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Unemployment: the Cause of Inequality?
**A Qualitative and Quantitative Case Study Analysis of Income
Inequality in Namibia**

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Disclaimer:

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“Our world, seemingly global, is in reality a planet of thousands of the most varied and never intersecting provinces. A trip around the world is a journey from backwater to backwater, each of which considers itself, in its isolation, a shining star. For most people, the real world ends on the threshold of their house, at the edge of their village, or, at the very most, on the border of their valley. That, which is beyond is unreal, unimportant, and even useless, whereas that which we have at our fingertips, in our field of vision, expands until it seems an entire universe, overshadowing all else.”

- Ryszard Kapuściński

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List of Acronyms

ANC	African National Congress
CPS	Country Program Strategy
HDI	Human Development Index
IFC	International Finance Corporation
IHDI	Inequality Adjusted Human Development Index
ILO	International Labour Organization
ISSC	International Social Science Council
NDP	National Development Plan
NDP3	Third National Development Plan
NDP4	Fourth National Development Plan
NDP5	Fifth National Development Plan
NHIES	Namibian Household Income and Expenditure Survey
NSA	Namibia Statistics Agency
SWAPO	South West Africa People's Organisation
UN	United Nations
UNDRP	United Nations Development Program

UNESCO	United Nations Educational, Scientific and Cultural Organization
UNPAF	United Nations Partnership Framework
VAR	Vector Autoregression
VECM	Vector Error Correction Model
WB	World Bank
WCG	Western Contact Group
WIID	World Income Inequality Data

Abstract

Gaining its independence in 1990, Namibia quickly became one of the leading countries with regards to its GDP growth rates. The economy has been growing at such a sustained level, that Namibia came to be categorized as a middle-income country – a status, which only a few other countries in the region can claim. Although economically strong, the country has been suffering from one of the highest income inequality levels worldwide (World Bank 2013: vi). One of the main factors contributing to the persistence of inequality as claimed by the government and its various partners is high unemployment rate. In its Fourth National Development Plan, one that took place between 2012-2017, the government formulated its wish to bridge the income gap through creation of employment. The Fifth National Development Plan has been less direct in formulating concrete steps towards income equality. Apart from trying to tackle the issue with drafting and implementation of policies and national development plans, the Namibian government has initiated various bilateral development programmes aimed at reduction of income inequality. The causes of the current levels of inequality are primarily attributed to the country's colonial past with expropriation of lands of the local population to the benefit of the German colonizers, and instalment of unequal socio-economic structures. At the same time, hardly any concrete non-economic instruments to combat the inequality have been introduced in neither national policies nor development project since Namibia independence gained 28 years ago. As of now, the inequality levels are persisting and despite continuous economic growth, the situation is not improving. Although commonly known as one of the major problems of Namibia, little research and academic papers have been devoted to the study of income inequality in the case of Namibia. The present paper conducts a case study research - an in-depth analysis of the problem through policy analysis and quantitative examination to discuss policy effectiveness and possible causes of income inequality in the given context.

Relevance to Development Studies

Income inequality is a problem commonly observed in multitude of developing countries. Policies aimed at inequality reduction are therefore of a high relevance in the context of countries suffering from unequal income distribution. Namibia being one of the most income unequal countries in the world provides a pertinent case study for examination of policies targeted toward inequality reduction. Furthermore, analysis of this kind reveals

what might be the probable causes and roots of inequality and as such provides important insights for future policy formulation, specifically those addressing the problem of inequality.

Keywords

Income Inequality, Socio-Economic Inequality, Regional Inequality, Unemployment, Poverty, Economic Growth, Case Study, Namibia

Chapter 1.

Introduction

The issues of inequality, poverty and unemployment have prevailed in the context of Namibia since the country gained independence in 1990 (Juach 2012: 1). Although attaining economic growth and reducing its poverty rate since then, the country still suffers from a very high unemployment rate, with almost 50% of the youth remaining unemployed and extremely high levels of inequality prevailing. Namibia's Gini coefficient, a measure of income inequality, is 0.572 (National Planning Commission 2018: 18), making it one of the three most income unequal countries in the world. Similarly, the latest World Bank data from 2009 show a Gini coefficient of 0.61, meaning that Namibia was the second most unequal country after South Africa in this year (WB Data, n.d. a). The Namibian Human Development Index (HDI) further points to the significant impact that inequality has had on the country's development. Currently ranking 129th on the Inequality-adjusted HDI (IHDI), it loses 34.8% of its score due to inequality, which in this case is an accumulation of income inequality, inequality in terms of life expectancy, and inequality pertaining to education (UNDP 2017). A large body of evidence has shown the negative impacts that high inequality may have on a country's development, mainly by obscuring efforts to reduce poverty in a given country (Kraay and Dollar 2001, Kalwij and Verschoor 2007, Son and Kakwani 2004).

Appropriate and effective national policies are key in addressing the issues of inequality in order to attain inclusive growth (Kraay and Dollar 2001: 31-32). The Namibian government has not remained blind to the issue, but has responded with policies aimed at inequality reduction through the implementation of its national development plans. Perceiving the source of inequality in its high unemployment rate, the policies focus on solving the latter, thanks to which income inequality will consequently be reduced. In its Fourth National Development Plan (NDP4), for the period 2012-2017, the government stated its wish to bridge the income gap through the creation of employment opportunities. The thereupon-following Fifth NDP has been less direct in formulating concrete steps towards reducing income equality.

To successfully implement each of the NDPs, the government establishes partnerships with various organizations that assist in bringing about the desired objectives. Each of these partnerships focuses on different sectors – while the World Bank Country

Strategy focuses on capacity development and private sector stimulation, the United Nations Partnership Framework predominantly provides assistance in spheres of women's empowerment, education and health. Large parts of the national budget are also being devoted to improving access to and the quality of education and health per se, showing government's interest in investing to few other non-economic sectors.

Nevertheless, the majority of the tools explicitly introduced to cut down inequality are economic instruments aimed at employment creation through heightened rates of economic growth. The causes of the current levels of inequality are primarily attributed to the country's colonial past, with the expropriation of the lands of the local populations to the benefit of the German colonizers and the creation of unequal socio-economic structures continuing with the extension of apartheid laws under the South African administration. As of now, the inequality levels are persisting and despite continuous economic growth, the situation is not improving.

1.1. Research Objective and Research Questions

A thorough historical analysis of the sources of income inequality, which is enforced by social dimensions, as well as of the contextual specificities within which inequality occurs, such as dimensions of inequality, problem of unemployment, features of labour market, etc..., are necessary for understanding the origins of inequality in Namibia. At the same time, it is inevitable to link the country's history with its current attempts to reduce inequality to determine whether the latter are contributing to income reduction or are just merely sustaining the levels of inequality in the long run. Although commonly known as one of the major problems of Namibia, little research and academic papers have been devoted to the study of income inequality in Namibia. The present paper aims to connect an in-depth analysis of the way in which current development policies and partnerships are addressing and solving the issue of inequality. This will be done along with the examination of the relationship between inequality and economic growth, taking into account the consequences of historical processes that may provide further indications of why inequalities persist in Namibia. As such, sub-questions look at drivers of inequality based on the country's history, whether inequality is being adequately addressed by national policies, and what evidence the empirical analysis provides on the assumed causality of inequality reduction through growth stimulation and job creation. The overall objective of this paper is to contribute to the rather limited body of literature on the issue

in the context of Namibia as well as to provide possible policy recommendations based on the paper's findings. Furthermore, the Namibian case can shed more light on the processes leading to lingering inequality levels, which may bring valuable evidence to countries facing similar issues with comparable contexts.

The main research question has therefore been formulated as follows:

What might be the contemporary causes of persisting income inequality in Namibia as revealed by national development policy analysis and empirical evidence?

Since the focus is on the analysis of national policies and detecting of causal links, the research question can be broken down into the following three sub-questions:

- 1) Are national development policies, projects and partnerships adequately addressing the issue given the historical background and how do they frame causes of income inequality?
- 2) Are these policies then effective in income inequality reduction?
- 3) What evidence does the statistical analysis provide on causal relations between income inequality, unemployment and economic growth?

1.2. Methodology and Data

The research methodology used in this paper consists of a single case study research that employs both quantitative and qualitative analyses. Case study research as a method allows for an in-depth analysis of a specific phenomenon within a given space and time and reveals possible causal pathways leading to the occurrence of the phenomenon of interest. This method is greatly viable when discussing a contemporaneous event, where contextual specificities are highly pertinent to occurrence of the phenomenon (Yin 2014: 13). The strength of this method is in its ability to reveal the causal mechanisms. Although empirical evidence is essential in providing concrete statistical outcomes, it is not sufficient for explanation of what the operational relations behind these results are (Gerring 2007: 48). This is why case study research as a method is relevant for study of the income inequality phenomenon in Namibia. In the present paper, such analysis is done by qualitative examination – a descriptive historical overview and an investigation of

development policies and partnerships that provide grounds for causal mechanisms, and quantitative analysis, which statistically detects the assumed causalities. In this way, the qualitative part aims to determine how the national development policies are addressing the issue of income inequality, what the policies assume as causes of inequality and if they are bringing about the desired outcomes in the case of Namibia. The time series analysis then provides empirical results on possible causal relations between the assumed causal variables. In the end, the evidence from both parts will lead to a set of conclusions to answer the main research question and sub-questions. The analytical strategy of this case study research revolves around investigation of plausible rival explanations as proposed by Yin (2014: 133-141). This means detecting initial theories and through collection of case-specific data aiming to uncover alternative/rival explanations pertinent to the case that might produce a different analytical framework for understanding or explaining of the case (Yin 2014: 133-141). In the present case, the latter involves understanding income inequality and its causes in the case of Namibia.

Case selection is central to the method of case study research. Why is Namibia a good case? Being a middle-income country in the context of Sub-Saharan Africa, Namibia has a unique position given its high per capita income level. At the same time, it is the second most income unequal country in the world. Rooted in the theory, Namibia presents a good deviant case – even though the country's GDP is high compared to that of other countries in the region and its economy growth at a sustained level, income inequality has remained high since the country's independence. The deviant case is therefore one that refutes a hypothesis and allows for the study of the specificities of the case, highlighting conditions under which the theory does not hold (Gerring 2007: 86-150). More specifically, this case will reveal that detection of faulty causal mechanisms negatively affect successful attainment of policy goals. Through the case study method, the alternative plausible explanations of causal mechanisms will be revealed. These will provide evidence on how the wrong assumptions of causes of inequality lead to inappropriate policy formulation, also taking into account the influences under which these policies were formulated. Conclusions of this analysis will bring about possible improvements or a reconceptualization of the theory (Gerring 2007: 86-150). Although deviant case provides an opportunity to generalize on wider number of cases that deviate from the established theory (Gerring 2007: 86-150), there are specificities to Namibian case given its extreme value of income inequality, which may weaken its external validity. At the same time, the conclusions will suggest a different way of looking at and

understanding of causality of income inequality. The case study research will focus on a thorough historical discussion of inequality starting with Namibian colonization under Germany until the present-day state. It will then look at the current policies and bilateral development co-operations aimed at income inequality reduction and will provide a detailed discussion on how the latter is being addressed and whether these policies bring about the desired outcomes. Lastly, time series analysis and its empirical evidence will corroborate the arguments.

Due to the scope and extent of this paper, two national development plans will be discussed in detail – the Fourth National Development Plan (NDP4), which was being implemented between the years 2012 and 2017, and the Fifth National Development Plan (NDP5), which is currently being implemented. While examined individually, the differences between the two in terms of how income inequality is being approached will also be a point of discussion. Furthermore, the United Nations Partnership Framework (UNPAF) and the World Bank Group Country Partnership Framework Strategy (CPS), which have been established to assist with implementation, will be reviewed in terms of their focus and their approach to income inequality.

The data sources for the case study consists of empirical literature – scholarly articles and books discussing the issue of income inequality, economic growth, and Namibia and its history; policy documents and partnership frameworks (these are NDP4, NDP5, World Bank CPS and UNPAF); statistical data on income inequality reported by the Gini coefficient, HDI and IHDI indexes (from the World Bank Open Data, UNDP HDI statistics, and Namibia Household Income and Expenditure Survey data between 1993-2016); statistics on unemployment and poverty rates (from the World Bank Open Data); and various reports (mainly those published by Namibia Statistics Agency, Republic of Namibia and the World Bank) and newspaper articles.

The quantitative part uses a time series analysis to provide empirical evidence in order to reveal the causal links between economic growth, unemployment, and inequality. Although poverty is an important determinant and a significant discussion will be devoted to the relationship between poverty and other variables, the policy focus is on the relationship between the three aforementioned variables. Persisting poverty rate is, however, an outcome of high inequality and obstructs the attainment of the desired inclusive and sustainable economic growth, which is why poverty will be analysed in the context of the research objective. The time series analysis will provide evidence of

causality between economic growth, income inequality and unemployment, which outcomes will corroborate arguments on effectiveness of the policies

Even though the causality will be empirically derived, such results do not in themselves reveal pathways of causality, for which the findings of the qualitative analysis are essential. The final section will bridge the findings of the deviant case study with the quantitative outcomes and will answer questions on whether the issue of inequality has been addressed adequately by policies and projects, what the processes were behind these results, arriving at answering the research question of what may cause the persistently high level of income inequality in case of Namibia.

1.3. Scope and Limitations

The present study aims to assess the potential drivers of inequality through study of national development policies and partnerships in the context of Namibia. The unit of analysis is, therefore, at a country-level with examination of inequality, unemployment and economic growth trends from 1990, the year of Namibian independence, until present. At the same time, the study predominantly discusses only the two latest National Development Plans and partnerships that were made with the United Nations Partnership Framework and World Bank to assist with their implementation. This is to assess the current policy leaning of the government and the role international partners may play during implementation of policies and the effects of the latter on how is inequality being addressed and how effective (or non effective) such policies are in cutting down inequality.

Analysis at a national-level may be perceived as one of the limitations. Given the size of this paper, it is not possible to extensively discuss variations at a sub-national level that may be contributing factors of income inequality. The objective, however, is to discuss possible gaps in the current policies and provide evidence of causalities between the studied variables. Based on such objective specification, the scope has been narrowed down and more clearly defined through its focus.

Another weakness is the limited data, which led to a dataset with some interpolated values of Gini coefficients. Although this may result to a partial arbitrariness of the income inequality data, interpolation is acceptable under certain conditions, which are discussed in a further detail in section 5.1. It is also worth mentioning that the use of Gini is essential for this research as it is this variable that exhibits extraordinarily high values in the presented case. Dropping Gini for the empirical part would weaken the

strength of the argumentation in the previous section that predominantly discusses income inequality and high Gini index and related issues. Furthermore, Gini is the most commonly used measure of inequality, and thus provide results that are more widely understood.

Thirdly, the study relies solely on secondary data sources, where there is a danger of “data re-contextualization”, in other words use of the original data on a population and in a context that do not match the original, and lack of control over data quality (Moore 2006: 26-28). In my rendering, however, the secondary sources used in this study are directly concerned with the context in question – Namibia and present a wide range of academic as well as several non-academic and statistical sources.

1.4. Organization of the Research Paper

Altogether, this paper is divided into six chapters. Chapter one introduces the topic of the research, presents research questions, methodology and acknowledges scope and limitations. The second chapter establishes the theoretical and conceptual framework on unemployment, inequality, and thus resulting poverty and economic growth. Following chapter discusses historical background, which is necessary for further examination as it lays grounds for why inequality has been very high since Namibian independence and provides an overview of the current situation. Chapter four looks at the Fourth and Fifth National Development Plan and the World Bank and the United Nations partnerships established to aid with implementation of the two. This chapter is concluded by discussion on preliminary findings through what has or has not been achieved with these policies and partnerships and possible reasons for the outcomes. The fifth chapter provides empirical evidence on causalities between the three variables of interest – unemployment, inequality and economic growth, to approve/disapprove the government’s and partners’ reasoning behind policies aimed at inequality reduction through increase in employment. The final chapter discusses the outcomes of both – the policy analysis and empirical analysis and attempts to provide relevant policy recommendations.

Chapter 2. Theoretical Framework

2.1. Income Inequality

Inequality can be defined as a ‘state of not being equal, especially in status, rights and opportunities’ (United Nations 2015: 1). Income inequality is therefore concerned with the economic dimension of inequality in that one’s well-being based on her material wealth differs among individuals. This results in differing levels of living standards. Although income inequality is measured in terms of one’s material wealth, oftentimes this is an outcome of non-economic inequalities defined by one’s gender, ethnicity and translates into inequality in terms of access to opportunities, for instance unequal access to high-quality education or health care. Based on the latter, inequality is multidimensional, and several types of inequality occur simultaneously. It is therefore inevitable, when discussing one type of inequality, to investigate its other, overlapping dimensions, and the way in which inequality in outcomes and inequality in opportunities interact (United Nations 2015: 1, McKay 2002: 1). As will be discussed later on, inequality is an important determinant of how wealth accumulated from economic growth is redistributed among all parts of the population. If inequality is high, this negatively affects poverty reduction initiatives and may even lead to unrests or conflict between different groups. Furthermore, some countries may experience stunted economic growth; in other words, even a growing economy may actually not achieve a higher growth rate as a result of inequality (McKay 2002: 1).

While the focus of this paper is on income inequality, the discussion will look at the issues of regional, linguistic, ethnic, and structural inequality. This is because, as previously mentioned, income inequality does not appear by itself, but is an outcome of a multitude of existing inequalities and may have an impact on other types of inequality. Given, however, that income inequality can be more easily measured and that its measures, such as the Gini coefficient is more broadly understood and can be employed for statistical estimations, it is this form of inequality that is a central concept of this paper. Furthermore, Namibian levels of income inequality are exceptionally high and as such can serve as a good example of how income inequality in itself impacts growth, poverty reduction or unemployment. Other measures, such as the HDI or inequality

reflected in differing unemployment rates, will also make up part of the debate in order to corroborate the main arguments and highlight the multidimensionality of inequality.

2.2. Unemployment

Although many countries experience positive economic growth, the problem of high unemployment rates remains (Durán 2015: n.d.). Various policy recommendations geared towards inclusive and sustained economic growth therefore discuss the importance of driving employment. This is because employment increases ought to cut down income inequality as more people of a working age have access to income (Zaman et al. 2011: 250). The conceptualization of unemployment is, as such, essential for a discussion of policy effectiveness in terms of inequality reduction since policy guidelines focus on unemployment as a factor causing income inequality. The unemployed are most commonly referred to as a group of the working age population without work, who are at the given period looking for job opportunities (Kanyenze and Lapeyre 2012: 6). Persons without employment but not seeking employment are excluded from the definition, which is further reflected in the possible underestimation of unemployment figures in statistical data. The most commonly used measure of unemployment is the unemployment rate, which calculates the share of unemployed workers, as defined previously, of the total number of the labour force (Kanyenze and Lapeyre 2012: 6). Given that those not seeking a job are not accounted for, the actual number may be higher, especially in the context of countries where the labour market is to a greater extent defined by informality and the seasonality of the jobs offered and by self-employment. Unemployment as a result of the latter characteristics is defined as one containing “discouraged workers”, ones who do not look for work due to informal employment or seasonal employment opportunities. Therefore, in the case of Sub-Saharan African countries, where informal markets are large and many opportunities depend on seasons, the “discouraged workers” definition seems to be more contextually relevant (Baah-Boateng 2016: 415-416, Mlatsheni and Rospabé 2002: 5).

Three dominant perspectives exist with regards to unemployment. A neoclassical view perceives unemployment as purely voluntary because of the existence of a labour market equilibrium that defines the supply and demand for workers. Any interventions would distort the market and lead to involuntary unemployment. Contrary to the neoclassical paradigms, Keynes claims that the market is in itself flawed due to the workings of the business cycle, when the scarcity of jobs may occur (Baah-Boateng 2016:

415-416). The application of these theories in the context of Sub-Saharan Africa, however, remains limited. This is due to two reasons. First, as discussed earlier, labour markets in the region are highly seasonal and informal, thus the setting off of a minimum wage has no effect on the informal labour market; and, second, due to a high rate of self-employment (Baah-Boateng 2016: 415-416). As such, for those countries where employment is predominantly salaried and more formalized, as is the case of South Africa and Namibia, the unemployment rate is expected to be higher.

The population segment most vulnerable to unemployment in the context of a developing country is the youth – mainly the female youth – due to lower skills and a lack of experience (Baah-Boateng 2016: 417). In the context of Sub-Saharan Africa, the chance of being unemployed for youths is twice more likely as for adults. In Namibia, the youth unemployment rate is extremely high amounting to 50% (WB Data, n.d. b). Given the heightened difficulty of getting a job as a youth, finding employment is even more challenging in countries where the economy is concentrated on primary resource extraction activities, as these have low labour absorption characteristics. It is therefore recommended to invest in youth education for skills improvement, which would ameliorate chances for a youth to get employed (Baah-Boateng 2016: 425-426).

Some empirical evidence, however, suggests no impact of such policies on reducing youth unemployment. A study in Nigeria examining the relationship between income inequality, unemployment and poverty revealed that public investments aimed at improving a country's HDI – including programs such as free and compulsory education, small enterprise plans or adult literacy plans – have not led to unemployment rate reduction. In reverse, the authors found that a reduction in unemployment would improve the country's HDI (Akinbobola and Saibu 2004: 179-182). In order for a country to attain sustained and inclusive economic growth, various guidelines have been developed. Based on the conceptual analysis, it became evident that the issues of inequality and unemployment play a significant role in the formulation of policy recommendations and will thus be discussed in the following section.

2.3. Inclusive Economic Growth and Policy Recommendations

With its Vision 2030 – a framework for long-term development – and the most current Fifth National Development Plan, Namibia's development policies ought to bring about an inclusive and sustainable economic growth on the country's journey to sustainable development (Republic of Namibia 2017a: xiii, Republic of Namibia 2004: 14). The World

Bank's working definition of inclusive growth relies on three main concepts – inclusiveness, broad-based growth, and pro-poor growth. Inclusive growth is inclusive only if a major part of the labour force is included in the growth, if the growth broadens the economic base of the country, i.e. leads to heightened specialization, and if it corresponds with an absolute definition of a pro-poor growth, i.e. growth as leading to poverty reduction in a given country (Ianchovichina and Lundstrom Gable 2012: 147-150). While inclusiveness is a characteristic of such growth, it also refers to a pattern of inclusive growth, where it is defined as 'equality of opportunity in terms of access to markets, resources, and an unbiased regulatory environment for businesses and individuals' (Ianchovichina and Lundstrom Gable 2012: 148). With regards to inclusive growth being pro-poor, the focus is on poverty reduction in absolute terms rather than on addressing poverty in relative terms, in other words the level of poverty reduction that was achieved relative to its economic performance. Inequality is thus not a priority within this definition, as the effect in absolute terms is preferred over the relative one because prioritizing inequality may 'lead to sub-optimal outcomes for both poor and non-poor households' (Ianchovichina and Lundstrom Gable 2012: 149). In simple terms, the latter implies that average household income gains can favor non-poor households over poor households as long as the overall increase in average household income is higher than would be the case if policies would be more focused on addressing inequality based on the employment of the relative pro-poor growth definition. Therefore, pro-poor inclusive development can be attained through the expansion of the size of an economy and the provision of an increasing number of job opportunities in more productive sectors (Ianchovichina and Lundstrom Gable 2012: 149) Later publications devoted more attention to income inequality mainly due to reoccurring trends in the emerging markets, where high economic returns are correlated with the worsening of the income gap. The recommended policies include structural transformation through more open trade and a higher flow of FDI, as well as moving to the production of goods and services with higher value added (Anand, Mishra and Peiris 2013: 1, 6). Overall, the application of neoliberal policies will bring about inclusive growth with an inequality reduction effect.

The United Nations' definition of inclusive growth focuses on shared growth, pinpointing the importance of equality of opportunity and ensuring that the poorest members of society profit from such growth rather than focusing on economic expansion itself (Durán 2015: n.p., UNDP 2017: 5). Furthermore, the definition suggests that 'growth, at any level, often fails to tackle three overarching elements: poverty,

unemployment and inequality' (Durán 2015: n.p.). The UNDP's Strategy for Inclusive and Sustainable Growth therefore identified three main policy areas promoting inclusive growth, namely 1) integrated planning including natural resource management and economic diversification strategies; 2) supporting employment creation, decent work and redistributive programs through social protection policies, safety nets and others with special attention paid to youth and women; and 3) mobilizing financing for enabling a transition to sustainable inclusive growth (UNDP 2017: 5, 18). This approach in itself focuses more on social issues and more concrete social policy interventions as compared to the World Bank's approach, with its greater focus on the poor. Nevertheless, employment promotion remains one of the three core enablers for inclusive growth. As the authors mention, if there is not an available pool of employment opportunities in more productive sectors, lower-income households are more likely to be trapped in the lower-income group, leading to a non-inclusivity of growth (UNDP 2017: 20). To conclude, inequality is once again to be tackled through employment creation and is preferred by both the World Bank and UNDP guidelines.

Empirical evidence, on the contrary, disputes the positive effects of neoliberal policies on more inclusive growth. Among the most known examples are China and India – countries with phenomenal economic performance, but an ever-increasing income gap. In fact, Roccu (2016) claims that there is a direct link between neoliberalism and an increase in inequality. Although global levels of income inequality are decreasing, within countries income inequality is on the rise. The source of such an increase is, according to the author, the adoption of liberalization and privatization policies (Roccu 2016: 186-189). As such, World Bank recommendations may actually lead to opposite outcomes. Even though Roccu's (2016) paper establishes a strong argument against the implementation of neoliberal policies in the context of developing countries, it fails to provide a more thorough analysis of the processes behind the detected correlation. This is because although correlation establishes a relation, it does not necessarily prove a causal relationship between the two variables. In order to answer the main questions asked in this paper, it is necessary to address the direct relationship between economic growth and inequality – whether one leads to the second, or whether inclusive economic growth is attainable. The following section focuses on the theories that aim to explain the relationship between economic growth and income inequality. This section will also discuss the issues associated with poverty.

2.4. (Inclusive) Economic Growth, Income Inequality and Unemployment

One of the first theorizations of the relation between income inequality and economic growth came to be known as the Kuznets curve. In 1955, Kuznets presented his work, studying the relationship between economic growth and inequality. If development is perceived as an increase in the standards of living and/or wealth, in other words enabled through material factors generated by economic growth, then economic inequality can be defined as a difference in living conditions or the possession of material outcomes (United Nations 2015: 1). Based on the definition provided, the Kuznets curve claimed that economic growth would, eventually, bring about income inequality reduction. In economies in an early stage of development, the initial process of industrialization results in workers switching from agricultural production to industrial production given that wages in the industrial sector yield higher incomes than those in agriculture. Economic inequality is therefore on the rise, as the income gap is widening as depicted by the inverse U-shape curve. More and more workers thus move to the urban industrial sectors making the economy grow and increasing the population, consequently amassing greater income. Following this process, the income gap is gradually reduced as the income grows. Industrialization and moving to different sectors as the economy grows result according to Kuznets in the decrease of the income inequality rate (1955: 7-18). An empirical evidence to Kuznets is the example of China, where in the early stages of its development starting in the 1970s, initially high inequality ensued due to urban-rural migration, as argued by Rodrik (2014: 2). Nevertheless, even though China's inequality decreased over time, its Gini coefficient remains high, at 0.42 points (WB Data, n.d. c). India is another case where Kuznets' hypothesis does not hold. As such, Roccu's (2016) hypothesis may provide a valid argument as to why inequality persists in this specific context in that inadequate policies implemented in the developing countries with high growth may render inclusive growth impossible.

Other authors have rejected the theory and claim the exact opposite – economic growth at higher stages of development results in an increase of inequality rather than its decrease (Beddoes 2012: n.p.). As such, there has been a significant expansion of inequality-growth literature since the 1990s (UNESCO and ISSC 2016: 274-275). A fundamental publication that had a critical impact on the study of the subject was Piketty's *Capital in the 21st Century* that most profoundly critiqued Kuznets' (1955) theory. Piketty's (2014) arguments showed the existence of evidence of growth in inequality as a result of

economic growth. This is because the rate of return to capital exceeds the rate of economic output. Those who inherited greater wealth will then always amass greater returns. Unlike Kuznets, who saw a pattern in developed countries given by a U-shaped curve, Piketty claimed that the observed fall in income inequality in the 19th century was due to the shocks of the two world wars (Piketty 2014). Based on more recent data, he further argued that income inequality takes a S-shaped form rather than a U-shaped form specifically due to the mechanisms described above and the majority of global wealth increasingly being owned by a smaller share of the population (Lyubimov 2017: 46-49, Piketty 2005: 389-390). As such, unlike in the case of Kuznets' theory, growth directly implies income inequality in a capitalist society and, implicitly, inclusive growth cannot be attained due to the nature of capital.

Auty's resource curse may provide further insights into the relationship between the growth, its inclusiveness, and inequality given Namibian wealth of minerals (2001). Three main negative effects of resource-rich countries have been identified as reasons causing this phenomenon: first, the "rentier state effect" where the state's revenue primarily from resource exports heightens the risk of corruption; second, the sudden increase in revenues from exports may result in the so-called Dutch disease – in such periods the investment and labour is concentrated around the mining sector, preventing the development of new sectors, thus hindering diversification and affirming commodity extraction dependency; and, third, the commodity price volatility poses a significant challenge to national checks and balances. This then results in a country, where its resource wealth does not translate into economic growth (Le Billon 2005: 16-21, Elbra 2013: 550).

After introducing his theory, Auty expanded the scope of his theory, showing how resource wealth may prevent sustained and inclusive growth. He suggested that apart from equitable access to land and education, liberalization, diversification and governmental transparency, resource abundance plays a significant role in determining whether growth is equitable. This is because limited natural resource endowment creates higher pressures, leading to the greater redistribution of assets. As such, governments are more likely to promote more equal redistribution policies. Secondly, such countries are less likely to undergo the Dutch disease and put their resources to a more efficient use (Auty 2001: 840).

Taking the case of South Africa, Elbra (2013) attempted to demonstrate how the resource curse operates in the case of a resource-rich middle-income country. Elbra's

study aimed to show that growth is slower in mineral-rich rather than non-mineral-rich countries (2013). Empirically, South Africa, albeit being the largest economy in the region, is on the lower spectrum of upper middle-income countries. Persisting high unemployment rates and one of the highest income inequality rates slow the country's economic growth. As a result of high inequality, the poverty rate has been increasing despite economic growth and corruption levels, raised as a result of the rentier-state effect. This provides further evidence of ineffective inclusive policies that would potentially lead to inequality reduction (Elbra 2013: 552-555). The economic performance is slowed down and although the economy grows, the population becomes poorer, which makes an interesting case for the resource curse theory. The causality between unemployment, inequality and growth flows from unemployment negatively influencing equal distribution leading to weakening of poverty reduction efforts and, at the same time, slowing the potentially higher economic expansion. The author in this case, however, identifies the importance of policies in improvement of the current state.

As discussed in the previous section and given the South-African example, inequality is an essential determinant of accomplished pro-poor and inclusive growth due to its effect on poverty. Persisting rates of inequality render poverty reduction efforts difficult and in some cases even impossible. Poverty can be measured and defined in different ways. Data-wise, the poor are those who live below a poverty line – a minimum level of income needed to ensure decent living conditions. While predominantly measured in terms of material and economic terms, poverty is multidimensional and can lead to psychological problems, the 'violation of social norms and inability to maintain cultural identity', and the negative effects of poverty have consequences reaching beyond its material dimensions (Narayan 1999: 26). If inadequate redistributive policies are introduced, the efforts of poverty reduction are weakened. Although the poor may benefit from economic growth in absolute terms, the top earners benefit disproportionately more, resulting in greater gap between the poorest and the richest in a given country. The majority of studies have empirically proven a positive relationship between poverty and inequality. Kalwij and Verschoor (2007) highlight the importance of the initial level of income inequality in determining the reduction of poverty through economic growth. In their large cross-national analysis, the authors find that the higher the initial Gini coefficient, the lesser the response of the poverty rate to income growth. Although economic growth does primarily account for the reduction of poverty in different regions, the overall effect and extent to which it is able to do so is greatly conditioned by a

country's initial level of income inequality (Kalwij and Verschoor 2007: 820-22). Similar findings were observed in earlier studies conducted by Ravallion (1997) and Son and Kakwani (2004), as well as in later studies of Cheema and Sial (2012) and Lombardo (2008), all of which show a negative relationship between poverty's responsiveness to economic growth in both developing (Cheema and Sial's 2002 study of Pakistan's growth, poverty and inequality), and developed countries (Lombardo 2008 – study in Italy).

The issues of income inequality and unemployment are core to the attainment of inclusive growth. Nevertheless, there is a difference in the role they play in the latter. While income inequality may be aggravated by economic growth, as Piketty (2005, 2014) argued, unemployment, although theorized as a cause of inequality, has not been proven as such. Conversely, some empirical evidence suggest a reverse causality, where improving upon inequality leads to reduction in unemployment (Akinbobola and Saibu 2004: 179-182). At the same time, the World Bank and the UN guidelines recommend employment creation as a remedy from a policy perspective. If, however, framed within the neoliberal model, policies aimed at unemployment creation through for instance privatization may lead to greater inequality (Roccu 2016). The following sections will discuss the policies geared towards greater income equality and inclusive economic growth in the context of Namibia and how effective these were/are in addressing the issue. Furthermore, possible causalities between unemployment, inclusive economic growth and income inequality will be estimated in later sections.

Chapter 3. Inequality As a Result of Namibian History

3.1. German Colonization and Apartheid

The official colonization of Namibia has not begun until 1884, when Adolf Lütertz declared the territory to be under the German protectorate. Unlike what was the case in a majority of Sub-Saharan former colonies, Namibia was not colonized solely for the purposes of raw materials extraction, but was considered a land “suitable for white settlement”. In a course of less than ten years, around 10.000 Germans migrated to Namibia, which created pressures on the local population to free the land for the white settlers. The colonization was accompanied with various conflicts since its beginning. The Nama and Ovaherero tribes were the primary targets of German expansion. As a result, native land was taken away and re-settled by Germans. Conflicts between local people and white settlers started to become more and more frequent, leading to two major rebel movements of the Herero and Nama tribes, against Germans. Both of these movements were brutally repressed by German forces and had profound consequences on the politics towards native population by the colonizers. The resistance of the local populations were far from united, which allowed an easier penetration of the colonizer further into the territory and taking off of their land. The various conflicts reached the point of war in 1903, when the Ovaherero launched a resistance war against Germany, representing the first real threat against the colonizer (Kössler 2015: 13-19).

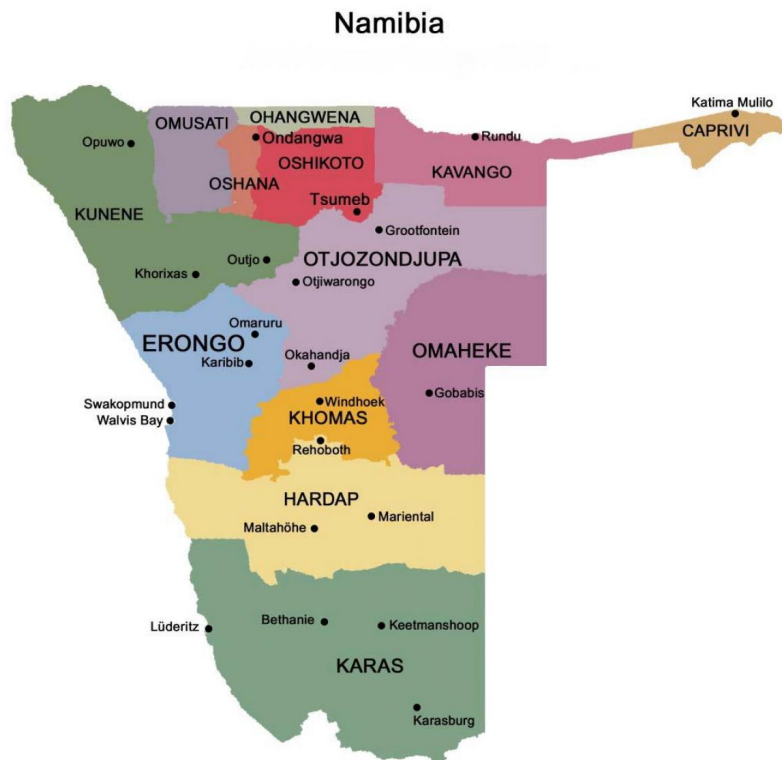
The escalation of the war led to a release of the so-called “extermination order” in 1904 by the German government. The order against the Ovaherero made the members of the community no longer under the protection of Germany as they were no longer “imperial subjects” and ordered killings or forced migration of Ovaherero from then Namibia. This led to an almost complete extermination of the Ovaherero and those who stayed migrated to the neighbouring countries. The Nama groups have then taken up their arms to resist the colonizers. Following the extermination order directed at the Ovaherero, a similar order was proclaimed in 1905 against the Nama, which led to a killing of thousands of members of the Nama group. Those, who remained were sent to concentration camps, where horrific conditions led to further deaths of the groups’ members mainly due to malnutrition, thirst and forced labour (Melber 2014: n.p.). The wars formally ended in 1907 and the camps closed off in 1908. Resulting from the conflict and the genocide-like commands allowing killing of the ethnic groups, current estimations

count 80% of Ovaherero and 50% of Nama died during the period of 1903-1908 amounting to 100.000 killings altogether. After the camps were closed in 1908, the colonizing power issued the so-called Native Ordinances that prohibited local populations to own a land or animals and deported them to live in Native Reserves. Several Nama were deported to West Africa for forced labour, where many of them died due to exhaustion and different climate (Melber 2014: n.p.).

The consequences of such restrictions were many. Firstly, the expropriated land was turned into agricultural land in hands of big farm-holders, predominantly German. The local population had to look for a work on these farms as waged labour. Secondly, the indigenous people were banned from owning cattle (Kössler 2008: 314-315). For the Ovaherero, this meant disappearance of customs associated with sacred cattle and as such their culture and ethnic identity. Furthermore, the order restricted the locals to reside as groups, so there would be no possibility of them organizing and posing a threat to the colonizer in a form of a resistance. The thirty years of German colonization has not only led to a loss of land of the natives, but their loss of status and ethnic identity, and marked the beginning of instalment of socio-economic structures. The German genocide and politics of settlement led to a 'reorganising of the spatial and socio-economic orders', where German settlers became large landowners in the southeast region and owners of majority of the key businesses and industries in the countries (Kössler 2008: 314-315).

In the post World War 1 period, when Germany lost its protectorate over then-called German South West Africa, South Africa was given a mandate over Namibia in 1915. Namibia being under the category of one of the least developed territories, South Africa was during this time fully in charge of legislation and administration in the country. One of the reasons to have legal hold of the country was its wealth of minerals and to protect the borders of South Africa from the concurrent guerrilla in Angola ('The Namibian Struggle for Independence' n.d.). With instalment of the apartheid laws in its country in the beginning of 1948, South Africa extended the system of segregation on its mandate territory, Namibia. As such, since 1950s, there was even a greater separation of white settlers from the native population. The natives, also including several German settlers, were then forced to resettle further away from white towns, which was met with resistance and protests. Furthermore, the influx of white settlers, who were predominantly white South Africans, significantly increased during this period (Dreyer 1994: 9).

Figure 1. Namibia Ethnic Map



Source: maps-namibia.com

While these processes deepened the issues of socio-economic inequality even more, the continuous forced resettlement and discriminatory politics laid grounds for counter-movement of newly unified black elites and intellectuals petitioning against South African rule. The resistance was initially non-military backed by the United Nation’s stand against South Africa’s will to annex Namibia, since Namibia was officially under the mandate of South Africa and therefore not its territory, and by various black groups from within South Africa, mainly ANC adherents and youth groups (Dreyer 1994: 7-21). With the formation of the South West Africa People’s Organisation (SWAPO) military in 1964, the attacks on occupying South African forces started a long course of independence wars and struggles between the two countries that officially lasted from 1966-1990. With increasing number of decolonized countries in 1950s-1960s, the international pressures pushing for Namibian independence started to rise as well. Canada, France, West Germany, United Kingdom and the United States formed the so-called Western Contact Group (WCG) in the second half of 1970s, which initiated negotiations to solve the Namibian issue in the UN (“The Namibian struggle for independence’ n.d.). These efforts

resulted in Resolution 435 calling for cessation of all South African activities and holding of first Namibian elections. The elections were, however, not accepted by SWAPO, extending the conflicts and South African occupation. The turning-point for Namibian history took place in May 1988 when seven-month long negotiations resulted in implementation of the Resolution 435 with South African government signing the New York Accords in December 1988. This marked an end to the long South African rule and independence struggles. First elections were held in November 1989 with Namibia becoming officially independent on the 21st of March 1990 ('The Namibian struggle for independence' n.d.).

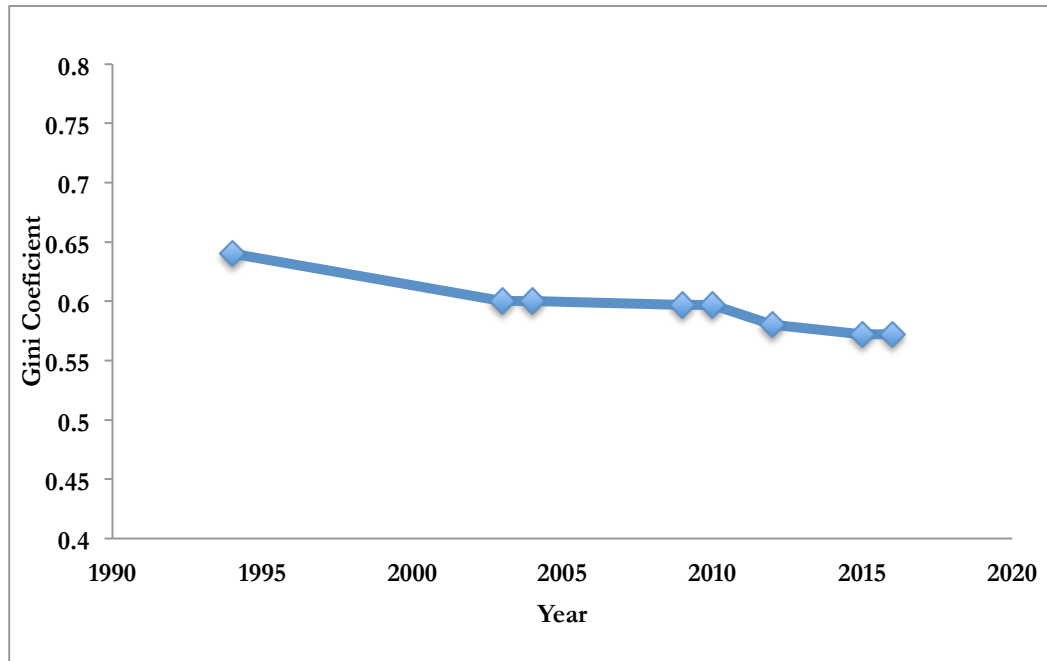
3.2. Present day Namibia

3.2.1. Inequality

The situation nowadays, however, presents an interesting picture of economic success and a painful colonial history. Although the economy took-off very fast since gaining independence, with high and sustained economic growth rates, the incidence of poverty remains high relative to its economic performance. The unemployment rate is high as well, predominantly among the youth and income inequality is the 2nd highest in the world. Given the traumatic history of oppression and cruelty, Kössler argues that the persisting high inequality levels are fully attributed to the history that led to an imposition of a specific socio-economic structures still present in the country (2015: 13). Although these structural inequalities are a major contributing factor, the Namibian government has not turned a blind eye to this issue but recognized it as one of the main challenges to Namibian development. It had expressed its concerns about the situation preventing the country from achieving its Vision 2030 'that will guide us [Namibia] to make deliberate efforts to improve the quality of life of our people to the level of their counterparts in the developed world by 2030' (Republic of Namibia 2004: 19). According to the national statistics, the Gini coefficient in 2016 stood at 0.572, which is far from what the country aims to achieve within its Vision 2030. Further inequality statistics provide a more thorough look into Namibian inequality. Although considered for inequality to be higher in rural areas, in 2004 both urban and rural areas have an inequality score of 0.58. In the given year, the lowest Gini was recorded among German and English speakers of 0.31 and 0.41, while the highest inequality was among Otjiherero, Nama and Afrikaans speakers all scoring 0.53, 0.52 and 0.56 respectively. Interestingly, a lower inequality was among households with the head having received primary education, while the secondary

(0.55) and tertiary education (0.47) had the highest Gini coefficients. Household, where its head received no formal education scored 0.39 in Gini (Central Bureau of Statistics 2008: 36, 90).

Figure 2. Gini Index, Namibia 1993-2016



Data source: NSA (n.d) 'Namibia Household Income and Expenditure Survey (NHIES) 2015/2016, Key Poverty Indicators (Preliminary Findings)'.

Region-wise, the top unequal regions were Omaheke region with coefficient of 0.64 and Hardap region, where Gini equalled 0.69 points. Ohangwena and Omusati were the regions with lowest coefficients of around 0.45. Further statistic revealed that the coefficients within each sub-group point to an intra-group inequality rather than inter-group one. For instance, gender inequality in each of the sub-groups – male and female-headed can be explained in 98% by within-group variance rather than between group. Similarly, locality and regional individual groups' inequalities can be explained by 86% and 77% within group. On the other hand, age and education inequalities can be to a greater extent be explained by inter-group inequality, e.g. inequality between different linguistic groups or levels of education attainment (Central Bureau of Statistics 2008: 33-38, 90). Based on the country's history, these results are no surprising, German and English speakers' low coefficients, while Herero and Nama speakers high inequality coefficients all reflect the installed socio-economic inequalities, specifically given that linguistic sub-groups inequalities variance is mainly attributed to between group inequality.

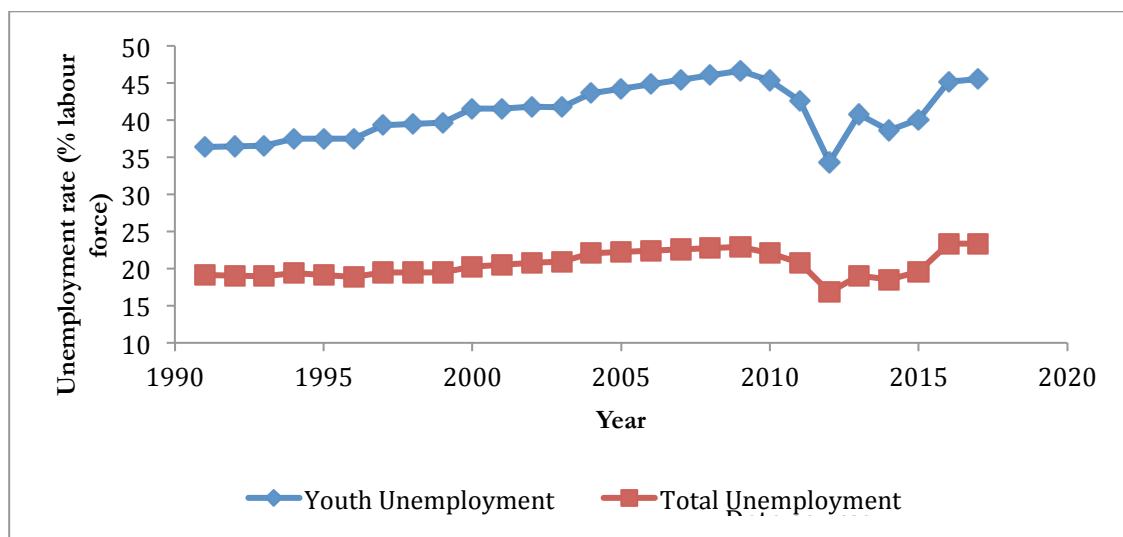
The inequality of education, which can be explained in 46% by between group inequality, can point to an unequal access to education with higher educational levels. Furthermore, intra-group inequality gives further evidence of the latter. Omaheke region, predominantly inhabited by Herero and Nama speakers, is the second most unequal one. Historically, the nowadays Omaheke region used to be entirely settled by Hereros (Suzman 2000: 13). The major economic activity is large-scale farming and livestock. Approximately 900 farms are large commercial farms and 3500 represent communal farms in the region. Given that the Nama and Herero were once dispossessed of their lands, the large-scale farmers most likely represent an ethnic minority in the region involved in commercial farming. This is a general trend in the country, whereby the white population presently living in Namibia still possess land with enclosed farms and are the owners of the leading businesses in the country ('Salt in old wounds' 2017: n.p., Kössler 2008: 315).

3.2.2. Unemployment

Unemployment rate according to the latest ILO statistics is at a little bit more than 23%. From 2012, this represents a 7% rise in a course of five years. Interestingly, although Namibia went through a debt crisis and significant economic slowdown in 2016 also experiencing severe droughts, unemployment between 2016 and 2017 even slightly decreased. Female unemployment rate of almost 25% is slightly higher than in male population of 21%. Unemployment rate given different educational attainment shows highest unemployment rate among labour force with basic education, 16% with secondary and only 7% with advanced education. Most important and alarming issue with regards to unemployment is the share of unemployed youth. In 2017, youth unemployment rate as a percentage of total labour force was at 45.5%. Between 2012-2017, youth unemployment grew by more than 10%, and there was a slight increase between 2016 and 2017. This means that almost half of employable youth does not have a job. There is also a possibility of underestimation of the ILO statistics as the latter is measured solely by youth looking for employment. Youth not looking for a job is not included in these numbers, which may result in 6-time a greater number (Butler 2015: n.p.). With regards to gender disparity, youth male unemployment share in 2017 was more than 38%, with female youth of more than 53%. Although the difference between male and female share of the total unemployment rate differed by 4%, in youth this gap represents 15%. Quite evidently, there is a significant gender inequality given these numbers.

Interestingly, based on national statistics of 2016, although being a region with highest regional income inequality, youth unemployment is the second lowest in this region. Hardap, the most unequal region, however, has youth unemployment of 46%. Regions with lowest regional GINIs scored among the worst in terms of youth unemployment – Ohangwena with over 55% of youth unemployment and Omusati with 55% (Mulama and Nambinga 2017: 4). At the same time, a total share of unemployment rate within the region would approve the theory of higher inequality resulting in an increase in unemployment. The Omaheke scored second highest in regional unemployment rate with 42.3% and Hardap region with 39.3 was among the top regions with highest share of unemployed as well. Similarly, Omusati, which scored low in inequality, had the lowest total percentage of unemployed labour force among all the regions according to 2014 national statistics (NSA 2015: 70).

Figure 3. Total and Youth Unemployment Rates, Namibia 1991-2017



Data source: WB Data (n.d. b), WB Data (n.d. e)

Given these results, there is a clear within-region inequality as well as extremely high rates of youth unemployment. At the same time, in some regions there seems to be a positive relation between unemployment/youth unemployment and regional inequality in others a negative one. This may be due to different employment sectors in different regions, where in some regions seasonal employment defines the local labour market or differing levels of formality of the labour market in these regions. As such, unemployment simply is a determinant of various factors including characteristics of the labour market and possible ineffective policies directed towards employment reduction, due to persisting

high unemployment rates, rather than source of inequality. The regional inequality, on the other hand, clearly reflects the historical processes that took place within certain geographies. Such a scenario is highly similar to the South African experience, where for the reasons of its segregation system, the income inequality remained among the highest worldwide. At the same time, high unemployment might be due to inefficient pro-poor policies and higher formality of the Namibian market (Baah-Boateng 2016: 415-416). As argued by Baah-Boateng, the countries in Sub-Sahara with more formal labour markets, such as South Africa, exert higher levels of unemployment, including youth unemployment, which may explain these as outliers (2016: 415-416).

Hence, Namibia could be a case of a resource curse but there is little evidence of the rentier-state effect, which is a core element of the resource curse hypothesis. According to the corruption index, Namibia scored 51 points, where 0 is highly corrupted and 100 indicated no corruption (Transparency International). Neighboring Botswana, considered one of the success stories, has a score of 61, while Angola, an often cited example of resource curse, has corruption score of 19, as assessed by Transparency International (Amundsen 2014: 169). At the same time, it seems that the Kuznets' hypothesis (1955) does not hold in the present case. This is due to the fact that increased industrialization and the status of a middle-income country has not brought neither a sharp increase in inequality at its initial stages, nor a distinct decrease in the consequent periods but rather a very mild decrease of income inequality over time with coefficient of around 0.60, remaining as one of the highest Gini's worldwide (Figure 2). With persisting high income inequality, development policies are detrimental if the country wishes to attain an inclusive pro-poor growth as high inequality is the main challenge for successful poverty reduction (Elbra 2013, Kalwij and Verschoor 2007). To achieve the objective as stated in Vision 2030, including poverty, unemployment and income inequality reduction, the government has been implementing national development plans since 1995 (Republic of Namibia 2004). At this time, the Fifth National Development Plan is in its course and addresses the issue of income inequality. The following sections will therefore look at the most recent national policies and associated partnerships with the World Bank and the UN, more specifically the UNPAF, and how these address the issue of income inequality along with evidence from the literature already written on the topic in question.

Chapter 4. National Policies and Partnerships

The following section discusses the link between Namibia's national policies and bilateral co-operation, and inequality reduction. The analysis will look at the instruments with which the government intended or intends to bridge the inequality gap.

4.1. National Programmes Addressing Income Inequality – Reduction Through Employment and Economic Growth?

In 2004, Namibia launched its Vision 2030 – a list of targets to be achieved by 2030. The main objective of the vision is for Namibia to be 'as well developed, prosperous, healthy and confident in an atmosphere of harmony, peace and political stability; and as such ... to be reckoned as a high achiever' (Republic of Namibia 2004: 14), where the implementation of each of the national development plans will bring Namibia closer to the achievement of this goal. The main guiding principle of the Vision is to create an environment for long-term and sustainable development, where income inequality is recognized as one of the main challenges to sustainable development that requires addressing (Republic of Namibia 2004: 21-22). Introducing its first five-year National Development Plan in 1995, by 2030 the Namibian government would have implemented altogether seven national development frameworks. This section discusses both the Fourth National Development Plan (NDP4) (2012-2017) and the Fifth National Development Plan (NDP5) (2018-2023) and associated WB and UNPAF partnerships to assess the extent to which these plans have facilitated change regarding the issue of inequality.

4.1.1. NDP4: Linking Employment and Inequality

Namibia's Fourth National Development Plan (NDP4) was introduced in 2012 and came to an end in 2017. Addressing income inequality was a key objective of this framework. Along with sustained economic growth, which was and continues to be the main objective of the national development frameworks of the country, the second goal was to become more income equal, and the third objective was to reduce high levels of unemployment (Republic of Namibia 2012: iii). Although economic growth had not yet been formulated in terms of inclusiveness in this NDP, the plan recognized inequality as an obstacle and a 'key goal under the NDP4', alongside the need for this growth to lead to a reduction in

extreme poverty, and would thus fit the definition of inclusive growth (Republic of Namibia 2012: vi, 9). Therefore, the proposed policies aimed to decrease the number of people living in extreme poverty, whereby specific pro-poor policies were introduced, mainly to improve access to education and health care, create employment, and improve the social protection system (Republic of Namibia 2012: 65-69). The following basic enablers were introduced to meet the desired goals: 1) the improvement of institutional environment through lowering costs of business, capacity building, enabling a more flexible labour market, and financial deepening; 2) increasing the performance and quality of education; 3) the improvement of the health sector due to the high prevalence of HIV/AIDS despite relatively large public spending in this sector; 4) eradication of extreme poverty; and 5) the development of infrastructure primarily through public-private partnerships. Secondary and tertiary sectors were identified as the driving force allowing for creation of jobs and enhanced productivity (Republic of Namibia 2012: xiii-xvii, 26-27). The framework also recognized the private sector as playing a vital role in advancing the objectives, predominantly in the agricultural and tourism sectors (Republic of Namibia 2012: xvii). The main idea behind expanding these sectors was creation of jobs that would be stimulated if these sectors flourished. The policy recognized that the provision of new jobs would reduce unemployment rate, while greater variety would be offered. At the same time, large parts of the budget were to be devoted to better access to and quality of education, all of which, including the new working opportunities, would bring down the income inequality level (Republic of Namibia 2012: 21).

Some objectives of the plan were fulfilled, while others were not achieved. Although all of the national plans prioritize sustained economic growth, the Namibian economy has never underperformed. Quite on the contrary, Namibia's growth rate was so sound that the country was categorized as a middle-income country—a rare position among countries from the Sub-Saharan Africa region. With an average annual growth rate of 4.29% between 1990-2017 and an annual growth rate of around 6% from 2006 until 2016 (WB Data, n.d. d), when a crisis slowed down the economy, Namibia has shown a stable long-term growth pattern since independence. Namibia's sustained growth rate can therefore be considered a standard to aspire to, unlike its income inequality level, which is the second highest worldwide. The problem of inequality is as such a much greater challenge for development than economic performance. If the wealth is not being redistributed, the targets associated with poverty reduction are more difficult to meet. Hence, the attainment of the economic growth goal was partially successful – the

economy grew on average at a rate of 4.84% between 2012-2017 (Republic of Namibia 2017b: 6); however, the unemployment rate and income inequality remained high. The total unemployment rate grew from 16% to 23% between 2012 and 2017, with youth forming the majority of the unemployed; almost 50% of the unemployed labour force is therefore comprised of young men and women, with women representing a greater share (WB Data, n.p. b, WB Data n.p. e, WB Data n.p. f, WB Data n.p. g). In terms of the targeted Gini coefficient of 0.48 at the end of NDP4, only a mild decrease was recorded between 2012 and 2017 in the Gini value from 0.597 to 0.572, a reduction of only 0.025 points (Republic of Namibia 2017b: 14).

There is a detectable link between the outlined policies and those recommended by the World Bank and the United Nations in terms of the achievement of inclusive growth. First, income inequality reduction was predominantly addressed through employment creation. Second, the aim was to move to higher-productivity sectors that would generate more employment opportunities. The plan also addressed social policies in terms of more equal access to health and education, as recommended by the United Nations (Anand, Mishra and Peiris 2013: 1,6, UNDP 2017: 5,18). To conclude, the policy focus was on employment through concrete policy propositions – investment in productivity sectors, which was expected to drive down inequality, rather than on inequality itself, even though that has been recognized as one of the goals. Implementation of such policies, mainly economic instruments, were expected to generate more inclusive growth, as proposed by both the World Bank (Ianchovichina and Lundstrom Gable 2012) and UNDP's (2017) guidelines. The outcomes, however, do not indicate a clear improvement towards greater income equality nor unemployment reduction.

Economic growth and slow move towards secondary and tertiary sectors did not lead to more equitable income distribution, unlike what Kuznets' (1995) hypothesis proposed. At the same time, income inequality per se was not growing. Although a very mild decrease was recorded, far from desired 0.48 outcome, the Gini indicated more of a stable level of Gini with a very mild reduction. Piketty's (Lyubimov 2017, Piketty 2014) hypothesis also does not seem to explain the path of Namibia. Figures 2 and 3 show that whatever the economic growth, Gini was mildly decreasing with still retaining a very high value in the course of 1993-2016 and not increasing with expanding economic growth. What surely holds is the fact that poverty reduction efforts may have been hindered by high income inequality. Although a 5% decrease of number of people living in poverty

was recorded in the course of NDP4 with a 4% reduction of people living in extreme poverty from 15.8% to 11%, the poverty rate itself still remains as one of the main challenges with the last recorded value of 18% in 2015 and with prevalence of rural poverty of 37% (Republic of Namibia 2017a: 106, Republic of Namibia 2017b: 14). The success in extreme poverty reduction during this period was attributed to redistributive policies through introduction of progressive taxation and provision of social grants (Republic of Namibia 2017b: 18). Such policies are essential for income inequality reduction too. Formulating the social benefits programs as concrete strategies for more equitable income distribution may have brought about even higher results in the overall poverty reduction, whereas the implementation of predominantly economic tools remains questionable after unsuccessful outcomes. Juach further argues that the absence of a ‘systematic programme of redistribution’ and the following of ‘a path of market-oriented economic policies’ limited the government’s efforts to address poverty and unemployment, as well as inequality (2012: 12). If solely the policies of economic growth and employment creation under the WB and UN guidelines are upheld, income inequality levels may even be exacerbated (Roccu 2016: 186-189). The next section will look at whether the current development programme improved upon/amended its approach to income inequality based on the outcomes of NDP4.

4.1.3. NDP5: Skills Development, Education and Poverty Reduction

The implementation of the NDP5 commenced in January 2018, and policies outlined in the document will be implemented in the course of five years, ending in 2023. While reduction of income inequality has been one of the core goals of the current’s plan’s predecessor, the NDP5 revolves around the pillars of: 1) economic progress, 2) social transformation, 3) environmental sustainability, and 4) good governance (Republic of Namibia 2017a: xiii). Economic progress is to be inclusive, sustainable and equitable, which hints at growth that is more equitably distributed across society. In order for the country’s economy to become “a knowledge-based economy” rather than one depending on imports for production inputs, the economic transition will be achieved via “structural transformation through value added”, infrastructural development, the expansion of export and regional integration, and improved access to financial institutions (Republic of Namibia 2017a: xiii-xiv). In this regard, the reduction in income inequality is to be attained through expansion to other sectors. In other words, the structural transformation ought to bring in industries in secondary and service sectors, which will lead to job creation and

thereof income redistribution (Republic of Namibia 2017a: xiv). As is stated in the section on NDP5's goals and visions, one of the aims of this development framework is to escape the middle-income trap and to move Namibia to a high-income country through the structural transformation of its economy (Republic of Namibia 2017a: 4-5).

Although increased equality is not explicitly stated as a goal, the more equitable distribution of income is again to be achieved through a decrease in unemployment. The NDP5 is expected to create 200,000 jobs, including higher-income positions, and Gini ought to decrease from 0.572 to 0.50 (Republic of Namibia 2017a: 4-5; 106). The second pillar, social transformation, focuses on the implementation of policies aimed at the improvement of health and education in order to improve the country's HDI (Republic of Namibia 2017a: xiv). While such policies may decrease inequality if the policy has redistributive effects (Tamai 2009: 226), the empirical evidence shows that these policies are less likely to reduce unemployment with a probable increase in income equality (Akinbobola and Saibu 2004: 179-182). Thirdly, income inequality is in this plan addressed along with poverty reduction, where both issues are attributed to inadequately trained labour force within the poorer segments of the population (Republic of Namibia 2017a: 4). While poverty, mainly rural poverty, is meant to be reduced through rural development strategies, income inequality is expected to decrease through dealing with the issue of unemployment and poverty jointly. This implies that no particular strategies were formulated specifically for income inequality reduction per se.

What distinguishes the NDP4 and NDP5 in terms of income inequality plan of actions, is in the recognition of the three factors – unemployment, inequality and poverty as mutually reinforcing. Therefore, reduction in the Gini, poverty rate and unemployment rate are all indicators for an inclusive economic growth with a desire to create a capable human capital (Republic of Namibia 2017a: 106, 108). Although concrete steps are introduced to tackle poverty, specifically rural poverty, and unemployment, mainly through private investments and skills training, no specific policies, such as more progressive taxation or safety net programmes, have been indicated as policies dealing with the issue of inequality (Republic of Namibia 2017a: 23, 60-76)

Given that this development plan strives to bring about inclusive growth, it is uncertain whether not addressing the inequality issue in a more concrete way and through the introduction of specific tools would allow for the attainment of such growth. Based on the evidence showing that inequality, especially if initially high, increases with an increase in growth and may even render poverty reduction impossible (Kalwij and

Verschoor 2007: 820-22), development of specific strategies for more equal distribution is detrimental for attainment of the desired poverty reduction outcomes. Apart from skills training, the development plan brings no new non-economic tools as compared to the previous NDP that would address the issue, apart from recognition of the mutually reinforcing relationship between poverty and inequality. The investments in health and education are policies that present a greater social impact; however, their formulation shows that such investments are meant to a building of ‘capable and healthy human capital crucial to optimizing productivity’ (Republic of Namibia 2017a: xiv), which explicitly translates the social benefits into their economic value.

Once again, traces can be found in policy recommendations as introduced by the World Bank. For instance, the focus on a broad-based growth – in other words broadening of the local economy with investments in higher-productivity sectors through social transformation (Anand, Mishra and Peiris 2013: 1, 6), has been made a priority in this development plan with equally-named 2nd pillar of the NDP5. Moreover, it has become clear that inequality has become perceived more in terms of an obstacle to growth than an ultimate goal in terms of its reduction. Such a view would be even more aligned to the World Bank’s statement on inclusive growth, as income inequality is not a priority, but rather an identifier of a pro-poor growth in its absolute definition (Ianchovichina and Lundstrom Gable 2012: 149). At the same time, the recognition of the relation between the three issues of employment, inequality and poverty and thereof proposed policies are fully aligned with the UNDP’s guidelines on inclusive and sustainable growth (UNDP 2017: 5, 18). As such, the cause of inequality, given the policy formulation, is attributed to high unemployment rate, while both poverty and inequality are identified as the challenges to growth – the same assumption of causality and formulation as was in the NDP4. Given that NDP4 failed to attain the desired Gini reduction, not changing the approach towards more equal distribution may influence effectiveness of the NDP5 in this outcome and poverty reduction too, as high income inequality hinders poverty reduction efforts (Kalwij and Verschoor 2007: 820-22).

Implementation of this development plan is further dependent on cooperation with partners. This is mainly due to the fact that the government does not have a sufficient budget for full implementation and relies on funding and aid from partners (Nakashole 2017). Such dependency may create unequal relations between the partners and influence implementation and policy prioritization and formulation. Both the NDP4 and NDP5 have been implemented in partnership with the World Bank and the United

Nations (within its United Nations Partnership Framework). The next section discusses the areas of focus of these partnerships and the way in which income inequality is addressed through these cooperation strategies.

4.2. Bilateral Agreements

4.2.1. The World Bank Country Partnership Strategy

To aid with the successful implementation of the NDP4, the Namibian government launched several partnerships with other organizations and governments, one of which has been the World Bank Country Partnership Strategy (CPS). The cooperation began in 2014 and officially ended in 2017. The main foci of the collaboration between the partners were to enhance the Namibian government's capacity to monitor and evaluate its progress, oversee implementation, and to help with stimulation of the private sector in order to drive down unemployment, which would reduce income inequality (World Bank 2013: vii, 20-22). The partnership also aimed to increase the government's capacity to evaluate and monitor the national plan and to 'enable better management of the economy' (World Bank 2013: 22) and support expansion of the private sector as instrumental for job creation through investment in infrastructure (World Bank 2013: 25). Although the partnership was considered successful in terms of delivering capacity-enhancing activities, the issues of unemployment and inequality have been far from resolved or improved upon. The last Gini coefficient of 2016 of 0.572, based on the Namibian Household Expenditure Report of 2015/2016, places Namibia at its stable position as one of the most income unequal countries (World Bank 2018: 3-6). The country program partnership will continue with a new strategy for years 2018-2020. This document, however, has not yet been published.

Given that the Namibian government does not have sufficient means for the full implementation of its NDP (Nakashole 2017), it comes as no surprise that 'Namibia actively encourages the involvement of partners in... the international community to help achieve the aims [of the plan]' (Republic of Namibia 2017a: xiii). Nevertheless, no loans were to be provided under the first CPS; rather, it sought to enhance the state's capacities through provision of staff that could mobilize external funding. At the same time, the International Finance Corporation (IFC) and Ministry of Finance of Namibia agreed to the issuance of bonds to the value of US\$500 million, which would be increased in the following period under the Pan-African Bond Note Program (World Bank 2013: 19). The IFC is an independent international finance organization and a sister organization to the

World Bank Group that focuses on private sector development through provision of investments, assistance, loans, and the promotion of public-private partnerships in developing countries ('About IFC' n.d.). Through its investments and provision of loans under the Pan-African Program, the IFC would contribute to private sector development in order to enhance the 'private sector's capacity to generate jobs and growth' in the duration of this CPS (World Bank 2013: vii). Other sources of funding for CPS implementation, as previously mentioned, came solely from external funding that amounted to US\$2.6 million (World Bank 2013: 18).

The majority of the available funds were therefore provided by the IFC. Although no documentation was found on conditions under which Namibia is eligible to receive bonds under the Pan-African Program, it can be expected that the implementation of the CPS primarily took place in focus areas of the IFC. This is not only reflected in the fact that the NDP4 formulates its objective to achieve lower unemployment rates in the exact same way as the CPS, but also through at least two basic enablers listed in the NDP4: 1) an enabler geared towards financial deepening, capacity building and more favourable costs of business capacity building, in addition to more flexible labour markets; and 5) an enabler revolving around the promotion of public-private partnerships (Republic of Namibia 2012: xiii-xvii, 26-27). In addition, given that Namibia has been reliant on partners for funding provision, it is possible that the CPS led to a prioritization of the implementation of private sector development initiatives, which under the NDP4 were intended to solve the issue of inequality through its job creation capacities.

Recalling the policies for inclusive growth as recommended by the World Bank and the United Nations discussed in section 2.3., assigning priority to private sector development as a tool for the reduction of income inequality, while also taking into account finance opportunities of the CPS, come as no surprise. Whether such policies contribute to income inequality reduction from the point of view of the existing literature and available statistics will be discussed at the end of this chapter.

4.2.2. The United Nations Partnership Framework

As was the case with previous national development plans, the government of Namibia and the United Nations Partnership Framework (UNPAF) cooperated for the successful implementation of the NDP4. Unlike the case of the World Bank CPS, UNPAF for the period of 2014-18 concentrated on the four main areas: 1) health, 2) education, 3) poverty reduction, and 4) the improvement of the institutional environment and accountability

(‘UNPAF in Namibia’ 2014). The main foci of this partnership were fully aligned with the three overarching goals of the NDP4, which were employment creation, income inequality reduction, and sustained economic growth, respectively (Republic of Namibia 2012: iii, UNPAF 2013: 3). In terms of implementation, the UNPAF country programme was to aid with capacity development and knowledge sharing, where government would still hold ownership over the development process. The UN would provide assistance and capacities in development programmes and projects that are nationally funded (UNPAF 2013). The budget allocated under this UNPAF followed the ‘Delivering as One’ strategy, meaning that the bilateral program shall include ‘one programme framework, one budgetary framework, one leader and one team’ (Siwingwa 2016: 25). In practice, this meant a joint decision between the government and the UN team on development of agenda and spheres of actions as well as defining of a budget. The mutually agreed upon budget between the partners stood at US\$79.5 million for the course of five years (Siwingwa 2016: 35-36), which was a budget significantly lower than that provided by IFC, and no conditions to implementation and/or cooperation were indicated.

Although fully aligned with NDP4, UNPAF developed its own main spheres of intervention as indicated before. Inequality was more centered around the issues of unequal access to health care and education, with a special focus on gender inequality (UNPAF 2013: 7-8). Even though this UNPAF was to fully support implementation of the NDP4, with development of its own four pillars of actions, the implementation lacked coordination between the government, implementing ministries and the UN system (Siwingwa 2016: 9-10). In the pillars, where inequality was addressed – in this case mainly health and education, unequal access to health and educational services remained a challenge at the end of the implementation period, with a recommendation of continuing and preferably increasing government investment in education sectors to close the gap with stronger administration for “improved service delivery” (UNPAF 2017: 15-17). This recommendation might be problematic as empirical evidence show that in the case of Namibia such investments lead to suboptimal outcomes specifically due to presence of persisting socio-economic inequalities, also reflected in the presence of high Gini. This is because persons from households with better socio-economic background accumulate higher returns from such policies (Levine and Roberts 2013: 183-184). As such, increased investment is neither sufficient nor effective if appropriate redistributive measures are not applied.

The UN launched a new partnership in the light of the NDP5, whose activities revolve around the four main outcomes as outlined in the NDP5 plan. This partnership framework will take place between 2019 and 2023. The UN wishes to assist with all four pillars of the NDP5, with a specific focus on youth as one of the most vulnerable groups, and on addressing the issues of gender. The partnership framework does not recognize inequality as one of the main challenges, and apart from a discussion on fostering women's empowerment in terms of gender (UNPAF 2018: 1-17), nowhere in the document is the issue of income inequality explicitly stated or discussed. In terms of addressing specifically unequal income distribution, the UNPAF 2018 framework significantly differs from the previous one (under NDP4), which recognized 'increased income equality' as one of the pillars and saw unemployment as a formidable challenge; although the focus area regarding inequality continues to be addressed through equitable access to health and education predominantly (UNPAF 2013: 3, UNPAF 2018). The current UNPAF framework, although not mentioning income inequality per se, discusses again inequality in terms of improved access to quality healthcare and education to all members of population, mainly the most vulnerable ones such as youth with a particular focus on gender difference. These fall under the NDP5 pillar of social transformation (2018: 5-9). Based on the results that did not match the desired outcomes during the preceding UNPAF, there has been no significant change in the way the current UNPAF addresses inequality but rather restates its former strategy.

The budget for this UNPAF has been estimated at US\$158 million, almost twice-fold increase in the budget since UNPAF 2014-18, where social transformation-related activities are given 34% of the budget (2nd highest after environmental sustainability) (2018: 14). No specific conditions for receiving of this funding were mentioned. The implementation is to be overlooked by a joint taskforce comprised of members of the Namibian government and the UN. Although implementation and drafting leave more freedom for the Namibian government to take decisions in these processes, receipt of funding may lead to an increased governmental flexibility to take-up decisions of the donor partner. Furthermore, given that the inequality-reducing strategies of the UNPAF 2018 and its predecessor do not differ significantly, it is not expected that this partnership will contribute greatly to inequality reduction.

4.3. Discussion

The last goal of the NDP4 in light of Namibia's Vision 2030 was to increase income equality. The target was measured by the Gini coefficient, which was to decrease from 0.597 in 2012 to 0.48 in 2017. The coefficient in reality fell to 0.572, resulting in an improvement of 0.025 points (Republic of Namibia 2017b: 14). Namibia therefore remains among the countries with highest income inequality in the world, despite its middle-income status (World Bank 2013: vi, 7). The Gini coefficient is only an indicator of unequal income distribution in a country and does not reveal any associated inequalities neither processes that result in its specific value. The strategies therefore lie within country's policies and programs that should detect context-specific sources of high Gini coefficients and introduce adequate measures for more equal income redistribution. Unlike employment creation as an approach to tackle unemployment, income inequality, whilst being a core goal, was not specifically addressed in the NDP4. On the other hand, under the NDP5, income inequality was assumed to decrease through the expansion of economic opportunities, and "diversification of the economy", including structural transformation and private sector development, which was also one of the objectives of the CPS partnership with the World Bank (Republic of Namibia 2017a: 4-5, World Bank 2013: 15-16).

Although there is recognition on the part of the government of the fact that high inequality has been an outcome of colonial rule and discriminatory politics under the South African administration, present-day income inequality is attributed within the policy frameworks to Namibia's high unemployment rates. These, however, are in themselves outcomes of the historically installed unequal socio-economic structures (Kössler 2008), which provided grounds for 'economic and social structures ... of high dependence on capital-intensive mineral extraction and racial inequality' (Levine and Roberts 2013: 168). For this reason, unemployment rates are viewed as signifiers of a presence of high-income inequality, but cannot be argued as the main cause of inequality itself, especially in the presence of unequal socio-economic structures. This is reflected in the fact that despite the government's efforts to increase employment, with special focus on this problematic under the NDP5, unemployment has not been decreasing, and even with slight changes in unemployment rates, the Gini coefficient has not been significantly reduced¹. Despite evidence of high intra-regional inequality and inherited unequal structures, no policy has paid attention to these issues. As such, prioritizing neoliberal policies, as through the

¹ For more information on statistical data, see section 3.2.

partnership with the World Bank, may lead to a strengthened negative relationship between income inequality reduction and economic growth (Roccu 2016: 186-189).

The presence of severe structural inequality also affects outcomes of non-economic tools trying to address income inequality. This is because of inherited unequal structures that make significantly higher marginal returns to those with stronger socio-economic backgrounds (Levine and Roberts 2013: 183-184). A study in Namibia conducted by Levine and Roberts has drawn this conclusion based on statistical evidence, pointing to the fact that despite government's large investments in education and health care, the returns will always be lower for people with weaker socio-economic backgrounds due to the presence of structural inequality (2013: 183-184). Furthermore, the authors provide evidence that the creation of employment does not guarantee poverty and inequality reduction. According to their results, 20% of the households with salaries as their main form of income remain poor (Levine and Roberts 2013: 178). As such, 'a salaried income is by no means a guarantee of a life above the poverty line in Namibia', the authors argue (2013: 178). Ultimately, inequality can be attributed to regional differences resulting from colonization practices that installed such inequalities within the region, rather than gender disparities. In order to address the issue, the authors suggest non-economic instruments and measures with a regional focus (Levine and Roberts 2013: 183-184).

Yet, the NDP5 pays less attention to the issue of inequality than its predecessor, and further initiatives have been launched to promote unemployment, such as the new ILO 'Decent Work Country Program', which aims to promote employment, but also focuses on other issues such as the minimum wage, maternity leave, or health care ('ILO Country Programme'). Hence, the main remaining challenge is to detect the causalities of income inequality, in order to generate an inclusive economic growth in the country. Under the evidence provided in this analysis, it is unlikely that Kuznets' hypothesis (1955) holds as the Gini, although mildly decreasing, is still among the highest ones worldwide, despite the economy's movement to other sectors. Furthermore, given the relatively high corruption index would (Transparency International), compared to other resource-rich countries, and no signs of Dutch disease disapproves the resource curse hypothesis as proposed by Elbra (2013). It is also not likely that Gini or high unemployment rates slow down the economic performance given that Namibia has been growing at an average rate of 4.28% since independence until now (WB Data, n.d. d). At the same time, unemployment does not seem to affect income inequality, although being formulated as

such, in the policies. The next section, thus, aims to provide empirical evidence on causal relations between unemployment, income inequality and economic growth.

Chapter 5. Quantitative Analysis

5.1. Model and Data

The model chosen for time series analysis is the vector error correction model (VECM). Such model depicts a co-integrated vector auto-regressive model. The base for the model is finding of co-integrated relationships – this means long-term relations and a study of how deviations in one variable cause short-term disturbances and corrections of these disturbances in other variables. The presence of co-integrated relationships in itself implies Granger causality (Michael, Emeka and Emmanuel 2016: 157). Tests for unit roots, selection-order criteria and eigenvalue stability condition will be run in order to determine stability and stationarity of the model, stationarity of the variables and lag number to be used in the model. The VAR model reduced form is defined in Equation I as follows:

$$y_t = \mu + \phi_1 y_{t-1} + \phi_2 y_{t-2} + \dots + \phi_p y_{t-p} + \varepsilon_t \quad (I)$$

where y_t is defined as a vector of 3 variables 3×1 at a given time t , μ is a constant intercept vector, ϕ is a matrix of fixed coefficients of variables in the linear system of equations and ε_t is the error term which residuals have a mean value of 0 and $cov(\varepsilon_t \varepsilon_t) = \Sigma(\varepsilon_t)$. The joint vector y_t then consists of $y_t = [UNEM_t \ GDP_t \ INEQ_t]$, where $UNEM_t$ refers to total unemployment rate, GDP_t to real GDP and $INEQ_t$ to a measure of inequality – Gini coefficient. Given that these variables follow a unit root process as will be shown in section 5.2. (Table 1), the co-integration of long-term relationships is given by the vector error correction model that is specified as follows:

$$\Delta y_t = \gamma + \alpha(y_{t-1} + v + \rho t) + \Sigma \xi_i \Delta y_{t-1} + \eta_t \quad (II)$$

where $\Sigma \xi_i \Delta y_{t-1}$ defines the number of lagged differences of explanatory variable y , v is a trend constant of co-integration relation(s), γ is a drift constant in the model, ρ is a time trend of the co-integrating relationship(s), and η_t error term is stationary. The number of lags expressed by $\Sigma \xi_i \Delta y_{t-1}$ is detected through the test of selection-order criteria. The ordering in the VECM matters as the intent is to identify possible directions of causalities.

Three models, where therefore ran, where *INEQ* was the dependent variable in model 1, *GDP* in model 2 and *UNEM* in model 3. The dependent variable is one, where based on the error correction term and its statistical significance, one can make inferences about the long-term co-integrated relationship between the dependent and explanatory variables.

All of the data present in this analysis is on yearly basis. Due to the availability of the data, the dataset contains the period from 2001 until 2016. This time range is not perceived as a limitation since it focuses on the current trends of the three variables. The unemployment rate is given by the total unemployment rate represented by a share of total labour force unemployed but available for work and seeking a job (Kanyenze and Lapeyre 2012).² Both unemployment and GDP measures were retrieved from the World Bank Open Data catalogues (WB Data, n.d. b, WB Data, n.d. h). Inequality will be measured with the Gini coefficient – the most commonly used measure of inequality. Nevertheless, Gini has its weaknesses. Among the most commonly known criticisms is the measure’s inability to capture “absolute differences in income”, social policies and interventions or demographic changes (Chitiga n.d.). Other authors therefore suggest Palma ratio as a be a better measure of income inequality specifically for the purpose of policy recommendations because “given the observed stability of the middle income deciles, it is clear what needs to change to close the gap between the poorest 40% and the richest 10%” while the latter is not being sufficiently evident based on Gini coefficient (Cobham and Sumner 2013: 25-26). Nevertheless, Gini is still the most widely used, and thus more publically known, measure of income inequality. The other dimensions of inequality were captured in the qualitative analysis including HDI, regional, linguistic and gender inequality among others. First and foremost, however, it is the Gini coefficient that makes Namibia and outlier in terms of its income inequality. For this reason, income inequality variable is represented by the Gini coefficient in this analysis in order to study its relation to the other two variables, which are under the polices’ formulations and theories presented in section 2. assumed to have causal relationship.

The dataset for the Gini index, however, had missing data. These data were approximated with linear interpolation. Although such procedure may lead to a misinterpretation due to the arbitrary nature of interpolated values, the trend, as presented by the recorded values of Gini coefficients show no extreme deviations but rather similar values in the years between 2001-2016. Moreover, a study of a long-term relation between the variables is of interest for this analysis. If short-term impacts, such as social or

² Limitations of this definition are discussed in section 2.2

economic crisis, had persistent effects on the Gini, this would have been captured in the long-term trend line (Pinkovskiy and Sala-i-Martin 2009: 9). Furthermore, the time series analysis has been performed to provide empirical evidence and corroborate arguments of the qualitative part. Interpolation was therefore conducted under these justifications. The dataset contained more than a half of officially recorded data. These data were retrieved from the Namibia Household Income and Expenditure Surveys of the years 2003/2004, 2009/2010 and 2015/2016 and measures indicated in NDP3 and NDP4 all calculated by the National Statistic Agency of Namibia. According to the World Income Inequality Database guide, the data provided are of a high quality thanks to the underlying concepts of the observation being known and the quality of the surveys being determined as sufficient (WIID 2017: 10-11). Important to note is to always provide theoretical backing of the results of the estimated results in order to make proper conclusions and thereof recommendations.

5.2. Unit Roots

Table 1 report on the results of the Dickey-Fuller test for unit roots. The null hypothesis of the test assuming a presence of unit roots cannot be rejected in any of the variables as the absolute value of test-statistic is always smaller than any of the critical values. It can be concluded that all three variables follow a unit roots process.

Table 1. Dickey-Fuller Test

	Test-Statistic	1% Critical Value	5% Critical Value	10% Critical Value	p-value	H0:
INEQ	-0.242	-3.750	-3.000	-2.630	0.9333	Fail to reject
UNEM	-1.615	-3.750	-3.000	-2.630	0.4751	Fail to reject
GDP	-1.297	-3.750	-3.000	-2.630	0.6305	Fail to reject

Own calculation, source: STATA outputs

Although Dickey-Fuller test is the most widely used, two other tests can be applied to detect unit roots. Phillips-Perron test as well as modified Dickey-Fuller (DF-GLS) confirmed the previous findings of unit roots in the variables. For this reason, the VECM model has to be applied, as VAR would result in non-stable system. VECM transformation of the VAR, under the assumption that a co-integrated relation is detected,

can therefore be utilized. Prior to conducting the Johansen test for co-integration, a lag selection-order criteria test is run to determine the number of lags to be used in the model, with which the most efficient results are being generated by the model. Based on the test performed (Appendix 1), the lag number of three has been picked for the model.

3.3. Johansen Test of Co-Integrating Relationships

The Johansen test was then run in order to determine the number of co-integrating relations. The presence of a co-integrating relationship implicates a causality between the variables, where the error correction term defines the rate of adjustment towards the long-term equilibrium between the dependent variable and explanatory variables (Dogan 2013: 245). The results of the Johansen test are presented in Table 2, based on which rank 1 has been determined for the model. The VECM model will therefore be run with 3 lags and 1 rank.

Table 2. Johansen Test for Co-Integration

Trend: constant Number of observations = 13
 Sample: 2004-2016 Lags = 3

Maximum Rank	Parameters	LL	Eigenvalue	Trace Statistic	5% Critical Value
0	21	-293.44249	-	42.4160	29.68
1	26	-275.63866	0.93537	6.8083*	15.41
2	29	-272.2345	0.40768	0.0000	3.76
3	30	-272.2345	0.00000		

Own calculation, source: STATA outputs

By discovering of a co-integrating relationship, it is no longer possible to use a vector autoregressive model, which does not recognize such a relationship in its estimation process (Dogan 2013: 247).

3.4. Results

Three models were run in order to assess the long-term and short-term relations by changing the dependent variable in the equation. Model (1) examined changes in inequality with $\Delta INEQ$, model (2) in ΔGDP and model (3) in $\Delta UNEM$ as dependent

variables. The results are presented in Table 3. Eigenvalue stability condition test confirmed stationarity of the co-integrated relationship of the model (Appendix 2).

Table 3. Vector Error Correction Model

Variables	(1) $\Delta INEQ$	(2) ΔGDP	(3) $\Delta UNEM$
Error Correction Term	-0.00501* (0.00269)	-0.0986 (0.944)	-0.654** (0.327)
$\Delta INEQ_{t-1}$	0.155 (0.120)	-2.556 (6.495)	1.211* (0.661)
$\Delta INEQ_{t-2}$	0.0290 (0.123)	2.785 (7.790)	-0.00385 (0.679)
$\Delta UNEM_{t-1}$	-0.0203 (0.0605)	2.145 (3.014)	-0.815** (0.340)
$\Delta UNEM_{t-2}$	-0.0325 (0.0751)	-7.631 (3.798)	-0.427 (0.419)
ΔGDP_{t-1}	0 (1.64)	0.752 (1.025)	7.54 (9.17)
ΔGDP_{t-2}	0 (1.09)	-0.132 (0.532)	-4.60 (5.85)
Constant	-0.187* (0.112)	-0.0129 (1.918)	0.800 (0.618)
Observations	13	13	13

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Own calculation, source: STATA outputs

Firstly, it is important to note that the VECM does not report on the impact but gives evidence on causal relations through interpretation of the error correction term. The error correction term is an adjustment ratio, in other words a speed, with which long-term equilibrium is re-installed if a disturbance occurs. The co-integrating relation between variables indicates a given correction term. Causality can be asserted if the correction term is statistically significant and has a negative sign – this is important because the minus sign points to a reduction in the initial deviation; positive sign would therefore not be an evidence of a causal link since no correction would actually be observed. The coefficients

do not imply a reduction in the dependent variable per se, but to a correction from the deviation of the long-term co-integrated relationship between the dependent and explanatory variables, where the past values of explanatory variables include information that have ability to predict values of the dependent variable. The focus is solely on causal links not on the impacts.

In Table 3, two statistically significant and negative error correction coefficients were detected, namely in models 1 and 3. Based on the results from model 1, it can be asserted that unemployment rate and GDP jointly Granger-cause income inequality. The results can be interpreted as: if a disturbance from long-term equilibrium occurs in terms of the relation as described before, then in the following period, 0.5% of the initial deviation will disappear. This means that the past values of GDP and unemployment rate can predict the values of Gini in the next period; in our case, however, the predictive ability is rather limited given the coefficient size (a coefficient of only 0.5%) and statistical significance. This implies, that although Gini can be caused by unemployment rate and GDP jointly, it is so only in a very limited way. Individually, no short-term causal links were detected as presented in Table 3. As such, Kuznets' hypothesis (1955) is unlikely to hold as GDP would have yielded statistically significant coefficients on the Gini. At the same time, Piketty's assumption (Piketty 2014, Lyubimov 2017) does not hold either, as no causality of GDP on income inequality was found. Furthermore, reverse causality of Gini on GDP has not been provided by any statistically significant evidence. In case of Namibia, GDP growth based on these results is not hindered by income inequality nor unemployment rate, unlike what was argued by the Namibian government in both NDP4 and NDP5. However, both inequality and unemployment are reflections of a growth that is not inclusive.

Second significant error correction term was found in model 3. Here, both GDP and Gini Granger-cause unemployment rate. This does not mean reduction nor increase in unemployment rate but solely that jointly, the two explanatory variables currently contain information that can forecast future values of unemployment, whether positive or negative. In this case, the statistics is significant at a 5% level, where 65.4% of an initial deviation would be corrected for in the following period. In magnitude and significance, this effect is undoubtedly greater than that in model 1. Furthermore, the results show that income inequality has a short-term causal effect on unemployment.

As such, unemployment, rather than being the cause, is an outcome of non-inclusive economic growth, where Gini coefficient affects the level unemployment rate in

short-term, as was the case in Nigeria (Akinbobola and Saibu 2004: 179-182). This evidence dispute the causality under the resource curse hypothesis (Elbra 2013), however may provide evidence of inadequate redistributive policies (Roccu 2016). Therefore, targeting inequality through employment creation, as advocated for by the World Bank and the United Nations and formulated within NDP4 and NDP5, would not lead to inequality reduction as the results suggest, nor towards an inclusive economic growth or desired levels of poverty reduction. On the other hand, it is necessary to deal with inequality in order to reduce unemployment rate. As was concluded in the policy analysis, unemployment is a determinant of inequality rather than its cause.

Chapter 6. Conclusion and Recommendations

6.1. Conclusions

The present paper aimed to address the issue of income inequality in Namibia. Being one of the most income unequal country in the world, Namibia presents a case, where its development path deviates from the established Kuznets' theory on the relation between inequality and economic growth. Other theories, such as Piketty's critique, suggested that economic growth due to the nature of capital itself, increases inequality as economy grows (Lyubimov 2017: 46-49, Piketty 2014). The case of Namibia is, however, more complex. While economy grows, the GINI index is decreasing, but at a very slow rate and its coefficient is still very high compared to the rest of the world. In such a case, economic growth is not increasing inequality but has little bearing on how income inequality behaves. Why should then inequality matter? Firstly, income inequality affects how inclusive and pro-poor a growth is. The Namibian government wishes to pursue economic growth that is inclusive and benefits poor (Republic of Namibia 2017a: vi). Due to the income inequality, however, poverty reduction has not yielded desired outcomes. Although Namibia has reduced its poverty rate from 69.3% headcount ratio in 1993 to 27% in 2009 (WB Data, n.d. i), the number of people living in poverty is still high relative to its economic expansion with rural headcount poverty rate of 37% in 2015 (Republic of Namibia 2017a: 106). Thus, as suggested by Kalwij and Verschoor, initial levels of inequality matter in terms of how income redistributive economic growth would be in a given country (2007: 820-22).

Detecting the cause of inequality is necessary to draft policies that would deal with the causal effects and bring about effective and desired results. Evidence from this analysis suggest that, in the case of Namibia, neither Kuznets hypothesis nor Piketty's critique apply. Inequality level is high due to its historical origins, however, the economic expansion was unable to distribute the income, which would provide evidence for Kalwij and Verschoor hypothesis (Kalwij and Verschoor 2007: 820-22). It is also unlikely that Namibia is a case of resource curse as discussed by Elbra (2013). The empirical evidence showed no support for growth being slowed down by high unemployment. At the same time, the corruption index disputes the rentier-seeking behavior of the government. With corruption index of 51 and average of approximately 49 (Transparency International), Namibia is one of the least corrupt countries in the region. At the same time, while exports of minerals represent the main contributor to Namibian revenue, the service

sector employs majority of the labour force (60%) and some parts of the labour force are concentrated in the agricultural production (20%) according to 2017 data (WB Data n.p. j, WB Data n.p. k, WB Data n.p. l). Therefore, although Namibian economy does depend on mineral resource extraction, the formal market employs majority of the labour force in other than industry sector.

The government perceives high unemployment rate as the cause of income inequality, which put “constraints on economic growth” (Republic of Namibia 2017a: ix). Furthermore, it is income inequality that drives unemployment rate so high according to the plan (Republic of Namibia 2017a: ix). The government therefore continuously implements policies that are to create job opportunities. As such, the country is following the guidelines laid out by the World Bank and the United Nations (Ianchovichina and Lundstrom Gable 2012: 147-150, UNDP 2017: 5,18) in that inequality is a result of unemployment and does not pay attention to its historical roots. The results of empirical analysis suggest otherwise. Unemployment is caused by inequality in long and short-term not the other way around. Furthermore, the high unemployment rates are also partly an outcome of highly formalized labour market, which is not the case in majority of the Sub-Saharan African countries (Baah-Boateng 2016: 415-416). The inherited income inequality from prior to independence is the cause of inequality in itself. Despite policies striving to bring down inequality, the high levels persist.

The cause of inequality is therefore not unemployment nor economic growth but ineffectiveness of policies to redistribute wealth, which allows for reproduction of historically-rooted socio-economic inequalities deeply embedded in the social structures. The data clearly prove this argument. Instead of between-regional inequality, there is a high within regional inequality and high inequality among linguistics groups. The land expropriation under German colonization and South African administration have not been solved at a policy level until this day (Melber 2017, Nghitevelekwa and Lenggenhager 2018). White members of the population own majority of the commercial farms, which affects distribution of the revenue (Kössler 2008: 315). Furthermore, this inequality occurs predominantly in the regions where the German genocide had the most profound affects (Suzman 2000: 13). That is also why the regional inequality is mostly attributed to the within-region inequality rather than inter-regional inequality (Central Bureau of Statistics 2008: 90). As such, adequate policies are detrimental in case of Namibia. By implementation of purely neoliberal policies, once targeting unemployment, it is unlikely income inequality would decrease (Levine and Roberts 2013: 183-184), especially given

that unemployment is an improbable cause of income inequality. If government does not target the structural inequalities that are reflected in socio-economic inequalities, it is doubtful that income inequality will be reduced.

6.2. Policy recommendations

Adequate use of fiscal policy and social benefit transfers are considered as having the greatest influence on income inequality reduction, with in-kind transfers leading to an estimated 78% decrease in the Gini, in context of Namibia (WB and NSA 2017: 3). The government largely invests in these; for instance, almost 13% of the budget was allocated to social spending. The social spending was comprised of direct transfers, such as cash transfers to people with disabilities, children, in-kind transfer, mainly in educational and health sectors and other indirect subsidies (WB and NSA 2017: 18-21). The study found, that although Namibia's social spending exceeds that of other middle-income countries, the coverage and targeting efficiency of these policies is below average. This means that the poorest members of the population do not benefit from these grants (WB and NSA 2017: 37-38). Once again, such inefficiency does not only lead to sub-optimal results, but may result in more unequal distribution. It is detrimental that the government places its efforts on development of effective measures, such as social benefit programs, through clearly stated strategies in its development plans. At the same time, the presence of the persisting and historically-rooted socio-economic inequalities, reflected in high within regional inequalities, inequalities among linguistics groups, unequal distribution of land and others, need to be taken into account to improve upon targeting and coverage of such programs.

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Appendices

Appendix 1. Test for selection order

Selection-order criteria

Sample: 2005 - 2016

Number of obs

=

12

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-306.949				5.5e+18	51.6581	51.6132	51.7793
1	-269.53	74.837	9	0.000	5.2e+16	46.9217	46.7422	47.4066
2	-256.506	26.049	9	0.002	4.1e+16	46.251	45.9368	47.0996
3	-21.0766	470.86	9	0.000	8.96043*	8.51276	8.06394	9.72503
4	809.783	1661.7*	9	0.000	.	-128.964*	-129.502*	-127.509*

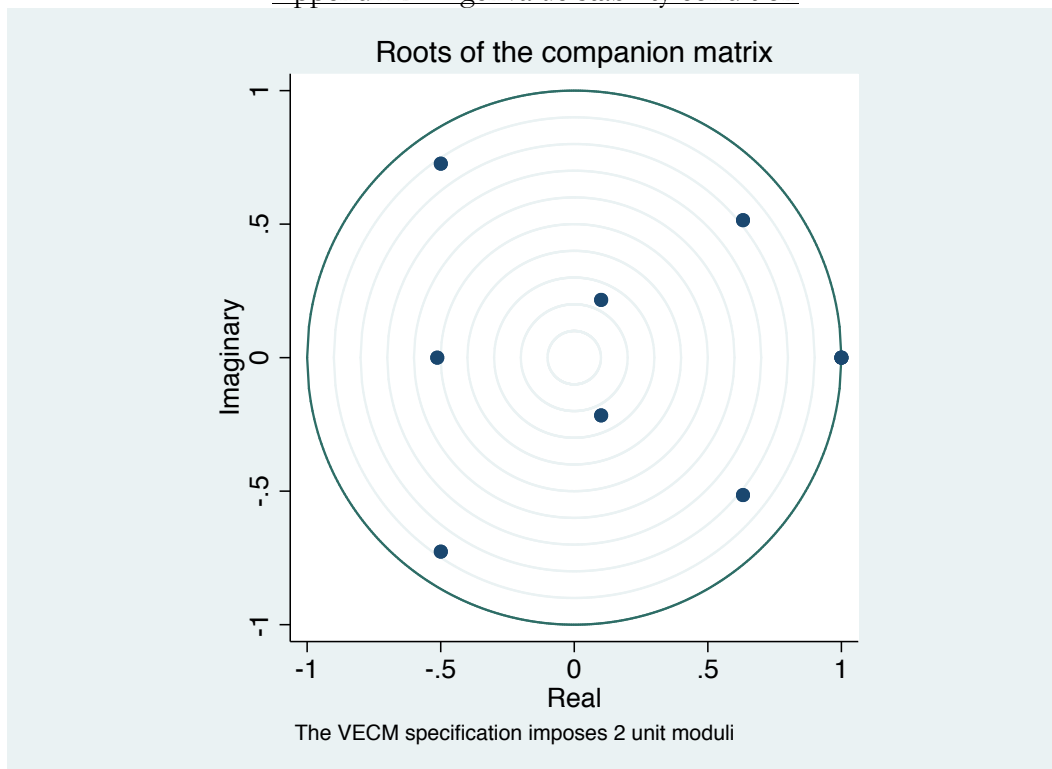
Endogenous: rgdp gini_pol tot_unem

Exogenous: _cons

Own calculation, Source: STATA output

*although only FPE showed lags 3 and majority of the statistics suggested lag 4, it is advised to start with the smaller number of lags. The model proved to be stable with 3 lags and a co-integrating relationship has been found at this lag number

Appendix 2. Eigenvalue stability condition



Own calculation, Source: STATA output

* all values lie within the matrix, with one value equal to 1 – this is because the variables follow a unit roots process. The results of this test therefore satisfy the condition of stability of the model.