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Namibia as a service hub

The role of Logistics and Financial services in economic transformation

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Contents

1. Introduction	3
2. Literature on Services and Economic transformation	4
3. Data on services and Economic transformation in SADC	6
3.1 SADC economies economic growth rates	6
3.2 Contribution of Services to SADC economies	6
3.3 Share of Services in trade	8
3.4 Services Account of Balance of Payment	9
4. Services and Economic Transformation	10
4.1 Logistics services for economic transformation – Opportunities and challenges	10
4.1.1 Introduction	10
4.1.2 The general role of logistics services in economic transformation	11
4.1.3 Analysis of Opportunities and Challenges in logistics services	12
4.1.4 Conclusions	17
4.2 Financial Services for economic transformation - Opportunities and challenges	18
4.2.1 Introduction	18
4.2.2. The general role of financial services in economic transformation	19
4.2.3 Analysis of Opportunities and Challenges in financial services	19
4.2.4. Conclusion	23
5. Conclusion: future of a service driven economic transformation	24
5.1 Conclusion	24
5.2 Lessons and Recommendations	24
6. References	26

1. Introduction

Countries worldwide have recognized the economic benefits likely to be derived from improvements in service sectors such as financial services and transport. These sectors particularly, and other in general, are usually viewed as infrastructural backbones and enablers of any economy. These sectors have a lasting significant impact on economic performance through growth and efficiency across many user industries. Economic transformation entails moving from input-dependent economy into knowledge based economy, (NPC, 2017). Economic transformation is needed for the type of sustainable growth which leads to poverty reduction and equal opportunities for all. This type of growth generates income broadly across the income distribution spectrum; is strong against economic shocks and increases the opportunities and diversity for future economic growth. In Namibia, the initiatives for economic transformation have so far focused on developing primarily the secondary industries, without a detailed definition of the role of services sector in economic transformation. However, given that the largest portion of growth in Namibia over time has come from services, it is necessary to focus attention to the role of services in economic transformation.

Table 1: Percentage contribution to GDP per industry

Industry	2012	2013	2014	2015	2016	2017
Agriculture and forestry	4.9	3.4	3.9	3.3	3.4	4.5
Fishing and fish processing	3.1	3.0	2.8	2.6	2.7	2.5
Mining and quarrying	12.7	13.2	12.2	11.7	11.8	12.1
Primary industries	20.7	19.6	18.9	17.6	18.0	19.1
Manufacturing	12.2	11.0	10.0	9.7	11.0	10.8
Electricity and water	1.9	1.9	1.9	1.5	2.3	2.6
Construction	3.3	3.9	5.0	5.5	3.9	2.9
Secondary industries	17.3	16.8	17.0	16.8	17.3	16.3
Wholesale and retail trade	10.7	11.6	12.4	11.5	11.3	11.3
Hotels and restaurants	1.7	1.6	1.8	2.0	2.3	2.6
Transport, and communication	4.7	4.7	4.8	4.7	4.9	4.9
Financial intermediation	5.1	6.2	5.7	6.9	6.7	6.2
Real estate and business service	8.2	7.7	7.2	7.1	7.0	7.1
Community, social and personal	2.2	1.8	1.8	1.9	1.8	1.8
Public administration	11.0	11.4	11.1	11.6	11.0	10.7
Education	8.3	8.6	9.2	9.5	9.5	9.8
Health	3.0	2.9	2.9	3.0	2.9	3.0
Private household	1.1	0.9	0.9	0.9	0.8	0.9
Tertiary industries	55.9	57.3	57.9	59.1	58.2	58.4
GDP at market prices	5.1	5.6	6.4	6.1	0.6	-0.9

Source: Namibia National Accounts 2017.

From the table above, it is evident that the service sector is an important component of any economy. It makes a significant contribution to GDP and job creation, and provides crucial inputs for the rest of the economy. Some of the motives for assessing the role of services in economic transformation are the shares of services in GDP and employment figures. The tertiary sector remains accountable for the highest contribution to GDP. During 2017, service sector recorded a share of about 62 per cent in GDP (or about 35 per cent, less government activities). This trend is expected to continue during the NDP5 period, (2017-2022) averaging about 61 per cent. The service sector also accounts for a higher contribution to employment figures. During 2016, share of employment in the service sector amounted to about 60 per cent, and this share is projected to average 62 per cent during the NDP5 period.

The objective of this paper is, therefore, to examine the role that the logistics and financial service sectors play in economic transformation. In support of economic transformation endeavors, and without doubting the potential of the other two industries, the aim of this paper is to highlight the opportunities and benefits of service-led growth as well as to identify challenges hampering the service sectors. In addition, where possible, the paper will also attempt to highlight lessons that can be learned from both developing and developed economies.

The methodology for this paper is that of desk research, analyzing the logistics and financial sectors in Namibia. Secondary data from National accounts and World Bank, as well as information from sectoral reports and briefings were used for analysis purposes. The focus period of analysis is from 2012 to 2017. This study is mainly of a comparative nature. Where applicable, the selected sectors are compared between SADC economies in an attempt to highlight strengths and weaknesses between member countries. This enables the researcher to highlight opportunities and lessons that will propel Namibia to become a logistics and financial service hub.

2. Literature on Services and Economic transformation

There are two perspectives that are opposing each other on the significance of Services sector on Economic transformation. Old development literatures have attached a rather limited role to services sector in Economic transformation; they argued that the manufacturing sector plays a leading role in Economic transformation. Adam Smith argued that services are 'unproductive of any value' (Smith, 1811, p.3) because he believed that the consumption and production of services slows down the process of capital accumulation, economic growth and development.

Baumol points towards the 'cost disease of services' (Baumol, 1967; Baumol and Bowen, 1965). That is, it is generally more difficult to generate productivity growth in the services sector. In his model of 'unbalanced growth', Baumol (1967) suggests that higher productivity in the manufacturing sector with regards to the services sector causes shifts in employment from manufacturing to services, and this in turn reduces aggregated total output growth as the sector with relatively lower productivity (i.e. the services sector) expands. Services also tend to be associated with sheltered non-traded sectors (Balassa, 1964; Bhagwati, 1984).

Nevertheless, recent trade and development literature is more affirmative about the role of services in leading economic transformation. Recent literatures have argued that, services contribute highly to GDP and employment. Services have become increasingly tradable, with few negative consequences for employment in the economy that is trading off its services, and with higher wages compared to the manufacturing sector. According to Lanz and Maurer (2015), services account for more than 70% of world GDP and 20% of world trade in the balance of payments terms. In value added terms, services account for 40% of world trade. Lanz and Maurer further suggest that the relatively low 'domestic service value' added by developing countries (in contrast with higher service value by developed economies) provides scope for improvements, although globally services tend to be less fragmented than goods.

Jones and Kierzkowski (1988) point out the supporting role for services, consistent with current specialization and distribution of production activities through global production networks (Gereffi and Memedovic, 2003; Kaplinsky and Morris, 2001): 'Bundles of activities consisting of coordination, administration, transportation, and financial services, are increasingly required as essential inputs when the fragmentation of the production process allows joint use of production blocks located in different regions.' They further noted, that, 'as services become cheaper, service linkages at the international level become more frequently and intensively utilized as integral ingredients in the production process.' The latter is important because it has helped shape the global networks that have in turn changed the way in which developing countries (can) transform. In other words, whereas earlier industrialisers were successful through domestic development of whole industries, current developing countries may need to focus on a particular activity in the production chain that could be a bundle of agriculture, manufacturing and services.

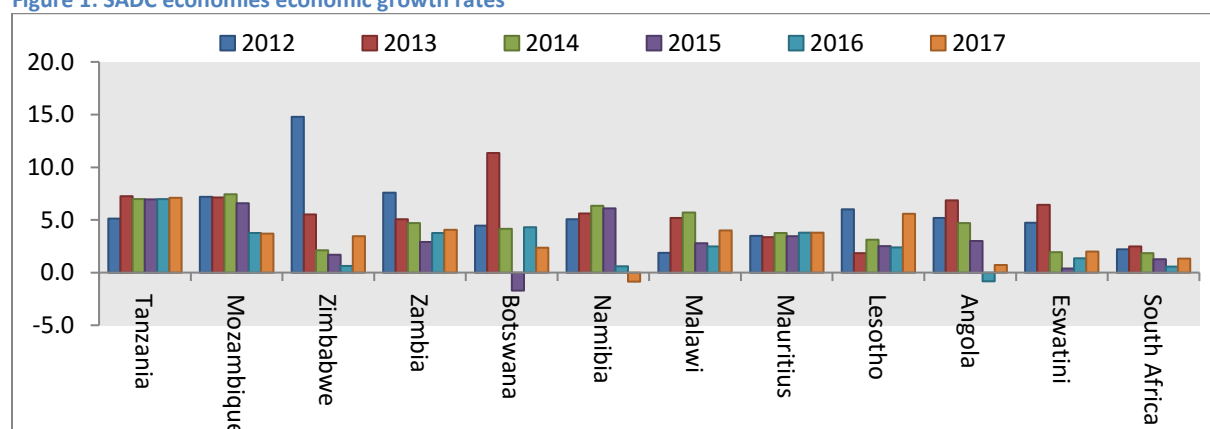
3. Data on services and Economic transformation in SADC

This section highlights the performance of the service sectors (including government activities) in SADC economies. The data analyzed is for all SADC economies, except Angola (data on Angola is limited for a number of indicators and years), obtained from World Bank world development indicators.

3.1 SADC economies economic growth rates

Economic growth for the SADC region averaged 4.1 per cent during the period 2012 to 2017. Tanzania and Mozambique recorded highest average economic growth rates of 6.7 and 6.0 per cent, respectively, followed by Zimbabwe, Zambia and Botswana recording average economic growth of up to 4.7 for Zimbabwe and Zambia and 4.2 for Botswana.

Figure 1: SADC economies economic growth rates



Source: World Development indicators, 2018.

Namibia recorded average growth rate of 3.8, which is slightly high than that of Mauritius (3.6 per cent) and Angola (3.3 per cent). In fact, South Africa scored the lowest average economic growth rates in the region, over the period 2012 to 2017, averaging 1.6 per cent. For most of these economies, the drivers of growth during the years between 2012 and 2015 were due to increased in economic activities in the primary industries as well as in construction sector. However, during the recent years, most economies recorded slowed growths in especially in the secondary and tertiary industries, which carry a bigger weigh in terms of contribution to GDP.

3.2 Contribution of Services to SADC economies

The service sector is a major contributor to GDP in SADC economies. On average contribution of services to GDP in the region averaged about 59 per cent for the period between 2012 and 2016. The contribution is different across the region. The most developed economies in the region, Mauritius and South Africa recorded the highest average contribution, of about 74 per cent and 68 per cent, respectively. The two economies tally well above other developed peers,

Botswana and Namibia all recording an average of slightly about 60 per cent for the same period. These are all the more developed economies in the region which are also rated, with the exception of Zimbabwe, as upper middle income countries. It is therefore interesting to note that the service sector contribution to GDP in Zimbabwe, which is a low-income country, is well above that of Botswana and Namibia, with average contribution of about 64, 62, and 60 per cent, respectively.

Table 2: SADC economies services value added % of GDP, (ranked by average contribution)

COUNTRY NAME	2012	2013	2014	2015	2016	Average
Mauritius	72.1	72.9	74.0	74.7	75.6	73.9
South Africa	68.0	68.0	68.0	68.5	68.6	68.2
Zimbabwe	62.5	63.7	62.4	64.2	66.3	63.8
Botswana	62.7	60.7	58.9	64.4	63.1	62.0
Namibia	57.8	58.8	59.5	60.5		59.8
Lesotho	61.8	62.1	59.4	57.8	57.4	59.7
Zambia	56.3	56.5	57.4	59.4	56.9	57.3
Malawi	53.2	53.4	53.5	54.3	56.1	54.1
Mozambique	53.3	54.7	54.3	53.2	53.6	53.8
Swaziland	49.3	50.8	51.7	51.6	52.4	51.2
Tanzania	43.6	42.5	43.4	42.2	41.2	42.6

Source: World Development indicators, 2018.

Swaziland, which is classified as a low-middle income amongst Lesotho and Zambia performed poorly compared to its peers. Average contribution in Swaziland between 2012- 2016 is about 50 per cent, which is lower compared to Lesotho and Zambia contributions, just slightly below 60 per cent. The less developed SADC economies (in terms of income rating- Malawi, Mozambique and Tanzania) also contributed significantly to GDP through the service sector in the region during the same period. Tanzania recorded the lowest contribution to GDP in the region, averaging about 43 per cent.

Table 3: SADC economies services value added annual % growth, (ranked by average growth)

COUNTRY NAME	2012	2013	2014	2015	2016	Average
Mozambique	10.3	7.8	9.0	6.7	4.1	7.6
Tanzania	7.4	7.4	7.1	6.8	7.3	7.2
Zimbabwe	20.8	6.6	0.3	2.0	4.7	6.9
Botswana	7.2	7.4	5.0	5.4	6.6	6.3
Namibia	3.9	7.3	7.7	7.9	3.4	6.1
Zambia	11.7	7.9	5.6	2.2	2.8	6.0
Malawi	4.7	6.3	5.8	3.3	5.3	5.1
Mauritius	4.7	4.2	4.8	4.3	4.6	4.5
Lesotho	7.2	4.6	5.8	3.5	1.3	4.5
Swaziland	1.7	8.6	5.2	1.1	3.2	4.0
South Africa	3.0	2.7	2.3	1.6	1.4	2.2

Source: World Development indicators, 2018.

In terms of annual growth however, Mozambique and Tanzania recorded faster growth in services sectors, averaging 7.6 per cent and 7.2 per cent, respectively. Zimbabwe, Botswana and Namibia also all recorded satisfactory growth rates in services for the period under observation, recording average growth rates above 6 per cent. While Mauritius and South Africa recorded average growth rates of less than 5 per cent for the same period. Fragile and weak economic performances both in global and regional economies, as driven by mainly dwindling commodity prices over the years, are the biggest drivers of fluctuating growth in the SADC regions.

Service sectors in the SADC economies accounts for a bigger share in total employment. Mauritius and South Africa recorded about on average 70 per cent share of service employment in total employment, followed by Swaziland, Botswana and Namibia who recorded an average of close to 60 per cent.

Table 4: Share of service employment

Country Name	2012	2013	2014	2015	2016	Average
Mauritius	64.5	75.4	76.3	67.1	67.3	70.1
South Africa	71.9	73.1	66.7	67.4	67.7	69.4
Swaziland	61.2	61.2	61.1	61.0	61.2	61.1
Botswana	56.9	57.9	58.5	58.7	59.3	58.3
Namibia	58.6	53.8	55.7	57.9	60.3	57.3
Lesotho	38.5	38.3	39.3	39.6	39.5	39.0
Zambia	33.9	34.2	34.4	34.9	35.1	34.5
Tanzania	24.4	25.3	25.7	26.0	26.4	25.6
Zimbabwe	25.2	25.6	25.4	25.6	25.4	25.4
Malawi	25.4	25.3	25.4	25.4	25.4	25.4
Mozambique	20.0	20.1	20.3	20.6	21.0	20.4

Source: World Development indicators, 2018.

3.3 Share of Services in trade

It is important that trade-in-services is encouraged between economies because they increase economic activities and the level of GDP. In the SADC region, Mauritius, recorded 43 per cent of trade in services as a share of GDP. This is a notable progress in reaping benefits of a service led growth.

Table 5: Table 3: Trade in services, % of GDP (ranked by average contribution)

COUNTRY NAME	2012	2013	2014	2015	2016	Average
Mauritius	50.1	41.1	44.4	43.5	40.5	43.9
Mozambique	36.4	28.4	25.8	25.4	33.6	29.9
Lesotho	18.4	15.9	13.7	14.5	15.5	15.6
Botswana	16.0	15.4	14.5	15.8	14.1	15.2
Zimbabwe	14.9	14.6	14.6	11.8	10.0	13.1
Tanzania	13.2	12.8	12.6	13.3	12.1	12.8
Namibia	11.7	10.4	14.7	14.2	12.1	12.6
Swaziland	11.1	9.8	13.4	10.8	10.9	11.2
Zambia	9.1	9.2	9.2	10.8	10.8	9.8
South Africa	9.2	9.5	9.6	9.6	9.9	9.6
Malawi	5.5	6.5	6.2	6.4		6.2

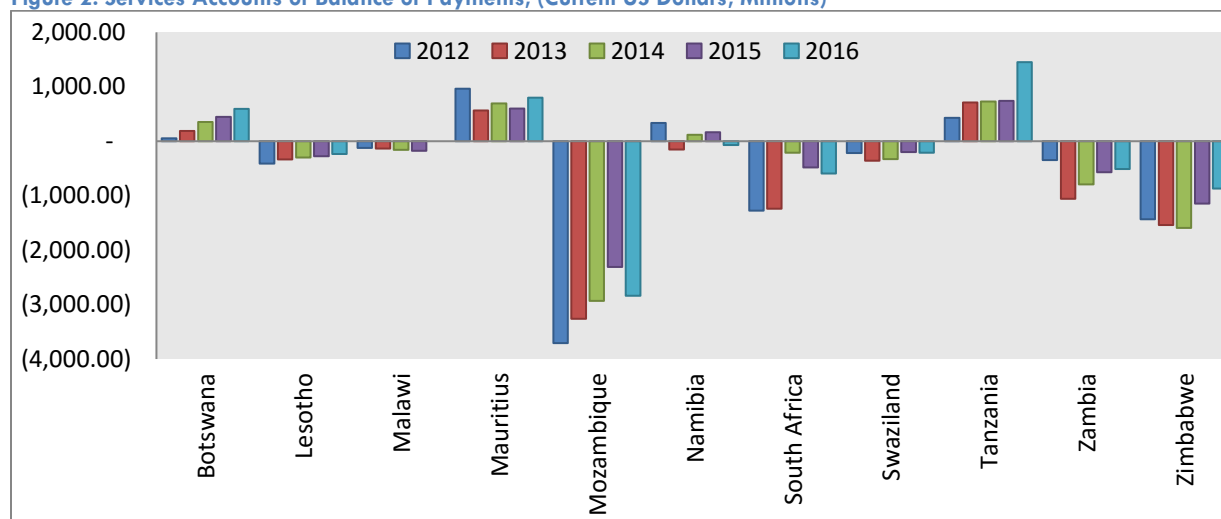
Source: World Development indicators, 2018

Other top countries in the region benefiting from trade in services are Mozambique with close to 30 per cent share of trade in services in GDP. Lesotho, Botswana, Zimbabwe, Tanzania and Namibia also records shares above 12 per cent. Trade in services is a good measure of how countries compete to create opportunities to expand service outputs in sectors where they have comparative advantage in, for extended GDP contribution, job creation and global trade competitiveness. Openness of service sectors to the global markets also result in attraction of foreign investment and skills and best practices transfers.

3.4 Services Account of Balance of Payment

On average, SADC is a net importer of services, with an average deficit of US\$4.1 million deficit in service trade. Botswana, Mauritius and Tanzania are the only SADC economies that recorded surpluses for all the years between 2012 and 2016. However, on average Namibia joins the above mentioned economies to record an average surplus in service trade, despite recording deficits during 2013 and 2016.

Figure 2: Services Accounts of Balance of Payments, (Current US Dollars, Millions)



Source: World Development indicators, 2018

South Africa, as an upper middle income country, recorded an average deficit in services account in the BoP with the rest of the economies. Mozambique recorded the highest level of deficit for all the years in SADC followed by Zimbabwe and Zambia.

4. Services and Economic Transformation

This section highlights the role of logistics and financial services in economic transformation in Namibia, with particular focus on the opportunities and challenges noted from the selected two sectors. The choice of the two sectors analyzed below was made due to the level of comparative advantage Namibia has in those sectors, compared with other economies in the SADC region. These two sectors do not necessarily contribute a bigger share in GDP or employment figures in the economy, and, of course, do not work in isolation. All other sectors of the economy directly or indirectly influence performance. For example, for financial services to fully be operational there is need to ensure that adequate information and communication technology (ICT) infrastructure is in place, such that services are available and accessible to a wide range of users at different locations. The same can be said for logistics services.

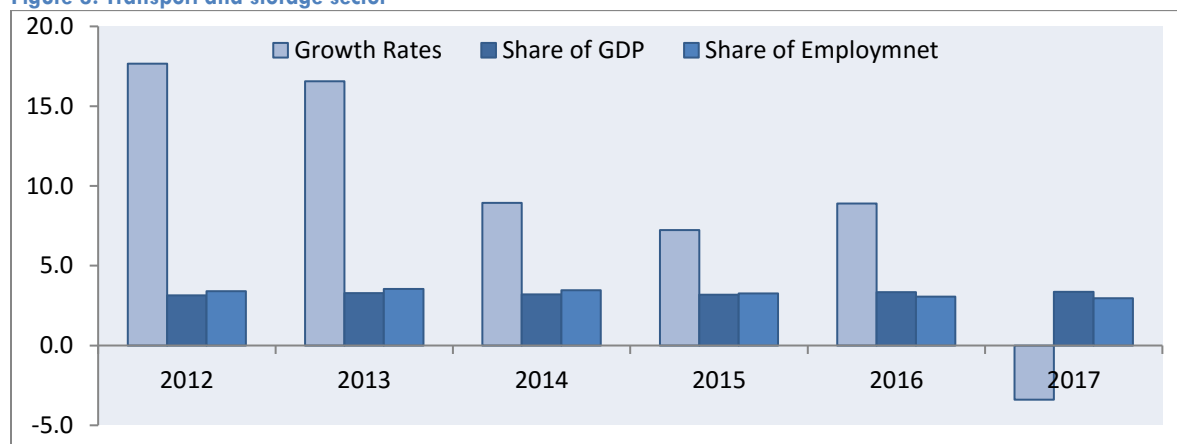
4.1 Logistics services for economic transformation – Opportunities and challenges

4.1.1 Introduction

Council of Logistics Management (1991) defines logistics as ‘part of the supply chain process that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers’ requirements. Without well-developed transportation systems, logistics could not bring its advantages into full play. The improvement of transportation systems needs the effort from both public and private sectors. A well-operated logistics system could increase both the competitiveness of the government and enterprises and transform an economy.

An international logistics hub is a place where a complete package of international logistics services is readily available in order to serve market demand for international logistics. A logistics hub requires that a complete package consist of an efficient port where cargo can be handled and distributed to international markets. This in turns means that a storage facility and an efficient and reliable transport network, which are operation basis for logistics industry becomes crucial element of the efficiency of the port. A logistics hub also requires that collection and distribution of goods and cross-border arrangements need to be in place for smooth transshipment and transportation.

Figure 3: Transport and storage sector



Source: National accounts 2017

Growth in the transport and storage sector has been growing at a declining rate since 2012 to 2016, before contracting during 2017. This slower growth is on average due to reduced freight transport by road, Air transportation and port services, which posted slow growths in real value added especially during 2016 going into 2017. An expected increase in cargo handling is bound to steer the sector upward toward positive growth. On the other hand, in term of shares in both GDP and employment, the trend has somewhat remained constant, with an average of about 3.3 during 2012 to 2016. The respective shares are mainly driven by the transport subsector more than the storage sub sector.

4.1.2 The general role of logistics services in economic transformation

Logistics service plays a crucial role in economic transformation. The broader opportunity from the sector has to do with facilitation of economic growth and deepening regional integration through international trade, whereby access to regional markets is simplified. In addition, logistics services are meant not only to connect trading partners, but also to provide economic opportunity and growth in rural and remote areas as well as bringing about eased access to facilities that deliver services to people. The logistics sector is essential for trade, industrialization, socio-economic development and regional integration and is therefore seen as a key developmental priority. The services provided by the logistic sector are crucial to the development of any economy especially in developing countries such as Namibia. Sectors such as the manufacturing sector depend on the logistics sector to be able to run smoothly and efficiently.

In Namibia as it is for many other economies, logistics plays a major role in trade activities. There are many factors that imply a comparative advantage for Namibia in the transport sector. Given the geographical location, Namibia is a gateway for trade to and from the region, especially for landlocked countries.

4.1.3 Analysis of Opportunities and Challenges in logistics services

Namibia has a total 2687 km of rail, of which 207km is non-operational and 2480 is operational. Non-operational consists of Aus-Luderitz and Otjiwarongo-Outjo sections. These operational rail figures are expected to change due to the possible commissioning of the Aus-Luderitz line in the not too distant future. Of the 2480 Operational km of rail, only 54% comply with SADC axle load recommendation, but is significantly below the targeted 70% during the NDP4. However, plans to increase this compliance percentage are envisaged to be implemented during the NDP5 period. To fully benefit from the potential of a logistics hub, the entire railway used for cargo transportation need to comply with SADC recommendations. This is a prerequisite for major shipping lines to make use of the port of Walvis Bay. Compliance to the SADC axle load recommendation is an indication of well-functioning, high quality and reliable rail transport infrastructure.

Table 6: Key Indicators from Rail Sector

Indicator	Baseline(2016)	Current(2018)
Average freight transported annually by rail (t)	1.7m	1,4m
Average wagon turnaround time (days)	10 days	10 days
Rail coverage (km) (and how much comply with SADC recommendation)	2, 480 (48%)	54%

Source: TransNamib, 2018

The rail sector a very low average locomotive availability rate. Locomotives are a back bone of rail transportation. The Namibia rail sector is faced with the challenge of unavailability of locomotives. **An efficient rail sector, which specializes in bulk cargo, can reduce road congestion since one train load is equivalent to 30 road trucks ~TransNamib.** The major reason why this is not happening for Namibia is because of shortage of locomotives. About 55 reliable locomotives are required to transform the rail sector; however there are only about 38 unreliable and obsolete locomotives available currently.

Namibia is connected to most SADC countries in the region through the following corridors: Trans - Kalahari Corridor (TKC), which stretches about 1900 km connects Walvis Bay to Botswana and South Africa with travel time between these nations approximately three days. The Walvis Bay – Ndola – Lubumbashi Development Corridor (WNLDC) which covers a distance of 2500 km connects Namibia to Zambia, Zimbabwe and DRC, with a maximum of 5 travel days. The Trans – Cunene Corridor (TCC), which stretches about 1500 km connect Walvis Bay to Lubango within maximum of 4 travel days. The last corridor in the south in the Trans – Oranje Corridor (TOC), which connects Walvis Bay to South Africa, stretches over a distance of 1600 km a maximum of 3

days. In addition, World economic forum 2017/2018 also rated Namibia's road network the best in Africa. However, most of these corridors are underutilized since most linked nation has little to trade with Namibia, and the concern of trains coming back unloaded has been raised. Landlocked nations prefer and consider it efficient to use South African ports because trains are not empty when travelling to and from SA.

When the logistic sector is well developed with adequate infrastructure, it enables manufacturers and small and medium enterprises players to move their products from one point to the next, increasing productivity and cutting costs, as well as broadening their clientele.

It is therefore very important to ensure that the logistics sector is well managed and sustained in order to ensure the productivity of all the other sectors that are major contributors to the GDP of the country. The logistic sector is also essential for the tourism industry which is one of the sectors that are growing very fast and contributing well to the development of the economy. Tourists visiting Namibia travel around the country to experience the beauty of the country and this is made possible by a mix of collaborating sectors such as logistics and ICT.

One major opportunity for Namibia to become a logistics hub for the SADC region is the port of Walvis Bay, which receives approximately 3000 vessels and about six million tonnes of cargo a year. It manages container imports, exports, transshipments, and transportation of bulk and break-bulk cargos of various commodities. To support the growth and performance of Namibia's economy, Namport has to continually upgrade and expand. This is why the new container terminal on reclaimed land project was implemented in the Port of Walvis Bay. This project will expand not only container handling capacity in the Port of Walvis Bay, but also that of non-containerized cargo such as dry-bulk, (Namport, 2017). The new terminal, which is being built on 40ha of newly reclaimed land, will increase container handling capacity as well as bulk and break-bulk handling capacities of the port. The existing container terminal will be transformed into a multi-purpose terminal.

The expansion of the port commenced mid-2014 and is expected to be commissioned by 2019. So far the project has seen progress, by end of February 2018 the dredging and land reclamation works were 97% and 95% complete as of the construction of the retaining wall and storm barrier was 95% complete, while approximately 85% of the new terminal was also complete. Four new ship-to-shore cranes have been installed at the terminal to load and offload

containers from vessels. The cranes will offer higher lifting capacity than the existing ship-to-shore cranes at the port.

For the past five years, slightly more than 5 million tonnes on average of commodities were handled through the Port of Walvis Bay. For year 2016/2017 in particular, imports accounted for 63 percent and exports for 26 percent, while trans-shipments accounted for 11 per cent. Petroleum products accounted for the bulk of imported commodities, totaling 42 percent of all imports.

Table 7: Port Volumes (Walvis Bay and Luderitz Ports)

Cargo handled	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Cargo Landed	3,348,481	3,440,988	3,510,852	3,719,627	3,533,730	3,427,120
Cargo Shipped	1,638,183	1,767,408	1,589,447	1,546,440	1,440,127	1,555,916
Cargo Trans-shipped	1,535,541	1,297,532	876,822	884,319	727,368	573,294
Total cargo handled	6,522,205	6,505,928	5,977,121	6,150,386	5,701,225	5,556,330
Containers handled						
Landed	67,514	72,447	83,568	69,036	56,004	51,851
Shipped	52,034	62,024	63,274	61,975	52,623	48,575
Trans-shipped	217,586	170,338	108,404	108,851	96,447	105,565
Total TEUs	337,134	304,809	255,246	239,862	205,074	205,991

Source: Namport Annual Report, 2017

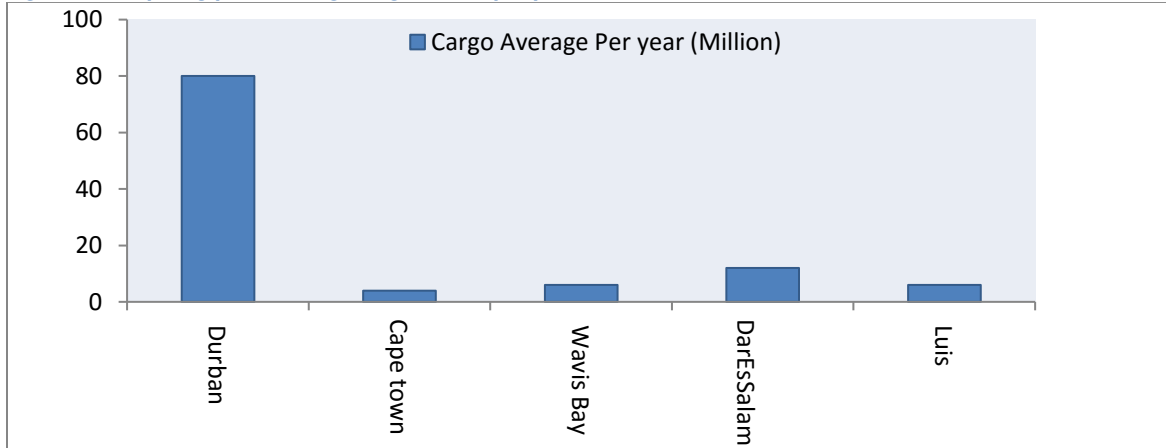
Equally for TEUs, an average of 250 thousand containers is handled per year for the past five years. After the expansion, TEU capacity will have increased from 350 000 TEUs to 750 000 TEUs per annum.

However, the expansion does not measure up to the volumes of the competing ports in the region. The biggest container port in SADC is in South Africa, Port of Durban. It is also the second largest and busiest in Africa, after Port Said in Egypt. The port of Durban built on an area of 1850hacters, handles on average, about 80 million tonnes of cargo and over 2 million TEUs per year. During the 2015/2016 operational year, the combined Durban container terminals handled 2,334,999 TEUs of which imports were 865,087, exports were 899,454 and 519,609 were transshipped. (1,334,999 more than what is expected to be handled after the expansion of Port of Walvis Bay).

Similarly, the port of Dar Es Salaam handles about 12 million tonnes of cargo per year and about 1 million TEUs.

Major competitors for the port of Walvis Bay include port of Durban and Cape Town in South Africa, port Dar es Salaam in Tanzania and port Luis in Mauritius, (Nampont, 2017). The figure below depicts cargo handled per port:

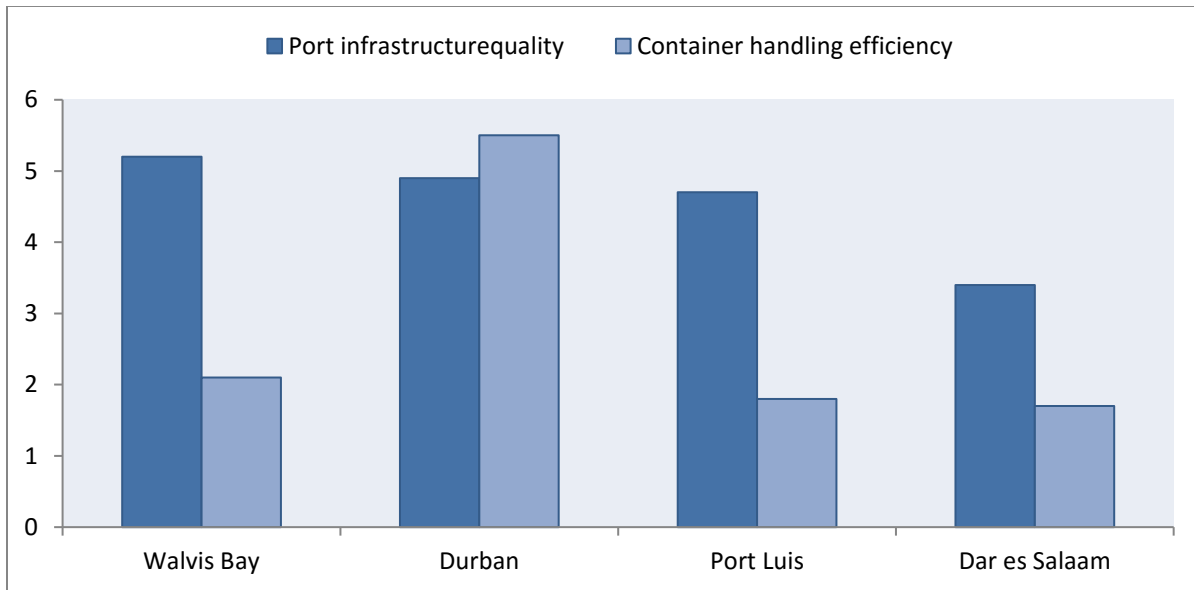
Figure 4: Competing ports average cargo tonnes per year (Million)



Source: Various National Ports regulatory bodies across SADC

Although Namibia has a key position on the west coast of Southern Africa, and has therefore a better potential to service land-locked SADC countries such as Botswana, DRC, Malawi, Zimbabwe and Zambia, the size of the port limits the ability to be the frontrunner in serving the SADC region. Because of the size of the port, dwell time for vessels is longer and volumes of cargo handled are reduced. The port of Walvis Bay has 8 days dwell time, which is two times longer than the port of Durban which has a dwell time of 4 days, while Cape Town port and port Dar es Salaam has 6 and 7 days dwell time, respectively. It is critical to improve efficiency by reducing dwelling time which will increase goods handling. This is through improved customs clearance processes as well as improved infrastructure. This extended dwelling period is the one of the factors leading to a very low number of containers handled yearly at the port. There is, therefore a trade-off between the quality of infrastructure and the cargo handled at most competitive ports in SADC. Although the port of Durban handles more container than any other port in SADC, the same cannot be said regarding port infrastructure quality. See figure below:

Figure 5: Scores of Infrastructure quality vs container handling



Source: World economic Forum 2017

Namibia has an advantage in terms of port infrastructure quality which is rated one of the best in SADC. The world standard rating of a well-developed and efficient port is a score of 7, according to world economic forum of 2016 Namibia scored 5.2, scoring slightly better than the best performing port in SADC (Port of Durban scored 4.9). Port Luis (4.7) Dar es Salaam (3.4). However, given the size of the port, container handling is reduced significantly.

The potential to be a service hub is also enhanced through skills development. Currently the Namibian German Centre for Logistics (NGCL) in partnership with Namibia University of Science and Technology (NUST) offers knowledge transference and development of technical skills to the students in the field of Transport and Logistics. The opportunity therefore arises if such skills are complemented by both the private and public enterprises in assisting graduates by providing with hands-on experiences. The most important input in any industry is the human capital and as such developing and maintaining necessary skills ensures full implementation of planned activities.

Namibia is known for safe and reliable road network system, as World economic forum 2017/2018 also rated Namibia's road network the best in Africa. Although railway network connect the ports to neighbouring countries, the fact that only about 54% of the railway network complies with SADC axle load standard recommendation of 18.5 hinders competitiveness and reduces economic activities in the sector. Railway transportation is the recommended route for heavy cargo transportation, however, because of the SADC axle load challenge; an alternative

route (road transport) is taken. Road cargo transportation puts pressure on the roads, which causes congestion and increased occurrence of accidents. There is need to speed up the railway network upgrade to overcome this challenge. By 2022, about 70% of railway network is planned to comply with the SADC axle load recommendation. Another challenge facing the railway cargo transportation is the insufficient availability of locomotives. Due to the weak availability of locomotives as well as bottlenecks in the Railway network (speed restrictions due to aged infrastructure) TransNamib is only able to handle a certain fraction of available freight on the railway network and the rest of the freight is transported by road, (TransNamib, 2018).

4.1.4 Conclusions

As a logistics hub, Namibia will benefit through the linkages to neighbouring countries by directly tapping on economic developments in those countries through multiplier effects. Positive externalities of having a world class port are therefore inevitable. In addition, other benefits from an international logistics hub include enhancement in the global competitiveness of Namibia and thereby, attracting investment and facilitating trade. Investors are looking to invest or trade with countries with attractive environment. Being an efficient world class logistics hub reduces cost incurred in terms of reduced dwelling time and sufficient storage and reliable transportation.

The logistic sector plays a vital role in the operation of other sectors as highlighted before. The logistics sector contributes to the transformation of the economy as a sector on its own and indirectly through other sectors. It is recommended that the investment and support towards the transport sector is increased. The investment towards this sector will help improve the services provided. Improve the services at the harbor on how the cargos received are handled; ensure products are delivered to their rightful destinations in the expected time. This will boost the use of the port by both local and international businesses. Increase awareness to encourage students to pursue courses related to logistics, and also encourage organizations (public and private) to train graduates of logistic and transport to nurture their skill and as a result increase productivity through increased sector knowledge.

4.2 Financial Services for economic transformation - Opportunities and challenges

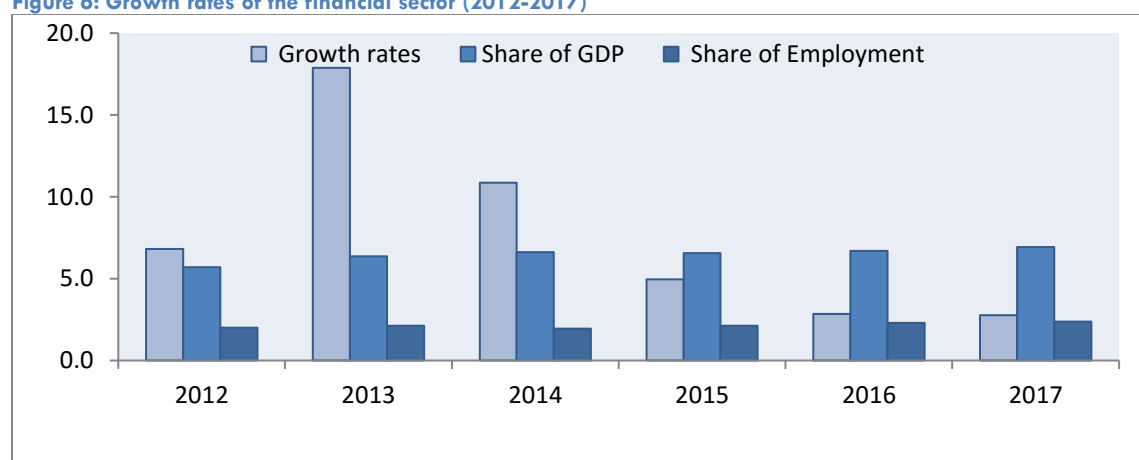
4.2.1 Introduction

The Namibian financial sector is made up of both formal and informal institutions. The formal sector consists of the central bank, commercial banks, insurance companies, capital markets as well as stock exchange markets operations, as well as other financial institutions, whereas the informal sector comprises of cash loans operators or money lenders. There are also developmental Finance institutions such as the Development Bank of Namibia and Agricultural Bank of Namibia.

In order to become a financial service hub, there is need to develop a deepened and efficient financial systems. This is in terms of subsequent improvement and enhancement in the quality and efficiency of the financial intermediaries in the system. Another important element for a world class financial service hub is ensuring respected, world class and effective regulatory system. A well-regulated financial system leads to a stable and globally competitive sector. A world class financial hub should demonstrate clear aspects of financial inclusion as well as financial literacy in order to ensure that there is a wide range of products in which consumers can partake in. Once all these elements are addressed and put in place, it becomes inevitable to attract investors, broaden diversity of activities and enhance participation of financial sector as an engine for economic development, (MoF, 2011).

On average, during 2012 – 2017, the financial sector recorded a growth of 7.7 percent. Slower growth of 2.8 percent was recorded for 2016 and 2017.

Figure 6: Growth rates of the financial sector (2012-2017)



Source: National accounts 2017

The slow growth in financial intermediation is attributed to moderate growth in the banking subsector, as its growth slowed down to 2.0 percent in 2017 as compared to a growth of 3.6

percent registered during the preceding year. However the insurance subsector recorded an increase of 4.1 percent in 2017 in real value added compared to 1.7 percent registered in 2016. Share of financial intermediation in total GDP has marginally increased over the years. In 2016 the sector accounted for 6.7 percent of GDP and is estimated to have improved to 6.9 in 2017.

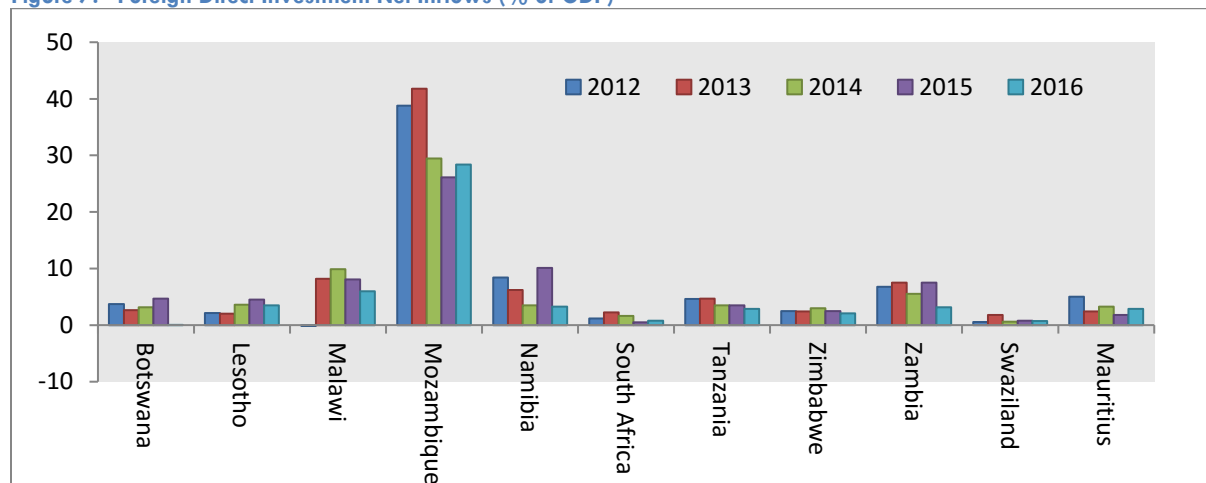
4.2.2. The general role of financial services in economic transformation

The financial sector plays a principal role as far as channeling and mobilizing funds is concerned, especially to the private sector, for investment purposes or for other economic activities, (Levine et al., 2000; Levine, 2002). The financial system is thus an important entity for most emerging economies. Given that the financial sector contributes positively to economic development and enhancing performance in the economy. The development of the financial sector is, therefore, vital for bringing about accelerated economic growth through facilitation of wealth creation, trade as well as capital formation, (investment).

4.2.3 Analysis of Opportunities and Challenges in financial services

Foreign Direct Investment (FDI) plays an important role in contributing to sustainable economic development through employment, export growth, technology spill-over as well as industrial and economic diversification. According to the Bank of Namibia, the biggest receptors of FDI in Namibia is the financial sector, contributing about N\$12.7 billion on average between 2016 and 2016, which was about 33% of total FDI in terms of equity. Namibia’s main sources of FDI are South Africa, Canada, Australia, France, Switzerland and Spain.

Figure 7: Foreign Direct Investment Net Inflows (% of GDP)

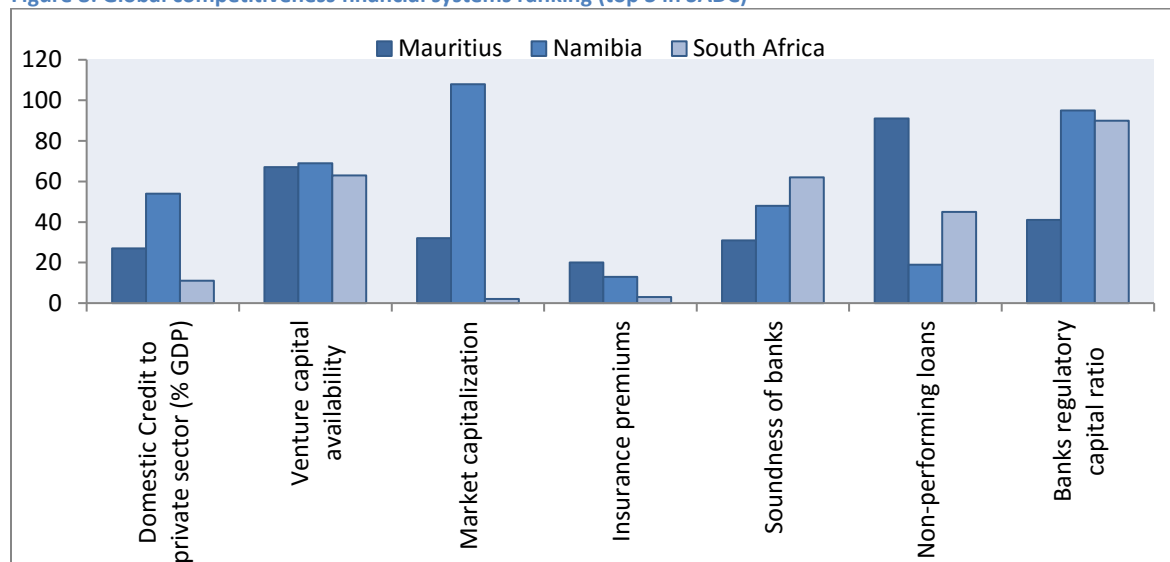


Source: World Development indicators, 2018.

FDI net inflows are the value of inward direct investment made by non-resident investors into the domestic economy. In the region, FDI is highest in Mozambique, reaching a high 41 per cent of GDP in 2013. On average, between 2012 and 2016, FDI as a percentage of GDP for Mozambique totals 32 per cent, followed by Malawi, Namibia and Zambia, all with an average of 6 per cent.

Namibia scores highly in SADC, third only to South Africa and Mauritius as economies with deeper financial markets development. These three economies globally rank at 47, 18 and 25, respectively, in terms of financial systems development. The figure below summarizes the characteristics of sound financial system, according to the 2018 Global competitiveness report:

Figure 8: Global competitiveness financial systems ranking (top 3 in SADC)



Source: 2017/2018 Global competitiveness report

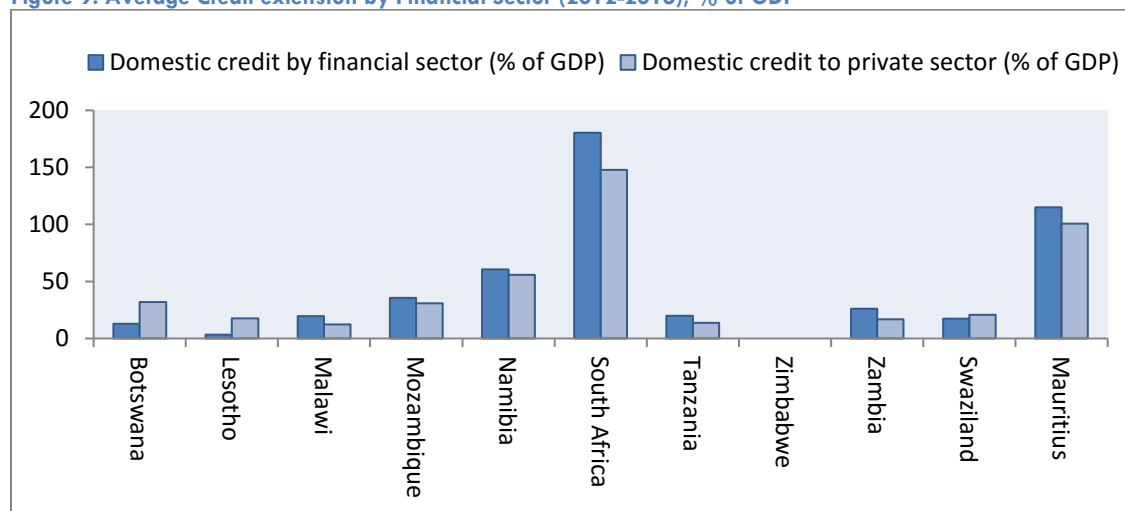
*(high rank = poor performance)

From the figure above, it is clear to see that Namibia, on average ranks below South Africa and Mauritius in term of characteristics of a sound and well developed financial system. Mauritius is known to have world class financial market regulation, which allows for increased financial market players and broader investment opportunities from globally renowned multinational entities. South Africa boast with a great deal of market capitalization, which indicates a sound and stable stock exchange market, whereas Namibia scores very poorly in tis characteristic of sound financial system.

The figure below represents domestic credit by the financial sector. One good measure or indicator of financial development in an economy is the ratio of private sector credit to GDP. The

extent to which credit is extended to the private sector gives an indication of that resources are used for profitable economic activities, particularly investment:

Figure 9: Average Credit extension by Financial Sector (2012-2016), % of GDP



Source: World Development indicators, 2018.

South Africa has highest credit extension as a percentage of GDP, in the region. This not only does it imply a deepened financial market, but it also imply how financial market is contributing to economic activities through possible investment. Mauritius is the second largest economy in the region followed by Namibia in terms of financial deepening as indicated by credit extension by the financial sector. South Africa and Mauritius are known to be financial clusters of Africa.

The Namibian financial sector is sound and stable as well as sufficiently liquidated, (BoN, 2017). This stability was assured during the 2007 global financial crisis, where the overall direct impact of the crisis on the domestic financial system has been relatively low. In 2017 the World Economic Forum global competitiveness report also appraised Namibia’s financial market development, ranking in the 3rd position in SADC; and thus demonstrating the stability of the system. South Africa and Mauritius are SADC’s first and second ranked in terms of financial market development. A financial center is one that is host to international financial institutions that are widely used by other neighbouring countries or are used to channel funds between and across regions.

The Namibia financial sector strategy: 2011 – 2021, (NFSS) acknowledges that attracting a fair number of financial players provide support to the domestic economy and be able to facilitate the economic transformation process more efficiently. There has been notably significant progress in the implementation of the NFSS plan, as financial exclusion has fallen from 31% in 2011 to 22% in 2017, this progress is responding well to one of the goals of NFSS which is to demonstrate

clear aspects of “Financial inclusion”. According to the Bank of Namibia the progress made was a result of the effectiveness of government policy and concerted efforts by the financial services industry to bring services to the doorsteps of the previously unsaved and underserved portion of the population. In addition, low-cost basic bank account by all commercial banks has been implemented since 2012. The account is treated as a necessity rather than a money product for commercial banks, to allow more people to bank and its growth has been phenomenal. Bank of Namibia, together with the banking industry has agreed to implement standards for cash deposit fees in Namibia for all savings and investment accounts owned by individuals at banking institutions as well as to small and medium businesses, which have been effective since 2013. This means that were able to deposit a cash amount up to N\$2000, per month, into their saving and investment accounts free of charge. Similarly, small businesses with a turnover of not more than one million N\$ per month were able to deposit up to N\$10 000 in the said accounts without paying cash deposits fees after 31 October 2013. In addition, in 2013 the Bank of Namibia launched the Code of Banking Practice and the Guidelines for Lodging Customer Complaints to the bank. The Code defines good banking behaviors and the guidelines help users of financial services to complain about the violation of the Code.

According to the NFSS, by 2021 Namibia would have an effective, efficient, stable, competitive, resilient and inclusive financial system. Current status of Namibia’s financial system shows that although the system is sound and well-functioning, there are weaknesses that need addressing to enable the financial sector to contribute more meaningfully to the overall performance of the country’s economy.

Major weaknesses of the Namibian financial system were identified in the NFSS. Some of the key identified key weaknesses include: a shallow financial market: one of the key measures of development of the financial system is size. The larger the financial system, the more capital can be channeled between savers and investors. Limited competition, limited financial safety nets, inadequate and less effective regulation; high financial exclusion rate from financial services; low financial literacy are some of major challenges that hinder financial development. Other challenges also include limited financial management skills; and low participation by Namibians and thus dominance of foreign ownership of financial institutions. To be able to tackle these challenges it is required that the sector receive support from all the stakeholders as well as full adherence to the NFSS.

4.2.4. Conclusion

A financial service hub in Namibia will require full implementation of the NFSS. This strategy, which is the single reference tool for financial sector development outlines world-class standards for a well-developed resilient and inclusive financial sector. Although fairly developed as measured by the depth of credit extended, the financial sector remains shallow and players in the sector are foreign companies. Namibia has the potential to compete with South Africa and Mauritius, which are SADC's biggest financial centers. However, there is need to encourage local participation in the sector, as well as develop strategies to further deepen financial development. Market capitalization has to be encouraged in order to improve financial markets investment.

5. Conclusion: future of a service driven economic transformation

5.1 Conclusion

Services have long been ignored in the debate on economic transformation. Namibia's service sector performance fares relatively well among other SADC countries. The potential of a service-led growth is possible. Namibia has great comparative advantage not only based on the geographical location on the continent, but also on the basis that Namibia is highly ranked in terms of sound macroeconomic environment and accommodative regulation framework. The port of Walvis Bay, albeit small in size, boasts quality infrastructure and satisfactory container handling efficiency. This alone serves as a push factor to push for more investments and upgrading in order to become a SADC gateway. Namibia also has a great deal of lessons to learn from South Africa and Mauritius in terms of deepening the financial market. As an emerging economy, opportunities to accommodate new financial market players and broaden financial market services exists, thereby increasing investment and other positive spillovers in to the economy.

5.2 Lessons and Recommendations

The fact that contribution of the service sector to GDP and employment creation is biggest in Namibia gives the service sector absolute advantage to both the primary and secondary sectors. More investment in the service sector will enhance the contribution as well as performance in the SADC region, and make Namibia a top contender among renowned world class service centers.

A sound logistics sector entails overall increased and efficient goods movement, this in turn requires improved accessibility i.e. travel time, connectivity, reliability and goods handling efficiency. The rail sector needs to ensure that the railway network complies with the SADC axle load recommendation. This is the major requirement for ensuring good high quality and reliable transport infrastructure. Meeting the SADC requirement is a way to attract major shipping lines to make use of the ports and enabling transportation to landlocked trading partners. In addition to that, investment in railway through this upgrade will lead to a reduction in road congestions. There is also need to successfully market the transportation corridors that link Namibia to the region. This can be done by identifying and introducing trading ties with all concerned landlocked nations in order to maximize the use of the corridors.

Comparing the port infrastructure quality and the container handling rating revealed that despite good quality of the Namibian port there is need to make better use of the available

infrastructure. One of the challenges with regard to container handling is due to the size of the port. In comparison to other ports, Walvis Bay port occupies fewer hectares of land, and access to land is one of the highlighted challenges for the operation of the port. This indicates that it is very important that, investment in ports infrastructure should be accompanied by extensive operational restructuring to make a real impact on overall performance. It is important to ensure that investment is encouraged, especially due to increasing competition among ports in Africa.

In the SADC region, Mauritius and South Africa are known to be financial centers. South Africa, in particular is applauded for world class regulatory standards, efficient corporate governance practices, adherence to world-class accounting and auditing standards and a well-developed insurance sector, as well as opening participation from other countries in its financial sector through its Financial Center for Africa Strategy; while Mauritius is known for a substantial network of treaties and double-taxation avoidance agreements, vast array of financial and legal reforms as well as a flexible regulatory framework and investment promotion and protection agreements. Although some of these policies may be in place for Namibia, for example regulatory frameworks or investment promotion, in order to compete with the world renowned hubs, continuous strengthening and improvements in such frameworks is a never ending requirement and vital exercise for a financial hub.

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