AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

Country Focus Report 2025

Namibia



Making Namibia's Capital Work Better for its Development

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LIST OF ACRONYMS AND ABBREVIATIONS

BoN	Bank of Namibia
CMA	Common Monetary Area
DBN	Development Bank of Namibia
GCF	Green Climate Fund
GNI	Gross National Income
GDP	Gross Domestic Product
FDI	Foreign Direct Investment
FDI	Financial Development Index
JSE	Johannesburg Stock Exchange
NIPDB	Namibia Investment Promotion and Development Board
NAD	Namibian Dollar
NamRA	Namibian Revenue Authority
NAMFISA	Namibia Financial Institution Supervisory Authority
NBFI	Non-Banking Financial Institution
NPL	Non-Performing Loans
NSX	Namibian Stock Exchange
REER	Real Effective Exchange Rate
SADC	Southern African Development Community
SACU	Southern African Customs Union
SME	Small and Medium Enterprises
SDG	Sustainable Development Goal
SMEs	Small and Medium Enterprises
T-Bills	Treasury Bills
USD	United States Dollar
ZAR	South African Rand





EXECUTIVE SUMMARY

Namibia's real GDP growth slowed in 2024, due to weak global demand for diamonds and contraction in agriculture. Growth slowed to 3.7% in 2024 from 4.4% in 2023 and is projected to recover moderately to 3.8% and 3.9% in 2025 and 2026, respectively. The fiscal deficit edged up to 3.3% of GDP in 2024 from 2.6% in 2023 and the current account deficit worsened to 16.2% of GDP in 2024 compared to 14.6% of GDP in 2023. Higher expenditures and weaker SACU revenue receipts are expected to worsen the fiscal position for 2025. Inflation slowed to 4.2% in 2024 from 5.9% in 2023 and is expected to continue its downward trend to 3.9% in both 2025 and 2026 as price pressures are waning.

Barriers to Namibia's resource mobilization include limited infrastructure, financial resource gaps, inadequate human capital, a large informal sector, inefficient tax collection systems, and a heavy reliance on mineral exports. Various reforms can enable the country to move to close the infrastructure financing gap through domestic resource mobilization. These are reforms to widen the tax base, improve tax collection efficiency, tap into the informal economy, and leverage Namibia's natural resource wealth.

GENERAL INTRODUCTION

On the southwestern coast of the continent, Namibia shares borders with Angola, Botswana, South Africa, Zambia and Zimbabwe. With a landmass of 825,000km2 and a coastline that stretches for some 1,500km on the west, the country offers access to the nutrient-rich Benguela upwelling with its fish resources, diamonds mined offshore, as well as recently discovered, potentially large, oil deposits.

Namibia is a higher middle-come country with GNI per capita of USD 4,266 in 2024, significantly lower than the 2013 figure of USD 5,900. Challenges to the country achieving economic structural transformation include persistent spatial poverty and inequality, infrastructure deficits exacerbated by low population density, and a shortage of specialized skills that limit research and development and industrial diversification. The low population density affects the cost of public service delivery and affects access to markets and its inherent costs, and therefore business operating costs.

The limits of an extractive sector-based economic model are glaring, and Namibia is making efforts to diversify into tourism and renewable energy sectors. Additionally, the country seeks to tap into regional and global economic markets by developing new value chains that are less vulnerable to fluctuations in global commodity prices.

Namibia gained political independence from South African apartheid rule on 21 March 1990 and is therefore one of the youngest African nations. It is a multi-party democracy with general and local government elections being conducted regularly. The country has established a good governance record and is consistently ranked among the top sub-Saharan African performers on governance indicators. Namibia's strong governance architecture resulted in a smooth transition from the fourth to the fifth President, when in March 2025 President Nandi-Ndaitwa was sworn in as the first female Namibian president. The ceremony followed the path prescribed in the Article 30 of the Namibian Constitution.

The outline of the report is presented as: chapter 1 presents Namibia's macroeconomics performance and outlook. Chapter 2 focuses on the boosting domestic capital mobilization and efficient utilization of Namibia's capital while chapter 3 looks at how to harness Namibia's capital potential and resources for development.



MACROECONOMIC PERFORMANCE AND OUTLOOK

1



Key Messages

- Namibia's economy experienced moderate growth of 3.7% in 2024, a slowdown from 2023 due to a decline in the primary sector (agriculture and mining). The secondary (manufacturing and construction) and tertiary (services) sectors showed stronger performance. Inflation eased to 4.2%. The fiscal deficit is expected to widen slightly in FY24/25.

- The outlook for 2025-2026 is positive, with projected growth of around 3.8-4.0%, driven by a recovery in agriculture, increased uranium production, and strength in the non-mineral economy. Inflation is expected to remain moderate.

- Key challenges include high inequality and unemployment, climate change vulnerability, the need for fiscal consolidation, and promoting private sector-led growth and economic diversification. Addressing infrastructure gaps and pursuing structural transformation remain crucial for Namibia's long-term sustainable development.

1.1 Introduction

Weak global demand for diamonds and contraction in agriculture caused real GDP growth to slow to 3.7% in 2024 from 4.4% in 2023. The fiscal deficit increased to 3.3% of GDP in 2024 from 2.6% in 2023 and the current account deficit worsened to 16.5% of GDP in 2024 compared to 14.6% of GDP in 2023. The inflation rate slowed to 4.2% in 2024 from 5.9% in 2023 and is expected to continue its downward trend to 3.9% in both 2025 and 2026.

1.2 Growth performance

Namibia’s stable macroeconomic environment supported by good institutional alignment and separation of power ensures political stability. The economy is highly dependent on the extractive sector, with a contribution of 20.6 % from primary industries and 15.6% from secondary industries, while tertiary industries accounted for 54.5% of GDP in 2024. Despite agriculture contributing only 7.8% to GDP in 2024, it is the largest single-employer in Namibia, accounting for 16.1% of employment in 2023.

Namibia’s economic structure remains unchanged since independence. However, investments in emerging sectors such as green hydrogen and oil and gas, in addition to the country’s aspirations of becoming a regional logistics hub, have the potential for further diversification and regional integration. From a demand perspective, growth was driven by private consumption and investments supported by increased exploration of minerals activity, building, improved disposable income, easing interest rates, and inflation. Exports are trending lower due to reduced output from major sectors, especially diamonds. While imports have subsided marginally, the country is still a net importer.

1.3 Other recent macroeconomic and social developments

1.3.1 Monetary Policy, Inflation, Exchange Rate

Monetary policy is designed within the context of the Common Monetary Area (CMA) and Namibia's currency is pegged to the South African Rand (ZAR). The policy of the Bank of Namibia (BoN) is aimed at supporting the one-to-one peg currency with the ZAR by protecting foreign reserves. Inflation fell to 4.2% in 2024 from 5.9% in 2023 as inflationary pressure slowed and is projected to slow to 3.9% in 2025 and 2026. The BoN policy rate was adjusted downwards from 7.75% to 6.75% between January 2024 and February 2025. The exchange rate has exhibited volatility, mirroring developments in South Africa, with the Real Effective Exchange Rate appreciating by 4% in 2024.

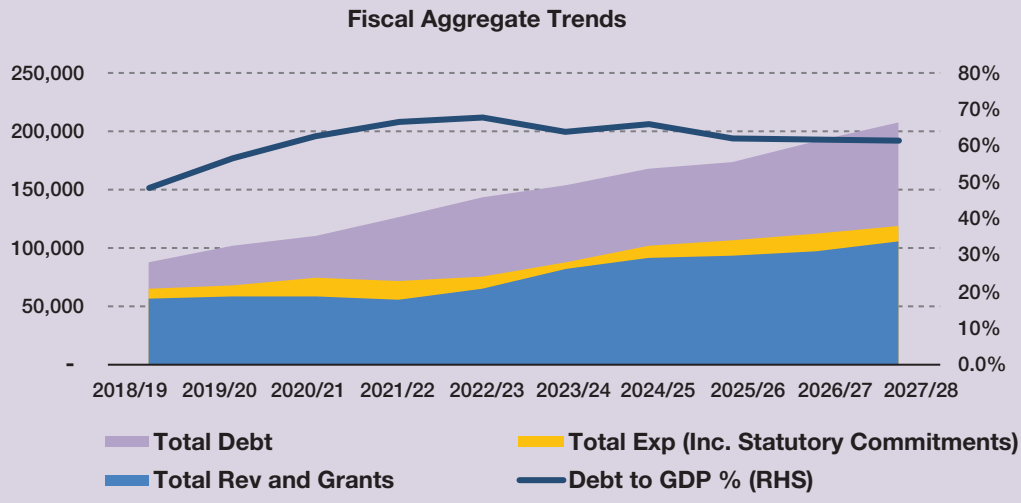
1.3.2 Financial sector

The average growth in private sector credit fell to 2.9% between 2020 and 2023 due to high household indebtedness, the interest rate environment, and low business confidence, but increased to 4.0 % in 2024 and stands at about 30% of GDP. Non-bank financial institutions (NBFIs) held 70.6% of total assets compared to 29.4% for the banking sector in 2024. Non-performing loans (NPLs) fell to 5.6% in 2024 from 6.1% in 2023. Namibia ranks high on both the overall financial inclusion and gender parity for access to financial services, at 78.1%. However, about 59.3% of the rural population, remains excluded.

1.3.3 Fiscal Policy and Public Debt

The government is committed to fiscal consolidation to stabilize the debt dynamics while supporting growth and has implemented a primary surplus target as an automatic debt stabilizer. The pace of increase in the debt-to-GDP ratio has fallen and, the ratio is expected to decline below 60% by 2028. The fiscal deficit dropped to 2.8 % in 2024 from 8.1 % in 2021, and the target is an average fiscal deficit of 3.3% of GDP over the next three years. To partly offset the revenue decline, the government will implement a range of measures, including tax administration improvements, increased compliance, a reconfiguration of marginal tax rates, and a 10% dividend tax. Total public debt grew from 49.3% of GDP in 2019 to 67.6% in 2022, breaching the country's threshold of 35% of GDP, and the SADC target of 60%. Namibia's external debt stock is 30% of total debt and 60% of that is the Eurobonds at USD 750 billion issued in 2015 and expected to be redeemed upon maturity. The government is diversifying sources of financing and extending maturities of its borrowings to reduce rollover risks.

Figure 1: Trends in fiscal balance and public debt in Namibia



Source: National Authorities, 2025

1.3.4 External Position – External Financial Flows

The current account deficit increased to16.5% of GDP in 2024 and is expected to remain elevated at 15.1% of GDP in 2025 on the back of a sharp increase of the trade balance deficit and lower inflows from Southern African Customs Union (SACU) receipts. In 2024, stock of international reserves stood at 4.2 months of imports of goods and services, from 3.8 months of import cover registered at the end of 2023. Given the pegged exchange rate, continuation of fiscal consolidation is critical to building reserve buffers to withstand future shocks as the economy and imports continue their growth trajectory. With the redemption of the Eurobond and global uncertainty on demand for Namibia exports, the authority needs to keep a close watch on reserve levels.

1.3.5 Social developments

Namibia made good progress in reducing poverty from 28.7% in 2009/10 to 18% in 2015/16 and slightly improved income inequality, with a Gini coefficient of 0.52 in 2015/16 compared to 0.59 in 2009/10. However, the government acknowledges that more effort is needed to reduce unemployment, which has been increasing steadily from 34% in 2018 to 36.4% in 2023. Although youth unemployment edged down to 44.4% in 2024 from 46.4% in 2018, it remains high and reduces Namibia's demographic dividend. Excessive inequality presents a huge developmental challenge. Fiscal consolidation policy is anchored on supportive inclusive growth and ensuring safety nets are maintained.

Box 1. Domestic resource mobilization efforts and development finance gap.

Box 1: Domestic Resource Mobilization (DRM) in Namibia

Compared to its peers, Namibia performs well, with the tax/GDP ratio averaging 19.7% over the past five years compared to the 18% average for emerging economies, but uncertainty of SACU revenues remains a key risk to fiscal sustainability and is compounded by volatile commodity prices. Namibia has embarked on reforms to diversify the revenue base and improve tax administration, including collections on tax arrears. Other notable reforms include the Economic Diversification Strategy and aligning taxes to regional and international standards to promote competitiveness.

Table 1: Macroeconomic Trends and Prospects 2020-2026

	2020	2021	2022	2023	2024(e)	2025(p)	2026(p)
Real GDP Growth	-8.1	3.6	5.3	4.4	3.7	3.8	3.9
Real GDP per capita growth	-10.1	2.0	3.8	2.6	2.0	3.7	3.2
CPI inflation	2.2	3.6	6.1	5.9	4.2	3.9	3.9
Budget balance % GDP *	-9.1	-8.5	-5.2	-2.6	-2.8	-3.3	-2.8
Current account balance % GDP	3.2	-11.4	-12.9	-14.6	16.5	-15.1	-13.8

Source: Data from Domestic authorities; estimates (e) and prediction (p) based on authors' calculations.
** Data for fiscal year: Year n refers to April n / March n+1*

Source: AfDB and country data

1.4 Macroeconomic Outlook and Risks

1.4.1 Outlook (Economic growth – Inflation - Fiscal and External position)

The outlook is stable, with growth projected at 3.8% in 2025 and 3.9% in 2026, supported by recovery in primary industries and consumption. Inflation should continue its downward trend to 3.9% in both 2025 and 2026. The fiscal position is expected to weaken in 2025 with a deficit of 3.3% of GDP. The external position is set to remain strong as net foreign direct investment (FDI) inflows increase while the current account deficit is forecast at 15.1% of GDP in 2025 before improving to 13.8% in 2026.

1.4.2 Risks

The downside risks include global trade war disruptions, persistently depressed diamond prices and overall volatile commodity prices, as well as damage from climate shocks. Weakening price pressures, with inflation continuing its downward trend in 2025 and 2026, should be monitored regularly. The fiscal position is expected to deteriorate due to higher expenditure growth and might be exacerbated by withdrawal of aid. The impact of higher tariffs is expected to dampen demand for minerals, increase exchange rate volatility and inflation, and might constrain logistics through second- and third-round effects of the tariff war. Another risk is the upcoming Eurobond maturity.

Box 2. Impact of the US tariff increases

The recently imposed 21% tariffs—suspended for 90 days from April 9, 2025, for all countries except China—pose short-term risks to Namibia's economy by reducing the competitiveness of key exports such as beef, fish, diamonds, and uranium. Export volumes could fall by nearly 10%, potentially cutting annual earnings by up to USD 810 million and widening the current account deficit. While the U.S. market was largely exploratory for Namibia, the medium-term impact is could upset the AGOA, contingent on the country's ability to diversify export destinations. Long-term risks include constrained economic growth and persistent unemployment if export markets remain limited. To mitigate these effects, Namibia should accelerate regional integration through SADC, COMESA, and AfCFTA, while strengthening diplomatic efforts to secure tariff relief. Supporting SMEs and entrepreneurship will also be vital to reduce dependence on primary exports. Bank support for these strategies is outlined in a separate chapter.

1.5 Policy Options to accelerate Namibia economic development

To support transformative economic development the Namibian authority should accelerate diversification and industrialization to promote industries that have capacity for innovation and job creation. This in turn is expected to increase the job market's absorption capacity. Streamlining regulations and boosting policy coherence would ensure that policies are not conflicting and are geared towards inclusive economic growth. To limit exposure to external shock, the country ought to have diverse export destinations for its products and minimize exposure to one single market. Balanced monetary policy and countercyclical fiscal policy would ensure continued price and economic stability, while maintaining fiscal sustainability. Promoting value for money and public expenditure efficiency would ensure that limited public revenues are optimized without compromising on critical public services. Prioritizing the country's developmental needs is imperative to optimize resource mobilization to reduce the infrastructure financing gap. Heavy investment is called for in skills development, while at the same time fostering close collaboration between government, private sector, and civil society, to create a supportive employment ecosystem.

BOOSTING DOMESTIC CAPITAL MOBILIZATION AND EFFICIENT UTILIZATION

2



Key Messages

- To achieve sustainable and inclusive growth, Namibia must prioritize mobilizing domestic capital by improving tax revenue collection and promoting domestic savings. Also, there should be efficient revenue allocation for productive investments and national development goals. Efficient capital utilization will go a long way — coupled with strategic focus on efficient utilization across key sectors — to reduce reliance on external aid and build a resilient and prosperous future for all citizens.

2.1 Introduction

The objective of the Namibian Government is inclusive economy activity coupled with providing social/public services for all Namibians. Therefore, more than 50 % of government expenditure is allocated to the social sector for basic social services. The economy is highly dependent on natural resource proceeds driving economic activity, with a ripple effect for job creation and tax revenues. Skills shortages impede diversification and structural transformation. Heavy investments in skills development in collaboration with the private sector would foster entrepreneurship.

2.2 Fiscal resource mobilization

2.2.1 Namibia's financing needs

Namibia's expansionary countercyclical fiscal policy has resulted in fiscal deficits and subsequently high public debt accumulation, which was exacerbated by the Covid-19 outbreak in 2020, as expenditure was growing faster at 38% of GDP than average revenue at 31.7% of GDP between 2018 and 2022. However, the deficit has since improved and is estimated at 2.8% in 2024. Domestic financing is the preferred option to support domestic capital market development and reduce exchange rate risk.

2.2.2 Tax structure

Compared with its peers, Namibia performs well in terms of revenue mobilization, with the tax/GDP ratio averaging 19.7% 2020-2024 compared to the 18% average for emerging economies. The good performance is due to a high tax rate coupled with a well-integrated financial system. However, the uncertainty of SACU revenues remains a key risk to fiscal sustainability. SACU revenues account for 30% of total revenue, taxes on individual incomes account for 22%, while VAT accounts for 21% and company taxes only account for 13%, the remaining 14% is from other smaller tax categories.

Figure 2: Trends in domestic resource mobilization



Source: National authority data 2025

2.2.3 Non-tax revenues

Non-tax revenue is an important part of the government's revenue and differs from country to country depending on the country's development status. The average non-tax revenue for African governments is equivalent to 4.5% of GDP. Countries such as Botswana and Congo were able to record non-tax revenue of up to 16 percent of GDP between 2000 and 2018, while in Namibia non-tax revenue contributed only about 2% of GDP on average. The poor performance is due to weak administration and unintegrated systems.

2.2.4 Expenditure efficiency

Public expenditure stands at 38% of GDP on average excluding 2020, when expenditure stood at 42% of GDP as government responded to the Covid-19 pandemic. The government budget consists of the operational budget and the development/capital budget, with a ratio of 92:8 between the two components. Implementation of the budget is measured by the execution rate, which ranges between 90-95%. However, this method is largely ineffective as it does not measure inefficiencies in government activities.

2.3 Namibia's Natural Capital

This section demonstrates how the valorization of Namibia's natural capital can help address development financing needs.

2.3.1 Overview of Namibia's natural capital

Namibia is a natural-resource-rich country, the fourth largest exporter of non-fuel minerals in Africa and the world's fifth largest producer of uranium. The Namibian economy is heavily dependent on its natural resources, with the primary industries contributing around 16%-20% of GDP despite accounting for only 12% of total natural capital composition. The agriculture sector accounts for around 5%-7% of GDP even though pastureland is 22% of total land composition, supporting about 70% of the population's livelihoods, especially in the rural areas.

Table 2: Namibia's Decomposition of natural capital - 2018

Millions, constant 2018 USD	1995	2000	2005	2010	2015	2018
Natural capital	24,632	23,616	18,908	20,220	18,798	19,652
Forests, timber	521	669	887	1,395	1,958	2,474
Forests, ecosystem services	5,179	5,581	4,152	4,679	5,511	5,310
Mangroves	0	0	0	0	0	0
Fisheries	9,600	10,051	5,218	399	474	454
Protected areas	1,846	1,511	2,329	3,225	3,361	3,496
Cropland	733	839	1,198	1,530	1,440	1,214
Pastureland	6,436	4,689	4,657	4,757	4,096	4,258
Fossil fuel energy	0	0	0	0	0	0
Minerals	318	276	469	4,235	1,958	2,446
Population	1.6	1.8	1.9	2.1	2.3	2.4

Source: AfDB, Statistics department

2.3.2 Economic contribution of Namibia's Natural capital

The Namibian economy receives revenue through various taxes from the extractive industry, which provides over 15% of the fiscal revenue. However, due to commodity price volatility and global shocks, this source of revenue is unstable and hinders the fiscus and overall developmental financing. In the pursuit of fiscal sustainability while ensuring social service provision and inclusivity, the government has established two funds: the debt redemption/sinking fund to safeguard against revenue volatility while meeting debt obligations and the Welwitschia Fund to create buffers against commodity price uncertainty.

2.3.3 Estimates and Dynamics of natural capital

Namibia's natural capital, encompassing minerals, and the potential for new discoveries in oil and gas, and green hydrogen, fisheries, wildlife, land, vegetation, and water, is crucial to its economy, particularly through mining and tourism. However, this capital faces pressures from unsustainable exploitation and climate change. While a comprehensive monetary valuation is lacking, efforts in natural capital accounting are growing, with integration into national development plans and international collaborations such as the valuations of carbon storage and fuelwood use. Namibia has pioneered community-based natural resource management, especially in wildlife. Improved data collection and capacity building will be essential for comprehensive natural capital accounting to

support sustainable development and the long-term well-being of the nation.

2.3.4 Challenges of leveraging Namibia's Natural Capital

The country uses the UN System of National Accounts 1993 last updated in 2018 with limited accounting for natural capital. Namibia has drafted a carbon market framework that is yet to be presented to cabinet. The carbon market framework is delayed due to the voluntary carbon market not guaranteeing economic prices. The framework allows for trading carbon credits and is meant to regulate the type of projects and activities that can be used to accumulate credits to be traded. The new significant potential for new discoveries in oil and gas, minerals, and green hydrogen are essential to leveraging income from the natural capital while ensuring sustainability.

Table 3: Carbon sequestration-adjusted GDP of Namibia and selected peer countries

	CO2 Emissions M/T	GDP/capita US$ (%)(Top Axis)
South Africa	435,928,900	5.79
Egypt	249,624,140	3.22
Algeria	176,269,070	5.72
Nigeria	136,986,780	1.11
Angola	21,362,716	2.43
Botswana	6,499,919	7.87
Namibia	4,014,822	4.74

Source: AfDB data

Namibia is leveraging its natural capital through policies and strategies focused on sustainable tourism, green hydrogen production, renewable energy and new oil and gas dicsoveries, aiming to boost revenue and economic growth while safeguarding the environment. Namibia needs to strengthen the regulatory capacities for designing and implementing Environmental and Social Impact Assessments in the extraction of natural resources.

2.4 Domestic capital

This section analyses Namibia's domestic capital and financial markets, and possibilities for further development to enhance their contribution to development financing. The section also assesses recent dynamics (trends and drivers) of remittances and compares these to peer countries.

2.4.1 Setting the stage

Business capital in Namibia encompasses financial, physical, human, and intellectual resources used by enterprises to drive economic activity. Key sources include personal savings, commercial banks, development finance institutions like the Development Bank of Namibia, venture capital (developing), government initiatives, FDI facilitated by the Namibian Investment Promotion and Development Board, (NIPDB), the Namibian

Stock Exchange (NSX), and unit trusts. SMEs are significant but face challenges in accessing capital due to limited venture capital, collateral requirements, high interest rates, and financial literacy gaps. Government efforts focus on attracting investment and supporting SMEs. Enhancing access to financing and further developing financial markets are crucial for Namibia's sustainable economic growth.

2.4.2 Indicators of business capital

In 2021, Namibia recorded a total of 181,747 registered businesses, of which 5,192 (2.85%) were fully owned by foreign entities. Additionally, there are over 95 state-owned enterprises across multiple sectors and nearly 40,000 of the registered businesses were classified as Small and Medium Enterprises (SMEs). The market capitalization on the NSX is over NAD $2.4 trillion (USD 112 billion), while the market capitalization of South Africa's Johannesburg Stock Exchange (JSE) is many times the Namibian value at USD 1.07 trillion.

2.4.3 Challenges and opportunities for enhancing business capital

The business development environment in Namibia also faces challenges such as a small domestic market, high transport and energy costs, a limited skilled labor pool, bureaucratic complexities, and concerns about corruption. Access to finance, especially for SMEs, can be difficult, and high unemployment and income inequality persist. The economy's reliance on primary commodity exports makes it vulnerable to global price volatility. Due to the oligopolistic characteristics of the banking sector, banks have less incentive to invest in innovative products. However, driven from a regulatory point of view, the BoN has been developing a Financial Technology (FinTech) Regulatory Framework.

2.5 Namibia's human capital

This section discusses the role of human capital in Namibia's sustainable economic growth.

2.5.1 Current State of Human Capital in Namibia

Human capital development in Namibia refers to efforts aimed at improving the knowledge, skills, and health of the Namibian population, focusing on enhancing education levels, vocational training, and healthcare access to create a more productive workforce and contribute to the country's economic growth. Despite allocating over 27 percent of the national budget to education (compared the SADC regional average of 13%), Namibia continues to struggle with high youth unemployment and a persistent skills gap. Ensuring education spending is efficiently utilized is critical, alongside aligning the labor market with a dynamic workforce. The relatively high poverty, lagging human capital, and poor access to basic services are interrelated problems. Namibia ranked 117th among 157 countries on the Human Capital Index, indicating a challenging environment when it comes to increasing the standard of living in the country. Investment in human capital development is crucial to growth and wealth accumulation. Human capital accounts for close to two-thirds of the rich countries' wealth. The rate of productivity improvement and technological innovations largely depends on the presence of a highly skilled labor force

2.5.2 Major Barriers to Human Capital Development

Namibia's human capital development is significantly hindered by high unemployment, skills mismatches, poverty, inequality, and inadequate access to education and healthcare services. These interconnected issues impede economic growth. High youth unemployment and a skills shortage exist alongside a large informal sector. Persistent poverty and inequality, with regional disparities, limit opportunities. Poor education and healthcare outcomes, exacerbated by brain drain and the impact of HIV/AIDS, lower productivity; Corruption, limited infrastructure, land tenure issues, low manufacturing productivity, and insufficient rural investment further compound these challenges.

2.5.3 Investing in Education and Skills Development

Social protection can help build human capital by linking children from poor households to early childhood development services. Namibia invests in child grants and in early childhood development (ECD) services. Heavy investments in skills development through vocational training and improving access to finance for small businesses would harness entrepreneurship among young people. Job creation initiatives together with strategies to formalize the informal sector would prove beneficial, while at the same time fostering close collaboration between government, private sector, and civil society can create a supportive employment ecosystem.

Box 3: Reforms and investments in education that have worked well

Key lessons learned from the Namibian education system include the need to address geographic disparities in access to quality education, prioritize teacher training and retention, focus on early childhood development, and ensure affordability and sustainability of technology integration. Focus should now be on ensuring quality learning, especially in remote areas and for vulnerable populations like children with disabilities. Involving communities in decision-making for early childhood education is crucial to prepare children for formal schooling and bridge existing gaps and enhance ownership and participation.

2.5.4 Health as a Pillar of Human Capital Development

A healthy population is vital for Namibia's productivity and economic growth, as it ensures effective workforce participation. The nation allocates a significant portion of its budget (around 12.5%) to public health. Despite this commitment and improvements in treating common diseases, challenges remain, including unequal healthcare access across regions, high HIV/AIDS prevalence, and rural malnutrition. To advance human capital, Namibia needs to prioritize early disease detection and prevention through immunization and health education. Investing in prenatal care, maternal nutrition, and infant health is crucial for reducing mortality.

2.6 Financial Capital

This section describes the opportunities that the private sector presents and what more could be tapped to promote inclusive growth.

2.6.1 Domestic capital and /financial markets

Deep and well developed financial and capital markets, particularly a robust bond market, are essential for sustainable economic growth by facilitating liquidity between borrowers and lenders. While the precise impact on developing economies is debated, a positive correlation is acknowledged, as seen in the strides Namibia's bond market has made towards becoming world-class. This includes 29 corporate and state-owned enterprise bonds (including a green bond), a strong and growing government bond market with 20 bonds of varying maturities, the government's commitment to regular and predictable debt issuance, significant growth in secondary market trading on the NSX, a 5th place ranking in the Absa Africa Financial Markets Index 2020, and the Bank of Namibia's initiative to implement a Central Security Depository. To further enhance Namibia's bond market on the global stage, efforts should be focused on empowering individual market stakeholders in three key areas: proactive participation, courage to lead, and individual empowerment.

2.6.2 The State of Financial Development in Namibia

Namibia's financial sector development, as gauged by the IMF's Financial Development Index, reveals significant progress over four decades. The index serves as a comprehensive metric, evaluating the depth, access, and efficiency of a nation's financial institutions and markets. Calculated through a three-stage process involving normalization and aggregation of nine underlying indices that capture the nuances of financial institutions and markets, Namibia's index score stood at 0.218 in 2021. This represents a notable increase from its 1980 score of 0.043, indicating a substantial deepening of Namibia's financial landscape over this period.

Financial market development in Namibia is fortifying its financial system to more effectively drive economic growth. This is achieved by enhancing the efficiency of resource allocation, encouraging savings, and boosting investment activities. Specifically, this entails strengthening financial institutions like banks and insurers through robust regulation, developing a wider array of financial instruments such as stocks and bonds to facilitate trading and investment, and improving market infrastructure by establishing sound payment systems and regulatory frameworks.

Furthermore, it involves promoting financial literacy among the population and creating a stable, attractive environment to draw both domestic and foreign investment, ultimately leading to a more dynamic and growth-supporting financial sector.

2.6.3 Mobilizing Financial Resources for Namibia’s Development

With a well-developed financial market, Namibia utilizes a traditional financial system with a growing emphasis on mobilizing domestic capital, particularly from institutional investors, alongside the continued role of commercial and development banks. Efforts to deepen capital markets and improve access to finance for key sectors like SMEs are crucial for the country's sustainable development. According to recent data, the total insurance market value in Namibia is projected to reach approximately US$3.05 billion in 2024, with non-life insurance dominating the market at around 45%, indicating a significant presence of insurance funds within the Namibian economy. Insurance plays a crucial

role in mobilizing long-term capital by pooling funds from premiums, allowing insurers to invest in long-term assets like infrastructure projects. However, in Namibia, challenges like limited product offerings and overregulation hinder the full potential of insurance institutions to drive sustainable and inclusive development, requiring strategies like product innovation, financial literacy campaigns, and regulatory easing to unlock that potential.

2.6.4 Off-shore-linked financial resources for Namibia's development

Offshore financial resources are vital for Namibia's development, encompassing cross-border banking, external public debt, FDI, portfolio flows, ODA, transfers, and diaspora remittances. Cross-border banking facilitates trade and investment but requires careful regulation. External debt funds development but necessitates prudent management for sustainability — Namibia's gross external debt was reported at NAD 186.9 billion (USD 20.1 billion) in 2024, (Bank ofd Namibia, 2024). Namibia attracted a record NAD 48.2 billion (USD 2.61 billion) in net FDI inflows. Portfolio flows can boost liquidity but are prone to volatility and were relatively low in 2024. Namibia receives ODA from various development partners both multilateral and bilateral. The United States was a significant bilateral donor, with approximately USD 25 million in obligations. Namibia received approximately NAD 747 million (USD 43 million) in transfers and remittances to support households. A critical challenge is balancing climate adaptation financing needs with external debt sustainability, requiring strategies like prioritizing grants, exploring green bonds, integrating climate risks into debt management, and enhancing domestic resource mobilization. Effective coordination, transparency, capacity building, and a long-term strategy are essential for Namibia to sustainably leverage these offshore resources for inclusive development.

2.6.5 Innovative finance

Namibia is increasingly integrating innovative finance into its financial development strategy to boost economic growth and address development challenges. This involves leveraging fintech, green finance, and digital financial services. The BoN has established a Financial Technology Regulatory Sandbox to foster fintech innovation and the growing number of fintech startups focusing on digital payments and other services indicates increasing activity. Several local banks have issued green bonds to fund sustainable projects, in addition to Green Climate Fund grants. The SDG Namibia One Fund is a EUR 1 billion blended finance vehicle to attract private capital for green hydrogen.

High mobile phone penetration is a key enabler for expanding digital financial services. Namibia has enacted laws to enable open finance. The country is developing a digital financing ecosystem strategy to leverage digital finance for the Sustainable Development Goals (SDGs). Namibia is implementing an Integrated National Financing Framework to align various financing flows, including innovative sources, with national development goals.

2.7 Policy Recommendations

While the market capitalization of the Namibian Stock Exchange (NSX) is sizeable at 10 times GDP, there are only eight domestic equities with a primary listing on the NSX, accounting for 1.85 percent of market capitalization. The rest are dual-listed stocks, most with a primary listing on the Johannesburg Stock Exchange. The secondary market

for Treasury Bills (T-Bills) and bonds is highly illiquid. Institutional investors' large capital pool has benefitted Namibia's development needs, but there is a risk that the announced increase in the domestic investment requirements will lead to asset price inflation, given a limited supply of domestic assets. Full implementation of the Central Securities Depository as the bond market requires formalization, particularly on post-trade infrastructure, which would help facilitate further domestic investment. The lack of post-trading infrastructure, particularly for clearing and settlement, brings risks to the market and reduces foreign investor participation, particularly in government bonds. Namibia needs a comprehensive strategy by aggressively diversify its economy by investing resource revenues in non-extractive sectors, promoting local value addition, and supporting youth/SMEs. These must be coupled with robust fiscal management, including a sovereign wealth fund, prudent spending, and tax reforms.

HARNESSING NAMIBIA'S CAPITAL POTENTIAL AND RESOURCES FOR DEVELOPMENT

3



Key Messages

Harnessing Namibia's capital potential and resources for transformative development necessitates a strategic and catalytic role of the government. This involves valorizing and increasing each type of capital – natural, human, social, manufactured, and financial – by strengthening the design and effectiveness of governance institutions, implementing a sound macroeconomic policy stance, and upholding the rule of law as well as protecting private property rights. By strategically optimizing these fundamental pillars, the government can create an enabling environment that empowers Namibia's capital to work more effectively, attract investment, foster innovation, and ultimately drive sustainable wealth creation for the nation

3.1 Introduction

The financial sector falls under the policy custody of the Ministry of Finance, the banking sector which is regulated by the BoN, while the Namibia Financial Institution Supervisory Authority is the regulator for the non-banking Financial Institutions (NBFI). Although the two regulatory institutions are semi-autonomous, their board of directors' report to the Ministry of Finance for both functional and governance matters. This creates an element of political influence and if not well managed can lead to conflict of interest.

3.2 Institutional Arrangements for the Management and Utilization of Capital

The establishment of the Namibia Revenue Authority (NamRA) has brought about a separation of powers between tax administration and tax policy and this disaggregation of power is meant to bring about efficiency, promote compliance and reduce conflict of interest. Since the establishment of the NamRA, tax administration and compliance efficiency has improved substantially along with collection, although this is also supported by overall improved economic activity. Although the country is applauded when it comes to strong institutional arrangement and good governance practices, it is not immune to corruption that has reduced institutional efficiencies. The need to make the tax administration semi-autonomous stemmed from institutional efficiencies that have impeded overall tax collection. However, since the establishment of NamRA, inefficiencies in tax collection have reduced in line with increased compliance. The implementation of the Integrated Tax Administration

System (ITAS), and the adoption of the electronic payment systems, as well as the alignment of the State Finance Act of 1991 with ITAS has brought about significant improvements in both tax administration and collection.

3.3 Governance Challenges in the Management and Utilization of the various forms of Capital

Namibia faces several interconnected governance hurdles in effectively managing and utilizing its diverse capital for resource mobilization. These challenges stem from the norms, rules, institutions, and processes governing the exercise of power and responsibilities in this domain. A significant issue is the declining public trust in key institutions like the President, National Assembly, and law enforcement (as indicated by Afrobarometer), which can erode the legitimacy of government efforts.

While Namibia's natural resource management laws are transparent, exemptions have created avenues for opportunistic behavior, potentially undermining the rule of law and deterring investment due to inconsistent application. The risk of state capture, where private interests unduly influence rulemaking, poses a serious threat by prioritizing narrow gains over national development and misallocating capital. Corruption and illicit financial flows remain concerns, leading to mismanagement of public funds and deterring foreign investment. Institutional capacity and coordination are also challenges, hindering the effective management of complex resource mobilization processes. Ensuring consistent transparency and accountability across all areas, beyond the progress in natural resource management, is vital. Furthermore, even well-designed policies face obstacles in implementation and enforcement due to factors like resource constraints and a lack of political will.

Finally, decentralization policy faces challenges in uneven implementation and inadequate resource allocation at the local level. The exercise of power in this area is shaped by the Constitution, government ministries, the central bank, regulatory bodies, state-owned enterprises, parliamentary oversight, the judicial system, informal norms, political dynamics, and international commitments. Addressing these multifaceted governance challenges through institutional strengthening, enhanced transparency and accountability, consistent adherence to the rule of law, and fostering public trust is paramount for Namibia to effectively leverage its capital potential for sustainable development.

3.4 Rule of Law, Management and Utilization of the various forms of Capital

The rule of law is fundamental to Namibia's economic progress, fostering secure property rights that encourage investment and trade, ensuring contract enforcement for complex transactions, providing fair dispute resolution for a stable business climate, and reducing corruption to enhance institutional trust and efficient resource allocation.

Conversely, state capture, where private interests seize control of rulemaking and interpretation, has severely negative consequences. It distorts resource allocation, weakens governance and trust, fuels corruption leading to illicit financial outflows, deters both domestic and foreign investment, and ultimately stunts economic growth by mismanaging resources and losing opportunities. This impact extends across all forms of

capital: natural capital suffers from unsustainable exploitation despite transparent laws (undermined by exemptions), human capital is weakened by underinvestment in education and healthcare due to corruption, financial capital is diverted and destabilized by corruption and illicit flows, social capital erodes with declining trust in key institutions, and manufactured capital is hindered by corruption in procurement and regulatory capture. While Namibia's natural resource laws are praised for transparency, exemptions and opportunistic behavior have weakened the rule of law.

The country's high-income inequality and dual economy increase its vulnerability to the damaging effects of corruption and state capture. In conclusion, a robust rule of law is vital for Namibia to effectively manage and utilize its diverse capital for sustainable development, while state capture acts as a significant impediment by undermining governance, fostering corruption, deterring investment, and hindering efficient resource mobilization. Strengthening institutions, ensuring accountability, and consistently upholding the rule of law are therefore critical to unlocking Namibia's full economic potential.

3.5 A Pan-African Approach to Strengthening the Rule of Law, Institutions and Governance for Harnessing Namibia’s Capital

A Pan-African strategy can help Namibia strengthen its governance, rule of law, and institutions — essential for using its capital effectively for development. This involves adopting AU standards, collaborating on legal and judicial matters, learning from other African countries' experiences, and building institutional capacity. Key aspects include combating corruption, promoting transparency, engaging citizens, fostering regional economic integration, sharing best practices in resource management and infrastructure, and strengthening democratic institutions and human rights. The end goal is to create a stronger governance framework for Namibia's sustainable development.

3.6 Policy Recommendations

To improve and strengthen institutions and governance for Namibia, key actions need to be given priority are enhancing transparency and accountability within government, combating corruption, strengthening regulatory frameworks, promoting digitalization, investing in capacity building within public institutions, fostering private sector engagement, and actively involving citizens in decision-making processes. Accelerate e-government initiatives to improve service delivery and facilitate online access to government information. Promote digital literacy and access to broadband internet across the country. All while aligning with Namibia's Vision 2030 focus on effective governance.

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