

A STRATEGIC ANALYSIS OF NAMIBIA'S FISCAL POLICY  
INSTRUMENTS AND MEASURES: IMPACT ON  
UNEMPLOYMENT AND POVERTY  
REDUCTION

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A Thesis Submitted to Asia e University in  
Fulfilment of the Requirements for the  
Degree of Doctor of Philosophy

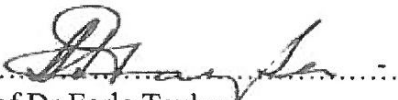
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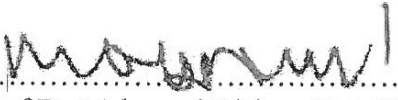
## **ABSTRACT**


Unemployment and poverty alleviation have been two of the most challenging issues faced by Namibia over the last three decades, and particularly since its independence in 1990. To rectify these two dilemmas the Namibian government introduced many new legislations, innovative fiscal policies as well as structural adjustment initiatives. These were supported by the implementation of three 5-year National Development Plans, with the core aim of propelling rapid employment growth and alleviation of poverty. Despite these efforts, unemployment and poverty remained steadfast, and in many areas increased. This study empirically examined the impact of currently prevailing fiscal policies on the three most important factors of economic development: unemployment, poverty and economic growth. The methodology was based on analysing the Namibian macroeconomic data from the period between 1980 and 2010, employing the tools of cointegration analysis, analysis of Granger causality and the utilization of Vector Error Correction modelling. A number of findings were extracted from the estimation outputs, one of them being the fact that unproductive spending in Namibia has a negative impact on unemployment and economic growth, and at the same time does not help in reducing poverty. It was also found that increasing consumption and social spending discourage positive developments in unemployment dynamics and that advancements in tertiary education are associated with positive shifts in the direction of poverty reduction. Basing on these and other findings, suggested policy improvements are subsequently outlined, one of them being the study recommended the Namibian government to expand the levels of productive spending on education aiming in the first place for the quality of the effect of educational spending, in addition to the quantity.


## APPROVAL PAGE


I certify that I have supervised /read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, as a thesis for the fulfilment of the requirements for the degree of Doctor of Philosophy.

  
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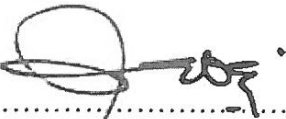
  
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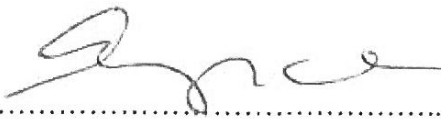
  
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## DECLARATION

I hereby declare that the thesis submitted in fulfilment of the Ph.D degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/ or exclusion from the award of the degree.

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## ACKNOWLEDGEMENTS

I, C.K. Kibingwa, am deeply indebted to the Asia e University for having permitted me to the Doctoral programme on “A STRATEGIC ANALYSIS OF THE IMPACT OF NAMIBIA’S FISCAL POLICY ON UNEMPLOYMENT AND POVERTY REDUCTION”, in the field of Management and for having extended all possible facilities to me to submit my thesis.

I extend my sincere gratitude to Prof Dr. Siow Heng Loke, Dean, School of Graduate Studies, Asia e University, his team at Malaysia for the whole hearted support and co-operation extended to me in this programme.

I thank those who made it possible for me to finish this hard work. My significant appreciation first goes to Professor Dr Earle Taylor, my supervisor, for discovering time to work with me particularly at this crucial moment of my dissertation writing. His push to see me through required a considerable measure of his time, which he benevolently gave without recoiling, scrutinizing my work and giving valuable recommendations. It would have been extremely hard to complete this work without Professor Dr Taylor's important commitment.

My family has been extremely versatile all through the whole Ph.D. programme, and I extraordinarily value their give up. I, along these lines, need to thank my better half Nenette Kwelese, and my exquisite kids, Lor, Paola, Christian and Isaac Kibingwa for their commitments in their own particular manner.

I need to at last recognize and express gratitude toward God Almighty, who has kept my spirit through this whole program and has given me the keenness to effectively entire this thorough programme.

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## LIST OF ACRONYMS AND ABBREVIATIONS

ADF	Augmented Dickey-Fuller
AIC	Akaike Information Criterion
ARDL	Auto-Regressive Distributed Lag
BIG	Basic Income Grant
CBN	Central Bank of Nigeria
CBS	Central Bureau of Statistics
DBN	Development Bank of Namibia
ECM	Error Correction Model
EMU	Economic and Monetary Union
EXR	Exchange Rate
FDI	Foreign Direct Investment
FDP	Fiscal Decentralization Policy
FIDES	Fisheries Information Data Exchange System
FOS	Forecaster's Intelligent Discussion Experiment System
GCF	Gross Capital Formation
GDO	Global Development Organisation
GDP	Gross Domestic Product

GFCF	Gross Fixed Capital Formation
GMM	Gaussian Mixture Model
GNP	Gross National Product
ILO	International Labour Organization
IMF	International Monetary Funds
IPPR	Institute for Public Policy Research
LN	Logarithm
MDG	Millennium Development Goals
MTEF	Medium-Term Expenditure Framework
N\$	Namibian Dollar
NAMTAX	Namibian Tax Consortium
NDP1	National Development Plan 1
NDP2	National Development Plan 2
NDP3	National Development Plan 3
NDPs	National Development Plans
NEPRU	Namibia Economic Policy Research Unit
NHE	National Housing Enterprises
NLFS	Namibia Labour Force Surveys
NPC	National Planning Commission

NSA	Namibian Statistics Agency
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Square Method
PC	Private Consumption
PI	Private Investment
PIT	Personnel Income Tax
POV	Poverty
PPB	Public Policy Board
RGDP	Real Gross Domestic Product
SACU	Southern African Customs Union
SBIC	Schwarz Bastian Criteria
SMEs	Small and Medium Enterprises
SOE	State Owned Enterprises
SPSS	Statistics Package for Social Science Software
SSA	Sub-Sahara Africa
TEP	Total Factor Productivity
TIPEEG	Targeted Intervention Programme for Employment And Economic Growth
TSLs	Two Stage Least Squares



UNDP	United Nations Development Programme
US	United States of America
VAR	Vector Auto Regression
VAT	Value Added Tax
VEC	Vector Error Correction
VECM	Vector Error Correction Model
VIF	Variance Inflation Factors
WTD	World Tax Database

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1.Introduction to the Chapter**

The first chapter of this dissertation exploring the influence of fiscal policies of Namibian government on the dimensions of economic growth, poverty and unemployment will be focused on providing the rationale of undertaking this type of research and outlining the analytical frameworks and strategies which will be used in the more empirically focused chapters thereafter. The chapter will commence with the introduction to the study, briefly explaining the basic logics of the relationships between fiscal policies and economic growth. This section will be succeeded by the background of the current study, outlining the economic developments in Namibia in the recent decades, economic policies pursued by the government, their results and the dynamics of major macroeconomic development indicators. In the subsequent subsections, research questions and objectives will be formulated, as well as the hypotheses formulated on their basis. Later on in the chapter, the most general outline will be given of the theoretical background and the methodological frameworks employed in the current research, which will be further supplemented by the list of concepts and definitions and the conclusion to the chapter. Overall, the introductory section will present the major frameworks within which this dissertation study will be carried out.

## **1.2.Introduction to the Study**

In the globalized world, economic growth was identified as the dominant tool used by governments to improve and measure the rate of progress and quality of life of citizens. It is also used as an indicator of the potential and direction of poverty reduction strategies. Governments are tasked, more and more, with the responsibility to play a significant role in steering the country's economy. Without the government taking active and participatory role to stimulate the economy, countries could move from unstable growth to massive unemployment and prolonged recessions economy (Murwirapachena, Choga, Maredza, & Mavetera, 2013). Accordingly, governments deal with their economy through fiscal policy instruments or fiscus by creating and managing revenue streams and expenditure decisions and their processes. Taxation is thus one of the major instruments of fiscal policy. Fiscal policy comprise, inter alia, several elements, which include taxation policy, various forms of taxation, as well as expenditure policy, debt accumulation and management, investment and disinvestment policy. (Ministry of Finance, 2011). In general the fiscal policy is identified as an essential component of the country's economic policy framework, which is associated with general economic policy strategy (De, 2012). The socioeconomic dimensions of the fiscal policy are identified to support the financial avoidance of mismanagement (Ipinge & Beau, 2005). Moreover, the application of fiscal governance is believed to be efficient when the country's government provides a sustainable fiscal policy which is efficiently applied to the provision of public goods and services (Rena, 2011). Even though there have been tremendous efforts made by the Namibian government to influence country's economic behaviour through the fiscal policy framework, unemployment and poverty reduction issues have remained a challenging phenomenon, especially in a country like Namibia.

Furthermore, the current research focuses on exploring the systematic relationship between the fiscal policies of a government and the outcomes of aggregate economic growth, poverty and unemployment dynamics. The topic is important to explore due to the complexity of these latter relationships and the degree to which they get obscured by other related influencing variables. Therefore, it is vitally important to select and calibrate a theoretical framework and methodological instruments suitable for optimally studying the relationships of interest. The results of such study can be further solidified by using the most recent stream of data, which makes the analytical output relevant to the actual economic policy challenges of today. In addition, a careful research also needs to address the stationarity and multicollinearity problems, which are frequently encountered when dealing with time series type of data. In the current dissertation, all the stated points will be addressed for the case of Namibia within the chronological framework of three decades between the years 1980 and 2010. The necessity of such a study for Namibia is grounded on the fact that the governmental fiscal policies of today do not bring the desired economic development outcomes, even though the levels of public expenditures in the country are rather high. A carefully chosen regression model followed by the relevant diagnostic checks will provide some valuable insights on this counterintuitive revealed structural relationship.

### **1.3. Background of the Study**

Researchers and theorists have come up with conflicting conclusions regarding the application of macroeconomic policy; fiscal and monetary policy. The policies applications at the same time have earned results far away from expected full employment. Fiscal policies that involve the use of government policy of taxation and

spending have received a differing opinion on the role of government and its size. Some researchers do not support government involvement in the running of an economy and if any it should be minimal. Supporters of state active and participatory role in the economy argue that without government involvement economies would experience prolonged recessions resulting in massive unemployment and poverty levels. This study, therefore, seeks to contribute to the argument by strategically analyzing the impact of fiscal policies on unemployment and poverty reduction in Namibia for the period 1980 to 2010.

The Namibian government inherited a country marred by widespread poverty, unemployment and deep inequalities from Germany colonialists in 1990. The country had the highest inequality at a Gini-coefficient of 0.7, one of the world's worst figures recorded. An average growth rate of 3.6 percent recorded post-independence is not sufficient to reduce the inequality because the margin of economic growth is low and the population growth at 2.2 to 3.1 percent is high (Uukelo, 2007). To rectify the situation, the government employs budget as a tool to redistribute the resources. Although the country ascended to an upper middle from a lower income country, 55.8 percent of the population live below poverty line; earning less than US\$2 per day (World Bank, 2007). Despite that, the country records high levels of unemployment at 28.10 percent with youths highly affected. Cheaply manufactured imports from South Africa and Asia limit job creation opportunities outside civil service, farming, tourism and mining elevating the poverty levels.

Since 1990, the Namibia government has employed fiscal policy measures to influence the economic growth and development with the aim of achieving full employment and reduce poverty levels. Upon gaining independence, the overall positive period of economic growth was also characterized by a number of major goals

posed to the Namibian government, such as facilitating economic growth, optimizing the pace and curbing the enhancement of public expenditures, facilitating the qualitative and quantitative growth of employment and reducing the levels of poverty (Kaakunga, 2006). The period up to 2015 saw government employ expansionary fiscal policy for some years advocating for national budget deficits to provide much-needed capital for development. For the period 1990-2015, the country recorded almost a balanced budget only in financial year 2004/05 and a surplus in years 2005/2006, 2006/07, and 2007/08 with the rest dominated by budget deficit (World Bank, 2016). The buoyancy in government revenue for the period 2005-2008 was a result of economic growth. According to Price Water Coopers (PWC) (2009) report, the increase of income resulted from an increase in Southern Africa Custom Unions (SACU) pool which created the budget surplus for the period 2005-2008. For the period 1990-2001, the country experienced budget deficit under the old line budgeting system that was inconsistent with economic needs. However, the government started using rolling budgeting system after 2001 although it has not been able to achieve a balanced budget it has improved the situation (Uukelo, 2007).

Mining and government services are the key sectors in the Namibian economic structure. Mining, manufacturing of beverages and other food processing, and government services are the most crucial sectors for overall output in the economy. Traditional (subsistence) agriculture and government services play a key role in providing both labour income and employment. Among the key employment sectors in Namibia are commercial agriculture and animal product business with mining being a major source of labour income (Humavindu & Stage, 2013).

Republic of Namibia (2010) ranks the different economic sectors in terms of employment provision as follows; agriculture (15.9 percent), wholesale and retail trade

(15.1 percent), private households (10.9 percent), education (8.6 percent), public administration, defense and social security (8.4 percent), construction (7 percent), manufacturing (6.3 percent), and the others individually accounting for less than 5 percent of all employed persons. However, the ranking differs in both urban and rural areas. In the countryside, agriculture is the leading employer while in cities wholesale and retail trade are the leading employers of labour.

In the years subsequent to independence, Namibian government made a number of attempts of diversifying the macroeconomic structure of the country. At this point, the Targeted Intervention Programme for Employment and Economic Growth, also referred to as TIPEEG, was implemented to address the stated challenges (Jauch, 2012). The projected job generating capacity of the program was to create 104 thousand of additional jobs within the period between the years 2011 and 2014. According to the data provided by the National Planning Commission (2011), at the same chronological period the amount of investments targeted for the State Owned Enterprises (SOE) reached a figure of N\$4 billion. As stated by the documents outlining the vectors of action of TIPEEG, some of the sectors on which the program was to focus were agriculture (first place in the allocated investment, N\$ 3.6 billion, and the plans to create over 26 thousand jobs), transportation (N\$3.1 billion allocated to infrastructure projects with a potential to create over 33 thousand additional jobs), sanitation and housing (investment of N\$1.8 billion and the intent of over 35 thousand additional jobs) and tourism (targeted investment of N\$5.5 billion and the creation of additional 82 thousand jobs). The document by NPC (2011) also covered the major vectors of implementation of the TIPEEG funds in each of the stated sectors. For instance, the transportation investment would be targeted primarily at the construction and improvements of the infrastructure of road and railroad networks, as well as the

development of a modern port in the Walvis Bay. Similarly, the agricultural sector of Namibia could expect the advancement in such spheres as better forestry management, improvements in the crop production and enhanced productivity of the animal livestock. The tourism investment would focus of the sector of wildlife attractions which could enhance the tourist-visiting capacity of the country by 10%. At the same time, the government would also reinforce its focus on the programs of construction of affordable housing for the population and improving the existing infrastructure of the rural and urban sanitation.

Even though the major directions of the TIPEEG program sounded quite sound, in fact the planning was conducted rather hastily and without taking into account the structural problems and imbalances existing at the time in the Namibian economy, which are nowadays referred to as the major issue behind the Namibian unemployment. Even the text of the program itself claimed that TIPEEG should not be referred to as a solution to the unemployment problem and that further strategic long-term efforts would be required to achieve this goal (NPC, 2011).

In addition to the deficiencies of the abovementioned economic policies designed by the government, it should also be noted that, as the literature suggests, the problems of unemployment and poverty frequently arise from the fact that governmental policy makers design economic policies to cater for their own interest, similarly to the mechanisms which would characterize the action of firms in related situations (Mueller, 1987). As claimed by Olson (1984), the ideological discussion on the issue of the relationship between the dynamics of government spending and the resulting dynamics of economic development gives rather scarce conceptual evidence to resolve this problematic issue. The evidence provided by both economic theory and the empirical research do not give a clear indication of the way in which governmental