Gawaxab of Old Mutual and Monica Kalondo of Stimulus. Last month’s meeting was marked by a distinct absence of many of the biggest guns in the industry and, despite being well organised and publicly advertised, got off to an extremely slow start. It is hard to tell at this stage how seriously the industry is taking the initiative and what its strategy is since inevitably the financial sector includes a wide range of very different interests.

Some will harbour the suspicion that much of the Charter is nothing more than a sop to government with voluntary targets and time-scales so far in the distant future that no one seriously expects to be judged by them let alone pay any sort of penalty for not achieving them.

Others will criticise it for doing little to help what should be the primary objective of government policy – promoting growth and job creation. These view the industry as generally appendages of larger companies based elsewhere who have fully exploited the “low hanging fruit” in Namibia’s difficult market and have little inclination to do much more. Most pay significant dividends to shareholders demonstrating they don’t need their profits to finance growth – anathema to any self-respecting company with real ambition. The Charter is for the established elephants of the sector who will never gallop but can afford to throw a certain amount of money at issues. Since no distinction is made between elephants and gazelles, the danger is the Charter might throw up new barriers for other smaller businesses which is where future growth is likely to come from.

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And asking the sector to educate its own consumers just begs the question: why is this not happening already? Some will conclude simply that the lack of action is simply a sign that competition is far from intense and that there’s simply too much money to be made from unscrupulous business practices and pulling the wool over the consumers’ eyes.

Pragmatic as ever, Prime Minister Namhs Angula, who is rightly skeptical about imposing too many and too detailed targets, just wants the industry to “do the right thing”. Who knows if the Charter is simply a bit of window-dressing designed to deflect political criticism or a genuine attempt to transform the sector? But transformation will mean little if it is just about turning a flabby lazy white industry into a flabby lazy black one. The economy needs growth and jobs and the financial sector will require an infusion of hungry and skilled black capitalists if beneficial transformation is to really take place.

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The head and the heart

The International Monetary Fund and Namibia’s Basic Income Grant Coalition are publicly at loggerheads but the technical advantage seems to be held by the campaigners

The International Monetary Fund (IMF) has a mean reputation in this part of the world having been associated with the dreaded Structural Adjustment Programmes that followed the debt crisis of the 1980s, which have been credited, especially by those on the left, with deepening poverty in Africa. But at least the hard men of the Fund could comfort themselves that they based their policy prescriptions, however harsh, on sound and rigorous economic reasoning rather than woolly morality or outdated ideology.

In recent years the IMF has tried to shed its hard image and attempted to engage with governments and even NGOs on issues broader than just the soulless areas of the balance of payments or the money supply. In Namibia this change of approach has been led in recent years by the personable Johannes Müller who has raised the issue of poverty in his reports to government. “The IMF sees a major need to step up efforts to fight poverty in Namibia,” he told Insight. Müller and his team have even engaged with campaigning organisations outside government. But what the German economist Müller didn’t reckon on was that one organisation in Namibia, the Basic Income Grant (BIG) Coalition, was armed with two formidable German economists of its own: Claudia and Dirk Haarmann, both doctors of social development and Lutheran ministers to boot.

High profile

With high-profile assistance from Bishop Kameeta and others, the Haarmanns have helped create the BIG Coalition in Namibia, based on their work in South Africa and elsewhere, which focuses on a very simple idea. Instead of trying to alleviate poverty by devising complicated and expensive welfare systems to hand out money to the deserving poor, why not give every single person in the country a certain amount of cash and try and claw some of it back from the richer population through the tax system? Such a scheme, while never really tried anywhere in the world, avoids the problems of other welfare systems which typically cost a lot to administer, foster corruption, distort incentives to work, and mostly end up reaching privileged urban populations. Based on extensive Namibian household and tax data, the determined Haarmanns have taken forward work done by the Namibian Tax Consortium for the Ministry of Finance in 2001 and are more convinced than ever that the idea could work in Namibia.

On several occasions the IMF has disputed the Coalition’s proposals, arguing that it would not be fiscally responsible to embark on such a course – an argument that Namibia’s Cabinet has so far bought. However, the tide seems to be turning in the Coalition’s favour. In South Africa where the idea was first pooh-poohed by Cabinet some years ago, the South African Minister for Social Development Zola Skweyiya has repeatedly been calling for the introduction of a BIG.

Going for the jugular

But the real frustration for the Coalition is that the IMF has so far refused to demonstrate that its calculations are un-
affordable. The IMF claims the scheme, which would give N$100 a month to two million people could cost over 5 percent of GDP, far too much for Namibia’s fragile public finances. The Coalition responds that it is the net cost of the scheme that is important, in other words the overall cost once the tax system has clawed back money from the rich. This they estimate is a far more modest 3.2 percent of GDP and eminently affordable if government really is serious about tackling poverty. “They just have never bothered to do the calculation, as they have determined before doing the calculations that it is ‘unaffordable’ the Haarmanns complain bitterly.

The Coalition clearly smells blood and is going for the jugular in trying to publicly discredit the IMF as a dispassionate source of sound economic advice to government. To this end it organised a highly publicised press conference last month where the IMF was put squarely in the dock. Its lack of desire to come up with alternative calculations is seen as evidence of policy by prejudice rather than reason and sound economics. Yet the Coalition is also coy on certain critical issues such as what level of public spending it believes is sustainable in Namibia. “The limit on government spending is hard to put into one figure,” the Haarmanns told insight.

“Namibia faces significant fiscal pressures over the medium term, and a reprioritisation of government spending is needed,” Müller warns. He prefers to suggest other more conditional schemes government could adopt to tackle poverty such as the “Bolsa Familia” in Brazil.

Whether any of this debate will make much of a difference is hard to say since it is by no means clear that government listens much to the IMF. The Fund has, for instance, warned of the dangers of imposing drastic domestic asset requirements on Namibia’s outflow of contractual savings but government is going ahead anyway. Perhaps the Coalition is going for the easy target. After all it is the decision-makers in the sovereign government of Namibia who will really have to be persuaded of the case. At this stage they seem far from convinced.

A US$200 million misunderstanding

If you don’t ask you don’t get but Namibia will have to make do with US$200 million less than hoped for from the MCC

The woolly world of donor aid was again brought into sharp relief last month when it turned out that Namibia’s proposal to the US Millennium Challenge Account would have to be scaled back by a staggering US$200 million. A year ago Namibia discovered it had become one of the few lower middle-income countries eligible for money from the US MCA. insight covered the visit of the MCC team to Namibia including MD of MCC Africa Maureen Harrington in its April 2006 edition. The idea was this money is to be used by government to reduce poverty by boosting economic growth.

Thinking outside the bucks

A high-powered team of consultants and government officials in Namibia funded by the government, the European Union and the Swedish International Development Agency quickly set to work gathering proposals which might pass the test of being growth enhancing. By the end of September the Namibian MCA team under the leadership of the unassuming Penny Akwene, seconded from the Development Bank of Namibia, had put together a mammoth document containing projects worth a mind-boggling N$4 billion plus. Although many projects were considered, the final contenders to be put to the MCC board were: improved delivery and quality of primary and secondary education (US$140.6 million), livestock production and marketing (US$41.7 million), promoting private and community-based investments in tourism (US$96.9 million), the Green Scheme (US$46.6 million), indigenous natural products (US$7.4 million), and rural access roads (US$39.7 million). Adding programme management (US$64 million) and contingencies (US$24.5 million), the total request for an MCA “Compact” came to US$515.4 million over five years. At the present exchange rate that comes to around N$4 billion or 10 percent of Namibia’s Gross Domestic Product in 2005. Big bucks indeed.

“If we’d known we were limited we wouldn’t have done so much work on so many projects.”

True to the spirit of the MCA, the proposal was made public on Namibia’s MCA website and was submitted to the MCC on 29 September for approval. Only what seems to have got lost in all the excitement is that lower middle income countries are limited in what they can receive. “MCA statute limits the amount of funding available for Compacts with Lower Middle Income Countries to 25 percent of the amount available for Compact funding,” explains MCC Associate Country Director Courtenay Engelke. “An estimate of the amount which will be available to Lower Middle Income Countries approximately a year from now, was determined in mid-September and was shared with MCA-Namibia. As a result, the size of the programme will need to be reduced.”

Oops. “We were told we had to think big, to think out of the box,” says one consultant involved in putting the proposals together. “If we’d have known we were limited we wouldn’t have done so much work on so many projects,” a disappointed Akwene told insight. Insiders say the revised amount is likely to be around US$300 million which will mean Namibia will have to choose which of its proposed projects to prioritise.

Nonetheless, Engelke believes the Namibian proposal is of “high quality” and is now assessing it to see whether the MCC should move ahead with due diligence, a process which is expected to last 6 to 9 months. Quite aside from the question of whether foreign aid is effective at boosting long-term growth, especially in a country where capital is being exported by the billions due to a perceived lack of viable projects, Namibians will have to hope that communications with the MCC will improve so that the investments have a fair chance of success. But one thing’s for sure. Money can’t buy you love.

The MCC website is www.mcc.gov and the Namibian proposal can be downloaded from http://www.mpc.gov.na/mca/index.jsp

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