

AFRICAN DEVELOPMENT BANK



PROGRAM: Governance and Economic Recovery Support Program (GERSP)

COUNTRY: Republic of Namibia

APPRAISAL REPORT

March 2021

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AFRICAN DEVELOPMENT BANK



REPUBLIC OF NAMIBIA

**GOVERNANCE AND ECONOMIC RECOVERY SUPPORT PROGRAM
(GERSP)**

APPRAISAL REPORT

RDGS/ECGF

March 2021

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CURRENCY EQUIVALENTS

(As of January 2021)

1 UA	=	NAD 21.02
1 UA	=	ZAR 21.02
1 UA	=	USD 1.44
1 UA	=	EUR 1.18

FISCAL YEAR

April 1 – March 31

WEIGHTS AND MEASURES

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

ACRONYMS AND ABBREVIATION

ADF	African Development Fund
AfDB	African Development Bank
AG	Auditor General
AMTA	Namibia Agro-Marketing and Trade Agency
BoN	Bank of Namibia
BOP	Balance of Payments
BSO	Budget Support Operation
CAR	Commitment at Risk
CFRA	Country Fiduciary Risk Assessment
CMA	Common Monetary Area
CPPR	Country Portfolio Performance Review
CSO	Civil Society Organization
CSP	Country Strategy Paper
CPIA	Country Policy and Institutional Assessment
DO	Development Objective
DPs	Development Partners
DSA	Debt Sustainability Analysis
EGCSP	Economic Governance and Competitiveness Support Program
ESW	Economic and Sector Work
EU	European Union
FDI	Foreign Direct Investment
FM	Financial Management
FY	Fiscal Year
GBS	General Budget Support
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GRN	Government of the Republic of Namibia
HDI	Human Development Index
HRMIS	Human Resources Management Information System
IFMIS	Integrated Financial Management Information System
IIDP	Infrastructure Investment Development Programme
IMF	International Monetary Fund
IOP	Indicative Operational Program
IRD	Inland Revenue Department
KPI	Key Performance Indicator
MDGs	Millennium Development Goals
MIC TAF	Middle Income Country Technical Assistance Fund
MoF	Ministry of Finance
MSME	Micro, Small and Medium Enterprise
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTP	Medium Term Plan
MTR	Mid-Term Review
NAD	Namibian Dollar
NAMFISA	Namibia Financial Institutions Supervisory Authority
NAMRA	Namibia Revenue Agency
OECD	Organization for Economic Cooperation and Development
PBO	Program Based Operation
PCR	Program Completion Report
PEFA	Public Expenditure and Financial Accountability

PFM	Public Financial Management
PPPs	Public Private Partnerships
PSD	Private Sector Development
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SARB	South African Reserve Bank
SME	Small and Medium Enterprises
SoE	State-Owned Enterprise
SSN	Social Safety Nets
TA	Technical Assistance
TYS	Ten Year Strategy
UA	Bank Group Unit of Account
USD	United States Dollar
VAT	Value-added Tax
WB	World Bank
ZAR	South African Rand

PROGRAM INFORMATION

INSTRUMENT	GENERAL BUDGET SUPPORT – PROGRAM BASED LOAN
PBO DESIGN TYPE	PROGRAMMATIC OPERATION

LOAN INFORMATION

Client's information

BORROWER: REPUBLIC OF NAMIBIA

EXECUTING AGENCY: MINISTRY OF FINANCE

Financing plan for 2020 and 2021

Source	Amount (2020/21)	Amount (2021/22)
ADB Loan	1.5 billion Rand (ZAR)	TBD
IMF	4.1 billion Rand	-
TOTAL FINANCIING	5.6 billion Rand (ZAR)	TBD

ADB key financing information

Loan Currency	South African Rand (ZAR)
Loan Type	Fully Flexible Loan
Tenor	18 years (inclusive of 3 years Grace Period)
Grace period	3 years
Average Loan Maturity*	TBD (function of the amortization profile)
Repayments	<ul style="list-style-type: none"> 15 years, payable in 60 equal quarterly instalments
Interest Rate	Base Rate +Funding Cost Margin+ Lending Margin + Maturity Premium This Interest Rate will be floored to zero
Base Rate	Floating Base Rate (3-month JIBAR reset each 1 st February, 1 st May, 1 st August and 1 st November) A free option to fix the Base Rate is available
Funding Cost Margin	The Bank funding cost margin as determined each 1 st January and 1 st July and applied to the Base Rate each 1 st February, 1 st May, 1 st August and 1 st November
Lending Margin	80 basis points (0.8%)
Maturity Premium	TBD: <ul style="list-style-type: none"> 0% if Average Loan Maturity <= 12.75 years 0,10% if 12.75< Average Loan Maturity <=15 0,20% if Average Loan Maturity >15 years
Front-end fees	0.25% of the loan amount payable no later than sixty (60) days from the date of entry into force or at first disbursement, whichever is the earlier
Commitment fees	0.25% of the undisbursed amount. Commitment fees start accruing 60 days after signature of the loan agreement and are payable on Payment dates
Option to convert the Base Rate**	In addition to the free option to fix the floating Base Rate, the borrower may reconvert the fix rate to floating or refix it on part or full disbursed amount. Transaction fees are payable
Option to cap or collar the Base Rate**	The borrower may cap or set both cap and floor on the Base Rate to be applied on part or full disbursed amount Transaction fees are payable
Option to convert loan currency**	The borrower may convert the loan currency for both undisbursed or disbursed amounts in full or part to another approved lending currency of the Bank Transaction fees are payable

Timeframe - Main Milestones

Program Appraisal	January/February 2021
Program Approval	March 2021
Loan Effectiveness	March 2021
Disbursement Closing Date	31 December 2021
Completion	31 March 2022

PROGRAM EXECUTIVE SUMMARY

Paragraph	Topics to cover
Program overview	<p>Program name: Namibia – Governance and Economic Recovery Support Program (GERSP).</p> <p>Expected outputs: The key outputs of the Program are (i) Domestic resource mobilization enhanced (operationalization of NAMRA; innovative sources of finance); (ii) fiscal risks mitigated (commercialization of SOEs; operationalization of the PPP framework); (iii) agriculture sector policy framework strengthened (approval of Namibia Green and Blue Economy Strategic Policy Framework, Roadmap & Action Plan); industrialization framework strengthened (approval of economic recovery plan; approval of national policy on sustainable economic zones); MSME framework and capacity strengthened (enhanced funding capacity; approval of revised policy framework); social protection and gender mainstreaming enhanced (social grants registry established as first step towards social protection policy; approval of women’s economic empowerment framework).</p> <p>Overall timeframe: 2020/21-2021/22, two-year programmatic operation.</p> <p>Program Cost: The program cost for the first year of the two-year programmatic operation is 1.5 billion Rand (UA 70 million).</p>
Program outcomes	The key outcomes of the Program are (i) Fiscal performance enhanced (fiscal deficit/GDP ratio); (ii) Private sector participation in key sectors enhanced (private investments in agriculture and industry); and (iii) Economic and social inclusion enhanced (number of MSMEs registered; social protection coverage).
Alignment with Bank priorities	The operation is closely aligned to two of the operational priorities of the Bank Group’s Ten-Year Strategy, 2013-2022, namely Private Sector Development, and Governance and Accountability, and reinforced by three of the High-5 priorities, namely, Feed Africa, Industrialize Africa and Improve the quality of life of the people of Africa. Furthermore, the program is closely linked to both pillars of the Bank Group’s Country Strategy Paper for Namibia 2020-2024 (Support Economic Governance for Improved Business Enabling Environment; and Support Infrastructure Development and Promote Value Addition). The operation is also consistent with other Bank group strategies, including, the Strategy for Economic Governance in Africa, Industrialization Strategy, the Private Sector Development Strategy, and Feed Africa Strategy.
Needs Assessment and Justification	After achieving real annual GDP growth rate of above 5% from 2010 to 2015, driven by an expansionary fiscal policy and significant new foreign direct investments into mining, Namibia’s growth momentum slowed down from 5.3% in 2015 to 1.1% in 2016. This situation did not improve over the subsequent three years when the country recorded growth rates of -1.0% in 2017, 1.1 in 2018 and -1.6% in 2019, driven by weak commodity prices, persistent drought and subdued economic activity in key trading partner economies. According to latest official estimates, the economy contracted by -7.3% in 2020, amidst the ongoing global COVID-19 pandemic. The fiscal deficit for 2020/21 widened to 9.9% of GDP (from 4.5% of GDP in 2019/20), due in large part, to a surge in expenditure related to the mitigation of the COVID-19 impacts and headwinds to fiscal revenues as the global Covid-19 pandemic weighs on economic activity. The adverse impact of the pandemic has affected financial services, trade, investment, tourism and wholesale and retail, that were already under pressure before the pandemic. These are exacerbated by deep rooted structural bottlenecks in the business environment that limit Namibia’s capacity for industrialization and economic diversification. Dependence on the low labor-intensive mining sector as a leading export earner and one of the key growth drivers contributes to growth volatility, slow job creation and income inequality. The Government is committed to addressing these challenges by implementing a series of fiscal and structural reform measures. The justification for the proposed operation is premised on the need to create fiscal space to finance critical development spending, implement reforms that will help to maintain macroeconomic stability, transform key sectors such as agriculture and industry, and improve economic and social inclusion. The processing of the operation has been fast-tracked to enable the Government to access the resources before the end of the 2020/21 fiscal year.
Harmonisation	The Bank actively coordinates its interventions with all the major bilateral and multilateral Development Partners (DPs) including the UN system in Namibia. This is done bilaterally as well as formally through the DP group, which works closely with a number of thematic groups. The framework for aid coordination has improved significantly since the establishment of the High-level Development Partners’ (DPs) Forum in December 2016. DPs have also created a Development Partners Dialogue Group, which serves as a platform for enhancing coordination and effectiveness of international development cooperation in support of the GRN’s national development priorities. Development Partners recently established the COVID 19 Socio-Economic Response and Recovery Group. During the Preparation and Appraisal missions, the Bank convened a meeting of DPs to explore modalities for collaboration and views expressed in those meetings have been taken into account in the design of GERSP. Further bilateral discussions with IMF, World Bank, GIZ, among others, were held. Currently, no other DP is providing general budget support to Namibia. However, the Bank will ensure continuous engagement with all DPs throughout the processing and implementation of the operation. The Bank will use the DP’s forum to report on progress and seek feedback on implementation of the policies. It will work particularly closely with IMF of fiscal measures; World bank on private sector diagnostics; GIZ on SOE reform and MSME development; and UNICEF on social protection.
Bank’s Added Value	The Bank has become a strong development partner of choice in Namibia. This operation is responding to both emerging and long term development challenges and demonstrates the Bank’s added value and relevance in the country. Namibia’s overarching development challenge is to achieve post-pandemic economic recovery through transformative and inclusive economic growth in order to address the persistent challenges of poverty, unemployment, income inequality and spatial socio-economic disparity. It is important, not only to deal with the immediate socioeconomic impact of the COVID-19 pandemic but also to build back stronger, while laying the foundation for medium to long term sustainable development. The proposed PBO operation aims to do just that, with a focus on improving fiscal performance, transforming key sectors and facilitating private investments. The use of the PBO instrument and the structuring of Bank’s support responds to the Government’s short and medium term development agenda. In the short term it will give fiscal space for the Government to finance development priorities at a time when revenue collection has declined due to the impact of COVID 19. The Bank’s lending, not only mitigates exchange rate risks, but also helps extend the maturity profile of the government debt and accompanies the resources with key reforms. In the medium to long term, it supports the Government’s policy reform agenda designed to advance private sector led agriculture and industrial sector transformation. The focus on enhancing economic and social inclusion will ensure that no one is left behind, as the economy recovers from the economic and social impact of COVID-19. The Bank has considerable experience and expertise in designing and implementing PBOs, derived from the recently ended Namibia Economic Governance and Competitiveness Support Program (EGCSP) and similar operations in other RMCs. The choice of the programmatic

	approach also brings some flexibility on the use of triggers and hence allows for the possibility of adapting to changing circumstances during program implementation. Through the proposed operation and accompanying policy dialogue, the Bank will leverage its unique position as a reliable and trusted partner of choice to sustain and help implement difficult reforms.
Contributions to Gender Equality and women's empowerment.	The policy focus of the GERSP on enhancing fiscal performance will create fiscal space, which will enable the government to fund social programs in health and education, amongst others, targeting the most vulnerable and poor, including women and youth. The focus on agriculture and industrial sector transformation and MSME development will create job opportunities for women. The support to social protection will significantly benefit women. Finally, the specific focus on enhancing women's economic empowerment through the National Women's Economic Empowerment Framework is expected to be a game-changer for women in Namibia.
Policy dialogue and linked technical assistance	The proposed operation will focus on supporting measures geared towards enhancing fiscal performance, enhanced private sector participation in agriculture and industrial sectors and strengthen social protection. Through this operation and other on-going projects such as the agriculture, education and road infrastructure investment projects and the Public Private Partnership Institutional Support Project, the Bank will engage GRN in policy dialogue in areas such as domestic revenue mobilization, SOE reform, PPP best practices, agriculture and industrial policies. The program will create a strong platform for policy dialogue and advisory services, with the Bank's Directorate General - South playing a pivotal role.

RESULTS FRAMEWORK¹

A	PROJECT INFORMATION				
PROJECT NAME AND SAP CODE: Governance and Economic Recovery support Program: P-NA-K00-004				COUNTRY: Republic of Namibia	
PROJECT DEVELOPMENT OBJECTIVE: Support resilience and post-COVID 19 pandemic inclusive economic recovery through improved governance and real sector reforms.					
ALIGNMENT INDICATORS ² : (i) Agriculture and industrial sector contribution to GDP.					
B	RESULTS MATRIX				
RESULTS CHAIN AND INDICATOR DESCRIPTION	RMF INDICATOR	UNIT OF MEASUREMENT	BASELINE (Date)	TARGET AT COMPLETION (Date)	MEANS OF VERIFICATION
OUTCOME STATEMENT 1: Fiscal performance enhanced					
OUTCOME INDICATOR 1.1: Fiscal deficit/GDP ratio		Percentage	9.9% (2020/21 revised estimate)	7.3% (2021/22)	MTEF; IMF Reports
OUTCOME STATEMENT 2: Private sector participation in key sectors enhanced					
OUTCOME INDICATOR 2.1: Private investments in Agriculture	x	Absolute amount (millions of Namibian dollars)	N\$ 2,358 (2019)	N\$ 2,547 (2022)	National Accounts
OUTPUT INDICATOR 2.2: Private investments in Industry	x	Absolute amount (millions of Namibian dollars)	N\$ 786 million (2019)	N\$ 865 (2022)	National Accounts
OUTCOME STATEMENT 3: Economic and social inclusion enhanced					
OUTCOME INDICATOR 3.1: SME registrations		Number	110 per annum (2017-2019)	200 per annum (at least 30% women owned) (2020 – 2022)	Ministry of Industrialization and Trade Reports
OUTCOME INDICATOR 3.2: ³ Social protection coverage		Number of people	280,843 ⁴ (2019)	320,000 (2022)	Ministry of Poverty Eradication and Social Welfare Reports
OUTPUT STATEMENT 1: Domestic resource mobilization enhanced					
OUTPUT INDICATOR 1.1: staff secondment to NAMRA approved by Cabinet*		Yes/No	No (2019)	Yes (2020/21)	Cabinet Action Letter
OUTPUT INDICATOR 1.2: Approval by Cabinet, in principle, to establish a National Sovereign Wealth Fund*		Yes/No	No (2019)	Yes (2020/21)	Cabinet Action Letter
OUTPUT STATEMENT 2: Fiscal risks mitigated					
OUTPUT INDICATOR 2.1: SOE Governance scorecard rolled out (2020/21)		Yes/No	No (2019)	Yes (2020/21)	Copy of Governance scorecard
OUTPUT INDICATOR 2.2: PPP screening framework and Appraisal Guidelines approved by the PPP Committee*		Yes/No	No (2019)	Yes (2020/21)	Copy of Screening Framework and Appraisal Guidelines
OUTPUT STATEMENT 3: Climate-smart Agriculture sector productivity and value addition enhanced					

¹ New format approved by the Operations Committee (OpsCom) of the Bank

² These indicators will measure alignment with the country priorities identified for the operation

³ The Social Protection Policy will build on the ongoing schemes, namely the universal social grant for the elderly and persons living with disability, child welfare grant and food bank initiative.

⁴ This comprises the following beneficiaries: 164,832 old age grant; 39,193 disability grant; 76,818 food bank

OUTPUT INDICATOR 3.1: Namibia Green and Blue Economy Strategic Policy Framework, Roadmap & Action Plan approved by Cabinet**		Yes/ No	NoNo(2019)	Yes (2021/22)	Cabinet Action Letter
OUTPUT STATEMENT 4: Industrialization framework strengthened					
OUTPUT INDICATOR 4.1: Clearance of the Economic Recovery Plan by Deliberative Cabinet*		Yes/No	No (2019)	Yes(2020/21)	Cabinet Action Letter
OUTPUT INDICATOR 4.2: (a) Incentives under the Export Processing Zone Act repealed by Government Gazette*; (b) SADC Protocol on Industry approved by Cabinet.*		Yes/No	(a) No (2019) (b) No (2019)	(a) Yes (2020/21) (b) Yes (2020/21)	Copy of Gazette and Cabinet Action Letter
OUTPUT STATEMENT 5: MSME development framework and capacity strengthened					
OUTPUT INDICATOR 5.1: (a) Credit Guarantee Scheme operationalized*; and (b) SME Incubation Hub and Digital Centre launched		Yes/ No	(a)No (2019) (b) No (2019)	a) Yes (2020/21) (b) Yes (2020/21)	Ministry of Industrialization and Trade Reports Development bank of Namibia Reports
OUTPUT INDICATOR 5.2: National Informal Economy and Entrepreneurship Development Policy approved by Cabinet**		Yes/No	No (2019)	Yes (2021/22)	Copy of Cabinet Action Memo
OUTPUT STATEMENT 6: Social protection and gender mainstreaming enhanced					
OUTPUT INDICATOR 6.1 Unified social grants registry established as first step towards social protection policy**		Yes/No	No (2019)	Yes (2020/21)	Ministry of Poverty Eradication and Social Welfare Reports
OUTPUT INDICATOR 6.2 National Women's Economic Empowerment Framework (NWEEF) approved by Cabinet		Yes/No	No (2019)	Yes (2021/22)	Ministry of Gender Equality and Child Welfare Reports

NB: * denotes Prior Action; and ** denotes indicative trigger for Phase II

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO THE REPUBLIC OF NAMIBIA TO FINANCE THE GOVERNANCE AND ECONOMIC RECOVERY SUPPORT PROGRAM (GERSP)

I INTRODUCTION: THE PROPOSAL

1.1 Management submits the following proposal and recommendation for an ADB Loan of One billion four hundred and seventy million South African Rand (1.5 billion ZAR), to the Republic of Namibia to finance the Governance and Economic Recovery Support Program (GERSP). The GERSP is designed as a programmatic series of two consecutive General Budget Support (GBS) operations covering the fiscal years 2020/21-2021/22. This is the first of the two-year series of the Program Based Operation (PBO). The operation is designed in response to a request submitted by the Namibian Authorities in June 2020.

1.2 The impact of the COVID19 pandemic has weighed heavily on the Namibian economy which contracted by 7.3% in 2020, according to latest estimates. This followed a contraction of the economy in two out of the previous three years: -1.0% in 2017, 1.1 in 2018 and -1.6% in 2019. Weak external demand, limited fiscal space, faltering domestic confidence and ongoing restrictions on foreign visitors will continue to put pressure on Namibia's small and open commodity-driven economy. Namibia's overarching development challenge is to achieve post-pandemic economic recovery through transformative and inclusive economic growth in order to address the persistent challenges of poverty, unemployment, income inequality and spatial socio-economic disparity. The Government has demonstrated commitment to deal with the immediate socioeconomic impact of the COVID-19 pandemic, as evidenced by the roll out of an economic stimulus and relief package amounting to NAD 8.1 billion (4.5% of GDP), combined with a range of monetary policy measures in 2020. The Government is equally committed to strengthening economic resilience, attaining green recovery and building back better, by laying the foundation for medium to long term sustainable development. These require bold reforms targeting fiscal sustainability and private sector-led transformation of key sectors such as agriculture and industry. It is against this backdrop that the Government approached the Bank, as a reliable partner of choice for budget support.

1.3 The Governance and Economic Recovery Support Program (GERSP) is designed to support GRN's reforms geared towards strengthening resilience and enhancing inclusive post-pandemic economic recovery through improved governance and real sector reforms, as articulated in the Letter of Development Policy (Appendix1). This follows the completion of the Economic Governance and Competitiveness Support Program (EGCSP) in 2020 which has achieved significant results (Annex 9). These include: (i) a reduction in the budget deficit from 8.3% of GDP in 2015/16 to 4.5% in 2019/20; (ii) a decrease in the Expenditure/GDP ratio from 40.2% in 2015/16 to 34.9% in 2018/19; and (iii) a significant improvement in foreign reserves from 2.8 months of import cover in 2016 to 4.5 months by Q2 2020. Policy measures that supported fiscal consolidation include: (i) enactment of the Namibia Revenue Agency Bill and initial steps to operationalise it; and (ii) approval of the Sovereign Debt Management Strategy. In the area of public financial management and public sector efficiency, EGCSP supported: (i) issuance of public procurement regulations and establishment of a Central Procurement Board, Review Panel and Procurement Policy Unit; and (ii) enactment of the Public Enterprise Governance Amendment Bill. In support of the business environment for industrialization, EGCSP supported: (i) enactment of the Namibia Industrial Development Agency (NIDA) Bill and subsequent operationalization of NIDA; (ii) enactment of the PPP law, issuance of related regulations and establishment of PPP Committee; (iii) roll out of the first phase of the Integrated Client Services Facility supporting a range of processes including business registration. The GERSP builds on these

achievements and places particular emphasis on enhancing fiscal performance, supporting private-sector-led agriculture and industrial sector transformation, and enhancing economic and social inclusion.

1.4 Designed as a two-year programmatic operation, the GERSP will help address immediate macroeconomic challenges (by supporting enhanced fiscal performance and preserving macroeconomic stability). It will also address medium to long term challenges (strengthening of the policy framework for agriculture and industrial sector productivity and value addition and enhanced private sector participation). The long-term tenure of the Government's borrowing for this operation in ZAR (the currency in which Namibia keeps sizeable reserves) will also help improve the reserve position, mitigate exchange rate risk and extend the maturity profile of Government debt. The use of the programmatic approach for budget support also brings the advantage of predictability and flexibility on the use of triggers, by allowing for the possibility of adapting to changing circumstances during program implementation.

1.5 The PBO was formulated based on continuous dialogue with the Government of the Republic of Namibia (GRN), and in close collaboration with Development Partners and other stakeholders, including the private sector and Civil Society.

II – COUNTRY AND PROGRAMME CONTEXT

2.1 Political Developments and Governance Context

2.1.1 Namibia continues to enjoy political stability with strong multi-party democratic credentials. Free and fair elections are held regularly and the South West Africa People's Organisation (SWAPO) has dominated politics since independence. Namibia held its sixth general elections, after independence, on 27 November 2019 which were judged by international observers as, generally, free, fair, and peaceful. The incumbent, Dr. Hage Geingob, was re-elected as President of Namibia, but with a significantly reduced majority. The elections also saw the number of seats held by SWAPO in the 96 seat Parliament reduced to 63 from 77. The current administration is continuing with the policies of upholding the fundamental rights and freedoms enshrined in the Constitution. Namibia has continued to enjoy peace and political stability which has underpinned its social and economic progress.

2.1.2 Namibia is one of the countries with the best governance track record in Africa. The country scored 65.1/100 with a rank of 7th out of 54 countries in the 2020 Ibrahim Index of African Governance (IIAG), which represents an improvement of 3.4 points in the 2010-2019 trend. The country was ranked the 56th least corrupt country out of 180 countries in Transparency International's 2019 Corruption Perception Index. Despite this, the issue of corruption is of growing concern in Namibia. In January 2017, Namibia unconditionally acceded to the African Peer Review Mechanism (APRM), which provides for self- and peer-assessment of governance policies and practices on the Continent. This is a clear demonstration of Namibia's commitment to good governance. Namibia has put in place strong accountability systems in line with the Constitution and the State Finance Act of 1991 (amended 1995). The Minister of Finance tables an accountability report, together with other budget documents at the National Assembly every year, and this is made available to the public. The modernization of the public procurement system is being pursued through the new Public Procurement Act 2015, which became effective on 1st April 2017, following issuance of Regulations. Since then, a procurement Policy Unit, Central Procurement Board and Review Panel have been established.

2.2 Recent Economic Developments, Macroeconomic and Fiscal Analysis

2.2.1 Namibia has a strong track record of economic performance, but growth has been subdued in recent years. The country recorded real annual GDP growth rate of above 5% from 2010 to 2015, driven by an expansionary fiscal policy and new mega foreign direct investments into mining. However, Growth slowed down from 5.3% in 2015 to 1.1% in 2016. The lacklustre economic performance continued over the subsequent three years: -1.0% in 2017, 1.1 in 2018 and -1.6% in 2019, driven by

weak commodity prices, persistence of drought and subdued economic activity in South Africa and Angola. According to latest official estimates, the economy contracted by 7.3% in 2020, amidst the ongoing global COVID-19

Table 1: Key Macroeconomic Indicators (% of GDP, unless otherwise indicated)						
	2019 Actual	2020 Pre-COVID Projection	2020 Revised Projection	2021 Initial projection	2021 Revised projection	2022 Projection
Real GDP growth rate (%)	-1.6	-6.6	-7.3	-1.1	2.2	3.9
Inflation, % (end period)	3.7	2.2	2.2	3.0	3.4	2.0
SACU revenue (% GDP)	10.6%	13.0%	12.8%	10.1%	9.7%	8.8%
Total Revenues (% GDP)	32.7%	30.0%	31.7%	29.6%	30.1%	29.8%
Fiscal balance (% GDP)	-4.5	-12.3	-9.9	-10.3	-7.3	-6.4
Public debt (% GDP)	56.1	69.6	68.8	79.7	73.2	76.3
Current account deficit (% GDP)	1.7	3.2	1.9	1.5	0.4	1.1
International reserves (months of imports)	4.5	4.6	4.5	4.5	4.5	4.5

Source: Ministry of Finance

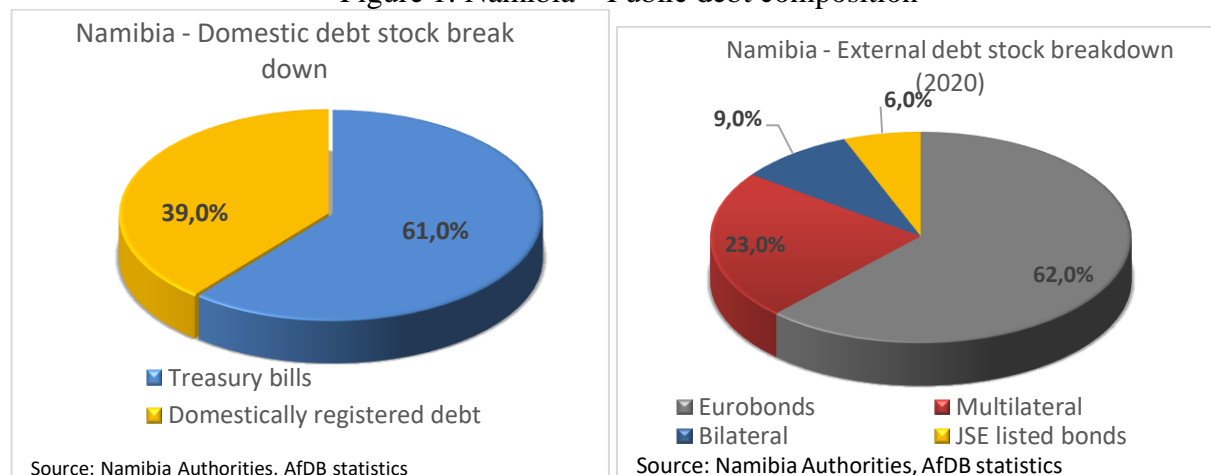
pandemic. The adverse impact of the pandemic has weighed heavily on a broad range of sectors and transmission channels have been in the form of financial services, trade, investment, tourism and wholesale and retail, that were already under pressure, following contraction of the economy in two out of the previous three years.

2.2.2 The stimulus policy stance adopted to mitigate the impact of the COVID-19 pandemic, accelerated the government's financing needs and worsened the fiscal deficit and public sector debt. Namibia's fiscal deficit for 2020/21 widened to 9.9% of GDP (from 4.5% of GDP in 2019/20), due in large part, to a surge in expenditure from 28.3% of GDP in 2019 to an estimated 41.7% in 2020 and headwinds to fiscal revenues from 32.7% of GDP in 2019 to an estimated 31.8% in 2020 as the pandemic weighs on economic activity. GRN is expected to resume fiscal consolidation from FY 2021/22, and the deficit to gradually narrow to 7.3% of GDP in 2021 and 6.4% of GDP in 2022. However, the budget balance will remain in negative territory over the medium-term, as a sizeable public sector wage bill and transfers to ailing state-owned enterprises prevent sharp decreases in recurrent expenditure. Looking ahead to FY2021/22, the fiscal deficit will narrow to 7.3% of GDP.

2.2.3 Although debt levels are set to rise to relatively elevated levels, the debt load and the government's fiscal position is expected to remain sustainable over the short-to-medium term. Fiscal deficits over the next two years are likely to be covered largely by local debt issuance, which will push the total public debt to 68.8% of GDP by the end of 2020/2021 and to 73.2% of GDP by the end of 2021/2022, up from an estimated 56.1% of GDP in 2019/2020. Domestic debt and guarantees account for the bulk of total debt – approximately 72.0% of the total. Domestic debt is mostly made up of treasury bills and treasury bonds. On the longer end of the yield curve, Namibian pension and insurance industries are relatively mature, with assets worth around 120.0% of GDP in 2019. Regulations requiring that the bulk of these are allocated to domestic capital markets, provides a natural and sustained source of demand for local government debt. Namibia's debt burden will continue to be denominated largely in domestic currency or South African rand – to which the Namibian dollar is pegged. However, external borrowing facilities will be increasingly sought and redemption of the USD 500 million eurobond in Q3 2021 will add substantial pressure to the country's public debt dynamics. The Government's borrowing continues to be guided by a credible medium-term debt strategy (MTDS). The MTDS includes measures to lengthen the maturity profile of debt and observance of a series of fiscal benchmarks. Furthermore,

the GRN plans to establish a sovereign wealth fund (SWF), starting with proceeds from the upcoming listing of Namibia Telecom Company on the local bourse, and is expected to invest funds into high impact projects in the country and support long term economic competitiveness and growth.

Figure 1: Namibia – Public debt composition



2.2.4 The Bank of Namibia (BoN) has maintained an accommodative monetary policy stance in recent times, in support of the domestic economy, particularly in response to COVID-19. The BoN reduced the policy repo rate by a cumulative 275 basis points (bps) in 2020, taking the rate to 3.75%, maintaining it at that level as of January 2021. The BoN is expected to hold the rate at this historically low level for the duration of 2021. A relatively benign inflation outlook will give the BoN the leeway to keep monetary policy accommodative. Inflation averaged 2.2% in 2020, its lowest level since 2005. This suggests that weak demand pressures and lower oil prices more than offset any upward pressure arising from currency weakness and lockdown-related distribution challenges.

2.2.5 Namibia's external position has remained resilient despite global economic shocks and a sharp drop in commodity prices over past few years. The current account deficit has remained sustainable although it widened to 1.9% of GDP in 2020 up from 1.7% of GDP in 2019 as a result of the sluggish performance in exports. The current account deficit is projected to narrow to 0.4% of GDP in 2021 and 1.1% of GDP in 2022 mainly attributed to subdued demand for capital goods imports, as the government seeks to rein in its fiscal deficit, and an uptick in uranium exports will be the key drivers of this trend. Muted short-term growth across most sectors of the economy will weigh on demand for consumer goods imports, providing headwinds to total imports in the early years of the post-COVID-19 recovery. The country's reserves stood at an estimated 4.5 months of imports in Q4 2020, and are expected to remain at that level in the short-to-medium term.

2.2.6 The medium-term growth outlook is positive, on the back of subsiding COVID-19 related headwinds. The economy is likely to return to positive growth of 2.2% in 2021, mainly on assumption that there will be an improvement in performances of key sectors. For instance, service sectors are expected to expand steadily in the short-to-medium as tourism gradually recovers and efforts to turn the port of Walvis Bay into a regional logistics and transport hub continue. Agriculture will grow steadily as efforts to adapt to climate change and improve disaster response strategies begin to bear fruit. Finally, the mining industry will experience a steady rise in growth, on the back of investments into and operationalization of new uranium and diamond mines. Global demand in key trade partner economies such as South Africa, China and the European Union will pick up as the effects of lockdown measures in those markets fade. Meanwhile spending pressures related to the health response in Namibia will subside, enabling the government to reprioritize more productive areas for spending and improve the

fiscal deficit. Headline inflation is expected to remain largely contained while the current account deficit will narrow. Foreign tourist arrivals and domestic confidence is likely to improve with the global roll out of COVID-19 vaccines and as lockdown measures and travel restrictions ease, hence leading to a revival of economic activities. However, it is worth noting that a return to positive growth rates does not mean a return to high and sustainable growth rates conducive to inclusion, poverty reduction and improvements in living standards. Prospects for recovery from the COVID shock would still leave Namibia with a complex outlook where structural reforms are critical to put growth on a higher and sustainable path than pre-COVID crisis.

2.2.7 The recovery will take some time to gather momentum given lingering uncertainties and imbalances that have built up over recent quarters. Furthermore, the risks to official growth forecasts for 2021 are tilted firmly to the downside stemming from slow containment of the COVID19 pandemic (particularly with the discovery of the new variant), slow recovery of key trading partner economies such as South Africa, falling SACU revenues and prolonged commodity price and emerging market currency weaknesses. Prospects for achieving higher and sustainable growth also hinge on steadfast implementation of structural reforms to improve the business environment to crowd in private investment, raise productivity growth, and foster economic diversification

2.3 Competitiveness of the Economy

2.3.1 Namibia is taking steps to improve the enabling environment for private investment to drive structural transformation. Namibia is ranked 94th out of 141 economies on the World Economic Forum (WEF) 2019 Global Competitiveness Index (GCI), an improvement of six places on the 2017/18 GCI (100th). This places the country fourth in the Southern African Development Community (SADC) region, after Mauritius, South Africa and Botswana. Some of the key problematic factors include the skills gap, inefficient government bureaucracy, and limited access to finance. Namibia has an independent judicial system, with adequate mechanisms for the protection of property and contractual rights, as well as good quality infrastructure. GRN has embarked on wide ranging reforms to further improve the business environment and economic competitiveness. These include introduction of the Integrated Client Services Facility, and working towards establishing a “One-Stop-Shop” for investors; enactment of the Public Private Partnership (PPP) Bill and issuance of related regulations geared towards attracting N\$ 50 billion in private investment through PPPs by 2023; and a series of tax incentives to attract investors. The Namibia Industrial Development Agency has also been established to serve as the implementing agency for Namibia’s industrial development agenda. Despite the aforementioned efforts, more needs to be done to deepen regulatory reforms to improve the investment climate while promoting local entrepreneurship to advance private sector development.

2.4 Public Financial Management

2.4.1 GRN has been pursuing wide ranging initiatives geared towards improving public financial management. To improve the financial management reporting framework there is a requirement for financial statements for central and regional councils and local authorities including State Owned Enterprises to be prepared using IPSAS accruals or IFRS. The Minister of Finance presents an Accountability Report, together with other budget documents at the National Assembly every year, and this is made available to the public. The use of IFMIS has improved the timeliness of financial reporting while debt management has been further enhanced by the adoption of a new Sovereign Debt Management Strategy. Internal audit reforms are underway with the promulgation of the Internal Audit policy. The Namibia Revenue Agency (NAMRA) Act was passed by Parliament, and the operationalization of the Agency is underway. This will help to address the current inefficiencies of

revenue administration. Steps are being taken to control the growth of expenditure, including containment of the wage bill, as part of broader fiscal consolidation efforts. Measures implemented by the Government to deal with the wage bill include the freezing of recruitment; Offices, Ministries and Agencies that recruit for a certain position must give up an equivalent position; and payroll audits were conducted leading to removal of ghost workers. Some of these efforts have faced a setback due to the COVID-19 pandemic. As poor public enterprise performance represents a major source of fiscal risk, GRN is taking a number of steps to improve their management and performance, including through the passing of the Public Enterprises Governance (Amendment) Act, 2019. Following enactment of the Procurement Act of 2015, Procurement Regulations were issued in 2017, followed by the establishment of a Public Procurement Unit (PPU), Central Procurement Board and Review Panel, all being measures supported by the Bank's now completed EGCSF operation. These developments have significantly strengthened the Public Procurement framework in Namibia even though some weaknesses still remain. The Office of the Auditor General is implementing internal reforms such as professionalization of the office. The Namibia Anti-corruption Commission (ACC) also continues to make progress in the implementation of its mandate of investigating allegations of corrupt practices, educating the public on the negative impact of corruption, and prevention of corruption.

2.5 Inclusive Growth, Poverty and Social Context

2.5.1 Namibia has made good progress in attaining inclusive growth and social progress. The headcount poverty rate (poor) declined from 28.8% in 2010 to 17.4% in 2016 whilst the headcount poverty (extreme poverty) rate fell from 15.4% to 10.7% over the same period but is projected to rise to 18.9% in 2022⁵ due to the COVID-19 pandemic. The gains in poverty reduction are largely attributable to social safety nets and other pro-poor programmes. Measures for the eradication of poverty and reducing income inequality are being implemented based on the Blueprint on Wealth Distribution and Poverty Eradication. At 33.4%, the unemployment rate in 2018 was extremely high, with youth unemployment rate at 46.1%. Unemployment among the youth is compounded by inadequate training and skills mismatch. Provision of quality jobs, especially for the youth is critical for tackling inequality, social stability and exploiting the demographic dividend. Despite the progress recorded over the years, high inequality persists. Namibia's Gini Coefficient (0.57) is among the highest in the world and has only reduced marginally from 0.59 in 2010.

2.5.2 GRN is implementing numerous initiatives to protect the poor and vulnerable groups. Notable among them include: (i) the universal social grant for the elderly and persons living with disabilities; (ii) child welfare grant; and (iii) the food bank initiative, designed to help the poorest in society. Public spending on social protection grew by an average 20.6% per annum, over the past decade. However, the lack of targeting remains a challenge. Public social security arrangements are principally accessible only by civil servants. 86% of spending by the Public Service Employees Medical Aid Scheme (PSEMAS) is financed from general revenue rather than members' contributions. Although expenditure by private contributory social protection schemes (pension funds and medical aid schemes) has increased from 4.3% of GDP to 6.3% since 2002, it accounts for less than half of total social protection spending in the country. 57.7% (LFS, 2018) of the employed population are in informal economy, meaning they do not benefit from any formal social protection.

2.5.3 Namibia performs relatively well on gender equality. Namibia has good policies and legislative framework to guide actions towards mainstreaming of gender perspectives in the broad development framework. GRN is committed to empowering women, reducing gender inequality, and eliminating all forms of discrimination. The country has produced a plethora of laws, policies, plans and adopted many international and regional frameworks for the advancement of gender equality. Vision

⁵ <https://www.worldbank.org/en/country/namibia/overview>

2030 recognizes “gender equity” as being one of five broad “driving forces” for realising the vision. In the 2020 Global Gender Gap Report, Namibia ranked 12th (with score of 0.784) out of 153 countries, a significant improvement from 40th out of 142 countries in 2015. The gains have largely been driven by improvement in women representation in Parliament, achievement of universal primary education and gender parity at all levels of school in terms of enrolment. However, gender disparity continues to exist in areas such as access to secondary education, access to finance and titled land. More needs to be done to strengthen the capacity of government agencies and provide requisite funding for relevant programs designed to advance gender mainstreaming in Namibia.

III – GOVERNMENT DEVELOPMENT PROGRAM

3.1 Government overall Development Strategy and Medium-Term Reform Priorities

3.1.1 Namibia’s medium-term development goals are outlined in the fifth National Development Plan (NDP5, 2017-2022). NDP5 is derived from Namibia’s Vision 2030, which aims at the attainment of high-income status by 2030. With a focus on structural transformation, NDP 5 has four strategic goals: (i) achieve inclusive, sustainable and equitable growth; (ii) build healthy and capable human resources; (iii) ensure sustainable environment and enhance resilience; and (iv) promote good governance through effective institutions. These goals are designed around four pillars: Economic Progression; Social Transformation; Environmental Sustainability; and Good Governance. NDP5 is complemented by the Harambee Prosperity Plan (HPP – 2016-2020), designed to fast-track achievement of desired development outcomes in key priority areas. GRN is currently preparing a new Economic Recovery Plan (HPP2). To support the industrialisation agenda and facilitate creation of quality jobs, GRN launched the ‘Growth at Home’ strategy in 2015. The strategy focuses on supporting value addition, upgrading and diversification; securing market access at home and abroad and improving the investment climate and conditions.

3.2 Challenges to National/Sector Development Program

3.2.1 Namibia continues to take the necessary measures to address existing and emerging challenges. Namibia’s overarching development challenge is to strengthen resilience and achieve post-pandemic economic recovery through transformative and inclusive economic growth in order to address the persistent challenges of poverty, unemployment, income inequality and spatial socio-economic disparity. It is important, not only to deal with the immediate socioeconomic impact of the COVID-19 pandemic but also to build back stronger, while laying the foundation for medium to long term sustainable development. This requires a focus on fiscal sustainability and macroeconomic stability, and private sector-driven transformation of key sectors. Attaining fiscal sustainability will require (i) improvements to domestic resource mobilization (including innovative sources of financing) and improving tax policy and administration; and (ii) mitigation of fiscal risks, particularly those related to state owned enterprises and public private partnerships. The challenge of unemployment, which has been exacerbated by the pandemic, requires a multi-pronged approach by improving policies designed to enhance private sector participation in critical sectors such as agriculture and boosting industrialization efforts. Taking steps to boost economic and social inclusion, including through MSME development and strengthening of social protection will also be critical.

3.2.2 Agriculture sector transformation is key to inclusive growth: Despite its low contribution to GDP (7.3% in 2019), the Agriculture Sector remains central to the lives of majority of Namibians since it employs over 70% of the country's population. The sector is a source of food, income, livelihood and employment. Key challenges include limited access to inputs and productive land, impact of climate

change-related extreme events (drought and floods), poor access to technology, and pest/disease outbreaks. Water sector challenges also continue to impact negatively on agriculture. Namibia continues to import both cereals and some animal meat products, especially poultry. Formalization of the beef industry remains a challenge and the economic potential of cattle farming is underutilized in communal areas. Informal, small-scale farmers supply about 80% of the beef consumed locally but are unable to tap into formal export markets. Agro-processing of locally produced cereal will help to significantly reduce the cost of animal feed, increase the competitiveness of livestock production and incentivize further downstream value addition of livestock products (meat, skins and hides, dairy, etc.) for both local and export markets. There is significant scope for increasing agriculture sector productivity and value addition, as well as incentivizing private sector operators by improving the policy framework, land tenure and access to financing (Annex 8). It is worth noting that, crop and livestock productivity has been negatively affected by recurring drought conditions. Further development of the sector will need to take cognizance of the effects of climate change. This will require the scaling of drought-resistance and climate smart seed and other related production technologies, and simultaneously provide an opportunity to drive the economic transformation that the country is calling for under its Blue - Green Economic Transformation: zero emissions; resilience; innovation; and inclusion.

3.2.3 Industrial sector development is key to economic transformation. The continued dependence on mining as one of the key growth drivers remains one of Namibia's core development challenges. This contributes to the volatility of growth, slow employment creation and income inequality. Economic diversification is therefore critical. The industrial sector contributed around 17.9% of GDP in 2019. Namibia's export base is narrow and dominated by minerals, beef and fish products, with minimal value addition. Key challenges to industrialization include the small size of the market, shortage of skilled manpower and weak entrepreneurship. Regional integration will be key in helping Namibia overcome domestic market limitations. The country has signed and ratified the COMESA-EAC-SADC Tripartite Free Trade Area and the African Continental Free Trade Area (AfCFTA) Treaty. As part of efforts to spur industrialization, the GRN has prioritized value addition in NDP5, established the Namibia Industrial Development Agency (NIDA), and continues to work on repealing the Export Processing Zone Act to be replaced by the Special Economic Zone (SEZ) Act which will increase responsiveness to investors' needs and address the weaknesses of the Export Processing Zone (EPZ) Act. Post pandemic recovery efforts, as encapsulated in the Economic Recovery Plan (Harambee Prosperity Plan 2), also include (a) a greater focus on green growth including zero-emission pathways and development of Green and Blue economy; and (b) promoting innovation. Ongoing review of appropriate policies and regulations, frameworks/strategies will help to further develop Agriculture and Industrialization and strengthen resilience.

3.2.4 The depth and speed of post-pandemic economic recovery will also depend largely on the private sector. In recognition of the foregoing, GRN is putting renewed emphasis on the implementation of economic competitiveness and business environment reforms. The introduction of the National Single Window will improve trade facilitation. The PPP Bill was passed and gazetted in 2017 and its full implementation is underway. GRN also continues to give priority to the development of Micro, Small and Medium Enterprises (MSMEs) in view of their job creation potential. An SME certification platform has also been operational since 2018. Building on the above, GRN continues to pursue strategies aimed at boosting private investment in various sectors, and strengthening agriculture value addition and industrial development.

3.3 Consultation and Participation Processes

3.3.1 In preparing the proposed operation, the Bank embarked on extensive consultations with key stakeholders. These include GRN ministries, departments and agencies, development partners, the

private sector and civil society, to get their feedback on the programme design and policy matrix. Key stakeholders consulted are generally supportive of the operation in view of its relevance to Namibia's post-COVID19 context and the focus on recovery. Fiscal sustainability was considered critical to the sustainability of the recovery effort. The choice of agriculture and industrial sectors was welcome in view of their job creation and transformational potential. The focus on economic and social inclusion was also considered appropriate, based on the need to create economic opportunities and enhance social protection effectiveness, as well as improved allocative efficiency (through better targeting). Stakeholders provided feedback on the program design and policy matrix, which has been taken into account in preparing the operation. The proposed operation is aligned with various government strategies, which were themselves subject to wide ranging consultations. The Bank's Directorate General South will ensure continuous engagement with all key stakeholders throughout the implementation of the proposed operation, including during half yearly supervision missions. Various stakeholders and beneficiaries will continue to participate in the process throughout the implementation phase.

IV- BANK SUPPORT TO GOVERNMENT STRATEGY

4.1 Link with the Bank Strategy

4.1.1 The proposed GERSP is linked to both pillars of the Bank Group's Country Strategy Paper (CSP), 2020-2024, for Namibia. These are (i) Economic Governance for Improved Business Enabling Environment; and (ii) Infrastructure Development and Promote Value Addition. It is included in the pipeline for the CSP. The operation is also consistent with the Ten Year Strategy - 2013-2022 (particularly Governance and Accountability and Private Sector Development), reinforced by the High Fives, particularly Industrialise Africa (through support to industrialization), Feed Africa (through support to agriculture), and Improve the quality of life of the people of Africa (through support to fiscal sustainability and social protection) and other Bank Group strategies, including, Governance Strategic Framework and Action Plan (and its sequel – the Strategy for Economic Governance in Africa), Industrialization Strategy, the Private Sector Development Strategy, and Feed Africa Strategy. It is consistent with Namibia's Vision 2030, and Fifth National Development Plan (NDP 5) and Harambee Prosperity Plan (including HPP2 which is the Government's new Economic Recovery Plan. GERSP's linkage with both the CSP and GRN's development agenda is summarized in Table 2 below.

Table 2: Link between the NDP5, the CSP and the GERSP		
NDP5/HPP	CSP: 2020-2024	GERSP: 2020/21-2021/22
Goals: Goal 1: Achieving inclusive, sustainable and equitable economic growth; Goal 3: Promoting Good Governance through Effective Institutions	Strategic objectives Help Namibia achieve sustained and inclusive growth through structural transformation.	Program goal Support post-COVID-19 pandemic inclusive economic recovery through improved governance and real sector reforms.
Pillars Pillar 1: Economic Progression; Pillar 2: Good Governance-through effective institutions and enhanced accountability	Strategic Pillars: Pillar 1: Support Economic Governance for improved Business Enabling Environment; and Pillar 2: Support Infrastructure Development and Promote Value Addition	Program Components (i) Attaining Fiscal Sustainability; (ii) Private sector-led Agriculture and Industrial Sector Transformation; (iii) Enhancing Economic and Social Inclusion.

4.2 Meeting the Eligibility Criteria

4.2.1 Namibia has met the Bank Group's Program-Based Operation (PBO) Eligibility Criteria (Appendix 3). Namibia fulfils the five eligibility criteria for General Budget Support in line with the Bank Group Policy on Programme Based Operations. The *Government remains committed to poverty reduction and inclusive growth*. The eradication of poverty agenda is anchored in its Fifth National Development Plan (NDP5) 2017/18–2021/22, Harambee Prosperity Plan and various sector policies and strategies. *Macroeconomic stability is satisfactory* despite the challenges of COVID-19. Government is

committed to fiscal sustainability and continues to take steps to reduce the fiscal deficit and contain the rise in public debt. *The country continues to enjoy political stability* and has consistently ranked among the top sub-Saharan African countries on good governance. *The updated CFRA shows that overall fiduciary risk for the Government is assessed as Moderate*, which allows the Bank to maintain an approach based primarily on the use of country systems. The country continues to make progress in the implementation of public financial management reforms. *The framework for donor coordination is adequate*. The Bank continues to participate in various donor coordination fora, including the High-level Development Partners' (DPs) Forum, the Development Partners Dialogue Group and the recently established COVID 19 Socio-Economic Response and Recovery Group. The detailed assessment of eligibility criteria for PBOs is presented in Appendix 3.

4.3 Collaboration and Coordination with Other Partners

4.3.1 Namibia has an elaborate coordination architecture that supports the implementation of NDP5 and other national goals. The framework for aid coordination has improved significantly since the establishment of the High-level Development Partners' (DPs) Forum in December 2016. DPs have also created a Development Partners Dialogue Group, which serves as a platform for enhancing coordination and effectiveness of international development cooperation in support of the GRN's national development priorities in line with the Paris, Accra and Busan Principles on Aid Effectiveness. The Bank has been actively participating in these meetings. In the context of coordinating support to GRN's COVID-19 response and recovery effort, the Development Partners recently established the COVID-19 Socio-Economic Response and Recovery Group. During the Preparation and Appraisal missions, the Bank convened a meeting of DPs to explore modalities for collaboration and views expressed in those meetings have been taken into account in the design of GERSP. The Bank has adequately consulted the Namibia IMF team, which is currently preparing balance of payment support under the Rapid Financing Instrument and their comments have been reflected in program design, particularly Components 1 and 2. Other DPs consulted bilaterally were *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ), who are supporting state-owned enterprise reform and SME development; UNICEF, supporting social protection; *Agence Francaise de Developpement* supporting SOE reform and PPPs; and the World Bank, who shared their perspectives and peer reviewed the PAR. The Bank will strengthen engagement with these DPs to provide technical support to GRN in designing the reforms, ensure that they are in line with international best practice, and that they are implemented in a sound manner.

4.4 Relationship with Other Bank Operations

4.4.1 The Bank Group's active portfolio in Namibia as at 9th November 2020, comprised ten operations with a total commitment of UA 558.6 million (US\$ 788.6 million) (Technical Annex V). ADB loans constitute 99% of the portfolio and 1% are grants from Middle Income Countries Technical Assistance Facility (MIC-TAF), Africa Water Facility (AWF), Special Relief Fund (SRF) and Rural Water Supply and Sanitation Initiative Trust Fund (RWSSI TF). According to the portfolio flashlight, 64% were green while 36% were red flagged. The average age of the portfolio is 2.5 years with a disbursement rate of 58%. The financial sector dominates the ongoing portfolio at 36%, followed by transport, water and sanitation and multi-sector sectors at 16% each and 8% each for agricultural and social sectors. The portfolio is distributed across the following four of High 5 areas: Improve the quality of life for the people of Africa (40%); Industrialise Africa (36%); Integrate Africa (16%); and Feed Africa (8%).

4.4.2 The proposed operation has strong synergies with the ongoing portfolio. Component 1 (Attaining fiscal sustainability) will complement the recently completed EGCSF and ongoing PPP

project. While the EGCSP supported the development of the PPP legal, regulatory and institutional framework, the MIC TAF financed PPP project continues to support PPP capacity building. Supporting reforms to improve the performance of state-owned enterprises and enhance mobilization of private financing through PPPs will help to reduce fiscal risks and enhance on-going fiscal sustainability measures. Component 2 (Private sector-led Agriculture and Industrial Sector Transformation) will complement the ongoing Agriculture Mechanization and Seed Improvement project; Water Sector Support Program; Transport Infrastructure Improvement Project; and Line of Credit to the Development Bank of Namibia (financing infrastructure, logistics and manufacturing). Component 3 (Enhancing Economic and Social Inclusion) will complement the Education and Training Quality Improvement Project. The table below presents lessons learnt (including PBOs in other countries) and how they have been reflected in programme design.

Table 3: Key lessons learnt from ongoing/past operations	
Key lessons learned	How lessons are incorporated into the new operation (GERSP)
(i) Government ownership of the reform effort is critical to the success of the program	(i) Measures supported by the GERSP are informed by the strategic orientation provided by the Government, including key strategies such as HPP2 (Economic Recovery Plan). The indicators, prior actions and triggers are fully owned by GRN and are realistic and achievable in the time frame of the program.
(ii) Effective donor coordination is critical to the success of PBOs	(ii) In preparing and appraising this operation the Bank undertook extensive consultations with development partners to seek their input for improved design. Bilateral consultations were also held with IMF and other partners such as UNICEF and GIZ
(iii) Complementary TA is necessary in the context of capacity challenges in Namibia	(iii) In addition to the Bank's ongoing PPP Technical Assistance project (supporting PPL and public procurement)[, the Bank will explore Trust Fund funding options and work closely with other DPs to tap into their available TA funds to support critical aspects of the operation such as DRM and SOE reform.
(iv) Flexibility is necessary	(iv) The operation uses a programmatic approach which introduces flexibility into the policy matrix for subsequent phases of the program
(v) Need to maintain continuous policy dialogue	(v) The Bank will utilise sector expertise and build on the strong engagement currently being led by RDGS to ensure continuous policy dialogue

4.5 Analytical Work Underpinnings

4.5.1 The design of the proposed GERSP was underpinned by numerous analytical and diagnostic works and country reports carried out by the Bank and other development partners. The key findings of these analytical works have helped to shape the design of the operation. The program is guided by the Bank's Namibia Country Diagnostic Note (November 2019); IMF Article IV Consultation Report (September 2019); Does Fiscal Policy Benefit the Poor and Reduce Inequality in Namibia? (World Bank 2017); UNDP Human Development Report (2019); Public Expenditure and Financial Accountability (PEFA) Assessment (2015); and Global Competitiveness Report 2019. Country policies and strategies, such as the NDP5; Namibia Industrial Policy; Namibia's Growth at Home Strategy (Execution Strategy for Industrialization); MSME Policy; Financial Sector Development Strategy; Mid-year Budget review and Medium-Term Budget Policy Statement (October 2020) also informed the operation's design.

V. THE PROPOSED PROGRAM

5.1 Program Goal and Purpose

5.1.1 The goal of the proposed operation is to strengthen resilience and enhance inclusive post-pandemic economic recovery through improved governance and real sector reforms. The program will support Namibia's medium to long term development agenda by building on the achievements of the EGCSP, with particular emphasis on enhancing fiscal performance, revival of critical sectors of the economy, development of Micro, Small and Medium Enterprises (MSMEs), and social protection.

5.2 Program Components

5.2.1 The package of reforms under the proposed program is organised around three mutually reinforcing and complementary components. Component 1, *Attaining Fiscal Sustainability*, will enhance macroeconomic performance and create fiscal space for the prioritization of capital and social spending by helping to enhance domestic resource mobilization and mitigate fiscal risks (including those related to SOEs and PPPs). Component 2, *Supporting Private sector-led Agriculture and Industrial Sector Transformation*, will support the strengthening of the policy framework for agriculture and industrial sector productivity and value addition, and enhanced private sector participation, with environmental sustainability in mind. The link between the two sectors is important as agriculture value addition can serve as springboard for industrialization. Implementation of the proposed measures will reinforce the fiscal sustainability measures through increased tax revenue expected to be generated from more vibrant agriculture and industrial sectors. Component 3, *Enhancing Economic and Social Inclusion*, will support the development of the MSME framework, social protection and gender mainstreaming. It is a balanced program combining fiscal and sector-specific reforms while supporting measures geared towards enhancing inclusion. The expected overall impact is: (i) an increase in Agriculture and industrial sector contribution to GDP; (ii) increase in Private sector Gross fixed capital formation as share of GDP.

Component 1: Attaining Fiscal Sustainability

5.2.2 Challenges and Constraints: GRN has been implementing a fiscal consolidation program since 2016, with the objective of preserving macroeconomic stability, while safeguarding capital and social spending. The reforms, which were supported by the Bank's EGCSP operation, entail a wide range of revenue enhancing and expenditure rationalization measures. The COVID-19 pandemic has had significant negative impact on the Namibian economy in terms of negative growth, significant job losses and reduced private investments. It is therefore important to implement further measures designed to attain fiscal sustainability otherwise gains recorded face risk of reversal.

5.2.3 Recent Government Actions: GRN has taken a number of steps geared towards enhancing revenue collection, reducing expenditure (including the wage bill), containing the fiscal deficit and managing debt within sustainable levels. Steps are being taken to operationalise Namibia Revenue Agency (NAMRA). The Commissioner has been appointed and secondment of staff to NAMRA has been approved by Cabinet. Measures to strengthen the integrated tax administration system are also under way. Cabinet has also granted approval, in principle, to establish a national sovereign wealth fund (SWF). This is an important measure to serve as stabiliser in the short term and a vehicle for inter-generational savings and catalyst to invest into high impact development projects in the country, in the long term. A SWF Committee has been constituted and has started drafting the Framework of the proposed SWF. In this regard, several benchmarking engagements have taken place with the Republic of Chile, Botswana and Norway. Following enactment of the Public Enterprise (PE) Governance Amendment Bill in 2018, the Government has rolled out a governance scorecard to help monitor compliance of PEs with the requirement of the Act. Plans are underway to list the shares of Namibia Mobile telecommunications Company (MTC) on the Namibia stock exchange. 49% of the shares will be sold and the proceeds will go into the SWF. The PPP framework (Policy, Law and Regulations) is now in place. However, the lack of project preparation resources continues to slow down the offtake of PPPs and the issue of fiscal risks related to contingent liabilities remains a concern.

5.2.4 Program Activities: The proposed operation will support fiscal sustainability, with particular emphasis on enhancing revenue performance and expenditure rationalization. Given that fiscal consolidation can be contractionary, the main focus is on revenue generation, and a few measures on the expenditure side, targeting expenditure rationalization and mitigating fiscal risks rather than broad

expenditure cuts. The program will support: (i) measures to improve domestic resource mobilization (such as secondment of staff from the Inland Revenue and Customs & Excise Departments to NAMRA; approval by Cabinet, in principle, to establish a national sovereign wealth fund; and (ii) measures to mitigate fiscal risks related to SOEs, and PPPs (such as rollout of the SOE governance score card; and development of PPP screening framework and appraisal guidelines).

5.2.5 The second operation under the programmatic series will support further actions to enhance fiscal performance. These include: launching of Namibia Revenue Agency (NAMRA); development of a framework to assess and monitor contingent liabilities; re-engineering of the VAT refunds audit process; rationalization of tax exemptions; finalization and approval of public enterprise ownership policy; completion of diagnostic audits of selected SOEs; rollout of an integrated SOE performance management framework; development of guidelines for evaluation of unsolicited PPP proposals; and establishment of a PPP project preparation fund.

5.2.6 Policy actions supported by the proposed operation will result in the enhancement of fiscal performance. Expected results include: (i) an improvement in the fiscal deficit/GDP ratio from 10.1% in 2020/21 to 7.3% in 2021/22).

Component 2: Supporting Private sector-led Agriculture and Industrial Sector Transformation

5.2.7 Challenges and Constraints: Key challenges of the **Agriculture sector** include limited access to inputs and productive land, impact of climate-related extreme events (drought and floods), limited access to technology (particularly clean technology), and pest/disease outbreaks. Water sector challenges also continue to impact negatively on agriculture. Formalization of the beef industry remains a challenge and the economic potential of cattle farming is underutilized in communal areas. Informal, small-scale farmers supply about 80% of the beef consumed locally but are unable to tap into formal export markets. Crop and livestock productivity has been negatively affected by recurring drought conditions. There is significant scope for increasing agriculture sector productivity and value addition, as well as incentivizing private sector operators by improving the policy framework, land tenure and access to financing. Key challenges to **industrialization** include the small size of the market, shortage of skilled manpower and weak entrepreneurship. Improving the policy framework is necessary to spur industrialization. The Export Processing Zone (EPZ) Act also has inherent weaknesses that need to be addressed. These include the lack of adequate regulation guiding private sector participation, inadequate forward and backward linkages with the domestic economy and the overly generous fiscal incentives which negatively impacts revenue mobilization. There are also concerns that the country could be blacklisted as a tax haven by the EU. Regional integration will be key to helping Namibia overcome domestic market limitations.

5.2.8 Recent Government Actions: GRN has taken several steps to improve the agriculture and industrial sectors. In **Agriculture**, the merger of the Ministry of Agriculture, Water and Forestry (MAWF) with Ministry of Land Reform (MLR) into the Ministry of Agriculture, Water, and Land Reform (MAWLR) has created the need to enhance inter-related dimensions of the 3 Sectors. MAWLR is in the process of reviewing Agriculture Policy and National Drought Policy in order to, among other things, better deal with emergencies like drought, floods, pests and disease outbreaks. The construction of the largest dam in Namibia, the Neckartal Dam was completed in 2020. This dam has holding capacity of 857 million cubic meters of water, which is sufficient to irrigate over 5000ha of agricultural land over a period of 4 years. Taking full advantage of the water resources from this dam could potentially change Namibia's food and nutrition security situation, that is, from a net food importing country into a net exporter. The Government also plans to develop a Green – Blue Namibia Economic Recovery Programme (GB-ERP) within the context of second Harambee Prosperity Plan (HPP2). The GB-ERP will enable Namibia meet its climate change commitments and mobilize a targeted N\$2 billion for investment in green and blue projects to address climate adaptation and mitigation in the agriculture and fisheries sectors. In **Industry**, Namibia Industrial Development Agency (NIDA) has a new Board which

is currently developing an integrated business plan. The Namibia Investment Promotion and Development Board was operationalised on 1st January 2021. SADC Protocol on Industry was approved by Cabinet in November 2020 and will be tabled by parliament before the end of the current fiscal year. The Protocol will support the promotion of industrial value chains within member states, collaborating on MSME, and enhanced health quality standards. The latter will help facilitate access to international markets. Government has taken initial steps to repeal the Export Processing Zone (EPZ) Act by removal of the generous incentives through Gazette. The existing EPZs have failed to attract quality investments and create the anticipated number of jobs. The repeal and replacement of the Act will help to reduce revenue losses and address lingering concerns that Namibia may be designated as a tax haven, among others. The draft National Policy on Sustainable Economic Zones is undergoing consultations and is expected to be approved by September 2021. This will be followed by a Special Economic Zone (SEZ) Act. A draft SEZ Bill has already been prepared. Special Economic Zones will attract export-oriented manufacturing activities, build on ongoing development and expansion manufacturing value chains, and promote environmental sustainability. With the help of GIZ, the Ministry of Industrialization and Trade has developed growth strategies and associated value chains for several sectors, including the cosmetic industry, sea food, agribusiness, metal fabrication, handicraft, leather, jewellery and colored gemstone, Swakara wool, and Taxidermy industry. Sector associations were established to drive the private sector led implementation of the various strategies.

5.2.9 *Programme Activities:* The proposed operation will support measures to enhance agriculture sector productivity, climate-smart agriculture, value addition and private sector participation, mainly as part of initiatives under the second phase of the operation. Focus of sector transformation in the recent past has been mainly on development of green schemes and water infrastructure. The Government has allocated significant amount of resources to finance the construction of a Nekartal Dam which is critical to agriculture development. Measures to support industrial development include the (a) Cabinet approval of the Economic Recovery Plan (HPP2); (b) Cabinet approval of the SADC Protocol on Industry; and (c) Incentives under the Export Processing Zone Act repealed by Government Gazette.

5.2.10 The second operation under the programmatic series will support measures to further enhance agriculture and industrial sector performance. In Agriculture, these include revision of the agriculture policy and national drought policy and strategy; and approval of GB-ERP strategies, plans and frameworks under HPP2. In industry, measures include development of special economic zones, including through the approval and implementation of the National Policy on Sustainable Economic Zones and the Special Economic Zones Act.

5.2.11 Policy measures supported by the GERSP will help to increase private investments in agriculture from N\$2,358 million in 2019 to N\$2,547 million (2022); and industry from N\$786 million in 2019 to N\$865 million (2022).

Component 3: Enhancing Economic and Social Inclusion

5.2.12 *Challenges and Constraints:* Namibia's major development challenge is to address poverty, unemployment, income inequality and spatial socio-economic disparity. These challenges, which have been exacerbated by the COVID-19 pandemic, are deep-rooted and require major reforms. Public spending on social protection has grown rapidly over the past decade but high inequality persists. Namibia's Gini Coefficient (0.57) is among the highest in the world and has only reduced marginally from 0.59 in 2010. Taking steps to boost economic and social inclusion, including through MSME development, women's economic empowerment and strengthening social protection, including through better targeting, will be critical.

5.2.13 *Recent Government Actions:* The Government of Namibia has taken numerous steps with a view to enhancing economic and social inclusion. In order to deal with the socioeconomic impact of COVID-19, the Government approved an economic stimulus and relief package amounting to NAD 8.1

billion. Some of this financing was directed at supporting businesses, including COVID-19 grants for 600 start-ups. SME Incubator hub was launched in December 2020 and now has about 120 start-ups, 80% of which are female run. The related digital centre provides digital skills to SMEs/start-ups so that they can be more conversant with e-commerce. A National Informal Economy and Entrepreneurship Development Policy has also been developed and steps are being taken to strengthen the policy framework for social protection and gender mainstreaming.

5.2.14 *Program Activities:* The proposed operation will support a range of measures. These include: (i) launching of the SME Incubation Hub and SME digital centre; (ii) Credit Guarantee Scheme operationalised by the Development Bank of Namibia.

5.2.15 The second operation under the programmatic series will support further actions to build on achievements in enhancing inclusion. These include the development of a national SME fund; Cabinet approval of the National Informal Economy and Entrepreneurship Development Policy; Establishment of unified social grants registry as first step towards social protection policy; and Cabinet approval of National Women's Economic Empowerment Framework (NWEFF).

5.2.16 Policy actions supported by the proposed operation will result in: (i) an increase in the number of SMEs registered from 110 per annum (2017-2019) to 200 per annum (2020-2022); and (ii) an increase of social protection coverage from 280,843 (2019) to 320,000 (2022).

5.3 Policy Dialogue

5.3.1 Dialogue with the Authorities will focus on four key areas: (i) The fiscal impact of the COVID-19 pandemic and the need to enhance domestic revenue mobilization; explore alternative sources of financing; manage debt within sustainable levels; consider best practices in establishing the sovereign wealth fund; (ii) mitigate fiscal risks related to state owned enterprises and public private partnerships; (iii) improve targeting of social protection schemes, in particular to ensure their efficiency and effectiveness; and (iv) pursue reforms to transform the agriculture and industrial sectors, as part of post-COVID-19 economic recovery efforts;

5.4 Loan Conditions

5.4.1 Prior Actions for 2020/21 and indicative triggers for phase 2 of the operation: Before the proposed operation is presented to the Board for approval, the prior actions presented in Table 4 below would have been met by the authorities and the required documentary evidence submitted to the Bank. Appendix 5 also shows indicative policy actions that will serve as triggers for the second phase of the operation, subject to modification during the preparation of the streamlined program appraisal report in 2022. All the prior actions and triggers are drawn from the matrix jointly agreed between the Government of Namibia and the AfDB during the program appraisal mission.

Table 4: GERSP Prior Actions and Required Evidence for FY 2020/21		
	GERSP Prior Actions	Evidence required
	Attaining Fiscal Sustainability	
1	Cabinet approval in principle of the proposed deployment/secondment of staff from the Inland Revenue and Customs & Excise Departments to NAMRA	Letter from the Minister of Finance confirming Cabinet approval in principle of the deployment/secondment of staff from Inland Revenue and Customs and Excise Departments to NAMRA; together with copy of Cabinet Action Letter.
2	Approval in principle by Cabinet, to establish a National Sovereign Wealth Fund	Letter from the Minister of Finance confirming Cabinet decision to establish a Sovereign Wealth Fund, together with a copy of the Cabinet Action Letter.

3	PPP screening framework and Appraisal Guidelines approved by the PPP Committee	Letter from the Minister of Finance confirming approval of the PPP screening framework and appraisal guidelines, together with a copy of the PPP Committee Resolution approving the framework and the guidelines.
Supporting Private sector-led Agriculture and Industrial Sector Transformation		
4	Harambee Prosperity Plan 2 (Economic Recovery Plan) cleared by the Deliberative Cabinet	Letter from the Minister of Finance confirming the Deliberative Cabinet approval of HPP2, together with a copy of the document.
5	(a) Incentives under the Export Processing Zone Act repealed by Government Gazette; and (b) SADC Protocol on Industry approved by Cabinet	Copy of the Gazette repealing incentives under the Export Processing Zone Act; and (b) Letter from the Minister of Finance confirming Cabinet approval of the SADC Protocol, together with a copy of the Cabinet Action Letter
Enhancing Economic and Social Inclusion		
6	Credit Guarantee Scheme operationalised by the Development Bank of Namibia	Letter from the Minister of Finance confirming the operationalization of the Credit Guarantee Scheme, together with copy of communication from Development Bank of Namibia providing details of the scheme.

5.5 Application of Good Practice Principles on Conditionality

5.5.1 The design of the proposed GERSP is in line with good practice principles on conditionality. The reform policy matrix is fully owned by GRN. This is reflected in its policy reform program (Letter of Development Policy, Appendix 1). The program was designed in line with GRN's reform program and the prior actions and indicative triggers were derived from the government's development program. Adequate steps have been taken to ensure harmonization with development partners' programs and operations in Namibia. Details of compliance with Good Practice Principles of Conditionality are outlined in Technical Annex 3.

5.6 Financing Needs and Arrangements

5.6.1 The GRN estimates the budget deficits for the fiscal years 2020/21 and 2021/22 at N\$17.6 billion, N\$12.9 billion, respectively (Table 5 from GRN sources). The budget deficits (as a percent of GDP) for the 2020/21, 2021/22 fiscal years are projected at -9.9% and -7.3% respectively. The total deficit over the two-year period (2020/21 – 2021/22) adds up to N\$30.5 billion. For 2020/21, the government plans to finance the nominal deficit

Table 5: Financing Requirements and Sources, 2020/21-2021/22			
	FY2019/20	FY2020/21	FY2021/22
	N\$ Million	N\$ Million	N\$ Million
GDP	178,940	174,063	183,139
Total revenue and grants	58,525	55,179	55,586
<i>Of which: grants (excl. budget support)</i>	1,140	266	73
Total expenditure and net lending	67,343	72,772	68,480
<i>Of which: interest payments</i>	6,951	7,737	8,503
<i>Of which: capital expenditure</i>	6,906	6,510	6,890
Overall balance (cash basis) (A - B)	-8,818	-17,593	-12,894
Accumulation of arrears	N/A	N/A	N/A
Overall balance (commitment basis) (C - D)	-8,818	-17,593	-12,894
External financing (net – minus Bank)	-	4.1	-
Domestic financing (net)			
AfDB PBO (GERSP)	2,011	1,500	TBD

with the AfDB budget support of N\$1.5 billion. The balance will be financed from the domestic market.

5.7 Application of Bank Group non-concessional borrowing policy

5.7.1 Namibia is classified as an ADB country and is, therefore, only eligible for financing under the ADB non-concessional window. Although debt levels are set to rise to relatively elevated levels,

the debt load and the government's fiscal position is expected to remain sustainable over the short-to-medium term. Total debt will continue to increase in the short term, peaking in 2021, gradually falling thereafter.

5.7.2 The proposed loan under the GERSP is to be denominated in South African Rand (ZAR).

By enabling the Government to secure funding at lower interest rates and at a longer maturity than elsewhere, the proposed loan should help to improve the composition of Namibia's public debt structure. Furthermore, given the Namibian dollar's peg to the ZAR and Namibia's membership of the Common Monetary Area, the proposed loan's ZAR denomination should help achieve the dual objectives of attaining favourable terms for external debt and increasing foreign exchange reserves. Overall, this is expected to avoid a further worsening of the country's credit rating, particularly in the context of the significant pressures emanating from the COVID-19 related economic challenges.

5.7.3 Namibia is eligible to borrow from the ADB non-concessional window. The operation supports the Government of Namibia's plans to mobilize resources to finance its development needs as part of efforts to attain post-pandemic economic recovery. The intervention has a development focus, with capacity to generate returns, create jobs and impact on economic competitiveness. It will provide fiscal space to increase development spending, and support reforms to address fiscal and business environment challenges and enhance macroeconomic stability and economic transformation.

VI. OPERATION IMPLEMENTATION

6.1 Beneficiaries of the Program

6.1.1 **The program's direct beneficiaries are the various Ministries, Departments and Agencies whose reforms are being supported by the operation.** These are the Ministry of Finance; Ministry of Industrialization and Trade; Ministry of Public Enterprises; Ministry of Agriculture, Water and Land Reform; Ministry of Poverty Eradication and Social Welfare; and Ministry of Gender Equality. The private sector will benefit from improved investment opportunities in agriculture and industry (including in special economic zones), and PPP opportunities. The MSMEs will benefit from improved policy framework and access to affordable finance. Entrepreneurs in the formal and informal sectors will benefit from job opportunities as well as higher retention rates in targeted industries. The program will ultimately indirectly benefit all citizens of Namibia as enhanced fiscal performance will help to expand fiscal space for development and pro-poor spending; and climate-sensitive sector reforms will help to attract private investments for green growth and job creation. The operation will contribute to strengthened policy frameworks for economic empowerment of women and is a category III on the Gender Marker System.

6.2 Impact on Gender, Poor and Vulnerable Groups

6.2.1 **Impact on gender:** The reforms supported by this operation will positively influence efforts geared towards reducing gender inequality. These include the *National Women's Economic Empowerment Framework (NWEFF)* which aims to accelerate economic empowerment of Namibian women across all sectors and all levels. The document is currently awaiting Cabinet approval. The measures supporting enhanced fiscal performance will help to create fiscal space to finance programs that support women. The agriculture focus on component 2 will also directly benefit women who are active in the sector. Policies and actions under Component 3 will facilitate the growth of micro, small and medium enterprises (MSMEs), in which women are very active. The support to social protection will also significantly benefit women who comprise a significant share of the poor and vulnerable population in Namibia. The operation is classified as Category III on the Gender Marker System.

6.2.2 Impact on poor and vulnerable groups: The reforms supported by this operation will positively influence poverty reduction and vulnerability in Namibia. Ongoing schemes include the universal social grant for the elderly and persons living with disability, child welfare grant and food bank initiative. Public spending on social protection has grown steadily over the past decade. However, budget cuts to consolidate public finances amid a slowdown in economic activity in recent years has narrowed the fiscal space to increase social sector spending. By helping to improve fiscal performance and efficiency of social spending, the GERSP will give a boost to the transformation of both economic and social sectors, and positively impact the poor and vulnerable groups. It will help GRN to fulfil its commitment to ensuring adequate funding for key social sectors. By supporting reforms in the area of social protection, particularly the social protection policy, the proposed program is likely to positively impact millions of Namibians currently living in conditions of poverty and vulnerability.

6.3 Impact on Environment and Climate Change

6.3.1 The GERSP is classified as Category 3, in accordance with the requirements stipulated in the Bank's Integrated Safeguard System (ISS) and the Environmental and Social Assessment Procedures (ESAP). The justification for this category is on the basis that it is a budget support operation and the proposed measures are not expected to generate any environmental and social risks. GRN is committed to environmental protection, socio-economic and sustainable development as articulated in the Vision 2030, the National Development Plan and the Environmental Management Act 2007. The program does not pose climate risk. Rather, it will help to advance the national climate change and green growth agenda through the mainstreaming of climate change considerations in relevant project activities (Component 2), in alignment with national priorities including the Nationally Determined Contributions (2015).

6.4 Impact on Private Sector Development

6.4.1 The GERSP is expected to have a positive impact on Namibia's economic competitiveness and private sector development. Component 1 (Attaining Fiscal Sustainability) will help create macroeconomic stability, which is necessary for attracting long term private investments. It will help to create fiscal space for increased investment in infrastructure and therefore enhance Namibia's economic competitiveness, reduce the cost of doing business, and boost private sector development. Reforms targeting PPP and SOE-related fiscal risks will help to improve efficiency of public spending, minimise leakages and help to lay the foundation for attracting long term private investments. Support to private-sector led agriculture and industrial sector transformation (component 2) will create major boost to the private sector in these two areas through improved policy environment. Support to MSME development will also create opportunities for micro, small and medium enterprises through improved policy environment and increased access to finance.

6.5 Implementation, Monitoring and Evaluation

6.5.1 Implementation Institutional Framework: The Ministry of Finance will serve as the executing agency for GERSP. It will be responsible for the overall coordination of the programme, by working closely with other Ministries, Departments and Agencies. Through the implementation of the EGCSF program, the Ministry of Finance has demonstrated that it has the necessary capacity to coordinate the implementation of the program. The Bank continue to provide capacity building support through MIC-TAF Grants, to complement ongoing support by other Development Partners.

6.5.2 Monitoring and Evaluation Arrangements:

The Operations Policy Matrix (Appendix 4 agreed between the Namibian Authorities and the Bank, as well as the quantitative and qualitative indicators outlined in the Results-based Logical Framework, will constitute the instruments for monitoring and evaluation of the operation. The Ministry of Finance, with the support of the National Statistics Agency and other relevant bodies, will be responsible for collecting data and coordinating monitoring and evaluation. The Bank will monitor the implementation of the Program through regular supervision missions and constant follow-ups, to assess progress achieved based on the agreed indicators and prior actions. The Southern Africa Regional Development and Business Delivery Office (RDGS) will play a critical role in follow-up of implementation and monitoring of program results and, in particular, drive the policy dialogue with Government and maintain regular consultations with Development Partners. Following completion of the operation, a Program Completion Report (PCR) will be prepared, to evaluate progress against the Results-Based Logical Framework and draw lessons for future operations. See Appendix 6 for M&E Arrangements.

6.6 Financial Management, Disbursement and Procurement

6.6.1 **Fiduciary Risk Assessment (CFRA):** The updated 2020 CFRA carried out in accordance with the Bank's guidelines, shows that overall fiduciary risk for the Government is assessed as **Moderate**, which allows the Bank to maintain an approach based primarily on the use of country systems. Namibia has continued to make progress in implementation of PFM reforms in several areas. However, the CRFA has identified a number of risks that need to be addressed. These include outdated core PFM legislation due to delays in finalizing the proposed Public Financial Management Bill; the existence of some OMA bank accounts still operating outside treasury control; accounting for donor resources outside the IFMIS; and the lack of integration between personnel and payroll records, and the risks to payroll integrity that this poses. Annex 2 presents the detailed CFRA.

6.6.2 Financial Management, Audit and Reporting Requirements

6.6.2.1 The Debt Management Unit within the Ministry of Finance will play a central role in the financial management of the program, including overseeing the drawdowns, planning for the use of funds, related controls, reporting as well as arrangements for oversight. The loan proceeds will be credited to a designated account denominated in ZAR, to be indicated by GRN and opened at the Bank of Namibia (BoN), in accordance with the AfDB disbursement procedures. GRN will be required to acknowledge receipt of the funds, and to provide confirmation to the Bank that an amount equivalent to the loan proceeds in local currency has been credited to the Treasury Account within two weeks of the disbursement from the Bank. The programme will rely on the external audit of the Government by the Auditor General and GRN will be required to share a copy of the full audit of the consolidated fund for the years in which the disbursements take place.

6.6.2.2 **Procurement:** The Borrower procurement system will be used for all procurements undertaken using the program funds, in line with the Bank's policy on PBOs.

VII – LEGAL DOCUMENTATION AND AUTHORITY

7.1 Legal Documentation

7.1.1 The Loan Agreement between the African Development Bank and the Republic of Namibia.

7.2 Conditions Associated with the Bank’s Intervention

7.2.1 Conditions Precedent to Entry into Force of the Loan Agreement: The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank.

7.2.2 Prior Actions: Before the proposed operation is presented to the Board, GRN shall have provided evidence, satisfactory in form and substance to the Bank, that the prior actions for the GERSP outlined in Table 4 have been fully fulfilled.

7.2.3 Conditions precedent to disbursement of the funds of the GERSP: Disbursement of the loan amount of 1.5 billion Rand (ZAR) shall be conditional upon the entry into force of the Loan Agreement, and the transmission to the Bank of the details of a ZAR-denominated account opened with the Bank of Namibia for purposes of receiving the proceeds of the Loan.

7.2.4 A Streamlined Appraisal Report (SAR) for the second year of the programmatic series (GERSP II) will be prepared at the end of phase I of the operation in 2022 and presented to the Board for approval. The SAR for the second year will indicate, inter alia, any applicable prior actions adopted before Board presentation and/or any conditions precedent to disbursement. A separate loan Agreement shall be prepared for each phase of the programmatic operation.

7.3 Compliance with Bank Group Policies

7.3.1 The proposed GERSP complies with all applicable Bank Group policies and guidelines. The key Bank Group Guidelines and policies applied to this Program are the following: (i) Bank Policy on Program-Based Operations (2012), (ii) the Bank Group Ten-Year Strategy (2013-2022); (iii) the Governance Strategic Framework and Action Plan and its successor Strategy for Economic Governance in Africa (SEGA), (iv) the Revised Staff Guidance on Quality-at-Entry Criteria and Standards for Public Sector Operations, (v) the Private Sector Development Strategy, (vi) Industrialization Strategy, (vii) Feed Africa Strategy; and (viii) Guidelines on Product and Pricing for MICs (2009); and Bank Group’s Credit Policy on non-concessional financing.

VIII- RISK MANAGEMENT

8.1 The risks and mitigation measures of the program are presented in table 6 and Appendix 7.

Table 6: GERSP Risk and Mitigation Measures	
Risk	Mitigation measures
<i>Risk 1: Macroeconomic risks:</i> Namibia’s vulnerability to exogenous shocks remains a major source of risk. This has been heightened by the COVID19 pandemic and uncertainties around SACU revenues.	Continue implementing reforms designed to contain the fiscal deficit, bring public debt on a declining path, and address structural challenges.
<i>Risk 2: Fiduciary risk:</i> Some areas of weakness include the legal and regulatory framework and capacity to implement the procurement framework.	Continue strengthening the procurement framework and level of compliance and implement other PFM reforms including internal and external audit and follow through on outstanding legislations such as the PFM Bill.
<i>Risk 3: Social impact risk:</i> The current challenging fiscal environment poses risks to social sector spending with potential negative social ramifications. This challenge is exacerbated by the revenue shortfall related to the pandemic.	<i>Mitigation:</i> Continue to ring-fence and increase pro-poor spending and strengthen social safety nets through better targeting.

IX- RECOMMENDATION

9.1 Management recommends that the Board of Directors approve an ADB loan not exceeding 1.5 billion South African Rand (ZAR 1.5 billion) to the Republic of Namibia, for the fiscal year 2020/21 for the purposes, and subject to the conditions, stipulated in this report. Management invites the Board to note that this operation is part of a 2-year programmatic series, for the period 2020/21-2021/22.

APPENDIX I: LETTER OF DEVELOPMENT POLICY

6-0/0140



REPUBLIC OF NAMIBIA

MINISTRY OF FINANCE

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NAMIBIA

24 February, 2021

Akinwumi A. Adesina,
President: Africa Development Bank
Immeuble CCIA - Plateau Abidjan
BDIR 4th Floor
Avenue Jean Paul II, 01 BP 1387
ABIDJAN 01,
COTE D'IVOIRE

Dear President Adesina,

**RE: Republic of Namibia Governance and Economic Recovery Support Program
(GERSP) Letter of Development Policy**

- 1) On behalf of the government of Namibia, I hereby write to request the approval of a program-based loan for the Republic of Namibia focusing on strategies to revive the economy and progress toward debt stabilization, including measures to attain fiscal sustainability, to promote private sector-led agriculture and industrial sector transformation, and to enhance economic and social inclusion. This loan will support Namibia in its ongoing reform process and will serve as a major boost in the development of private sector competitiveness and the promotion of inclusive growth and job creation.
- 2) This letter of development policy details the relevant reform measures that the Government of Namibia is implementing, and that will lay the foundation for reviving and stabilize the economy post-COVID-19. The reforms, which are aligned to the Government Action Plan (The Harambee Prosperity Plan - HPP) and the fifth National Development Plan (NDP 5) (2017 – 2022) will help the country to make progress towards attaining fiscal sustainability (focusing on reducing expenditure, maximizing domestic resources mobilization and structural

reforms), achieving private sector-led agriculture and industrial sector transformation advancing economic and social inclusion. NDP 5 is derived from Namibia's Vision 2030, which aims at the attainment of high-income status by 2030 and is complemented by the Harambee Prosperity Plan (HPP – 2016-2020), designed to fast-track achievement of desired development outcomes in key priority areas. HPP is currently under revision.

Namibia's Medium-Term Development Goals

- 3) Namibia's medium-term development goals are outlined in the fifth National Development Plan (NDP5, 2017-2022). The NDP5 is derived from Namibia's Vision 2030, which aims at the attainment of high-income status by 2030. With a focus on structural transformation, NDP 5 has four strategic goals: (i) achieve inclusive, sustainable and equitable growth; (ii) build healthy and capable human resources; (iii) ensure sustainable environment and enhance resilience; and (iv) promote good governance through effective institutions. These goals are designed around four pillars: Economic Progression; Social Transformation; Environmental Sustainability; and Good Governance. NDP5 is complemented by the Harambee Prosperity Plan (HPP – 2016-2020)¹, designed to fast-track achievement of desired development outcomes in key priority areas. The Government of the Republic of Namibia (GRN) is currently preparing a new Economic Recovery Plan (HPP2).

Macroeconomic Stability

- 4) In spite of the COVID-19 crisis, the Namibian economy remains generally stable and is expected to return to positive trajectory in 2021 with growth projected at 2.1% as headwinds subside alongside the worst of the global health crisis. The Government of Namibia continues to take steps to improve fiscal performance and contain debt, which has been rising but remains sustainable. Steps are also being taken to contain rising fiscal deficit, projected at 9.9% for 2020/21, due in large part, to a surge in expenditure to address the economic and social impact of COVID-19. Consequently, it is expected that fiscal deficit will narrow to 8.3% of GDP in FY2021/22. Public debt is expected to rise to 68.4% of GDP by the end of 2020/2021 and to 73.2% of GDP by the end of 2021/2022, up from an estimated 56.1% of GDP in 2019/2020.

GDP performance and Growth Outlook

- 5) From a contraction of 1.6% in 2019, the Namibian economy is expected to contract by 7.3% in 2020 amidst the ongoing global COVID-19 pandemic. The adverse impact of the pandemic has weighed heavily on a broad range of sectors that were already under pressure, following a full-year recession in 2019 when GDP contracted by 1.6%. Growth declined further by 10.5% in third quarter of 2020 and this was further aggravated by extension of Health Regulation. However, weak external demand, limited fiscal space, ongoing restrictions on foreign visitors, amongst others, could pose a risk to a quick bounce back of economic activities.
- 6) The economy is likely to return to positive growth of 2.1% in 2021 as headwinds subside alongside the worst of the global health crisis. Demand in key trade partners such as South Africa, China and the European Union will pick up as the effects of lockdown measures in those markets fade. Meanwhile spending pressures related to the health response in Namibia

¹ HPP 2 is currently under preparation



will subside, meaning that the government will be able to reprioritize more productive areas for spending. Additionally, foreign tourist and domestic confidence is likely to improve with more clarity on the trajectory of the virus. However, the recovery will take some time to gather momentum given lingering uncertainties and imbalances that have built up over recent quarters, and there are downside risks to growth forecasts for both 2020 and 2021 stemming from the possibility that virus outbreak is not brought under control as efficiently as expected.

Fiscal policy and public debt

- 7) Namibia's fiscal policy in the early part of Medium Term Expenditure Framework (MTEF) is geared toward mitigating the impacts of the pandemic, save lives, prevent excessive economic disruption and ensure a smooth return to business. Consequently, fiscal deficit is projected to widen to 9.9% in 2020, due in large part to a surge in expenditure and headwinds to fiscal revenues as the global COVID-19 pandemic weighs on economic activity. Government is expected to resume fiscal consolidation from FY 2021/22, and the 2021/22-2023/24 MTEF will focus on strategies to revive the economy and work toward debt stabilization. MTEF will also focus on developing various measures to support the economy and return to long-term sustainable path. These include a blend of PPPs and private sector investments to promote growth, generate job opportunities and promote domestic demand. The successful implementation of these measures will enhance revenue generation over the medium-term and provide support to the economy. Consequently, fiscal deficit is expected to gradually narrow going forward. However, the budget balance will remain in negative territory over the medium-to-long term, as a sizeable public sector wage bill and transfers to ailing state-owned enterprises prevent sharp decreases in recurrent expenditure.
- 8) The fiscal deficit is expected to narrow to 8.3% of GDP in FY2021/22, as the economy is expected to recover in 2021 (growing by 2.2% in real terms) alongside a broader global economic resurgence. Domestic revenues will also recover as economic activity resumes. The extent of total revenue growth will be constrained, however, by weaker SACU revenues, which, given the one-year lag in their disbursement, will suffer the effects of the COVID-19 during FY2021/22.
- 9) Fiscal deficits over the next two years are likely to be covered largely by local debt issuance, which will take total government debt to 68.4% of GDP by the end of 2020 and to 73.2% of GDP by the end of 2021, up from an estimated 56.1% of GDP in 2019. Domestic debt and guarantees already account for the majority of total debt – approximately 72.0% of the total. Domestic debt is mostly made up of treasury bonds and bills at a ratio of 60:40. Although debt levels are set to rise to relatively elevated levels, the debt load and the government's fiscal position is expected to remain sustainable over the short-to-medium term.

Monetary policy

- 10) The Bank of Namibia (BoN) has maintained an accommodative monetary policy stance in recent times, in support of the domestic economy, and is expected to hold the rate at its historically low level for the duration of 2021. A relatively benign inflation outlook will give the BoN the leeway to keep monetary policy accommodative. The scope for monetary easing will also be bolstered by monetary accommodation in neighboring South Africa. The Namibian

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dollar's 1:1 peg to the South African rand means that Namibian policymakers have limited ability to loosen monetary policy without increasing the interest rate differential and causing depreciatory pressure on the currency. The BoN is expected to maintain its accommodative monetary stance and keep rates at 3.75% for the entirety of 2021. Although growth is projected to return to positive territory, real GDP growth is forecasted at 3.6% in 2021, with overall output expected to remain well below full potential. Thus, inflationary pressures are anticipated to remain subdued.

External position

- 11) Namibia's external position has remained resilient in recent years, despite global economic shocks and a sharp drop in commodity prices over past few years. The current account deficit has remained sustainable although it recently widened to 3.6% of GDP as a result of the sluggish performance in exports. The current account deficit is projected to narrow over the next two years, averaging just over 3.0% of GDP, as against 7.6% of GDP between 2009 and 2018. Subdued demand for capital goods imports, as the country seek to rein in fiscal deficit, and an uptick in uranium exports will be the key drivers of this trend. Muted short-term growth across most sectors of the economy will weigh on demand for consumer goods imports, providing headwinds to total imports in the early years of the post-COVID-19 recovery. Goods imports growth will gradually accelerate over our forecast period as domestic demand picks up, with projections indicating an average 4.5% growth rate of imports over the next decade. Namibia's reserves stood at 4.5 months of imports in Q4 2020, and are expected to remain at that level in the short-to-medium term. Discussions are on-going about establishing a national sovereign fund.

Proposed Reforms Agenda

- 12) Within the overall framework of our reforms agenda, three areas of the Government's program will be particularly critical to its success. These are measures aimed at: attaining fiscal sustainability, private sector-led agriculture and industrial sector transformation, and enhancing economic and social inclusion. The current and prospective reforms that will help consolidate and extend gains in each of the key focus areas are broadly outlined below.

Attaining Fiscal Sustainability

- 13) The Government of Namibia (GRN) remains committed to fiscal consolidation and has been implementing a fiscal consolidation program since 2016, aimed at preserving macroeconomic stability, while safeguarding capital and social spending. In this regard, we have taken a range of measures to reducing expenditure (including the wage bill), increase revenue mobilization, containing the fiscal deficit and managing debt within sustainable levels, rationalize transfers, while increasing social assistance programs.
- 14) In pursuance of our reform agenda, we planned to implement further measures to improve domestic resource mobilization (such as the launching and operationalization of NAMRA). We will also take steps to enhance tax compliance and to re-engineer the VAT refunds audit process. We are also moving forward with measures to: mitigate fiscal risks related to SOEs, PPPs and public procurement (such as the development of a framework to assess and monitor contingent liabilities; finalize and approve the public enterprise ownership policy; complete

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the diagnostic audits of selected SOEs; develop guidelines for evaluation of unsolicited PPP proposals; roll out of e-Government procurement. Measures to enhance economic and social inclusion (such as strengthening of the social protection framework, enhanced gender mainstreaming and development of an integrated national financing framework) are also being considered.

Private sector-led Agriculture and Industrial Sector Transformation

- 15) Namibia has been implementing reforms designed to address structural challenges, reduce the high levels of poverty, unemployment and inequality, as well as improve the business environment, particularly those that target MSME and industrial development. In Agriculture, the merger of the Ministry of Agriculture, Water and Forestry (MAWF) with Ministry of Land Reform (MLR) into the Ministry of Agriculture, Water, and Land Reform (MAWLR) has created the need to enhance inter-related dimensions of the 3 Sectors. MAWLR is in the process of reviewing Agriculture Policy and National Drought Policy in order to, among other things, better deal with emergencies like drought, floods, pests and disease outbreaks. National Resettlement Policy is also under review. In Industry, Namibia Industrial Development Agency (NIDA) has a new Board which is currently developing an integrated business plan. Government has repealed the Export Processing Zone Act to be replaced by the Special Economic Zone (SEZ) Act. In the meantime, a draft SEZ Bill is being developed. A National Policy on Sustainable Economic Zones has also been prepared. GRN also continues to develop and expand value addition initiatives and manufacturing value chains
- 16) Within our on-going reform agenda, we will be implementing further measures to enhance agriculture sector productivity, climate-smart agriculture, value addition and private sector participation. Some of these will include revision of the agriculture policy and national drought policy and strategy; approval of seed and seed variety bill; and approval of GB-ERP strategies, plans and frameworks under HPP2. Measures to support industrial development include the development of special economic zones, including through the approval and implementation of the National Policy on Sustainable Economic Zones and the Special Economic Zones Act, as well as approval of the blue economy strategy would be pursued.

Enhancing Economic and Social Inclusion

- 17) In order to deal with the socioeconomic impact of COVID19, Government approved an economic stimulus and relief package amounting to NAD 8.1 billion (about USD 450 million or 4.3% of GDP). Some of this financing was directed at supporting businesses, including COVID-19 grants for 600 start-ups. Also, as Namibia moves forward with the above reforms, the Government has taken important steps to mitigate potential adverse impacts on the most vulnerable segments of the society. Such mitigation measures are of paramount importance for us, given the unique and distinctive development challenges that the country is facing. Experience has shown that growth alone will not result in poverty reduction or improvements in shared prosperity. In this regard, an SME Incubator hub was launched in December 2020 and now has about 120 start-ups, 80% of which are female run. The related digital centre provides digital skills to SMEs/start-ups so that they can be more conversant with e-commerce. A National Informal Economy and Entrepreneurship Development Policy has also been



developed and steps are being taken to strengthen the policy framework for social protection and gender mainstreaming.

Conclusion

- 18) Support from the Africa Development Bank will assist the Government to stay on course with the policy strategy outlined herein and contribute to the attainment of the long term goals of the Government. Proceeds from the requested program-based loan will contribute to reviving Namibia's economy and to progress toward debt stabilization, and to the attainment of fiscal sustainability private sector-led agricultural and industrial transformation, economic and social inclusion.
- 19) The Government of Namibia is committed to implementing high standards in public financial management, and is strongly committed to make optimum use of the assistance we receive from our development partners to ensure that there is stable and sustained growth in our economy.
- 20) As we look forward to the support from the African Development Bank, which is of great importance to sustaining our reform agenda, the Government of the Republic of Namibia requests that the program-based loan be approved by the African Development Bank Board.

Yours sincerely,



IPUMBU SHIMI (MP)
MINISTER

APPENDIX II: ASSESSMENT OF THE MACROECONOMIC POLICY FRAMEWORK

The Bank has conducted an assessment of Namibia's macroeconomic policy framework, outlined below:

- ***Fiscal and debt sustainability risks:*** The Government has overseen an expansionary fiscal policy of late, as the country grapples with the unprecedented socio-economic impact of COVID-19. Namibia's fiscal deficit is widened from 4.5% of GDP in 2019 to an estimated 9.9% of GDP in 2020, due in large part to a surge in expenditure and headwinds to fiscal revenues as the global Covid-19 pandemic weighed on economic activity. Government is expected to resume fiscal consolidation from FY 2022/23, in attempt to rein in high levels of public debt, and the deficit to gradually narrow in the medium term. Domestic debt and guarantees account for 72.0% of total public debt. According to the IMF, the debt carrying capacity of Government is high and thus the overall fiscal and sovereign debt position of Namibia is expected to remain sustainable over the short-to-medium term.
- ***Balance of payments vulnerabilities:*** Namibia's external position has remained resilient in recent years, despite global economic shocks and a sharp drop in commodities prices over past few years. The current account deficit is projected to narrow from 1.9% of GDP in 2020 to 0.4% in 2021, with sluggish import demand coupled with and an uptick in uranium exports the key drivers of this trend. Namibia will continue to import the majority of its goods from South Africa, with copper and mineral fuels remaining the country's main imported products. The country's reserves stood at 4.5 months of imports in Q4 2020 and are expected to remain at the same level in the short-to-medium term.
- ***Monetary and exchange rate risks:*** The Bank of Namibia (BoN) has maintained an accommodative monetary policy stance in recent times, in support of the domestic economy. The BoN reduced the policy repo rate by a cumulative 275 basis points in 2020 to a historic low of 3.75% and is expected to hold this rate throughout 2021. The scope for further monetary easing in 2021 will be bolstered by the strong monetary accommodation in neighbouring South Africa, with the Namibian dollar pegged at parity to the South African rand. Inflationary pressures are expected to rise gradually in 2021 and 2022 on the back of anticipated increase in prices of housing and utilities and food and non-alcoholic beverages, which constitute around 48% of the country's consumer price index basket. However, inflation is expected to remain well within the BoN's target range of 3-6%.
- ***Risks of policy instability:*** Namibia has continued to enjoy peace and political stability which has underpinned its social and economic progress. The country held its sixth general elections, after independence, on 27 November 2019 which were judged by international observers as, generally, free, fair, and peaceful. The incumbent, Dr. Hage Geingob, was re-elected as President and thus continue pushing forward his Government's policy and development agenda. There is strong collaboration between Government, private sector and civil society in implementing policy measures and initiatives for economic development of the country.
- ***Financial sector risks:*** Namibia's financial services sector has remained resilient to external shocks due to robust frameworks and high levels of capitalization within the financial system. Namibia's financial sector is relatively large, well developed and sophisticated, benefiting from close ties with South Africa. The quality of financial assets has, however, come under pressure amidst the pandemic, with disruption in companies' returns on investments. Consequently, access to credit for businesses, including small and medium-scale enterprises has become increasingly challenging. Government, the BoN and commercial lenders have been collaborating to maintain macro-financial stability and avail liquidity to private operators.

Based on the Bank's assessment, Namibia's macroeconomic policy framework is adequate and meets the macroeconomic stability criterion for PBO eligibility. A detailed assessment of the macroeconomic framework is presented in Technical Annex 1.

APPENDIX III: NAMIBIA: MEETING THE ELIGIBILITY CRITERIA FOR THE PBO

Prerequisite	Comments on current situation
Government commitment to poverty reduction, and inclusive growth	Namibia remains committed to poverty reduction and inclusive growth. The eradication of poverty agenda is anchored in its Fifth National Development Plan (NDP5) 2017/18–2021/22 and continues to be a priority in the context of post COVID economic recovery efforts. Namibia has made significant progress in reducing poverty over the past decade. The head count poverty rate (poor) declined from 28.8% in 2010 to 17.4% in 2016 whilst the headcount poverty rate (extreme poor) rate fell from 15.4% to 10.7% over the same period. The gains in poverty reduction are largely attributable to social safety nets and other pro-poor programmes. GRN has published a Blueprint on Wealth Distribution and Poverty Eradication and its Implementation Plan aimed at advancing strategies for eradication of poverty and reducing income inequality. The Government has continued to prioritize social sector and welfare spending which has grown by an average 20.6% per annum, over the past decade. In the 2020 Global Gender Gap Report, Namibia ranked 12th (with score of 0.784) out of 153 countries, a significant improvement from 40th out of 142 countries in 2015.
Macroeconomic stability	The Namibian economy remains generally stable. The economy has contracted in two out of the last three years (-1.0% in 2017, 1.1 in 2018 and -1.6% in 2019). Due to the pandemic, the economy is expected to further contract by 7.9% in 2020 but is projected to return to positive growth of 2.2% in 2021 as headwinds subside alongside the worst of the global health crisis. The Government continues to take steps to improve fiscal performance and contain debt, which has been rising but remains sustainable. The fiscal deficit for 2020/21 widened to 9.9% of GDP (from 4.5% of GDP in 2019/20), due in large part, to a surge in expenditure and headwinds to fiscal revenues as the global Covid-19 pandemic weighs on economic activity. The budget deficit estimate was adjusted downward to about 10.1 percent during the Mid-Year Budget Review exercise taking into account the status of revenue collection at the time. It is projected to narrow to 7.3% of GDP in FY2021/22. Public debt is expected to rise to 68.8% of GDP by the end of 2020/2021 and to 73.2% of GDP by the end of 2021/2022, up from an estimated 56.1% of GDP in 2019/2020. GRN remains committed to fiscal consolidation.
Satisfactory fiduciary risk assessment	The updated CFRA shows that overall fiduciary risk for the Government is assessed as Moderate, which allows the Bank to maintain an approach based primarily on the use of country systems. Namibia has continued to make progress in implementation of PFM reforms in several areas. The use of IFMIS has improved the timeliness of financial reporting while debt management has been further enhanced by the adoption of a new Debt Management Strategy. Internal audit reforms are underway with the promulgation of the Internal Audit policy and the Public Procurement framework has been considerably strengthened, following the issuance of Public Procurement Regulations and establishment of the Procurement Policy Unit, Central Procurement Board and Review Panel.
Political stability	The political environment in Namibia continues to be very stable. The country has continued to enjoy peace and political stability which has underpinned its social and economic progress. The sixth general elections, since independence, were held on 27th November 2019 and judged by international observers as generally free, fair and peaceful. The incumbent, Dr. Hage Geingob, was re-elected as President of Namibia, but with a significantly reduced majority. The elections also saw the number of seats held by SWAPO in the 96 seat Parliament reduced to 63 from 77. Namibia's governance record continues to improve, with the country consistently ranking among the top sub-Saharan African countries on good governance.
Harmonization	The framework for aid coordination is adequate. A High-level Development Partners' (DPs) Forum is in place and DPs have created a Development Partners Dialogue Group, which serves as a platform for donor coordination. The Bank actively participates in these fora. The Bank has worked closely with Development partners in designing the proposed operation. A COVID 19-Socio-Economic Response and Recovery Group was also recently established and the Bank has used this forum during the Preparation mission to discuss the proposed program and elicit contributions to program design. Further discussions were held with IMF, World Bank, GIZ and a number of other partners.

APPENDIX IV: NAMIBIA GERSP: POLICY MATRIX

Medium term policy objectives	Policy measures (2020/21)	Policy measures (2021/22)	Outcomes (Monitoring indicators)	CSP goals to which the program is contributing
Component 1: Attaining Fiscal sustainability				
Objective 1.1 Enhancing domestic resource mobilization	Namibia Revenue Agency (NAMRA) Commissioner appointed	Namibia Revenue Agency (NAMRA) launched and fully operationalised	Reduction of the fiscal deficit (fiscal deficit/GDP ratio)	Pillar 1: Support Economic Governance for Improved Business Enabling Environment
	NAMRA Structure and grading of positions approved by Cabinet	Framework for National Sovereign Wealth Fund approved and operationalised.		
	Secondment of staff from the Inland Revenue and Customs & Excise Departments approved by Cabinet	VAT refunds audit process re-engineered		
	Approval by Cabinet, in principle, to establish a National Sovereign Wealth Fund	Tax exemptions rationalised		
	Integrated Tax Administration System (ITAS) fully rolled out			
Objective 1.2: Mitigating fiscal risks	PPP screening framework and Appraisal Guidelines approved by the PPP Committee	Mobile Telecommunications Company shares listed on the stock exchange		
	SOE Governance scorecard rolled out	SOE Ownership Policy approved by Cabinet		
		2 SOE Diagnostic audits conducted		
		Framework to assess and monitor contingent liabilities developed		
		PPP project preparation fund established		
		Guidelines for evaluation of unsolicited PPP proposals approved		
Component 2: Supporting Private sector-led Agriculture and Industrial Sector Transformation				

Objective 2.1 Enhancing climate-smart agriculture sector productivity and value addition	Policy decision to reallocate significant resources to finance the construction of NEKATAL Dam and development of green schemes.	Revised Agriculture Policy approved by cabinet Develop the Namibia Green and Blue Economy Strategic Policy Framework, Roadmap & Action Plans. (November 2021)	Agriculture and Industrial sector contribution to GDP	Pillar 2: Support Infrastructure Development and Promote Value Addition
Objective 2.2 Strengthening the industrialization framework	Economic Recovery Plan (Harambee Prosperity Plan 2) SADC Protocol on Industry approved by Cabinet Incentives under the Export Processing Zone Act repealed by Government Gazette	National Policy on Sustainable Economic Zones approved by Cabinet and submitted to Parliament Special economic zones developed		
Component 3: Enhancing Economic and Social Inclusion				
Objective 3.1: Improving the MSME development framework and capacity	Roll out of (a) N\$500 million funding package for SMEs through Government guarantees; and (b) COVID-19 start up grants (for 700 start ups) Credit Guarantee Scheme operationalised by the Development Bank of Namibia SME Incubation Hub and Digital Centre launched	National Informal Economy and Entrepreneurship Development Policy approved by Cabinet National SME Fund established Business Promotion Bill approved by Cabinet and submitted to Parliament	Number of SMEs registered Basic income social protection coverage	Pillar 1: Support Economic Governance for Improved Business Enabling Environment
Objective 3.2 Enhancing Social protection and gender mainstreaming	Ringfencing of social sector spending (increase in share of budget from 47.4% in 2019/20 to 49.5% in 2020/21) Roll out of (a) Relief package of NAD 653 million to support the National Employment and Salary Protection Scheme rolled out; and (b) NAD 562 million Emergency Income Grant.	Establishment of unified social grants registry as first step towards approval of Social Protection Policy Digital and Integrated Management Information System (IMIS) for social protection developed and rolled out Social Protection Public Expenditure Review (PER) conducted National Women’s Economic Empowerment Framework (NWEFF) approved by Cabinet; Practical guidelines for mainstreaming gender in the MTEF included in the Budget Call circular		

APPENDIX V: PRIOR ACTIONS AND INDICATIVE TRIGGERS

GERSP Prior Actions and Indicative Triggers		
	GERSP Prior Actions (FY 2020/21), Status and Evidence Required	GERSP Indicative Triggers (2021/22)
Attaining Fiscal Sustainability		
1	Cabinet approval in principle of the proposed deployment/ secondment of staff from the Inland Revenue and Customs & Excise Departments to NAMRA.	(1) Mobile Telecommunications Company shares listed on the stock exchange
2	Approval by Cabinet, in principle, to establish a National Sovereign Wealth Fund	(2) Framework for National Sovereign Wealth Fund approved and operationalised.
3	PPP screening framework and Appraisal Guidelines approved by the PPP Committee	(3) Framework to assess and monitor contingent liabilities developed; (b) Guidelines for evaluation of unsolicited PPP proposals approved.
Supporting Private sector-led Agriculture and Industrial Sector Transformation		
4	Harambee Prosperity Plan 2 (Economic Recovery Plan) cleared by Deliberative Cabinet	(4) The Namibia Green and Blue Economy Strategic Policy Framework, Roadmap & Action Plan developed and approved.
5	(a) Incentives under the Export Processing Zone Act repealed by Government Gazette; and (b) SADC Protocol on Industry approved by Cabinet	(5) National Policy on Sustainable Economic Zones approved by Cabinet
Enhancing Economic and Social Inclusion		
6	Credit Guarantee Scheme operationalised by the Development Bank of Namibia.	(6) Establishment of unified social grants registry as a first step towards Social Protection Policy

APPENDIX VI: MONITORING AND EVALUATION ARRANGEMENTS

A. Alignment indicators							
Indicator name	Definition/ description	Source	Baseline and targets (where possible)				
Agriculture and industrial sector contribution to GDP	This indicator measures the share of agriculture and industrial sectors in total GDP	National Accounts published by the Namibia Statistics Agency	Baseline (date): 7.3%, 17.9% (2019) Target (date): 9.5%, 21% (2023/24)				
B. Outcome and output indicators (<i>performance indicators</i>)							
Indicator name	Definition/ description	Methodology for collection	Responsibility for collection	Frequency of reporting	Results planning		
					DATE 1	DATE 2	
OUTCOME INDICATORS							
1.1: Fiscal deficit/GDP ratio	Ratio of fiscal deficit to GDP	GRN's fiscal reviews	Ministry of Finance	Half-yearly	31 October 2021	30 April 2022	
2.1: Private investments in Agriculture	Absolute amounts of private sector investment in agriculture	National accounts	Namibia Statistics Agency	Half-yearly	31 October 2021	30 April 2022	
2.2: Private investments in Industry	Absolute amounts of private sector investments in the industrial sector	National accounts	Namibia Statistics Agency	Half-yearly	31 October 2021	30 April 2022	
3.1: SME registrations	Number of SMEs registered	SME registrations database	Ministry of Trade and Industry	Half-yearly	31 October 2021	30 April 2022	
3.2: Social protection coverage	Number of people benefitting from social protection	Beneficiaries database	Ministry of Poverty Eradication and Social Welfare	Half-yearly	31 October 2021	30 April 2022	
OUTPUT INDICATORS							
1.1: Cabinet approval in principle for proposed staff deployment/secondment to NAMRA*	Approval of the NAMRA structure, grading and staff secondment as initial step towards operationalization	Cabinet Action Letter	Ministry of Finance	One-off	28 February 2021 (prior to Board approval)	-	
1.2 Approval by Cabinet, in principle, to establish a National Sovereign Wealth Fund (SWF)*	Cabinet has granted approval, in principle, to establish a SWF	Cabinet Action Letter	Ministry of Finance	One-off	28 February 2021 (prior to Board approval)	-	
2.1: SOE Governance scorecard rolled out (2020/21)	Ministry of Public Enterprises has rolled out a governance scorecard to monitor SOE compliance with the relevant Act	Copy of the scorecard	Ministry of Public Enterprises	One-off	15 March 2021	-	
2.2: PPP screening framework and Appraisal Guidelines approved by the PPP Committee*	The framework and guidelines will help to select projects that meet key criteria for implementation through PPPs	Letter from the Minister of Finance, with copy of the framework and guidelines	Ministry of Finance	One-off	28 February 2021	-	

3.1: Namibia Green and Blue Economy Strategic Policy Framework, Roadmap & Action Plan approved by Cabinet**	The agriculture-related framework for the implementation of the Green and Blue economy, which forms part of the Economic Recovery Plan.	Copy of the framework and guidelines	Ministry of Agriculture	One-off	25 January 2022	-	
4.1: Clearance of the HPP2/Economic Recovery Plan by the Deliberative Cabinet*	The Economic Recovery Plan contains the Government's strategy for post COVID-19 recovery	Letter from the Minister of Finance, with a copy of the plan	Ministry of Finance	One-off	28 February 2021	-	
4.2: (a) Incentives under the Export Processing Zone Act repealed by Government Gazette*; (b) SADC Protocol on Industry approved by Cabinet*	(a) Gazette issued to repeal the incentives under the Export processing Zones Act; (b) Cabinet has approved the SADC Protocol on Industry	(a) Copy of the Gazette; (b) Cabinet Action Letter	Ministry of Industrialization and Trade	One-off	28 February 2021		
5.1: (a) Credit Guarantee Scheme operationalized*; and (b) SME Incubation Hub and Digital Centre launched	(a) Guarantee scheme established by Development Bank of Namibia to support SMEs; (b) the incubation hub and digital centre is designed to support SME development.	Confirmation of (a) establishment of the scheme; (b) launching of the SME incubator hub and digital centre	(a) Development Bank of Namibia; (b) Ministry of Trade and Industry	One-off	28 February 2021	-	
5.2: National Informal Economy and Entrepreneurship Development Policy approved by Cabinet**	The Policy is designed to support formalization and promote entrepreneurship development	Cabinet Action Letter	Ministry of Industrialization and Trade	One-off	25 January 2022	-	
6.1 Unified social grants registry established as first step towards social protection policy**	The registry will consolidate different databases for social protection as the Government develops a social protection policy	Confirmation of the establishment of the registry.	Ministry of Poverty Eradication and Social Welfare	One-off	25 January 2022	-	
6.2 National Women's Economic Empowerment Framework (NWEFF) approved by Cabinet	The policy framework is designed to promote gender mainstreaming and empower women in Namibia	Cabinet Action Letter	Ministry of Gender Equality and Child Welfare	One-off	25 January 2022	-	

NB: * denotes Prior Action; and ** denotes indicative trigger for Phase II

APPENDIX VII: RISKS TO RESULTS

RISK CATEGORY	RISK DESCRIPTION	RATING	MITIGATION MEASURE	RISK OWNER
MACROECONOMIC RISK	Namibia's vulnerability to exogenous shocks remains a major source of risk. This has been heightened by the COVID19 pandemic and uncertainties around SACU revenues.	SUBSTANTIAL	Continue implementing reforms designed to contain the fiscal deficit, bring public debt on a declining path, and address structural challenges.	GRN
FIDUCIARY AND VALUE FOR MONEY RISK	Some areas of weakness include the legal and regulatory framework and capacity to implement the procurement framework.	MODERATE	Continue strengthening the procurement framework and level of compliance and implement other PFM reforms including internal and external audit and follow through on outstanding legislations such as the PFM Bill.	GRN
SOCIAL IMPACT	The current challenging fiscal environment poses risks to social sector spending with potential negative social ramifications. This challenge is exacerbated by the revenue shortfall related to the pandemic.	MODERATE	Continue to ring-fence and increase pro-poor spending and strengthen social safety nets through better targeting.	GRN

APPENDIX VIII: ENVIRONMENT AND SOCIAL COMPLIANCE NOTE

A. Basic Information ⁶	
Project Title: Governance and Economic Recovery Support Program	Project "SAP code": P-NA-K00-004
Country: Namibia	Lending Instrument ⁷ : DI <input type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input checked="" type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>
Project Sector: Governance	Task Team Leader: Baboucarr KOMA
Appraisal date: 29.01.2021	Estimated Approval Date: 17.03.2021
Environmental Safeguards Officer: Herbert OULE	
Social Safeguards Officer:	
Environmental and Social Category: 3	Operation type: SO <input checked="" type="checkbox"/> NSO <input type="checkbox"/> PBO <input type="checkbox"/>
Is this project processed under rapid responses to crises and emergencies?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Is this project processed under a waiver to the Integrated Safeguards System?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>



B. Disclosure and Compliance Monitoring	
B.1 Mandatory disclosure	
Environmental Assessment/Audit/System/Others (specify:)	
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
Resettlement Action Plan/Framework/Others (specify:)	
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
Vulnerable Peoples Plan/Framework/Others (specify:)	
Was the document disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
If in-country disclosure of any of the above documents is not expected, please explain why: NA	

B.2. Compliance monitoring indicators	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized and secured?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>

C. Clearance	
Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board?	
Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	

⁶ Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.

⁷ DI=Direct Investment; FI=Financial Intermediary; CL=Corporate Loan; BS=Budget Support; GU=Guarantee; RPA=Risk Purchase Agreement; EF=Equity Financing; RBF=Results Based Financing.

1. <i>Prepared by:</i>	<i>Name</i>	<i>Signature</i>	<i>Date</i>
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Social Safeguards Officer:			
Task Team Leader	Baboucarr KOMA		13/1/2021
<i>Submitted by:</i>			
Sector Director:	Abdoulaye Coulibaly		13/1/2021
<i>Cleared by:</i>			
Director SNSC:	Maman-Sani Issa		03/02/2021

APPENDIX IX: MAP OF THE REPUBLIC OF NAMIBIA

GENERAL MAP OF NAMIBIA

