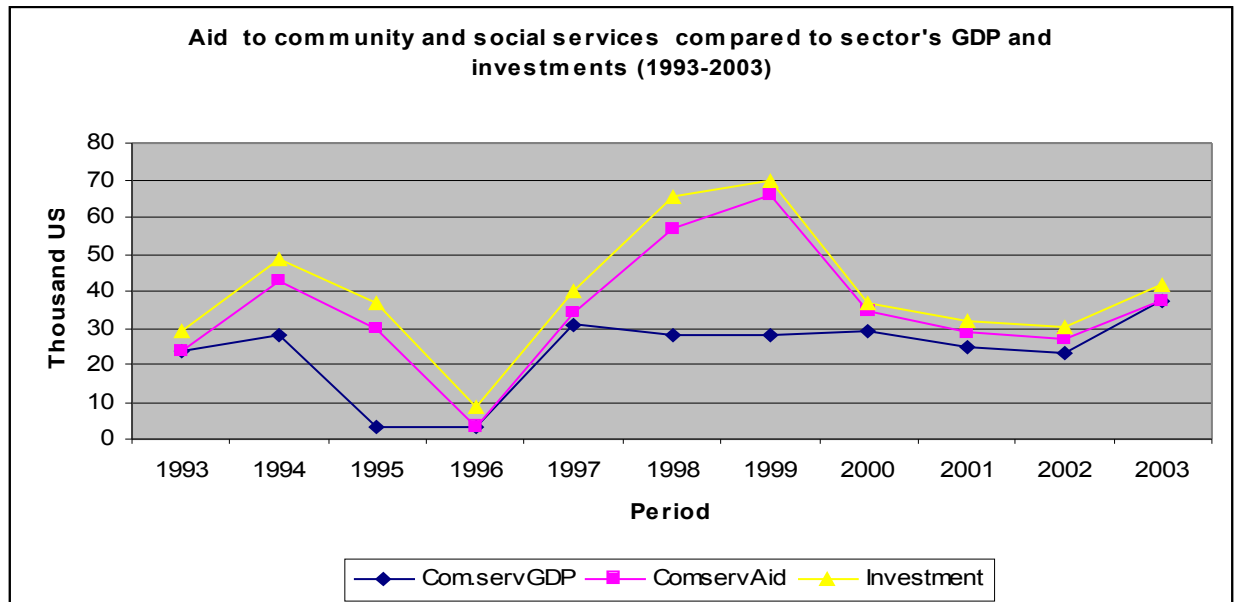
Source: Own calculation based on UN & CBS data (2003-2005)

It is not easy to differentiate between the sources and amounts of resources used as public investment in the production of goods and services. In actual fact there are domestic sources and external sources of government revenue. However, domestic revenue and other non aid revenue constitute the largest part of government expenditure on current consumption, while aid is used to finance capital or development projects. But one should also take note that a large amount of development aid to Namibia was channeled outside the state revenue fund, going directly to aid agencies and NGOs supporting social, economic and environmental projects and programs.

In most cases government or public sectors investments include that part or amount of aid making it difficult to differentiate between the outcome due to aid input verse the out put due to government own revenue.

However, existing data indicates that the level of aid to producers of government services has been far bellow the level of the sector's GDP, showing that aid as input in the production of public goods and services has been an insignificant amount, but targeted at key points of significant importance to the operation and performance of the country's economy. Much of development aid to Namibia channeled through the state revenue fund went to education, health, policy research and formulation, aid management and public administration

**Figure 5.7: Aid to Community and Social Services compared to GDP**

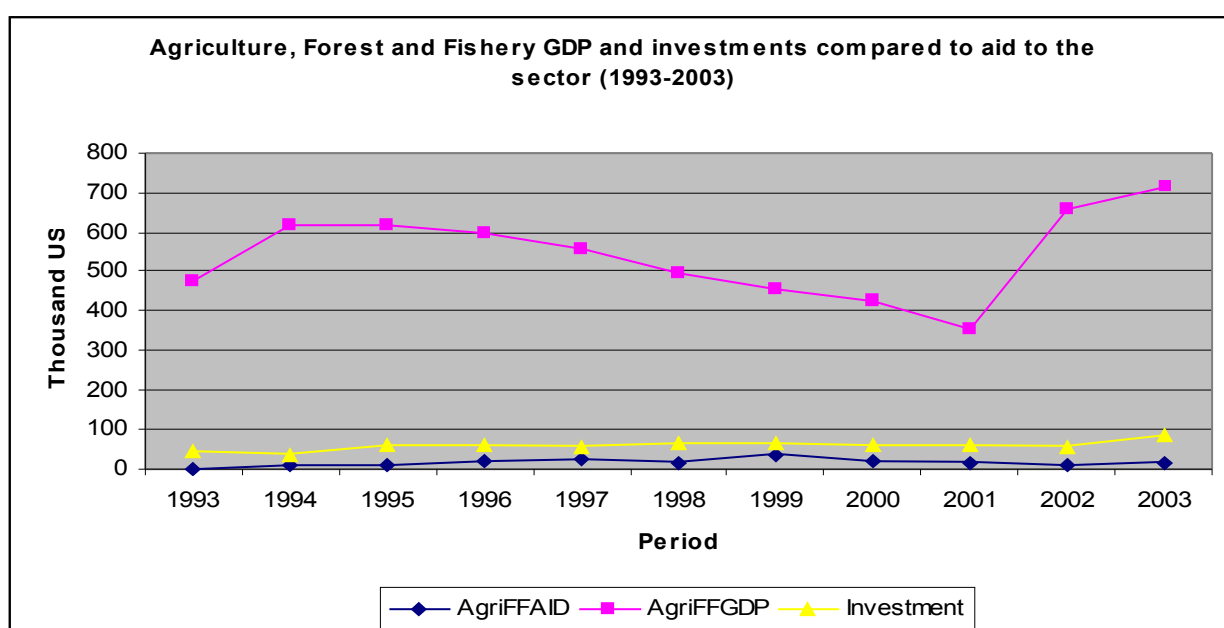


Source: own calculation based on CBS&UNDP

The assumption is that, if aid to social sector is equal to GDP level or higher, than aid has been significant to that sector of the economy. Here aid is directly spend on poverty reduction, but one cannot differentiate between, what amount of output is due to government input from the output due to aid input as can be the case in a situation of project or program solely funded, administered and implemented by an aid agency or a local NGO at a micro-level of analyzing aid impact and significance. Though it is not a proper way to do analysis or portray the significance of aid to sectors by way of comparing aid level to output level, it helps to shed some light on developments in sectors which received aid in addition to government and private sector investments.

Aid as percentage of producers of government services has been very low throughout the period remaining at less than 20 percent. Investment in community and social services stood at US\$50 thousands in 1994, before declining to US\$9 thousands in 1996, before shooting up to US\$ 70 thousand in 1999.

**Figure 5.8: Agricultural, Forestry and Fishery GDP compared to aid level**

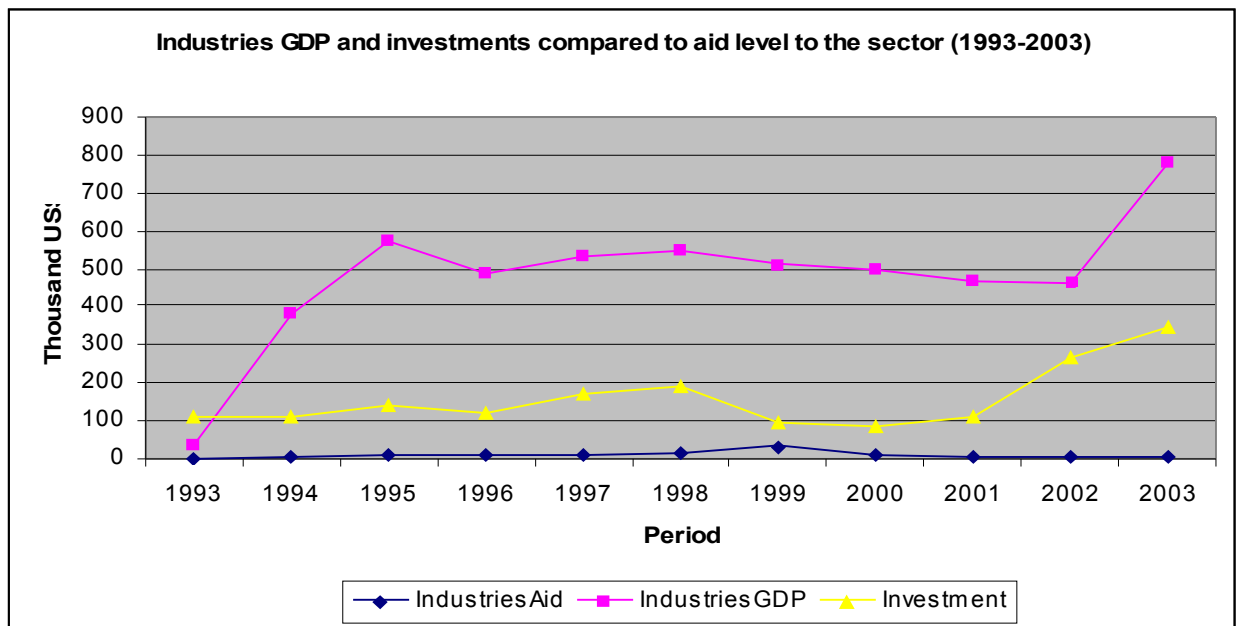


Source: Own calculation based on CBS&UNDP data

Aid to Agriculture, Fishery and Forestry has been following the sectors' GDP, but very close in level. From the year 2000 Agriculture, Forestry and Fishery GDP, shoot up to US\$300 thousands, while aid remained constant and declining. In 1997, development aid constituted more than 60 percent of the combined GDP of Agriculture, Forestry and Fishery. In 2001 aid constituted 49 percent of Agriculture, Forestry and Fisheries sectors GDP, of which is quite significant. Capital formation in the agricultural sector has been flat; this might be due to uncertainty with regard to

the land reform process in Namibia. The high output for the sectors seems to be attributable to existing fixed capital stock in the sectors. The fishing sector has been experiencing a slow production, due to fluctuation in fishable stocks thereby preventing further capital formation in addition to existing fixed capital stock.

**Figure 5.9: Industries GDP and investment compared to aid to the sector**



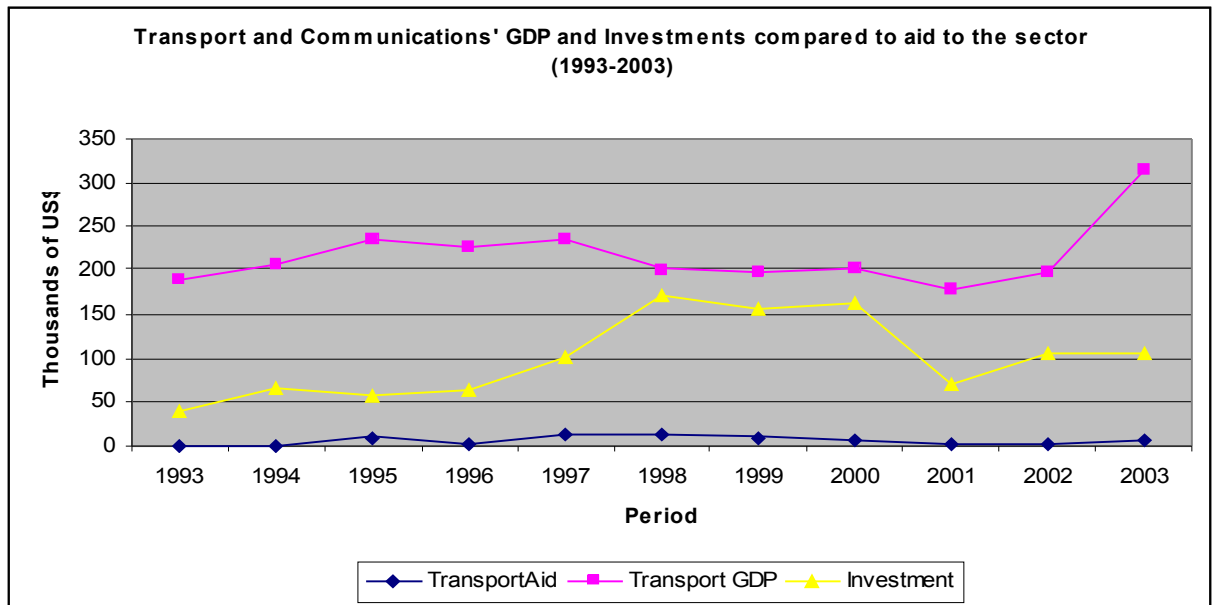
Source: Own calculation based on CBS & UNDP data (2003-2005)

Aid to industries has been very low due to the fact that, much of the output of that sector is due to well established fixed capital stock, both by the private and the public sector. Development aid to industries as percentage of industrial GDP was 10 percent in 1998, before it dropped in 1999-2000. In 2001, aid constituted about 18 percent of the industrial GDP.

Capital formation in the industries sector of the Namibian economy, which include, construction, electricity and water, has been steadily rising in a spiral form reaching

its peak of about US\$200 thousands in 1998, before it declined to less than US\$100 throughout 1999-2001. In 2002, investment in the industrial sector shot up to about US\$ 250 thousands.

**Figure 5.10: Transport and communication GDP compared to aid funding**

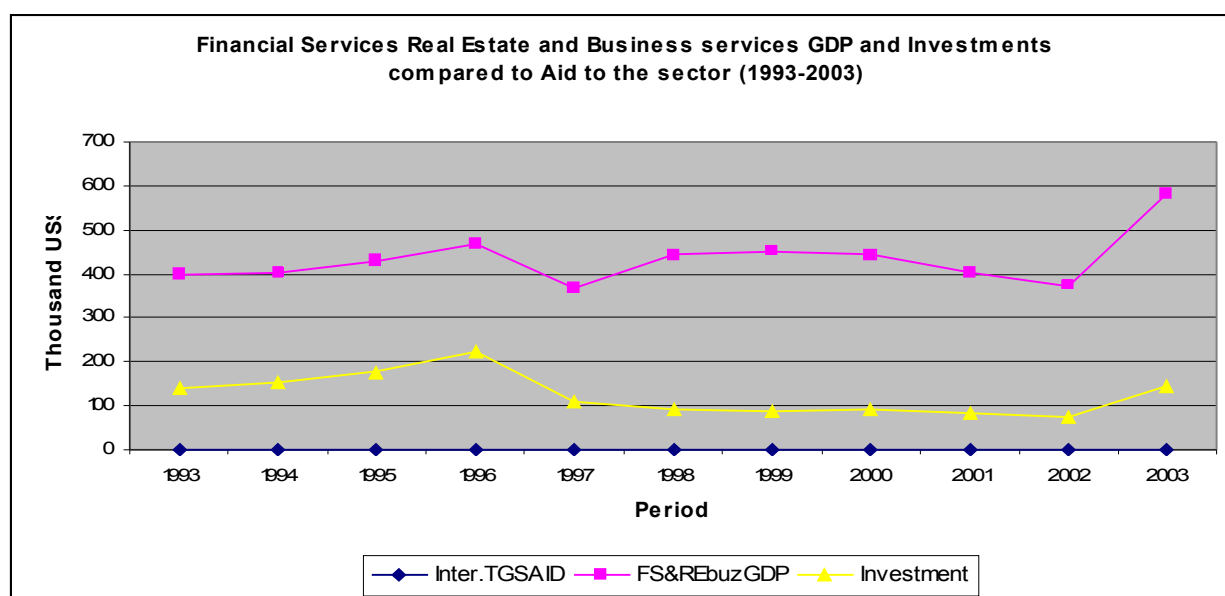


Source: Own calculation based on CBS & UNDP Data (2003-2005)

Much of development aid to the Transport, Posts and Telecommunication sectors of the Namibia economy went to finance air and road infrastructure development and has been low compared to the level of the sector's GDP. Aid as percentage of transport GDP was about 10 percent in 1998, and remained near constant throughout 1999 to 2000, before it went up to about 19 percent in 2001 (see figure 5.5). Combined investment or total capital formation for the Transport, Post and Telecommunication sector has been rising reaching its peak of US\$150 thousands in 1998, before its decline to US\$58 thousands in 2001.

The level of development aid to the communication sector has been very low, meaning that output is due to previous private and public sector investment in the sector. Aid to Post and Telecommunications sectors was mainly in the form of technical and technological transfer. However, aid as percentage of Post and Telecommunication sector's GDP was 20 percent in 1998, before it declined to less than 5 percent level in 2002.

**Figure 5.11: Financial, real estate and business services GDP compared to aid**



Source: own calculation based on CBS & UNDP data (2003-2005)

Development aid to Financial Services, Real Estate Business has been near zero compared to the sector's GDP level, which is mainly attributable to private and public investment. Aid to financial services was either in the form of payment transfer services and other trade related such as balance of payment support. The level of private capital formation in the sector reached US\$200 thousands in 1996,

before it reached its six year low level of US\$ 100 thousand throughout 1997- 2002 period.

Despite the above sectoral developments, there are difficulties preventing a clear distinction between other forms of aid from financial aid to those sectors. For example aid to the education sector, took many forms ranging from technical assistance, equipments, such as computer and laboratory equipments, construction of classes, training of teachers, school feed programs and foreign teachers such as the American Peace Corps and foreigner teachers from other nations. It is not easy to attribute part of education output or outcome to aid funding local teacher training or foreign teachers. This is not realistic because that part of education outcome, which is due to non financial inputs will remain mixed with the part of output due to financial aid of which will also include government and private funding of the education sector. Only certain categories such as the number and value of scholarships provided by donor and numbers of beneficiaries will be distinct.

But aid funding for policy research, administration and foreign teachers and technical assistance and all other form of assistance in kind to the education and other sector's outcome will remain a pool at macro-level. For example the output high pass rate in the education sector cannot easily be apportioned to each stakeholder in proportion to their contributions. The same applies to aggregate employment at national level, some of the jobs were directly created as a result of development aid, but difficult to identify the percentage of jobs created as results of donor funded projects and programs from an aggregate employment figure. If one intends to analyze aid impact

and significance in improving the standard of living of the people, one should focus his or her attention at a micro level (projects and programs). At the macro- level it is difficult to identify the percentage of jobs or of GDP that is due to development aid from the portion due to public and private investments in the respective sectors of the economy at the level of analysis adopted by this thesis.

It is only at a donor funded project or government-donor funded development program with clear distinction of resource contribution, where one will be able to attributed project or program output or outcome to stakeholders' capital contributions at a micro-level. At a macro-level such as ministerial or sector levels it is obvious that some of the jobs or income generating activities are solely due to funding by either private investors, donors or government-donor co-funded project and programs. Some of the jobs created are due to donor funding outside the state revenue fund and some are due to domestic and foreign direct private investment in each respective sector. It is difficult to determine or point out the contribution of development aid to macro-economic aggregate variables. The task to clearly pin point the impact and significance of development aid at a macro level is even further complicated by the complexity of sector categorization by aid agency and the host governments, and by a mix of input from donors, host government and the private sector. Therefore one should note that the aggregate outcome at a macro- level is a result of the contributions of different inputs from different stakeholders involved in the development process and can not be attributed to one player.

Total investment in the economy consist of foreign private direct investment and domestic private and public investment which at times include development aid funding of physical capitals and equipment donations forming part of gross domestic capital formation. The part of aid in total investment is very difficult to differentiate as it is combined with government own resources except in case of funding outside the state revenue fund. There is a need for a research to differentiate the level and source of all inputs to sectors, projects and programs for apportioning outcome to different stakeholders based on their resource contributions.

One would need to have sectoral GDP at current and constant prices for the period 1990 to 2005 as the bases for analysis. Donors and government output, based on percentage contributions to the program, projects and sectoral investments are not easy to identify.

#### **5.4 Conclusion**

Development aid to Namibia took many forms. Though aid constituted a small percentage of GDP and government expenditure, it has been very significant in contribution to job creation and income generating activities as portrayed by the CBNRM program, at a micro-level. At the macro-level development aid seemed to have a major impact on the overall economic performance, because aid was spend on capital projects, on public policy research and on technological transfers, education and health and to community services. However one could not clearly see aid impact and significance at the macro-level analysis as it is the case at the micro-level analysis of aid impact.

Making an assumption that all aid funded development programs perform relatively well compared to the CBNRM, and then one can argue that aid plays a significant role in improving the standard of living of a recipient country in this case the Namibian people, by contributing to development activities which have direct impact and benefits in terms of income and employment creation. The sustainability of aid funded poverty reduction projects was proved feasible by the success of conservancy projects of the CBNRM program, a number of which were established with donor assistance can now sustain themselves.

It is very true that one can not clearly see the significance of aid at macro-economic aggregates such as GDP, because at the macro-level of analysis it is not easy to differentiate between the portion of GDP, which is due to aid funding or technical assistance from the portion of GDP due to foreign private direct investments, domestic private and public investments especially at the level of analysis adopted in this thesis. At the macro-level one need to differentiate capital formation and fixed capital stock provided by the private sector, government and donors for each sector of the economy and try to apportion output in proportion to all stakeholders' capital contribution. For example total public investments in the transport sector included part of aid which is not made explicit or not differentiated from domestic sourced public investment in the sector. This makes it difficult to find out as to what percentage of the transport GDP is due to aid and what part is due to government expenditure. But still, when it comes to technical assistance development administration and policy analysis of which indirectly contributed to sound economic management, one fail to draw the line between management information provided by

government, donor or by the private sector. This is the case because both foreign and domestic resources contributed to positive results of development programs in all sectors of the economy. Aid as a percent of sectoral GDP gave some indications as to how aid was significant to those sectors and to the entire economy. Also, the comparison of aid to sectoral GDP had shed some light on the impact and significance of economic aid at the macro-level.

## **CHAPTER 6: GENERAL RECOMMENDATIONS AND CONCLUSION**

### **6.1 Development Expenditure**

Development aid by nature is not meant to continue forever, but a short term intervention meant to pull citizens of developing nations out of extreme poverty. For Namibia development aid though less significant in monetary terms has played a crucial role in the area of policy and sectoral economic growth. Aid should be spent on the real productive sectors to create job opportunities.

### **6.2 Management and Public Administration**

Large amounts of aid were channeled to education and health, but still there is poor service delivery due to low salaries, lack of career advancement, non-merit promotion and discrimination or politics at work. The poor management and delivery of social services is not a matter of resources scarcity, but rather an issue of institutional arrangements. The public service is large and poorly paid instead of having a small public service of high performers not qualifications holders. The civil service is lower paid in an attempt to create jobs, but low wages and salaries increase corruption and less production tendencies. Instead of concentrating on their work public service staffs is most of the time pondering about how they will get back home and what they will eat the next day. Namibia also need to introduce a system of internship and attachment programs, to ensure the availability of experienced managers (students) and early retirement programs for the management cadres in the

public service, because the longer they stay if unproductive the more the country loose and the more unemployment. Politicians and top bureaucrats should go on early retirement in order for them to create new business and employment for the youth. There is a need to reform her institutional arrangements for progress.

### **6.3 Education**

The education sector received a lot of both aid and domestic financial resources, but the local business community do not employ them claiming they are of poor quality. Reform, restructuring and investigations need to be carried out into the education sector and findings and recommendations be implemented. The factors responsible for poor performance of student in schools are not all known therefore there is a need for a full and serious investigation to identify those factors eliminate them to ensure positive returns on each and every dollar, energy and time spend on education.

### **6.4 Health**

HIV/AIDS is a major development challenge and threatens to retard the achievements of sixteen years of independence in Namibia. HIV/AIDs are mainly prevalent among the most productive age group of the Namibian population. It takes away managers and development planners need for the country's development.

Despite of all the development efforts, recently Namibia has experienced an increase in the HIV/AIDS infections and a large amount of development aid is being channeled to the prevention and treatment of aids and related ailments. Aids threaten to reverse Namibia's development achievements. About 26% of the economically productive citizens are infected by HIV/AIDS. A total of approximately half a million Namibian

population is infected of which are of productive age. The HIV/AIDS pandemic factor did not only present itself as a development challenges in terms of financial needs and destruction of the human resources needed for the country's economic development, but threaten the country with economic collapse by taking on the productive age group and threaten to wipe out the entire Namibian nation. Namibians need to introduce HIV/AIDS law to force citizen into a serious fight against the epidemic. The observation is that the majority of the Namibian population is not serious with their life and the war against HIV/AIDS.

#### **6.5 Economic growth and poverty reduction**

Economic growth was not impressive throughout the period from 1990 to 2005. The Gross Domestic Product (GDP) has been growing below the NDP1 and NDP2 target of 5 percent per annum, despite low level of inflation. Unemployment is high and poverty is wide spread, but the country is a net exporter of capital with a high level of income inequality. Namibia's economy is very small and finds it difficult to attract foreign direct investment, therefore the country need to concentrate on what it can do best. Hence a need for self capacity assessment to identify areas in which Namibia is doing well and channel resources to those few sectors. There is a need for a compressive rural development strategy to transform the rural subsistence economy into the main stream economy. This strategy need require extensive research into the rural culture, norms and traditions and local technologies.

## 6.6 CONCLUSION

There is a wealth of knowledge about development aid effectiveness in achieving economic growth and poverty reduction in developing countries. There is convergence and divergences in the literature on the findings and conclusions with regard to the role of development aid in reducing poverty. There are those who believe aid creates dependence and at times ruins economies of less developed countries if provided with attachment such as the structural adjustment program which nearly ruined the Zambian economy. A large number of literatures on development aid focused on a group of countries and were designed to inform aid direction, distribution and implementation. Most developing countries do not undertake their investigation into the economic impact of aid on their economies.

The common finding is that development works in a good policy environment and in well-governed countries where there is political stability.

Namibia presents a paradox, the country is a lower middle income, with high levels of poverty and unemployment and a net exporter of capital, yet it needs foreign investment and development aid.

The country has good economic policy, well-governed and aid was well targeted to the key social and economic sectors. Though aid represents a small percentage of government expenditure it played a crucial role especially in the area of economic policy formulation, institutional capacity building and technology transfers.

The macro level analysis of development aid to Namibia could not spell out clearly the impact of aid on economic growth, income distribution and poverty reduction despite the positive signs that aid has contributed to growth in general.

The internal distribution of aid to various economic sectors at macro level analysis points to efficiency in aid expenditure in Namibia. Aid was channeled to key socio-economic sectors of vital for sustainable development and poverty reduction. Namibia have a good governance record and a democratic government, however economic growth and other social indicators are not quite impressive through the period 1990-2005. Development aid to Namibia though constituted as small amount of government resource proved to have been of significant importance to Namibia's socio economic development. The significance of economic aid to Namibia was more explicit at the micro level of analysis of aid to the CBNRM program in the environmental and tourism sector of the Namibian economy.

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