Namibia's development constraints

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With political independence close at hand as scheduled for November 1989, this article lines out the most important economical constraints for Namibia's self-reliant development

Soil and climate

Namibia's economic problems stem from a desperate water shortage. On a littoral strip more than 100 km wide to the arid south of the territory, the cold upwelling of the Benguela Current of offshore Namibia limit its average annual rainfall to below 100 mm. More than one third of Namibia's total area is affected by prolonged and frequent dry spells due to a rainfall variability (meaning the deviation of actual rainfall from the long-term annual mean) of more than 50 per cent[1]. Phreatic water is confined to the interior of the region; but the optimum utilization of such water is further affected by the presence of dissolved solids, and specific concentrations of fluorides, nitrates and sulfates. The country's five border rivers (namely the Cunene, Kavango, Chobe and Zambezi to the north, and the Orange in the south) are all situated too far from the developed regions for maximum benefit to be reaped; and the rivers of the interior are episodic in character, flowing sporadically and rapidly only during the rainy season[2].

The water situation has a severe impact on many economic activities: Cattle, sheep and game ranching is restricted to interior regions; and due to frequent prolonged droughts farmers constantly face the risk of heavy losses. And with the desertification that results from overstocking during dry periods, the carrying capacity of the territory's soil is diminished to a fraction of its former potential.

The development of mining, industry and settlements has also been impeded by the annual and regional scarcity of water. Although the five dams supplying Windhoek's industrial and population needs are sufficient to satisfy domestic requirements until 1990, over-exploitation of this commodity by water-intensive quarrying operations such as the Rössing open-cast mine may have already caused the lower Kuiseb drainage system to suffer environmental damage. It is reasonable to expect that exploitation of other mineral deposits - such as recent gold discoveries near Usakos and Omaruru, or marble deposits near Karibib - will prove equally damaging in this respect.

The long-term growth of Namibia's central urban areas will depend upon the establishment of such water transport systems as the Eastern National Water Carrier, which, after its expected completion around 1991, will supply Windhoek with excess water from the Okavango River via a 710 km pipeline-canal system[3]. The Department of Nature Conservation, however, has already expressed doubts concerning the environmental safety of the 300 km canal section between Grootfontein and the Omatako dam. In any case, at least until the pipeline is ready, irrigation in Bushmanland and Hereroland East will have to depend entirely on the phreatic water supply from the dolomite deposits around Grootfontein.

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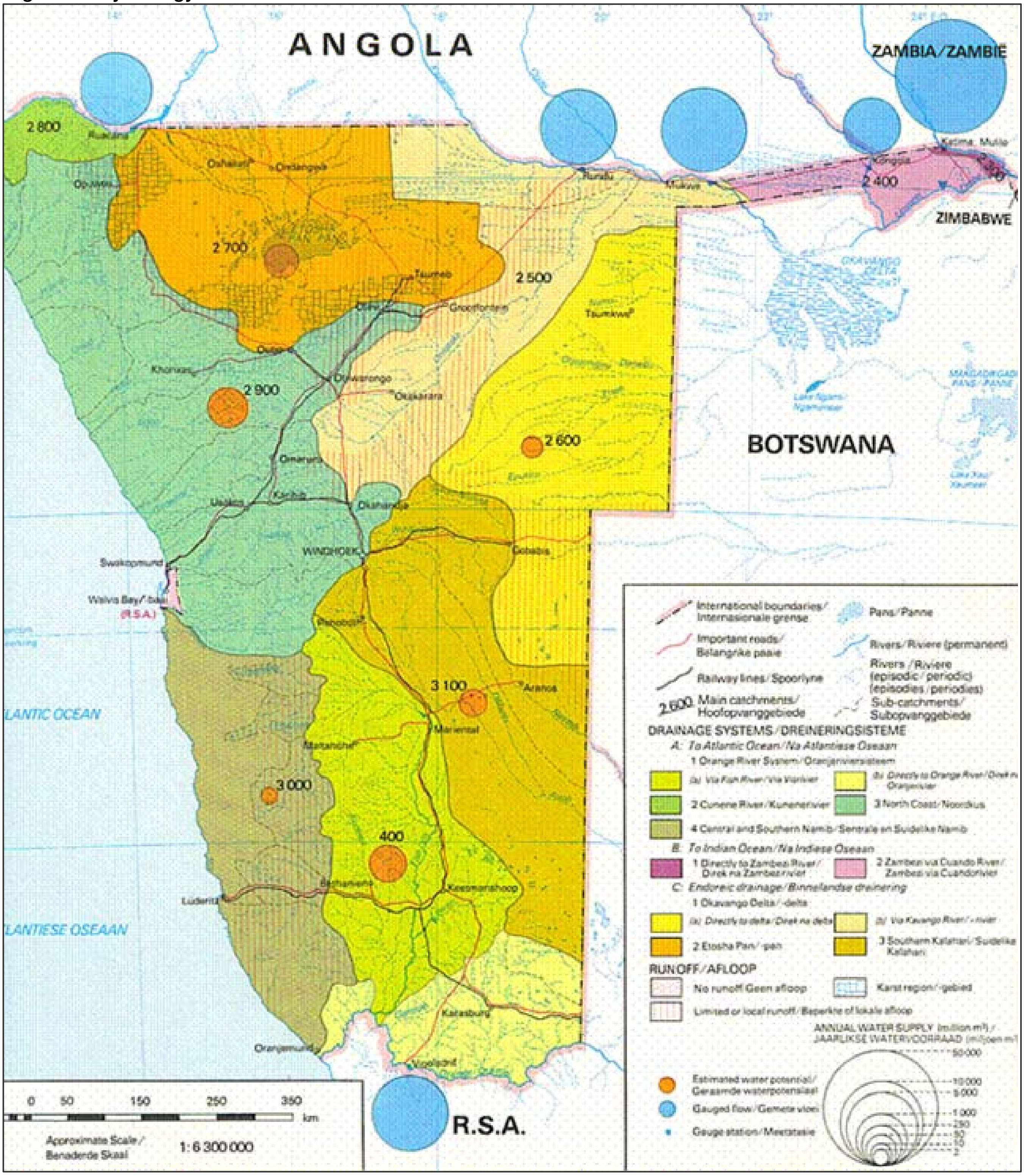
1 J. H. van der Merwe (ed), National Atlas of South West Africa (Namibia), Institute for Cartographic Analysis, University of Stellenbosch, Cape Town (1983), map 12

2 ibid, map 28 and map 29

3 Department of Water Affairs SWA/Namibia, The Eastern National Water Carrier under construction, Windhoek 1985

Figure 1: Hydrology

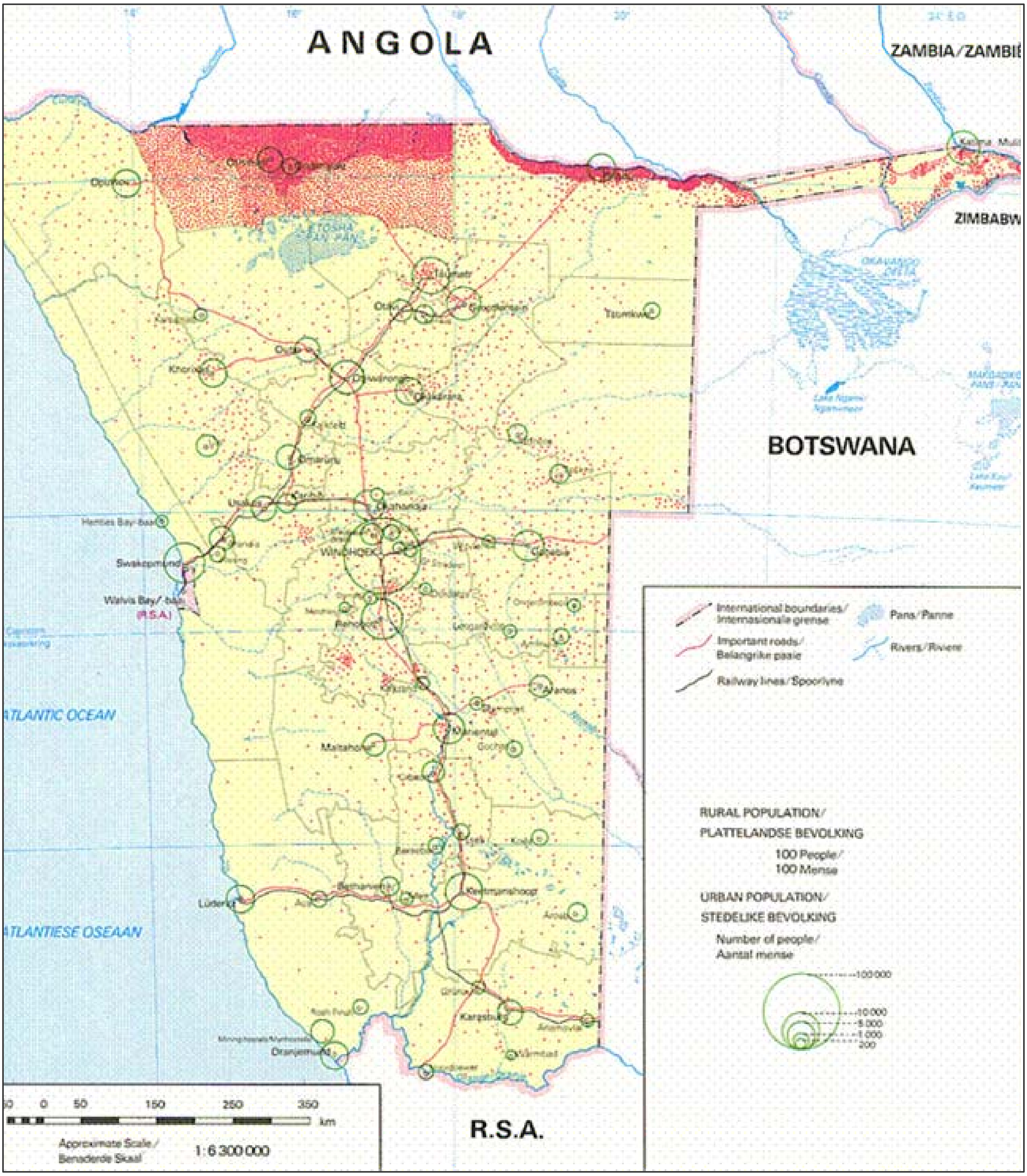


Source: National Atlas of South West Africa (Namibia), Map 28

Human resources

Namibia's extreme climatic conditions also affect the distribution and productivity of its population. Thus, whilst 50 per cent of Namibia's population is located in the northern regions of Ovambo and Kavango due to the good quality of the soil and the availability of surface water, the productivity of this large labor reserve is nevertheless hampered by such diseases as malaria, tick fever arid yellow fever, which thrive in wetter areas. Although agricultural potential is especially high along the Kavango River, prevailing traditional communal land ownership has prevented intensive cultivation of individual plots. The transitional government has started to survey individual property sites in the main northern municipal areas with a view to granting tenure later on. The Salem Foundation is also surveying agricultural plots in Kavango, and plans to provide irrigation and other infrastructure. The idea is that once such farms are operating smoothly, they can be transferred to local farming families. But, even if this system results in higher crop yields, it is doubtful whether private ownership of farmland will result in anything other than the psychological “liberation" of an unemployable labor proletariat, since profits from agricultural sales must then be shared with the foundation, in order to provide capital for further land acquisitions.

Figure 2: Population Distribution



Source: National Atlas of South West Africa (Namibia), Map 45

This lack of private initiative is not restricted to the northern communal areas. Namibia's large bureaucratic apparatus is plainly overstaffed: one government official represents 3,140 people, but since there are more than 3,700 public employees, the ratio increases to 1:28[4]. Sheltered employment and overstaffing do not create but rather destroy jobs, because they absorb financial resources that could be directed more usefully and efficiently to help the 14,000 jobseekers entering the market every year. The job shortfall at present is approximately 5,500 per annum[5].

The domination of Namibia by its bureaucracies has flooded the country with totally inappropriate rules, regulations, standards, norms and procedures, (covering land use, town planning, industrial zoning, health control and numerous other aspects) without, however, producing a systematic development strategy, relevant research activity, or a technology appropriate to Namibia's economy[6]. Since its establishment seven years ago, the state-financed First National Development Corporation of SWA (Enok)[7] has disbursed a total of R43.3 million in loans to private entrepreneurs. Cumulative investments in its own undertakings almost equaled this amount, with R39.1 million[8]. Notwithstanding this fact, the number of Enok's employees and temporary workers (more than 3,000) almost equals the number of employment opportunities created by loans to the private sector (4,000). Government institutions favoring privatization should direct their efforts mainly towards creating viable enterprises and providing constructive assistance to private entrepreneurs. Enok has finally realized this fact, and since the beginning of 1982 twenty-two enterprises (although mainly in the trade and service sector) have been transformed into tripartite companies (comprising Enok, local interests and foreign, mainly South African, interests).

The slow pace with which such transformations have been effected (at the end of 1985 thirty-nine predominantly capital-intensive enterprises had still not been disposed of) is to a large extent due to a dearth of entrepreneurial skills in Namibia. Acquisition of managerial and handcraft skills depends mainly on the availability and standard of in-house/on-the-job training opportunities. The three important vocational training institutions are all located in Windhoek, with a minor one situated in Katima Mulilo in East Caprivi[9]. It is ironic that while Windhoek's multi-racial Academy cannot accommodate the vast numbers of students seeking training, the R22 million teachers college complex designed to accommodate 1,200 students is vastly under-utilized with only 200 white students. The grassroots type of training small industry-related and has practically been neglected, particularly in the north. Private initiatives such as the Rössing Educational Centre or the Private Sector Foundation can only counter bad management practices to a limited extent by providing low-keyed management training for small-scale enterprises and informal sector operations.

Entrepreneurs situated in the north depend on the labor provided by refugees from beyond the Angolan border to keep their concerns afloat. Low productivity and a comparatively high seasonal labor turnover are the main employment problems both in rural and urban areas. With more than 50 per cent of the population below eighteen years of age, dependency rates are particularly high in the second-tier authorities. The situation is highlighted by the fact that only 19.5 per cent of the total population is economically active. The degree of economic activity reaches its lowest point in the communal areas, with less than 10 per cent active. These areas provide subsistence economies for more than 100,000 households[10]. But, by definition these cannot be described as economically active participants.

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4 Namibia Nachrichten (Windhoek) 29 November 1985, p 1

5 A. du Pisani, "Namibia: The political economy of transition" in South Africa International, January 1985, p 154

6 W. H. Thomas, Prospects of Industrial Development in Namibia, Paper presented at the Annual Congress of the Republican Party in Windhoek, 7 August 1985, p 5

7 For Enok ' s impact on Namibia's industrialization see W. H. Thomas op cit

8 First National Development Corporation of SWA, Seven Years of Economic Development, in SWA by the ENOK Windhoek (1985), pp 7, 10

9 J. H. van der Merwe, op cit, map 72

10 ibid, map 51 and map 52

Markets

The non-market economy, along with its high proportion of dependents, has a negative influence on the market potential of the country. Accumulated wealth is a prerequisite for industrial growth in any country, but£ because of the absence of multiplier effects in Namibia's (large) subsistence sector, the accumulation of national savings is greatly inhibited. Wide variance exists in the consumer tastes of the eleven ethnic groups, hence it is not possible to exploit the advantages presented by economies of scale. Social and regional wage differentiations mean that there are restraints in any market moves towards higher-quality consumer goods. The distribution of personal income is determined predominantly by racial group: in 1983, the average white household had an income of about RI,800, compared to the average black household with an income of about R420 (including subsistence production)[11]. Consequently, five per cent of Namibia's population (among them the 4,500 farmer households) have an annual consumer spending power of R3,000 per household; in total this amounts to R780 million per annum[12], or more than 80 per cent of 1983's total estimated private consumption expenditure[13]. The black population (95 per cent) therefore contributes a mere 20 per cent to consumption levels, since their incomes mostly range around the minimum subsistence level.

Namibia is sometimes said to have a "small-country problem"; and indeed, with a total population of 1.5 million, aggravated by the size of its territory, it is one of the most sparsely populated countries in southern Africa. Great distances and high transport costs take their toll on any profits made. And although, statistically speaking, Namibia can boast the highest proportion of proclaimed roads per inhabitant (41 km/l,000 heads[14]), the provision of an adequate road network would simply be beyond its means.

Missing road linkages across the Angolan borders mean that Namibia is, for the time being, denied access to a large potential market. And seasonally useless untarred roads and peripheral linkages to Botswana and Zambia place the country primarily at the mercy of South Africa's market competition.

Trade and industry

Namibia's de facto inclusion into the Southern African Customs Union (SACU) has made the country very vulnerable to the same economic problems confronting Lesotho, Swaziland and Botswana. In contrast to the BLS-countries, however, Namibia has absolutely no control over the flow of its imports and exports; the territory serves mainly as a subsidiary market for cheap South African consumer goods and, especially during economic recession, provide a useful dumping ground for surplus South African products, in the process destroying whatever vestiges of viable local production may have developed. Because of their limited commitment to Namibia, agents or service outposts of South African firms, local subsidiaries or branches, are usually unwilling to trouble themselves with establishing even a local assembly or processing plant. The growth of a viable manufacturing industry has been limited further by the resettlement, since April 1982, of existing industry, either in Walvis Bay or in Upington, as well as by the diversification of Namibian entrepreneurial investment into those centers. The motivating force behind such re-direction is the fact that incentives have been offered in an effort to decentralize South African industrialization; and that both these areas have been incorporated into the Western Cape development region. Incentives offered include a 40 per cent reduction on South African Railway's transport tariffs on all traffic between its territory and Walvis Bay. Up until mid-1985, Namibia's sole external rail linkage was

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11 A. du Pisani op cit, p 153

12 W. H. Thomas, op cit, p. 4

13 Department of Finance, Statistical /Economic Review: SWA/Namibia 1985, Windhoek (1985), p 14

14 J. H. van der Merwe, op cit, map 81

directly administered by the South African Transport Services (SATS); and even though regional management has since been taken over by the transitional government, the basic structural dependencies still remain.

The UN sanction has particularly affected foreign investment in Namibian mining activities. Following its declaration, many foreign corporations were very hesitant to put fixed investments into the territory, and in order to persuade them, concessions have had to be high. Thus, the seven-year tax grace period granted to the British transnational Rio Tinto Zinc gave it ample opportunity to recover all costs incurred by the concern in establishing the Rössing Uranium mine. Nevertheless, the effect of the mounting British public pressure for disinvestment was to convince the state-run electricity board not to renew contracts for uranium imports from Namibia in early 1986[15]. If the territory was unable to find an alternative market for the uranium it produces, this decision could mean that Namibia will have only enjoyed relatively high corporation tax revenues for two years following the grace period, which expired in late 1983. Unlike its relationship with De Beers' diamond production, Namibia is at least allowed some control over uranium exports. Having received a 3.5 per cent share from the South African parastatal IDC, it is entitled to appoint one director on the Rössing board.

Economic dependence on British investments, however, goes deeper still: similar to the Rio Tinto Zinc Corporation (the territory's largest single enterprise in value), eight other British-registered companies together control most of the key sectors of the Namibian economy.[16] Besides the Central Selling Organization (CSO) (the British arm of the De Beers cartel, which controls all sales of the gem diamonds exploited by De Beers' subsidiary CDM in Namibia), the British company Consolidated Goldfields is deeply involved in the Namibian economy via a South African affiliate. Consolidated Goldfields of SA controls nearly all of Namibia's base metal operations and is the territory's largest single employer. British Petroleum and Shell supply most of Namibia's petroleum and petro-chemical needs, while Hudson Bay and Annings both hold massive interests in the karakul fur trade. Finally, the First National Bank of SA, together with the South African Standard Bank, controls over 80 per cent of Namibia's banking sector.

Mining

Against a background of such constraints, it is easy to see why most of Namibia's industrial activities are concentrated upon resource-bound mining operations. The rich Kudu Gas Field is located within Namibia's southern EEZ border and only 120 km off its coast, and is thus not subject to any of South Africa's offshore claims.

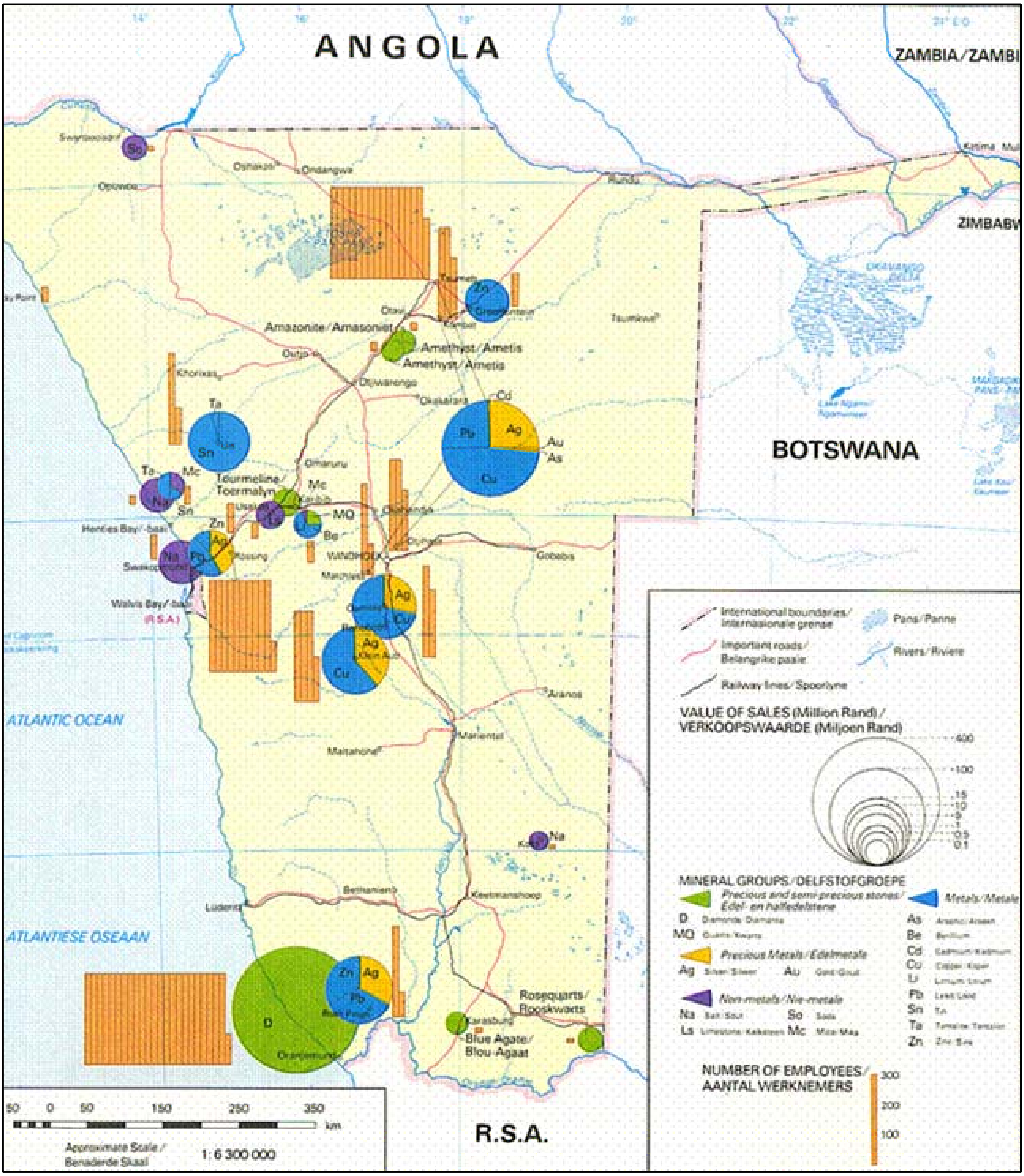
However, the chairman of the Southwest Oil Exploration Corporation (Swakor) also heads Soekor - Swakor's South African counterpart. The Kudu gas field was discovered and capped in 1974 by the US multinational oil company Chevron, and concessions were subsequently sold to Soekor, in contravention of UN policy. These were kept secret for ten years before they were finally handed over. The establishing of a gas liquefaction plant in Lüderitzbucht is questionable, since a proposal had already been made to build a gas pipeline 850 km away at the rival South African gas fields at Mossel Bay. This pipeline would run through Diamond Area I (a littoral more than 100 km wide between Namibia's southern border and Lüderitzbucht) which is subject to claims from CDM, a subsidiary of the South African diamond giant De Beers. At least, CDM has transferred Diamond Area II to Namibia's Department of Nature Conservation (January 1986). Diamond Area I, however, is scheduled for working until the year 2000. As repatriation of capital is uncontrolled and organization entirely in the hands of this South African multinational, financial revenues are

[15] The Citizen (Pretoria), 6 November 1985, p 11

[16] West Africa no 3554, 7 October 1985, p 2

low. Special investigations suggest that Namibia may have lost as much as a thousand million Rands worth of diamonds in exports between 1978 and 1981[17], and that revenue from diamonds, formerly the most significant budget contributor, decreased steadily, reaching its lowest point in 1985/86 budget estimates with R60 million (50 per cent company tax, 15 per cent profit tax and 10 per cent export duty[18]).

Figure 3: Mining



Source: National Atlas of South West Africa (Namibia), Map 62

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17 The Star (Johannesburg), 5 November 1985, p 13

18 Central Revenue Fund, Estimate of revenue and expenditure for the financial year ending 31 March 1986, Windhoek (1985), p 9

Hopefully, some of the more profitable enterprises (such as Anglo American's and Gold Field of South Africa's exploitation of the recently explored gold deposits near Usakos and Omaruru, respectively) will make a healthier contribution to national tax income levels than Gold Fields non-ferrous metal mines at Tsumeb and Kombat - although they will not be in a position to generate as much employment and welfare in these areas.

The reverse often occurs, however: For example, when South Africa's Pretoria-based Cement Company obtained the claims for the Karibib marble deposits, thus blocking their exploitation by other parties, they failed to take advantage of the permission granted to erect a cement factory, and simply continued to supply the market from their own factories in the Republic[19]. Such instances well illustrate the feeling of the UN Institute for Namibia, which observed that: "*Namibia produces what it cannot consume, and it consumes what it cannot produce*."

Fortunately for Namibia, the Rössing Uranium Mine's eight-year period of grace ended in 1984, and since then the enterprise has made its full contribution to Namibia's budget.

Fishing

South Africa still has legal claims to the port of Walvis Bay, as well as to twelve tiny islands to the South. If, after Namibian independence, South Africa was to insist upon a share of Namibia's 370 km-wide exclusive economic zone (EEZ) lying adjacent to each of these coastal possessions, an estimated 7 per cent of Namibian waters would come under South African control. Namibia's southern offshore sector would then be dissected into ribbons of alternating Namibian and South African EEZs (Fig 4)[20].

Because of constant over-fishing of both pelagic (surface) and deep-sea fish, the Namibian fishing industry is already under pressure. At one time, the nutrient-rich upwelling off the shore of Namibia contained the world's densest concentration of marine life. Since 1974, however, the size of catches has been progressively dropping - particularly in pelagic fish tonnages (mainly pilchard, anchovy and snoek). Thus, from a record of 843,000 tons in 1974, catches were down to 125,000 tons in 1985. Since 1975, annual landings of rock lobster have been less than one-fifth of their 1960s level. Hake catches, mostly from the large deep-sea trawler fleet, have been standing at similarly low levels since 1972, leaving a meager 4 per cent share for Namibian ports. Likewise, the very heavy trawler catches of house mackerel - the only species left in reasonable numbers - make its over-exploitation imminent.[21]

The estimated 700,000-strong local seal population, along with the activity of local fishermen, has speeded up the depletion of what were once rich fishing grounds. Since it is no longer possible to sell seal furs on the world market, the seal colony must simply be culled. Proceeds from the processing of seal-bull testicles for sale on Hongkong markets only more or less cover the cost incurred in culling the seal population.

Declining catches explain why only four out of the once nine fish-processing factories were still operating in Walvis Bay in 1985; of these, only one is registered in Namibia - the other three are South African owned. In 1972, the (South African owned) pelagic fish factory ships had to be withdrawn.

The selfsame countries that support the 1966 UN-Resolution, also play a sad role in the exploitation of Namibian fish resources. Virtually all deep-sea trawling takes place beyond the 22 km territorial limit claimed by South Africa. But eastern block and Japanese trawlers - as well as the South Africans - presently fish in the waters that Namibia, once independent, will be able to claim as its EEZ. Part of the fleets' annual catches of 600,000 tons is being fished along Namibia's lonely shores north of Hendies Bay. In view of the fact that in December 1982 the UN Council for

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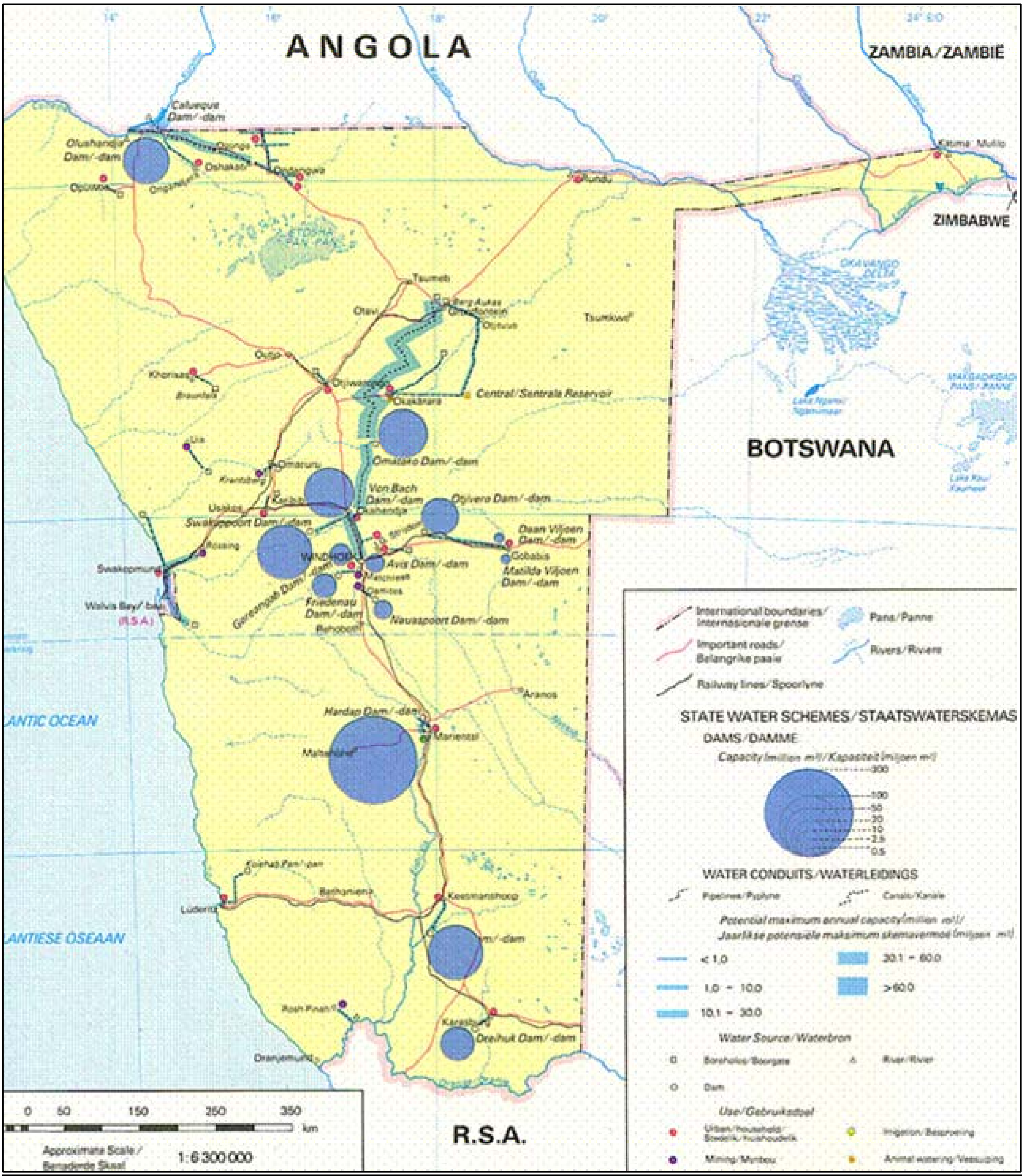
19 W. Schneider-Barthold, Namibia's economic potential and existing economic ties with the RSA, GIE Berlin (1980), p 107

20 F. Moorsom, Exploiting the Sea, A Future for Namibia, The Catholic Institute for International Relations London (1984), p 75

21 ibid

Namibia, together with 115 other nations, signed the Convention of the Law of the Sea, one would expect the Council to proclaim a Namibian EEZ, and to assist the International Commission for the Southeast Atlantic Fisheries (ICSEAF), as the most powerful control body. At present, however, ICSEAF delegates merely go for maximum quotas. As soon as stocks show the first sign of recovery, the large foreign trawler fleets intensify their fishing efforts. Meanwhile, Namibia has no clout whatsoever with regard to the managing bodies[22].

Figure 4: Water Supply



Source: National Atlas of South West Africa (Namibia), Map 74

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22 F. Moorsom, op cit, pp 70-74

Credits and Aid

Government expenditures of Rl.3 billion, budgeted for the 1985/86 financial year, exceed revenue by slightly more than R200 million[23]. South African loans and overdrafts to a total of R146.6 million will cover the deficit, which is R42.2 million down on the previous year's excess[24]. Such loans are drawn on the private financial market by the South African government, which acts as guarantor on the capital. A further increase in the cumulative debt sum (R784 million in 1985/86) will soon make Namibia one of the worst-hit per-capita debtor countries in Africa, with debt and interest servicing adding ballast to the already strained economy. From 1983 to 1984, Namibia borrowed an amount equal to 15 per cent of its GDP. The accepted limit even for a healthy economy is closer to 3 per cent.

Bleak as the picture is, Namibia's debts would be even higher if South Africa did not contribute additional unconditional sums - R335 million in 1985 to 1986 alone. From among Namibia's own financial sources, the Customs and Excise department provides the second-highest contribution to revenue, in the form of a fixed R250 million as compensation for losses of customs and investment diversions resulting from Namibia's membership of SACU. Even here, however, the South African government claims that R50 million of this sum should be regarded simply as a South African gift, since it far exceeds the actual contribution owed. Nevertheless, Namibia's forced membership of the Rand Monetary Area (RMA), and its lack of a national currency means that the country is not in a position to check the outflow of financial resources into South Africa.

Important revenue does come from the Department of Post and Telecommunications, as the only government service covering at least its recurrent expenditures; none, however, is close to repaying capital expenditures. Overall, state expenditure has increased from 32.5 per cent of GDP, in 1979/80, to 62 per cent in 1983/84, and with a massive 75 per cent of the 1983/84 budget allotted to current administrative costs.

Lack of international recognition, as the most important sign of political independence, constitutes the most serious barrier against both bilateral and multilateral credits. Loans would have to be signed by Pretoria's Administrator General - a situation that is unacceptable to most foreign nations. Consequently, a politically dependent Namibia cannot have any access to IMF or World Bank loans or grants. South Africa is not a recipient either. It is estimated that Namibia needs R350 per person per year in foreign aid – compared with Malawi, for instance, which gets along with an estimated R15 of foreign aid per inhabitant annually.

West Germany has expressed a desire to open up grants for Namibia (in view of the country's large German speaking population), but until political independence such grants must be limited to cultural projects, like the ‘Deutsche Höhere Privatschule’ (DHPS) in Windhoek. Private contributions are also restricted to the lower level of credit schemes, such as to donations from "Rotary" or "Lions". So as not to expose themselves to accusations from the UN Council for Namibia, political institutions (such as the ‘Hanns-Seidel Stiftung’ which, in co-operation with the South Africa Foundation, gives loans to small Namibian enterprises) keep a low profile. This council supported a UN resolution which (in 1966) declared that (private) investments in Namibia's economy were an undesirable exploitation, until Namibia achieves independence on Resolution 435.

Prospects after independence

Such exploitation is only the most obvious manifestation of Namibia's political dependence on South Africa. After independence - whether under a multi-party government or under SWAPO's Unitarian party regime - Namibia could either take the route of the BLS-states and remain heavily

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23 Central Revenue Fund, op cit, pp 12, 15

24 Africa Confidential, 4 November 1985, p 2

dependent on South Africa, or it could endeavor to sever existing economic ties, following Mozambique's example. Also under a SWAPO government, Namibia will reap more economic advantages than it does now under semi-South African rule[25]. Either way, one can expect Namibia to stay in the customs union, if not indefinitely, then at least for a reasonable time, until it has adjusted its trade patterns. Nobody seriously rejects the thought that South Africa will remain Namibia's main trading partner, but open borders with its other neighboring countries would also improve trade, investment and project co-operation, for instance in a Trans-Kalahari-Railway between Walvis Bay and Botswana, or with respect to the development of the hydro-electric potential of the Cunene River bordering Angola. Certainly, Namibia will be admitted as an affiliate to the European Community with access to preferential trade and tariffs through the Lomé Convention, and will also become a member of the Southern African Development Co-ordination Conference (SADCC).[26]

However, it will have to cut down on its heavy government expenditures. Besides terminating the 20 year-old civil border war and saving immense financial resources, Namibia's bureaucratic apparatus needs an adjustment to the true needs of its estimated 1.5 million inhabitants. And, finally, it will soon have to abolish the cumbersome and corrupt system of ethnic second-tier authorities - legacy of South Africa's policy of ethnic fragmentation.

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25 Namibia Nachrichten (Windhoek), 29 March 1985, pp 1-2

26 A. du Pisani, op cit, p 155