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MEDIA RELEASE

Socio-economic transformation through investment in agriculture

Looking back on 31 years of independence

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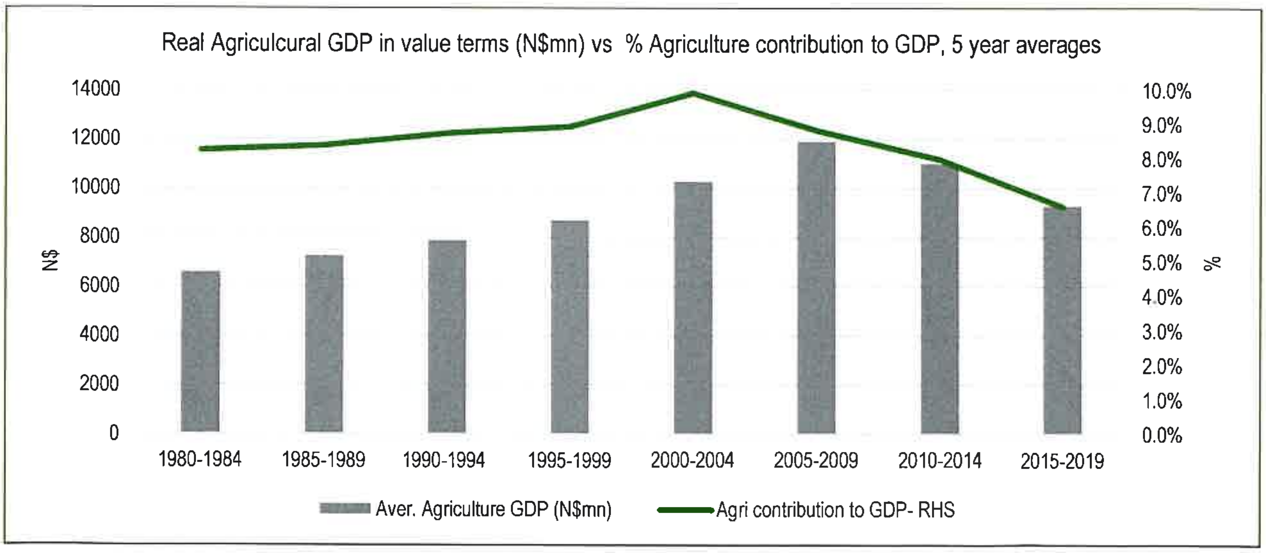
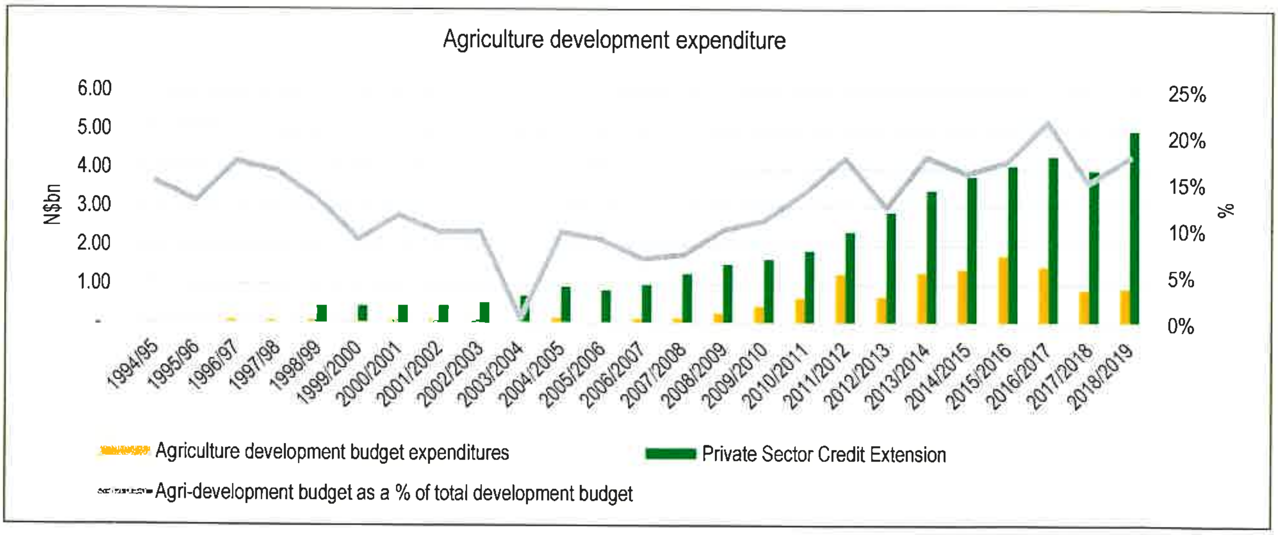
Agriculture is the largest sector in Namibia in terms of employment. According to the 2018 Labour Force Survey, the sector accounted for 23% of the total labour force, while the national account figures show that agriculture contributed an average of 8.5% to the country's GDP over the period 1990 to 2019. Despite its central role in the economy, the agriculture sector endured a declining phase between 2015 to 2019, consequently its share in GDP plummeted to 6.6%, compared to a peak of 9.9% recorded between 2000 to 2004. However, the sector recorded growth of 25%, 21%, 15%, 15%, 11% and 10% in 1994, 2002, 1996, 2005, 1999 and 2010, respectively which could be attributed to favourable climatic and economic conditions prevailing at the time. It has been a decade since the agriculture sector experienced a double-digit increase.



Source: NSA/AB Research

The upward growth phases experienced post-independence are not an outcome of the 'laissez-faire' doctrine. Significant strides have been made by government to support the agriculture sector through its development capital budget.

Through national budget allocations, government has spent about N$407 million in the five years between 1994/95 and 1998/99 while the last five years between 2014/2015 and 2018/2019, have attracted development budget expenditure of N$1.3 billion. Public investment in agriculture peaked in 2016/17, reaching 22 percent of total development expenditure, before dropping to 15 % and 18% in 2017/18 and 2018/19, respectively. The drop in the development budget expenditures coincides with a depressed economic growth, reflecting a critical role of public investment in the process of economic growth. Furthermore, the period from 2016/17 marked the beginning of fiscal consolidation coupled with drought that hampered performance in the agriculture sector. Agriculture development budget expenditures have been largely marked by investment in infrastructure for water supply, irrigation, animal health & disease control as well as market infrastructure (fresh produce hubs, storage facilities as well construction and upgrading of meat processing facilities). Despite the inconsistent trend in development budget allocations, fiscal commitment to the sector reflects that government spending continues to shape Namibia's agriculture policy programs to support development of the sector and economic growth at large. Although government spending is necessary for growth, escalating debt has become a concern due to emerging and existing socio-economic challenges. This suggests that development budget allocations to economic sectors such as agriculture are likely to witness a decline. Therefore, there is a need to encourage and incentivise private sector investment to ensure sustainable sector growth.



Source: MoF/BoN/ AB Research

Despite the adverse agricultural environment, such investments have made it possible for the expansion of the land under irrigation by 4,348 hectares since independence. Notable areas of exponential growth have been observed in the horticultural subsector which grew in production to the current level of 47% of its national demand of vegetables, resulting in Namibia exporting vegetables such as butternuts, onions, tomatoes, potatoes, green peppers, etc.

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This was unthinkable in 2001 when the country was only producing a meagre 5% of the vegetables, which spiked up the import bill. With regards to the livestock markets, the beef export markets expanded to include China and the USA from the traditional markets of Norway and the United Kingdom, with an estimated export value of N$600 million during 2020. Another area of notable significant growth since independence is the grape industry with an estimated export value of N$850 million in the 2020/21 financial year.

The Agricultural Bank of Namibia, a state-owned enterprise, has played an important role in the agriculture sector and the economic history of the country through lending and advisory services. Development finance through Agribank increased from a loan book of N$250 million in 1990 to N$3.0 billion in 2020. Agribank's loan book for the land purchase stood at 1.5 billion accounting for about 49% % of the total loan book. The loan book represents the value of loans extended to clients which is still outstanding and excludes loans that have been fully paid up over time. Agribank is a government agency for implementation of the land reform initiatives through supply of credit to previously disadvantaged Namibians to acquire farmland ownership. The Affirmative Action Loan Scheme (AALS), is one of the land reform interventions, initiated shortly after independence in 1992. During the period between 1992-2020, Agribank has granted loans valued at N$784.3 million to the AALS beneficiaries, resulting in 3,411,368.6364 hectares being financed under the Affirmative Action Loan Scheme. Commercial banking institutions, on the other hand, represent an alternative source of private capital for investment in the agriculture sector. Based on the latest available figures, the total credit extension by the commercial banking institutions stood at N$4.4 billion while the combined credit extension for commercial banking institutions and Agribank accumulated to an amount of N$7.5 billion as at the end of September 2020. By implication, Agribank holds a larger share of the total agriculture credit extension, recorded at 40% at the end of September 2020. Competitive interest rates and relatively long loan repayment periods are distinguishing features of Agribank when compared to commercial banking institutions.

In addition to loan advances, Agribank introduced agriculture advisory services for farmers in 2017 through training and mentorship activities. The key objective of these interventions is to develop and improve farmers' skills and to improve on-farm productivity on a sustainable basis. A total of 25,852 farmers, of which 40% are women, have been trained by Agribank's Agriculture Advisory Services Division (AASD) since inception in April 2017. Current AASD capacity development interventions focus on the transfer of know-how, knowledge, skills, and competencies using different methodologies, such as face to face training courses, published articles, radio broadcasts, mobile phone and social media learning. Moreover, 84% of short

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training courses conducted have focused on building capacities in diversified farm enterprises to enhance farmers' resilience to climatic shocks and sustain farm production. One-on-one mentorship services have demonstrated successes by decreasing average livestock mortality rates and increasing the production of marketable animals and consequential livestock offtake rates. Moreover, mentorship beneficiaries have witnessed average increases in farm incomes and expansion of on-farm employment from an average of 3 to 4 permanent workers in four years. The total investment in Agribank training and mentorship interventions has amounted to N$25.4million between April 2017 and March 2021. Over the past 5 years, the Bank has advanced loans worth over N$1.5 billion to commercial and communal farmers, including some without any collateral for various farming enterprises.

Despite decades of public and private investment in the sector, growth in agriculture continues to dwindle and remains below expectations. Harsh climatic conditions remain a major threat to the sector. For example, the period between 2013 and 2018 experienced the longest stretch of below-average rainfall, negatively affecting crops and livestock farming. It is evident that the below normal rainfall experienced since 2013 is consistent with a declining trend in agricultural performance and aggregate investment in agriculture. The prolonged spell experienced in the country remains a challenge to farmers and investors in agribusiness. Further, the country's livestock sector continues to battle against disease outbreaks as they restrict livestock marketing activities in the affected regions. The Foot and Mouth Disease (FMD) disease status in the northern communal areas presents a major challenge to an efficient livestock marketing landscape and adversely affects farmers' incomes.

Following the extended period of low growth in the agriculture sector and tenacious challenges, the question that arises is when and how will the sector return to or above its long-run growth path? Some of the interventions could include institutional reforms to incentivise farmers to increase production from their current production levels. Covid-19 related risks are expected to exacerbate the existing challenges and/or create new ones. Economists are projecting a devastating impact on public health and economic performance – resulting in rising levels of poverty, unemployment, as well as low investments and high public debts. Nonetheless, Covid-19 has revealed the importance of strengthening the food system, prompting the need to increase the domestic agricultural production base also emphasised in Harambee II. Additional investments in the agriculture sector remain necessary to increase agricultural production and productivity, specifically focusing on technological change and climate resilient production techniques. The key takeaway from the Finance Minister, Iipumbu Shiimi's budget speech for 2021/22, is that social infrastructure funding is the central focus of the budget.

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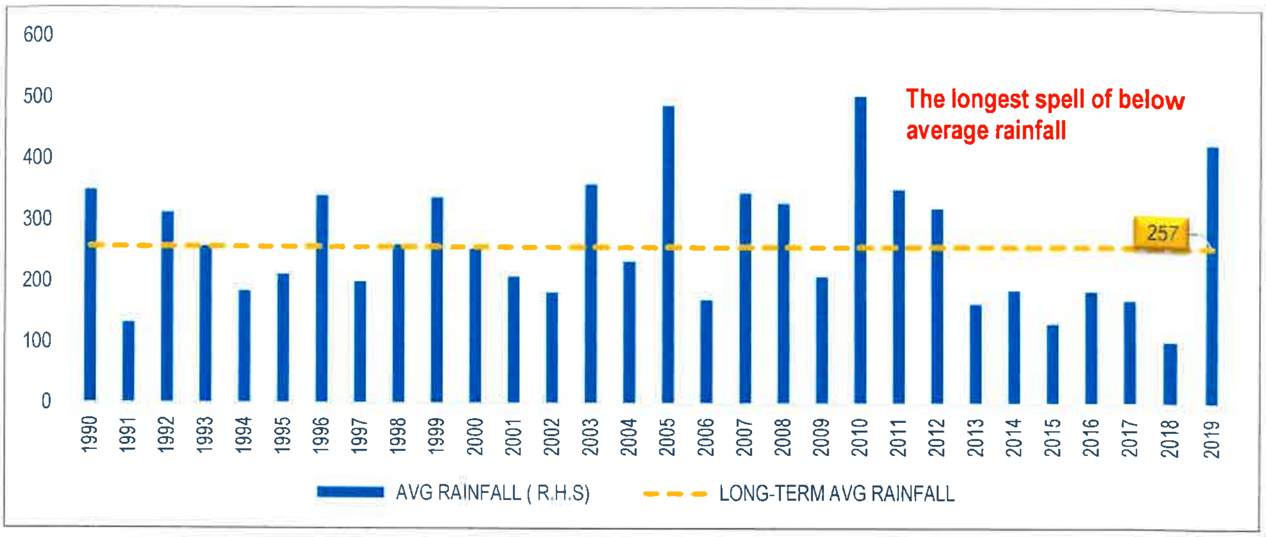
This means that, more than ever, economic sectors, including the agriculture sector, would require immense support from the private sector in terms of investment to complement public investment efforts made over time. More work remains to be done to ensure an enabling and favourable business environment for domestic and foreign investors in the sector. The 2021/22 budget gives hope for economic recovery, institutional and policy reform which is expected to resuscitate for business confidence.



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