



Republic of Namibia

FIRST ROUND TABLE CONFERENCE

Towards Sustainable Development

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Government of Namibia

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Basic Facts About Namibia

General	
Land area	824,269 km ²
Population (1991 Census)	1.4 million
Official language	English
Currency	Namibia Dollars
GNP per capita (1994)	NS6,725
Exchange rate (average 1994)	US\$1=NS3.55

Health	
Infant mortality per 1000 (1991 Census)	67
Life expectancy at birth (1991 Census)	60.9 years
Population per doctor (1993)	4,454
Population per hospital bed (1993)	205
Access to safe water (1991)	
Urban	98%
Rural	35%
Overall	59%

Vital Statistics	
Population density (1993)	1.7 pers/km ²
Population growth (1981-91)	3.1% p.a.
Population distribution (1991 Census)	
Geographical	
Urban	28%
Rural	72%
By age	
0-14 years	42%
15-29 years	29%
30-44 years	15%
45-59 years	8%
60+ years	6%

Education	
Net School Enrolment (1991), percent of age group.	
Primary	84%
Secondary	44%
Tertiary	E.A.
Adult literacy rate (1991 Census)	76%
Average years of schooling	4

	Economic				
	1990	1991	1992	1993	1994
Annual growth in GDP (volume)	0.3%	6.6%	7.5%	-1.9%	5.4%
Annual inflation	12.1%	11.8%	17.9%	8.6%	10.7%
Average annual growth (1990-1994)	3.5%				
Percentage Contribution to GDP (1994)		Balance of Payments (1994)			NS million
Agriculture	11%	Merchandise exports			4,692
Fishing	4%	Merchandise imports			-4,106
Mining	16%	Non-factor services, net			-913
Fish processing	5%	Primary incomes, net			155
Other secondary industries	8%	Current transfers, net			920
Tertiary industries (services)	56%	Current account balance			748
		External debt			1,575
		Debt service ratio (1994) % exports			33.6%

Introduction

I. The First Round Table Conference for Namibia

This conference is Namibia's first Round Table Conference (RTC). The Government of the Republic of Namibia (GRN) sees the conference as a means of continuing the dialogue it has already initiated with its development partners. It is also intended to maintain the momentum that was generated towards the country's development during the Donors Conference held in New York in March, 1990. Namibia has benefited from international assistance before and after Independence and GRN believes there is a strong case for continuing international cooperation to achieve sustainable development in the country. This conference will provide Government the opportunity to discuss various strategic options available and to address critical socio-economic issues in the context of a post-apartheid and newly democratic South Africa.

The Round Table Conference provides the opportunity to:

- discuss Government policies and short, medium and possibly long term strategies for meeting Government objectives of increasing growth and employment, reducing inequalities and alleviating poverty.
- mobilise both financial and human resources to support the national development, and national priorities and to encourage donors to direct resources to these priority areas for the next five years.
- discuss GRN's external funding requirements, aid management policies and practical improvements to facilitate better coordination of donor support.
- consolidate the planning process by strengthening National Economic Management Institutions.

Since Independence, the Government has sought to achieve the country's development goals through the launching of a Transitional National Development Plan. This Plan has now been replaced by a comprehensive First National Development Plan (NDP1), which covers the period 1995/1996 - 1999/2000. The Government sees the Round Table conference as an opportunity to discuss its long term vision of the development of the country with its international development partners and to seek their support for the implementation of the policies and strategies outlined in NDP1.

II. Outline of the Document

This document draws on the development strategies expressed in the first National Development Plan covering the period 1995/1996 - 1999/2000, and highlights several key issues for discussion with donors, including areas where policies and strategies still need to be defined.

The salient elements of this document are the review of the state of the economy and progress made since Independence; the poverty profile and the critical socio-economic challenges still facing the country; Government objectives and strategies at the sectoral levels; public expenditure and resource gaps as well as overall requirements of development assistance and the issue of aid management and coordination.

This Document is divided into five parts starting with an executive summary. Part A describes the country background, outlining the circumstances leading to Namibia's annexation by South Africa and the subsequent conflicts that lead to Independence in March 1990. The first section demonstrates the impact of decades of apartheid policies, with a poverty profile that emphasises the desperate plight of the majority of Namibia's population. The macro-economic framework is presented in terms of the structure and composition of GDP as well as recent growth forecasts. The discussion covers the major macro-economic variables such as trade, investment levels, inflation and unemployment issues. Part B is a short section that provides the basis for a policy dialogue by describing the Government's development objectives for the period 1995/1996 - 1999/2000. Part C analyses policy issues including macro-economic policy and sectoral strategies. Parts D and E deal with funding requirements for the implementation of the Plan, outlining and justifying Namibia's external funding requirements, both on a global and sectoral basis, and Government's aid management policy.

EXECUTIVE SUMMARY

1 Overview

1.1 At Independence in March 1990, Namibia faced the challenge of overturning the legacy of more than a century of colonial rule. The previous administration oversaw a period in which the country's human and physical resources were exploited with little benefit going to the Namibian people. The social injustices propagated in the name of separate development meant that the large majority of the population were neglected in terms of social and economic infrastructure; the result was extreme relative and absolute poverty. The socio-economic structure inherited at Independence, still influences policy orientation and the utilization and allocation of available financial resources, five years later. The critical development issues that the Namibian economy thus has to contend with during the medium term include:

- The current modest level of economic growth and rapid increase in population resulting in a decline in per capita income over the last five years;
- An unusually highly skewed income distribution along racial lines, together with widespread poverty. The income inequities are reflected in differences in access to health, education, land, housing and other social amenities;
- Existence of legal, regulatory and restraining practices restrict competition in virtually all economic activities; as a result, investment has been constrained. Government will address this obstacle by allocated increasing internal resources to development expenditure and mobilising external resources for development;
- Rising unemployment;
- Lack of trained manpower to assist in the management of the economy and social institutions;
- High expectations of society, as to the economic and social benefits to be reaped after five years of independence;
- Periodic drought coupled with a highly fragile and degraded environment and ecosystem.

2 Poverty and Inequality Profile

2.1 Since Independence, real gross domestic product grew at an annual average rate of 3.5%, while the population increased annually at 3.1%, resulting in a slight increase in per capita GDP of 0.4% per annum (see Figure 2.3). Economic growth has been irregular and generally modest. However, the 3% growth rates achieved since Independence have been realised after decades of economic stagnation and in the face of the unavoidable uncertainties created by the transition to majority rule, in addition to severe drought and world wide recession. The pattern of growth has been influenced mainly by the changes in the prices of Namibia's mining output, the recent growth of government, private sector investment and the occurrence of drought. Thus after the drought of 1992, GDP declined by nearly 3.3% compared to a growth of 6% in the previous year. Changes in the dominant but volatile mining sector have significant influence on the performance of the economy. The extreme dualism, characteristic of apartheid economies has until recently stifled higher economic growth.

- 2.2 Namibia's high per capita income of over US\$1800 places it firmly among middle income countries, although this figure conceals wide variations in income distribution among the population. There exists an extremely wide diversity of economic conditions among different groups of the society. A small proportion of the population, about 5%, control over 72% of GDP. The extent of poverty is confirmed by the UNDP Human Development Report which also indicates wide discrepancies in welfare within the society as measured by the human development index (HDI). According to this index, in 1994 Namibia was ranked 127th among 173 countries in terms of adult literacy, life expectancy and income, but 84th on the ranking according to per capita GDP. Household consumption reveals even greater disparity whereby average household consumption is estimated at N\$11,951 with average per capita consumption at N\$1,932, while per capita consumption expenditure ranges from a low N\$389 per year to a high N\$36,310. The top 7% of the population account for 48% of national consumption. Household surveys reveal that about 47% of households are classified as poor.
- 2.3 Current estimates of the level of unemployment range between 25% to 35% with the youth being the most affected social group. It is also estimated that two thirds of persons in the subsistence sector are under-employed.
- 2.4 Although there are low levels of literacy and skills, access to education has rapidly expanded since Independence with primary school enrolment rising from 60% to 83.5%. The average number of years of schooling for the population is about 4 years compared to 6 years in sub-Saharan Africa. The adult literacy rate is about 76%.
- 2.5 Accessibility to housing water and land remain limited and unequally distributed. Some 4,200 commercial farmers, mainly white farmers, control a little over 44% of the national land area. Addressing the country's equity problem at an acceptable pace without endangering growth is certainly a major challenge.
- 3 Economic Structure
- 3.1 The structure of the economy is such that changes in the performance of the mining sector, which accounts for an average of 17% of GDP, has a significant influence on the trade balance and the growth of GDP. Agriculture contributes about 9% of GDP although this is largely from the minority owned private-tenure farming sector. The vast majority of Namibia's farmers live and work in the communal-tenure areas and partake in subsistence farming on marginal land. Fishing and fish processing are high growth sectors for the NDP1 period. Namibia has successfully managed its fisheries resources, reaping larger benefits every year since Independence. The fishing sector (including fish processing) that currently accounts for about 8% of GDP is expected to double in size during NDP1.
- 3.2 The tertiary sector accounts for nearly 60% of GDP. Government has detailed plans for the development of manufacturing industries which currently account
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for just under 10% of GDP. The remainder of the tertiary sector consists of Government services which rose from 21% of GDP in 1989 to 26% in 1993. This was largely due to the urgent need to reorganize state institutions in accordance with the constitutional obligations (articles 141 and 23) on the one hand that, "any person holding office under any law in force on the date of Independence shall continue to hold such office..." and on the other hand to "achieve a balanced structuring of the public service, the police force, the defence force and the prison service." The need to restructure the civil service to reflect the new priorities of an independent and democratic nation had a considerable effect on the public sector wage bill and the budget deficit but was a necessary condition for the peaceful transition to majority rule. Government has since capped increases in the public sector wage bill through the hiring freeze adopted in 1993.

- 3.3 Although present gross domestic investment has still not reached the levels of the early 1980s, (which were artificially inflated due to the high levels of military investment undertaken by the previous regime) at an average 18.3% of GDP investment has been adequate since Independence. Government's strategy has favoured investment in human capital formation through expanded education and health expenditures. Some parts of the country are relatively well-endowed with physical infrastructure. Gross fixed capital formation has been sufficient to maintain the country's capital stock. Government is planning to increase human and physical capital investment levels during the NDP1 period relative to the growth of GDP and Government.
- 3.4 There has been a consistent and sizeable current account surplus. This has been mirrored by a capital account deficit which means that Namibia is in the position of being a net exporter of capital. As explained later, this circumstance is largely a legacy of colonial times, during which Namibia was treated as an enclave economy dominated by foreign interests. As all Namibian investment institutions are subsidiaries of South African companies major investment decisions are taken in South Africa without due regard for Namibia's development. This situation can only be altered gradually over the medium term. Nevertheless Government has taken measures to stem the capital outflow. Firstly, by passing legislation requiring Namibian registered, pension funds and insurance companies to invest 35% of their portfolio in Namibia. Secondly, there are signs that Government's efforts to create an improved investment climate e.g. the establishment of a Namibian Development Bank and a reinsurance institution, are also making progress.
- 3.5 Namibia has made significant strides in building democratic institutions. However, many of the legacies of the apartheid system still remain. Overturning such legislation and arresting dualistic development remain a challenge to and one of the main objectives of government. Legal and regulatory institutions stifle competition and investment and consequently employment promotion. The legal framework seems to discourage individual initiative and dynamism, especially in self-employment in informal and micro enterprises. The challenge is to re-design the system of regulations and to

deregulate the formal sector to permit competition from emerging entrepreneurs and retain only those regulations which are socially or economically justified.

3.6 There is a considerable shortage of skilled personnel in all fields, especially those of economics and management, which tends to serve as a major constraint to the management of the economy and newly established social institutions. Much effort has been directed at ameliorating the situation since Independence.

3.7 Aspects of the poverty situation in the country relate to the use of the rather fragile eco-system. Overgrazing and destruction of vegetation by segments of the society constitute a critical problem facing the country.

3.8 Major developments after Independence were aimed at addressing these constraints. Consequently, education, health and social services absorb about 48% of Government budgets. Increased social spending puts pressure on scarce government resources. This situation poses a serious challenge to the Government as it attempts to change the composition of expenditure, increase its efficiency and contain its growth.

4 Policy Dialogue

Development Goals

4.1 The Government is committed to pursue policies as outlined in the Constitution, which include improving the welfare of its citizens and promoting economic growth "based on the principles of a mixed economy with the objective of securing economic growth, prosperity and a life of human dignity for all Namibians" (Constitution, Article 98).

4.2 For the next five years, Government will follow the national development goals established at Independence:

- Reviving and sustaining economic growth
- Creating employment opportunities
- Reducing inequalities in income distribution
- Alleviating poverty

4.3 These development objectives will be pursued within the framework of a mixed economy. Government is committed to encourage Private Sector Development by creating an enabling environment, and by Investing in People through the provision of education and health services to meet the needs of the previously under-served. These objectives will be achieved through an Increase in People's Participation by encouraging empowerment at the community level and promoting Sustainable Development not only from an environmental perspective but also from a financial, economic and institutional point of view. Objectives will be realised through Efficient and Responsive Government Services and Development Programmes.

- 4.4 Against the background of underlying socio-economic problems of the country, Government since 1990, has sought to achieve its national development goals through the launching of the Transitional National Development Plan (TNDP). A more elaborate Plan, the First National Development Plan for the period 1995/1996 to 1999/2000 has been drafted. This first Round Table Conference for Namibia provides a framework in which to have a policy dialogue on the medium and long-term vision of the Government and to seek the support of Namibia's development partners for the implementation of the policies and strategies for the period. During the next five years, Government intends to pursue the following medium-term economic and development objectives:
- 4.5
- revive the economy and sustain economic growth to ensure rising per capita income for the population;
 - assist in creating employment opportunities especially in the private sector;
 - offer opportunities to reduce inequalities in income distribution;
 - design economic and social programmes to help the poor and the relatively more vulnerable groups of the society and to reduce the incidence of poverty.
- 4.6 These four pillars constitute the salient features of the Plan. Government efforts are targeted to address these matters. Sectoral strategies in the Plan address issues of environment protection, and natural resources management, while capacity building in the public sector features prominently as critical for the management of the economy and institutions.

Development Strategies

- 4.7 With regard to the objective of rapid economic growth, one of the main tasks of Government will be to reactivate the economy by increasing public sector investment, while creating an enabling environment for private sector activity to stimulate private investment. The strategy is to promote a mixed economy, with Government seeking to complement the role of the private sector to enhance economic growth. In this regard, Namibia's membership of the Southern Africa Custom Union (SACU) and the Common Monetary Agreement (CMA) and their impact on monetary and exchange rate policy are seen as critical. Government is renegotiating SACU while advocating equitable and transparent revenue sharing measures. Measures to sustain economic growth will be pursued in tandem with a population policy.
- 4.8 With unemployment constituting a major problem confronting the country, creating employment opportunities to absorb the currently unemployed and new entrants to the labour market is also a major challenge. Job creation is ultimately seen to be related to poverty alleviation and reduction. With the freeze in public sector employment, Government believes that the adoption of appropriate labour market, trade and industrial policies will enhance job creation in the private sector. The establishment of Export Processing Zones is intended to assist in job creation. The problem of lack of skills is to be addressed through training programmes. Labour intensive programmes are being considered as potential sources of job creation.

- 4.9 In redressing inequalities, emphasis is being placed on the expansion of education facilities and retraining of teachers. Access to health is to be improved and made more efficient. The role of women, and especially female headed households, is given special prominence in the effort to redress the inequalities in the country.
- 4.10 On poverty reduction and alleviation, measures to be considered include enterprise promotion and improvement in accessibility to a number of social facilities. The pension scheme has been reviewed to help to minimize the pressure on the aged and disabled. Since drought is positively correlated to poverty, Government, during periods of drought will assist vulnerable households.
- 4.11 The Poverty Alleviation Strategy is intended to evolve policy and practical level measures that will assist in the reduction of poverty in the country. Though there are no quick solutions to poverty alleviation, the programme identifies strategic measures such as raising the productivity of the poor and creating employment in the framework of a rapidly growing economy.
- 4.12 Since land distribution is extremely unequal and is at the root of rural poverty, land reform and resettlement policies have been passed by the National Assembly. Government is working on practical mechanisms to make the law effective and to ensure smooth implementation.
- 4.13 Environmental Protection and natural resource management is given considerable prominence during the next five years. The challenge is to ensure that existing and future development activities are environmentally sustainable, through improved planning and coordination of activities across many sectors. Progress made in reversing the pre-1990 unsustainable utilization of fishing stocks will be maintained. Wildlife and forestry will be developed through community participation.

Economic Management Programme

- 4.14 The occasion of the Round Table is also being used by Government to launch major programmes which will positively influence the direction and development of the country while addressing critical socio-economic problems. One such programme for which Government has received external support is that to strengthen National Economic Management Institutions. The accompanying document outlines Government's experience in this field since Independence and the outlook for the remainder of the Plan period.
- 4.15 The programme to strengthen National Economic Management Institutions focuses largely on capacity building in the institutions that help to shape and manage economic policies of the country. The programme builds on and consolidates current efforts to efficiently manage and direct the performance of the economy.

- 5 **Aid Management and Funding Requirements**
- 5.1 The Government of Namibia is aware of the overall world-wide decline in the availability of external resources and aid flows and expects that the dialogue will focus on the direction, quality, volume, efficient utilisation and coordination of aid. At the same time, the Government is keen to avoid undue dependence on aid and has based its own expenditure plans on modest increases in the volume of external assistance.
- 5.2 In order for Government to achieve these goals, international development cooperation would have to play a supportive role. Since the Donor's Conference in 1990 there has been a considerable flow of international assistance to support the development objectives of Namibia. As a proportion of government revenue and expenditure external assistance was 14.9% and 12.7% respectively making external assistance an important macro-economic variable in Namibia.
- 5.3 Government will supplement internal development resources with external assistance where appropriate, in order to raise the living standards for the majority of the population and extend basic infrastructure to all parts of the country. The social and economic backlog of apartheid will take time to rectify and eradicate. This initiative will also require the assistance of Namibia's development partners.
- 5.4 At the time of Independence, the UN General Assembly recommended that all member states and all agencies of the UN system classify Namibia "as if a Least Developed Country" (LDC). It was recognised that Namibia was in many ways less developed than its level of per capita GDP would suggest. Extensive poverty remain as shown by the social indicators on nutrition, health, education and literacy. The legacy of decades of apartheid rule will take time to overturn and therefore Government believes that the case for Namibia's "as if LDC" status should be maintained and adopted by all development assistance agencies.
- 5.5 Problems in aid management are gradually being corrected. The plan and accompanying PSIP are being used as a means of providing a clear statement of government priorities to the donor community. Government is evolving a clear policy on foreign borrowing, counterpart contributions and reporting and accounting. External assistance is recorded in the Development Budget and a computerised system for recording commitments and disbursements and the monitoring of aid is being developed. Together these measures will ensure that all official development assistance received by the country will be used effectively and efficiently and directed to productive ends.
- 5.6 From 1996-2000 the economy is project to grow at an average rate of 5%; the internal deficit will be reduced from 4.1% to 3% of GDP and the external balance maintained throughout the period. It is expected that inflation, currently at 11% will decline below 10%. It is proposed that during this period, Government make a substantial contribution to development spending. Development spending will be increased by 6% in real terms during the period
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1996-2000 in order to deal with the historical backlog of social and physical infrastructure and create the necessary conditions for sustainable growth. This rate of growth has been determined using the macro-economic framework of NDP1 based on the Namaf macro-economic model.

- 5.7 Domestic savings and resources will constitute the main source of funding for development spending within the Public Sector Investment Programme (PSIP). However, in to maintain fiscal stability and to ensure that domestic resources are utilised sustainably, it is estimated that at least NS 2730m (US\$ 758m), out of the total PSIP of NS5.3bn (US\$ 1.5bn), will be required from external sources to assist in development programmes in key sectors and to ensure a 5% growth in GDP. (All figures used are in 1995/1996 constant prices.) Government is ready to embark on serious discussions on these issues. The sectoral consultations after the Round Table Conference will help to concretize the specific nature of assistance expected from external sources.

PART A: COUNTRY BACKGROUND

1. Namibia's Socio-Economic Situation

1.1 This Section provides the background to Namibia's socio-economic circumstances, with an overview of social indicators, focusing on poverty levels and progress in alleviating poverty since Independence.

Overview

Historical Background

1.2 Namibia faces the same legacy of apartheid as South Africa. It is a country of extreme contrasts and vast disparities between the social and economic circumstances of the small, wealthy minority and the large majority, approximately half of whom live below the poverty line.

1.3 Systematic discrimination against the majority started as long ago as 1884 with the proclamation of South West Africa as a German Protectorate and continued with the invasion of a South African force in 1915. The League of Nations granted a mandate to the Union of South Africa over South West Africa including Walvis Bay. Although this mandate obliged South Africa to improve the welfare of Namibians, this was disregarded and the policy of land expropriation in virtually all areas apart from the north of the country continued.

1.4 After 1945 Namibia became a United Nations Trust Territory and the South African regime formalised the apartheid policies of separate development. Despite the UN Assembly revoking South Africa's mandate over Namibia in 1971, the occupation continued, an armed liberation campaign having begun in 1966. It took more than two decades of armed struggle combined with international pressure and negotiation before military and political developments in the international, regional and domestic arenas led to a settlement.

1.5 The first free and fair elections in Namibia were held in November 1989 and provided representatives to the Constituent Assembly which drafted Namibia's constitution and elected as the country's first President, His Excellency Dr. Sam Nujoma, the leader of the South West Africa People's Organisation (SWAPO). Independence was formally declared on 21 March 1990, although Walvis Bay and its offshore islands remained in the hands of the South African Government until 28 February 1994, when they were reintegrated.

Restructuring local and central Government

1.6 Prior to Independence, Namibia was divided into regions which had been defined by the colonial policy of racial segregation, reserves, and land expropriation. At Independence, the new Constitution made provision for a second chamber of Parliament, the National Council, as well as new regions which were to be defined by a Delimitation Commission. By 1992 thirteen regions had been defined and regional elections were held in November 1993.

1.7 The National Council was first convened in February 1993 following Namibia's first democratic regional and local government elections. The National Council, made up of two representatives drawn from each of the 13 regions, has since started its task of reviewing legislation proposed by the National Assembly and referring bills back or making amendments to them before they receive Presidential assent and become law. Each Region now has an elected regional council responsible for the direction of regional development.

1.8 At Independence, Namibia's public administration consisted of a Central Authority, ten Representative (or Second-Tier) Authorities, a number of Municipalities, Local Authorities and other statutory entities. The structure of administration was ethnically-based, and therefore unacceptable to the new administration. It had to be dismantled and completely restructured.

1.9 This restructuring has been coordinated by the Public Service Commission in the Office of the Prime Minister. Central government has been remoulded into a unified structure of twenty ministries. In addition a number of other government institutions have been established necessary for the functioning of an independent and democratic state. These include the Public Service Commission, the offices of Ombudsman, Auditor-General, Attorney-General and Prosecutor-General, an Inspector-General of Police, as well as the new Namibia Defence Force and Namibia Police.

The Impact of Apartheid

1.10 At Independence, Namibia inherited a socio-economic structure which, five years after Independence, still influences policy formulation. Indeed, the effects of apartheid policies manifested itself in many ways and consequently resulted in extreme relative and absolute poverty. *Relative poverty* (a measure of wealth in relation to others in society) is reflected in highly skewed distribution of income. The poorest 90% of the population together consume significantly less than the remaining minority. *Absolute poverty* (a level below which people are considered unable to meet their "basic needs") is indicated in estimates which show that approximately half the population live below the poverty line.

1.11 Apartheid policies centred on directing resources to the white minority while denying the majority access to basic services and the means of production, particularly land and education, so as to ensure a cheap, unskilled labour reserve for the white minority. The result of these policies was the development of a dual economy, comprising a small but well developed and commercially oriented sector; while the rest of the economy was undeveloped, based on subsistence production. The majority lived and continue to live in conditions similar to and sometimes worse than most developing countries. Reversing these policies through affirmative action for the majority has been the major challenge for Government since Independence.

1.12 Other factors contributing to high levels of absolute poverty are the arid climate and low agricultural productivity of the land. This has made it difficult to increase incomes from subsistence agriculture for the majority of the rural population, a population which though currently small is growing at a fast rate and becoming increasingly urbanised.

Population

1.13 Namibia's population was 1.4 million in 1991 (estimated to be 1.6 million in 1994) and, in spite of rapid urbanisation (estimated at 5.5% per annum) its economy is mainly rural. Fewer than one third of the population live in formally proclaimed urban areas.

1.14 Namibia is one of the world's most sparsely populated countries with an average population density of only 1.7 per km² (1991). Over 70% of the population is concentrated in the north, where rural population densities may exceed 100 per km². The main population centres, as measured in the 1991 Census, are the capital, Windhoek, with a population of 147,056, and the districts of Oshakati (384,815) and Ondangwa (233,302).

1.15 Reducing poverty and increasing per capita income is also constrained by a fairly high rate of population growth of 3.1% . As such it is one of the fastest growing populations in southern Africa. For example the rate of growth of the population in neighbouring Botswana is 2.9%, for Lesotho 2.5% and South Africa 2.4%, although the average for Africa is in excess of 3%. The population is also young, creating a high dependency ratio. Over 42% of the population are under 14 years with about 63% under 24 years.

1.16 Namibia's small population is extraordinarily diverse in culture and language. Over eleven different languages or language groups exist in Namibia, the main one being Ovambo spoken by 50% of the population. Language is often centred on particular regions of the country but urban migration has led to many languages being spoken outside their region. People commonly speak two or three languages in much of Namibia, especially in the central and southern regions where Afrikaans is spoken by almost everyone.

Socio-economic Indicators

1.17 It is only after Independence that the Government started to collect data on people's income and other socio-economic indicators. Hence there are limits to any effort to

undertake an inter-temporal analysis of the socio-economic circumstances of Namibians. The Central Statistics Office undertook a *National Household Income and Expenditure Survey* during 1993 and 1994, and preliminary results have been used to produce statistics on poverty and income distribution. It is expected that the on-going Agricultural Census will provide additional information on the socio-economic situation of the rural population.

Income Inequality

1.18 Income distribution is extremely unequal in Namibia. According to the National Household Income and Expenditure Survey, the richest 1% of households consume as much as the poorest 50%; the richest fifth consume over 70% of total consumption; the better off half of households consume on average NS 20,000 a year per household; while the poorest quarter consumes only NS 2,200 per household. Household consumption reveals even greater disparity whereby the average household consumption is estimated at NS11,951 with average per capita consumption at NS1,932. Per capita consumption expenditure ranges from a low NS389 to a high NS36,310. The top 7% of the population account for 48% of national consumption.

1.19 Historically, income distribution has been very strongly correlated with race, as indicated by the World Bank's estimates of income shares in 1988, shown in Table 1.1.

Table 1.1 Income Shares of Three Segments of the Namibian Economy, 1988

Segment	Share of population	Annual GDP per capita	Share of GDP
Subsistence sector: Blacks	55%	\$85	3.4%
Modern sector: Blacks	40%	\$750	25.4%
Modern sector: Whites	5%	\$16,500	72.2%

Source: *Namibia, Poverty Alleviation and Sustainable Growth*, World Bank, 1992.

1.20 According to the UNDP Human Development Report (1994), Namibia ranks 84th out of 173 countries in terms of per capita GNP, qualifying as a "middle income" country. However, Namibia's rank drops to 127th on the Human Development Index (HDI), whose components are life expectancy, adult literacy and income (see Table 1.2). The changes in Namibia's position maybe explained partly by the increase in the number of countries covered in the report from 160 to 173, in 1994. However, the Human Development Index for Namibia, which presents inter-temporal changes for the country, declined from 0.295 in 1992 to 0.289 in 1993, which implies a slight decline in the welfare of the people due largely to the severe drought in 1992-93. This HDI indicates that high levels of income inequality have resulted in poor performance of social indicators as compared to overall measures of income. While Namibia has a GNP per

capita almost 3 times the average for sub-Saharan Africa, its social indicators are not much better than that of the region as a whole, where life expectancy is 52 years and adult literacy is 51%.

Table 1.2 Comparison of Namibia's GNP and HDI rankings

	1990	1991	1992	1993	1994
Namibia's GNP per capita ranking	60	77	84	98	84
Namibia's HDI ranking	96	105	122	135	127
Difference	-36	-28	-38	-37	-43

Source: UNDP, *Human Development Reports 1990 — 1994*, New York.

1.21 As the *Human Development Report* notes: "For some countries - such as Angola, Gabon, Guinea, *Namibia*, Saudi Arabia and the United Arab Emirates - the income rank is far ahead of the HDI rank, showing that they still have considerable potential for translating their income into improved well being for their people." (Human Development Report, 1994.)

1.22 There is a strong regional element to these inequalities. The majority of the poor live in the northern rural areas, while the wealthy white population live in the urban and southern areas of the country. These regional differences are the result of three factors; apartheid policies, population pressure and agro-ecological differences. The north-south divide is usually associated with the line of the veterinary cordon fence (the "Red Line"), with the area north of the line having been neglected in terms of infrastructure and services during the pre-Independence period. The majority of the population (70%) live in the north, thus placing greater pressure on fragile and limited natural resources.

1.23 This does not mean that there are not pockets of poverty in other areas. In fact some of the poorest communities in the country are in the south. Farm workers on commercial farms are suffering some of the worst levels of impoverishment as reflected in measures of monthly income. Small stock producers of the Damara, Nama and Bushman groups in the southern communal areas (the former Native Reserves and Bantustans) are also among the poorest ethnic groups in Namibia. These differences are also the result of agro-ecology, with incomes higher in the cattle regions of the Herero and Kaoko, followed by the crop producing regions in the north while the lowest income levels are found in the marginal areas in the south and west of the country.

Table 1.3 Monthly Income, January 1992.
(ranked by region and income source)

Rank	Region	Monthly Income (NS)
1	Herero	1,361
2	Kaoko	827
3	Owambo	683
4	Kavango	584
5	Caprivi	572
6	Damara	515
7	Nama	492
8	Bushman	279

Rank	Source of Income	Contribution to Total (NS)
1	Permanent Employment	276
2	Sale of Livestock	182
3	Government pension	158
4	Sale of home production	51
5	Casual employment	21
6	Remittances	15
7	Sale of crops	3
Total Income		706

Source: SIDA- Namibia Poverty Profile, 1995 P.25 compiled from Devereux et al., 1993

Poverty

1.24 There have been various studies of incomes and poverty, both detailed surveys of relatively small samples^[1], as well as the CSO National Household Income and Expenditure Survey, covering 5,000 households across Namibia. These surveys used not only cash incomes but other measures of wellbeing such as a food consumption ratio (food consumption as a proportion of total consumption) to determine levels of poverty. Those households for which food is 60%, or more, of total consumption are considered poor.

1.25 According to these various studies approximately 50% of all households in Namibia are below the poverty line, (47% according to the CSO statistics)^[2]. As many as 68% of the households were below the poverty line in the Van Rooy *et al* survey covering, central and southern communities and 53% of the households in the Yaron *et al* study of the Okavango region were classified as poor. The preliminary results of the CSO survey are shown in the tables below.

¹ Van Rooy *et al* (1994) surveyed 3 communities (225 households) in northern, central and southern Namibia. Yaron *et al* (1992) surveyed households in one of the poorest regions in Namibia: Okavango.

² SIDA, Namibia Poverty Profile, Windhoek, February 1995. & CSO, Living Conditions in Namibia, 1993/94, Windhoek, 1994.

Table 1.4 Poor Households in Namibia by Food Consumption Ratio, 1994

Food Consumption/ Total Consumption	Classification	Households	
		Number	%
0% - 59%	Not poor	131 000	53%
60% - 79%	Poor	84 000	34%
80% - 100%	Severely poor	32 000	13%
Total		247 000	100%

Table 1.5 Characteristics of Poverty

Household characteristics		Poor and Severely Poor Households
Geographic distribution	Namibia	47%
	Northern Regions	59%
	Central & Southern Regions	30%
	Urban	22%
	Rural	60%
Principal Source of Income	Subsistence Farming	63%
	Cash Wages	33%
	Business	29%
	Pensions	53%
	Cash Remittances	37%

Source: Preliminary results from the CSO Household and Expenditure Survey, 1994

1.26 These statistics indicate that the poor are more likely to be from the northern, rural, areas engaged in subsistence farming, female headed household and/or pensioners. The Okavango study also disaggregated data by gender and found that 78% of female headed households are classified as poor or very poor. While the majority of the poor are dependent on subsistence agriculture for most of their income, pensions are also an important source of income for the poor. Having access to cash employment or self-employment does not always mean that households are above the poverty line.

1.27 While subsistence agriculture is the main source of income for the majority, the low levels of crop productivity mean that households have to depend on several sources of income, including remittances from better-off relatives. The high incidence of drought increases the *vulnerability* of the poor. In a normal year the poor are barely able to generate sufficient resources and thus are unable to withstand any reduction in output

caused by drought or other factors such as pests and/or crop disease. The recent droughts of 1992 and 1995 have also worsened the conditions of the poor. Although poverty is more prevalent in rural areas, urban poverty is a growing phenomenon as rural-urban migration increases but the economy is unable to provide sufficient employment opportunities in urban areas.

Health Indicators

1.28 The main recent sources of information on health status are the 1991 Census and the National Demographic and Health Survey (NDHS) of 1992. Key statistics are shown in Table 1.6 (these include all the major indicators targeted by Namibia's National Programme of Action for Children). The indicators show that levels of health and education in Namibia are well below what could be expected from the country's GNP level. Namibia has the highest malnutrition level of any country in the world whose per capita income exceeds US\$1000.

Table 1.6 A Comparison of Health Indicators
for Namibia, Sub-Saharan Africa and Middle-Income Countries

Indicator (units)	Namibia	Sub-Saharan Africa	Middle Income Countries
Life expectancy (years):			
Male	59	51	68
Female	63		
Infant mortality rate (per 1000)	67	99	43
Under-5 mortality (per 1000)	87	170	55
Maternal mortality (per 100,000)	225	590	
Nutrition indicators (children under 5)			
Severely underweight	5.7		
Moderate & severe underweight	26.0		
Severely stunted	8.3		
Moderate & severe stunting	28.4		
Severely wasted	1.5		
Moderate & severe wasting	8.6		
Access to potable water (%)	63		

Source: UNICEF, Country Programme Strategy Paper, May 1995.
World Bank, World Development Report 1994
1991 Namibian Census

Education and Literacy

1.29 Primary school enrolment rates rose rapidly from 60% in 1990 to 83.5% in 1993, thanks to an active drive to improve education and literacy levels and the introduction of free primary education. Unfortunately, the effort has been beset with high drop-out rates, limited number of qualified teachers and materials. Lack of education seems to be factor associated with poverty. Van Rooy *et al* found that poverty decreased if the head of the household had secondary education or above³. Adult literacy is regarded as a key development indicator, but findings are very sensitive to the definition of literacy used. The UNDP's Human Development Report estimates adult literacy at only 40% but the 1991 census found that 76% of Namibians aged 15+ had attended school for four or more years, (four years of schooling is often taken as the threshold for durable literacy.)

Water Supply

1.30 In an arid country like Namibia, water is a precious commodity. Availability of water is a critical factor in contributing to the health and general welfare of the population as well as the economic development of the country. At Independence, the sophisticated and well resourced bulk water supply to the main urban centres contrasted starkly with the neglect of rural communities' water requirements: it was estimated that only 50% of the rural population had access to safe water in 1990. Since Independence, some progress has been made through the construction and rehabilitation of the 6,000 rural water supply points.

Housing

1.31 Housing is a particular problem in urban areas, where apartheid policies restricted movement of the majority and accommodation was provided for single men in the townships. With the removal of these restrictions, families have moved to urban areas but without sufficient housing many continue to live in these single living quarters or in shacks in informal settlements without services.

1.32 The 1991 Housing and Population Census provided data on housing numbers and quality. It showed that in 1991, only 63% of those in urban areas had adequate housing. The remaining 35,200 households lived in single quarters and improvised housing. By 1994, with the increase in the urban population, it was estimated that 37,071 households were still in need of improved housing.

1.33 Since Independence, Government has initiated programmes to increase access to housing in urban areas through a housing parastatal, the National Housing Enterprise and the Build Together Programme. Since the Build Together Programme started in 1992/93, 3,379 families have benefited from the loans scheme for the purchase of plots, construction of new houses and upgrading of existing houses.

³ Van Rooy, G. *Et al*(1994) Household Subsistence Levels in Three Communities in Namibia, SSD, University of Namibia, Windhoek.

Table 1.7 Summary of Social Indicators

	1989	1990	1991	1992	1993	1994
<u>Education</u>						
No. of schools	1,171	n/a	1,229	1,325	1,354	1,365
No. of teachers	12,885	n/a	13,925	15,257	15,280	15,727
Primary enrolment	307,407	313,528	339,179	348,411	352,100	366,666
Secondary enrolment	58,769	61,741	72,286	83,819	92,136	101,772
Expenditure (% of GRN total)	18	23	23	24	25	27
Adult literacy rate			60			
Net enrolment ratio					83	
<u>Pensions</u>						
Minimum state pension (NS per month)		55	92	120	120	135
Coverage (% of eligible)						
<u>Housing</u>						
Build Together (houses)	n/a	n/a	n/a	1285	1009	1300
National Housing Enterprise	822	719	351	158	267	775
<u>Human Development Indicator (rank of 172 countries)</u>						
Ranking by GDP per capita		60	77	84	98	84
Overall Ranking		96	105	122	135	127
<u>Social sector expenditure (% of GRN total)</u>						
	33	39	42	41	42	48

Source: CSO Statistical Abstract 1993, National Programme of Action 1991 and 1993, Demographic and Health Survey 1992, Human Development Reports 1990-1994, Public Expenditure Review 1994, National Housing Enterprise, Directorate of Housing

Access to Land

1.34 One of the key causes of poverty in Namibia was the colonial expropriation of land from the black majority and transfer to a few white settlers. Until the 1980s blacks were unable to buy land and were forced to live in smaller, marginal areas or become farm labourers. While white commercial farmers had access to subsidies, services and cheap labour, the majority was denied such services, unable to improve farming practices and productivity.

1.35 Some 4,200 commercial ranch owners control 44% of the national land area, while 138,000 households in the southern, western and northern communal areas have access to 41% (33.5 mha). Because of the arid climate and poor soils, only about half of the total land is usable for livestock and crop production, and of this area, the major portion (73%) is used by commercial farmers while the remaining 27% is for use by the majority of the population. The average size of commercial farms is estimated at 7,200 hectares,

compared to an average for black-owned livestock farms of 335 hectares; black arable farms have an average of 10 hectares or less.

1.36 Namibia is the most arid country in sub-Saharan Africa, with a national average rainfall of 250 mm. Even in the north-east, where rainfall averages 400-600mm, this level is still considered marginal for arable agriculture. For livestock production, the arid climate means that large areas of land are required, ranging from 8-10 hectares per Livestock Unit (LSU)^[4] in the north to 20-25 hectares per LSU in the south-west. As the rural population has grown, the expansion of agricultural production on marginal land has led to environmental degradation which has exacerbated poverty in many communal areas.

1.37 Since Independence, grazing lands within communal areas have been fenced off by individuals, thereby prohibiting access to this land by other community members. These individuals retain their access to communal grazing lands, thus further reducing the availability of grazing resources for the majority. Government is in the process of establishing the necessary legislative framework to reform land rights and administration, as explained in detail in Part B. Government has also earmarked N\$20m to be spent annually for the purchase of agricultural land in order to redress inequalities in land ownership.

Access to Credit

1.38 In the pre-Independence period, the majority was also denied access to credit and the means of increasing agricultural output and developing small scale enterprises. By comparison, the white minority was provided with subsidised services and credit through the Agricultural Bank of Namibia and the First National Development Corporation (FNDC). Since Independence, Government has begun to restructure these financial institutions, through reducing subsidies on interest rates and directing resources to the previously disadvantaged. Further restructuring of these financial institutions and introduction of credit schemes targeted at small scale producers will be one of the key strategies for increasing growth during the next five years. Government has also established new avenues for credit provision including the *Agricultural Credit Scheme* under the auspices of the Agricultural Bank of Namibia and the *Job Creation Fund* which has been allocated N\$40m as start-up capital.

Conclusion

1.39 The immediate challenge for the Government at Independence was to achieve a peaceful transition to democracy. Government has succeeded in promoting a peaceful democracy and political stability, within the framework of constitutionally guaranteed rights, democratic principles, national reconciliation and affirmative action. The economic obstacles to development inherited at Independence have perhaps proved more tenacious. While approximately half of the population are considered to be below the poverty line, Government has made progress since Independence. Redressing previous inequalities has started through increased expenditures on health and education, and the introduction of services directed to the previously under-served majority.

[4] A Livestock Unit (LSU) is roughly equivalent to 1 head of cattle or 5 sheep or goats.

2. Economic Structure and Performance since 1990

2.1 This Section describes the structure and performance of the Namibian economy since Independence, highlighting the narrowness of the economy, its vulnerability to external shocks and the constraints to growth. Namibia's economy is dependent on a few natural-resource based sectors, most of which are capital intensive and have, as yet, made little contribution to increasing employment and reducing income inequality.

2.2 In addition, the openness of the economy increases Namibia's dependence on and vulnerability to external events, being heavily influenced by price changes in the regional and world economies. Government has limited control over key monetary and trade policy instruments as a result of Namibia's membership of the Southern African Customs Union and the Common Monetary Area. These factors are potential constraints to economic growth and present a major challenge, particularly with respect to the diversification of the economy into areas with greater potential for increasing incomes and employment, as discussed in more detail in Section 4.

Structure of the Economy

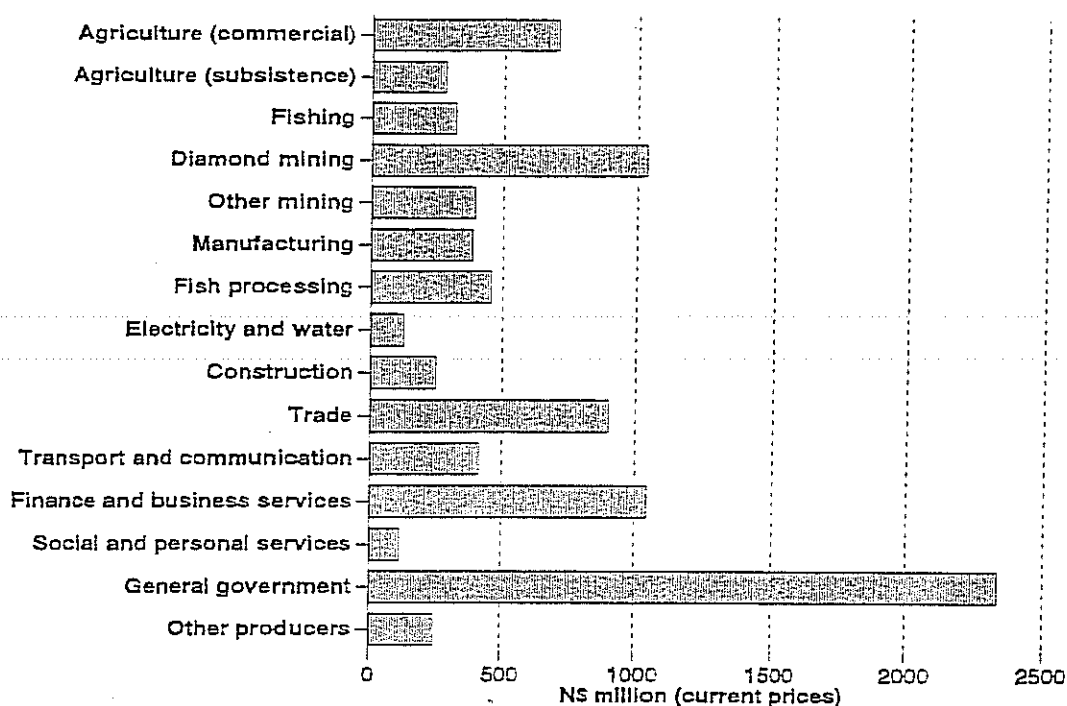
2.3 Namibia's Gross Domestic Product was N\$ 8,372m (US\$ 2,497m) in 1993 giving it a per capita income of N\$ 5,585 (US\$ 1,650). This compares favourably with US\$ 2,670 for South Africa, US\$ 570 for Zimbabwe and US\$ 530 for Sub-Saharan Africa as a whole. Namibia's economy is characterised by colonial exploitation where large multinational firms and settler farmers exploit natural resources for export, leaving other sectors largely undeveloped. Figure 2.1 shows the breakdown of GDP by economic sector in 1994. The two main productive sectors are large scale commercial agriculture and mining, while fisheries and fish processing have been increasing in importance.

Agriculture

2.4 While subsistence agriculture provides the largest source of employment, its contribution to GDP is only 3%, due to low productivity levels in the communal sector. Productivity is constrained by the arid climate and poor soils. The full potential in the subsistence sector is not realised because of the low input/output technologies resulting from years of neglect and lack of access to credit, training, research and extension services.

2.5 Commercial agriculture by comparison contributes about 7% to GDP and involves mainly livestock production, which contributed 90% of agricultural GDP in 1992 and about 10% of merchandise export earnings between 1990 and 1994. Beef is exported primarily to the South African market. However, Namibia has been granted preferential access to the European Union market under the Lome Convention, with a quota of 13,000 tonnes of boneless beef for 1995.

Figure 2.1 Contribution to GDP by Industry, 1994



Mining

2.6 Namibia is well endowed with a variety of important minerals, ranging from world class deposits of uranium and diamonds to smaller but significant deposits of gold, silver, tin, lead, zinc and copper. Offshore, a large gas field has been discovered and there is a high probability that economic deposits of crude oil exist. Mining and exploration activities are undertaken by the private sector, consisting of a few foreign and multinational companies as well as an undetermined number of small scale Namibian miners, with Government providing the necessary support and information for these activities. In 1994, Government became a major shareholder in the country's main diamond mining concern, Consolidated Diamond Mines(CDM). In an agreement with De Beers a new diamond firm (NAMDEB) was created. On average Mining has generated 17% of GDP, since 1990, though of late its performance has been difficult to predict.

Fisheries

2.7 The fisheries sector has increased in importance since Independence and the sector shows promise for further growth during the NDP1 period. The Namibian fishing grounds are one of the largest and most productive coastal fishing grounds in the world, but because Namibia's international status was not recognised prior to Independence, fishing took place in these waters without controls and with limited benefits to the people of Namibia. Since 1990, Government has been able to reverse the decline in fish stocks through the introduction of a 200 mile Exclusive Economic Zone and controls on

the number of fish caught (Total Allowable Catches). Since the introduction of these controls Namibia has experienced significant increases in the fisheries and related fish processing sectors: their share of GDP rose from 4.4% in 1990 to 8.6% in 1993, with exports of fish and fish products accounting for close to 25% of all exports in 1994.

Government

2.8 The striking feature in Figure 2.1 is the importance of Government. In 1991 Government accounted for 25% of total non-subsistence agriculture employment. Taxes and expenditure totalled 29% and 37% of GDP respectively, and public investment 35% of total investment expenditure. Since Independence, Government expenditure as a proportion of GDP has grown to 43%. This corresponded to the need to establish and organize government institutions in accordance with the requirements of the new constitution and the functions of an independent and democratic state. New organs had to be created in the executive, legislative and judiciary systems. In addition there was a perceived need to restructure the public service and attempt to meet raised expectations of social change and the challenge to expand social services as a means of addressing social inequities. This had to be accomplished in the context of the constitutional agreement not to dismiss any public sector personnel from the previous administration.

2.9 The change in the composition of GDP since 1980 by broad sector is shown in Figure 2.2. The trend away from primary to tertiary industries is particularly marked since Independence, with the decline in mining and growth in general government. The almost constant share represented by secondary (manufacturing) industries is particularly striking. One of the major challenges of NDP1 is to increase the contribution of secondary industries.

2.10 Diversification goes hand in hand with investment in new sectors. Some diversification of the economy has occurred since Independence. Despite the current growth in new sectors such as fishing and manufacturing (which has averaged over 10% annually since Independence), their contribution to GDP remains limited because they began from a small base. The share of agriculture in GDP has been static at just over 8%. Government has accounted for a substantially increased share of GDP in the post-Independence period. In the short-term, growth in the economy remains dependent on Government and the mining sector.

Economic Growth

2.11 The growth of the economy has been irregular, and generally modest. This is partly due to lower levels of private sector investment and partly because of unfavourable developments in world prices for Namibia's major products. In addition, the internal situation particularly the uncertainties perceived at Independence and the legal and institutional framework seem to have stifled the economic dynamism of the majority of the population. High labour costs (in relation to productivity) and restrictions imposed by the domestic private sectors have discouraged international investors. Wages in Namibia are much higher than is commensurate with the skill profile of the labour force. As a result, the economy has not grown as rapidly as expected. There is a pressing need to revive private investment, diversify the narrow production and export base and maintain fiscal discipline in order to reverse the trend of economic decline.

Figure 2.2 GDP by Sector, 1980-94

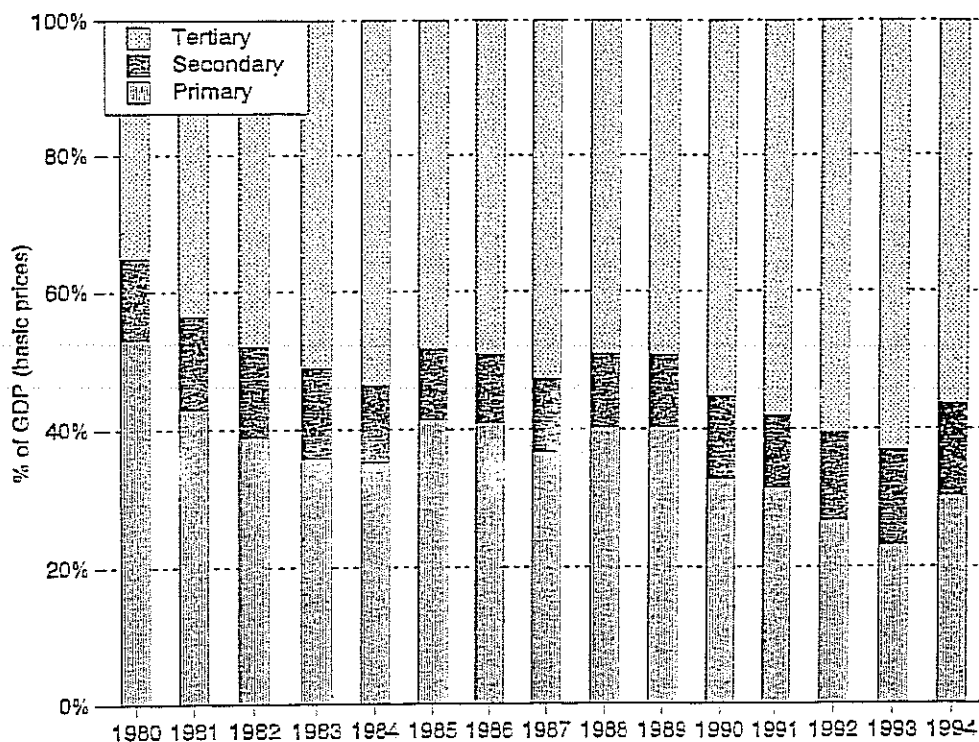


Table 2.1 Contribution to GDP by Industry, 1985-89 & 1990-94

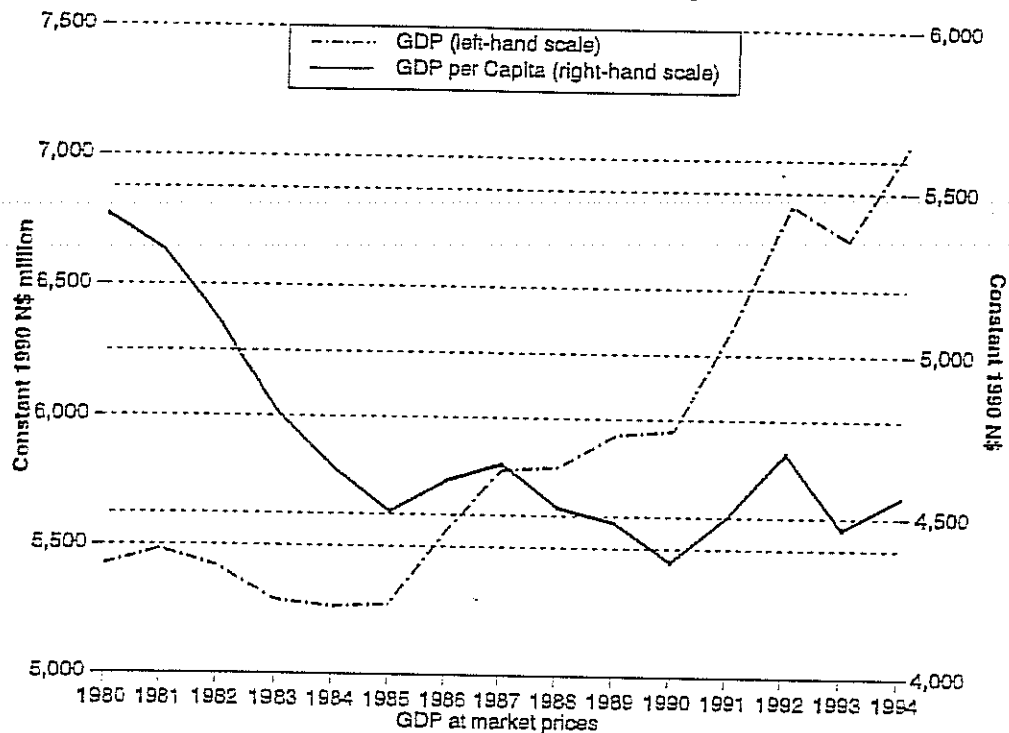
	1985 to 1989	1990 to 1994
Agriculture	10.4%	9.3%
Fishing	1.6%	2.7%
Mining and quarrying	27.9%	16.9%
Secondary sectors (excluding fish processing)	8.5%	9.1%
Fish processing	1.9%	3.3%
Tertiary sectors (excluding Government)	37.5%	31.4%
General Government	22.2%	27.3%

Source: *National Accounts 1980-1994, CSO, 1995* (Period Average at Current Prices)

2.12 Despite prolonged drought in 1991 and 1992 and sustained world and regional economic recession, the Namibian economy has performed better since Independence than at any time since 1980. However growth has been erratic, with substantial growth in 1991 and 1992 driven by increases in diamond mining and fishing. The fishing and fish processing sectors have grown at an average of 17% annually since Independence. These increases were then offset by a dramatic decline in the mining sector as a result

of the slump in diamond and uranium prices and the world recession in 1993. The net result was an average real GDP growth of 3.5% per year between 1990 and 1994. With population growth at 3.1%, this was not sufficient to provide for substantial growth in real GDP per head.

Figure 2.3 GDP & GDP Per Capita, 1980-94



Investment

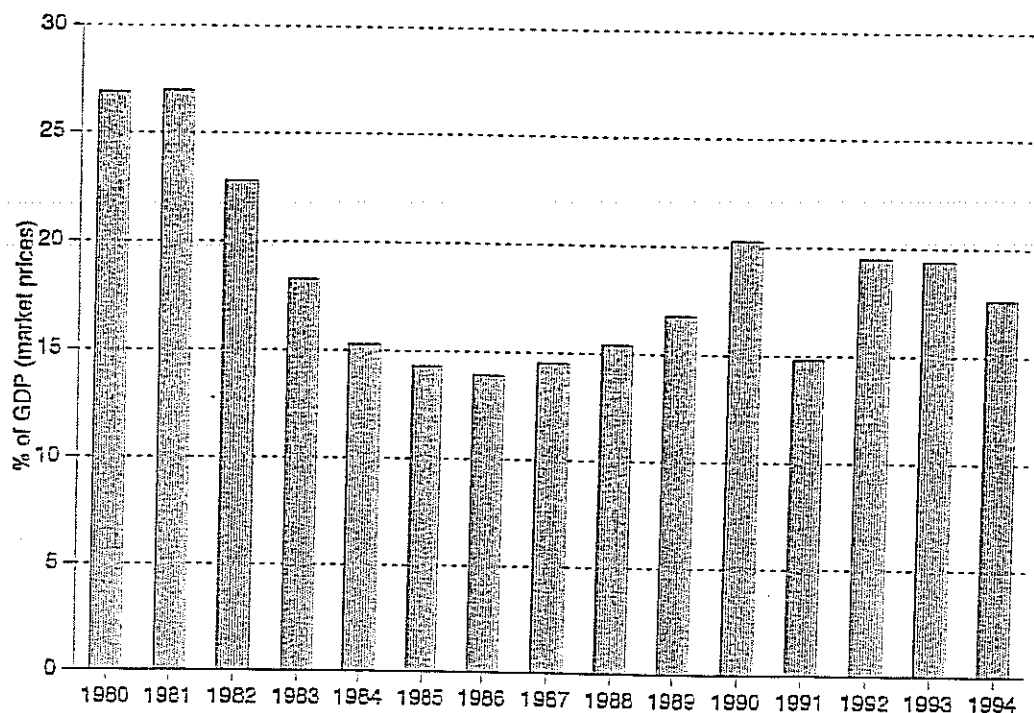
2.13 Namibia's pre-1990 economic stagnation was accompanied by a long-term decline in fixed investment from a high in 1980 of over 27% of GDP to about 20% in 1990. Although fixed investment rose in the period prior to Independence from the low point of 1986, this was due almost exclusively to the construction of two relatively large diamond mines. Figure 2.4 displays trends in gross fixed capital formation since 1980.

2.14 However, since Independence, aggregate investment has failed to return to the levels of the early 1980s. This can be explained by the large amount of military investment, in bases and airfields, undertaken by the previous regime in the early 1980s. Public investment in gross fixed capital has risen in line with GDP growth. Although between 1990-1994, overall investment averaged 17.4% of GDP, this has not been sufficient, in the face of rapid population growth, to maintain the per capita capital stock. However, Namibia's current investment level places it firmly in the middle of similar middle income countries. Nevertheless, total investment in Namibia still lags behind dynamic economies such as Thailand, Mauritius and Malaysia, and could be increased.

2.15 The share of investment financed from domestic savings has remained stable. However, it must be noted that this stability disguises the fact that public sector savings

have been negative since 1990. As discussed in section 2.23, Namibia's capital account deficit indicates that it supplies savings to the rest of the world. Government has adopted measures aimed at controlling and reducing this drain on savings since Independence. (see section 10.9)

Figure 2.4 Gross Fixed Capital Formation as % GDP, 1980-94



Note: Gross Fixed Capital Formation: does not include additions to inventories

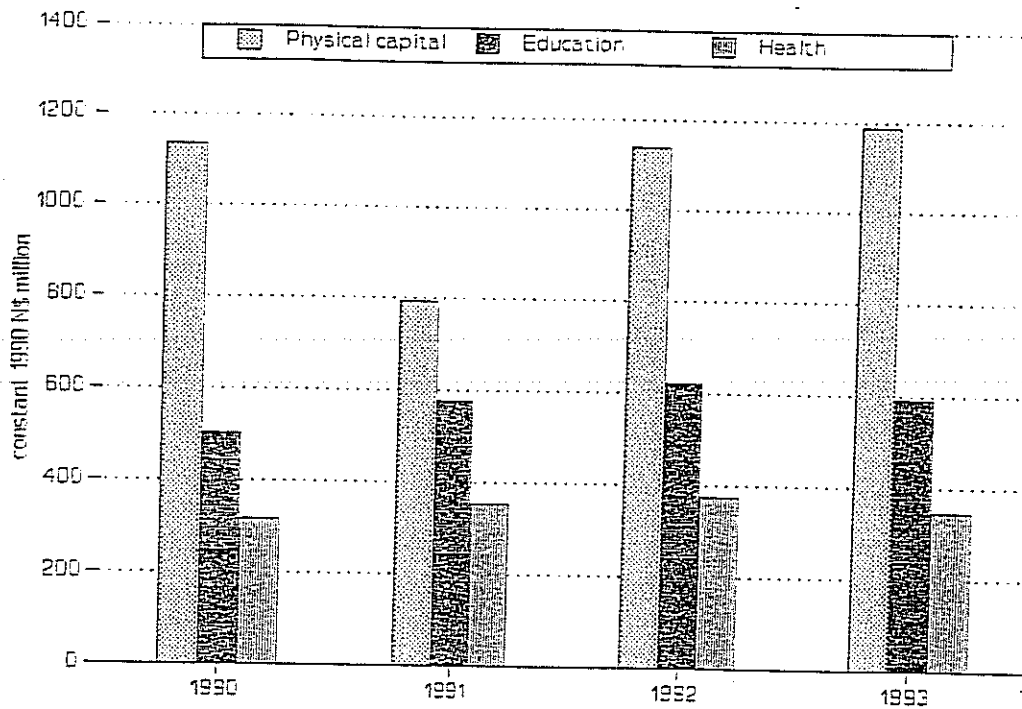
Table 2.2 Gross Fixed Capital Formation (% of GDP)

Investment	1980	1990	1991	1992	1993	1994	90-94 Avg.
Private	11.4	12.7	8.3	11.3	12.0	10.7	11.0
Public	15.6	7.6	6.5	8.2	7.4	6.9	7.3
Total	26.9	20.3	14.8	19.5	19.4	17.6	18.3

Source: Revised National Accounts, CSO 1995.

2.16 With the exception of the north of the country and other Native Reserves, the colonial period left Namibia with a relatively well-developed physical infrastructure but a large deficit of human capital (educated and healthy people). The fall in public physical investment has to some extent been the result of the necessary increase in investment in people. Spending on health and education rose significantly after

Figure 2.6 Physical and Human Capital Formation, 1990-93



Independence. Figure 2.4 shows that the inclusion of Government budget expenditures on the Ministry of Education and Culture and the Ministry of Health and Social Services dramatically improves the picture of investment performance.

International trade

2.17 International trade plays a major part in the development of the country. There are current efforts by Government to expand the opportunities for trade and transactions with the rest of the world. Namibia currently has a sound balance of payments position. However, for three reasons the economy remains vulnerable to changes in exogenous factors. The Namibian economy is extremely open: the ratio of total exports and imports of goods and services to GDP are very high, at 55% and 63% respectively since 1990. Second, merchandise exports are narrowly based and dominated by the mining sector, mainly diamonds and uranium. Despite the declining trend in mining, it is still very significant, mining accounted for 58.2% of total exports between 1990 and 1992 and fell to 43% between 1992 and 1994. Third the economy is closely linked to South Africa, commercially and financially. The majority of Namibia's imports and 24% of Namibia's exports arrive from or are destined for South Africa, hence any instability in South Africa will clearly affect Namibia. This makes Namibia vulnerable to exogenous changes as occurred with the serious decline in Namibia's terms of trade since the mid-1980s, when import prices increased faster than export prices. Namibia's vulnerability is exacerbated by the dependence on the exports of a few primary goods with very little value added taking place in Namibia.

2.18 Manufactured products accounted for just 9% of merchandise exports in 1990 and these consisted almost exclusively of processed food and beverages. The lack of manufacturing capacity obliges Namibia to import almost all consumer and capital goods. Under the pre-independence relationship with South Africa, Namibia became a captive market for South African manufactured goods which still make up as much as 75% of imported goods.

2.19 The degree of dependence on the South African economy goes much further than simply being Namibia's chief source of imports. The Namibian economy is highly integrated with South Africa. Namibia belongs to the Southern African Customs Union (SACU) with South Africa, Botswana, Lesotho, and Swaziland. Together the five countries share a common external trade tariff and goods are allowed to flow across borders unimpeded by tariffs or other restrictions. Membership of SACU brings costs and benefits: it reduces Namibia's options for setting of tariffs and changing Namibia's competitiveness, while at the same time, Namibia receives significant receipts from SACU, averaging nearly 30% of total revenues between 1990 and 1994.

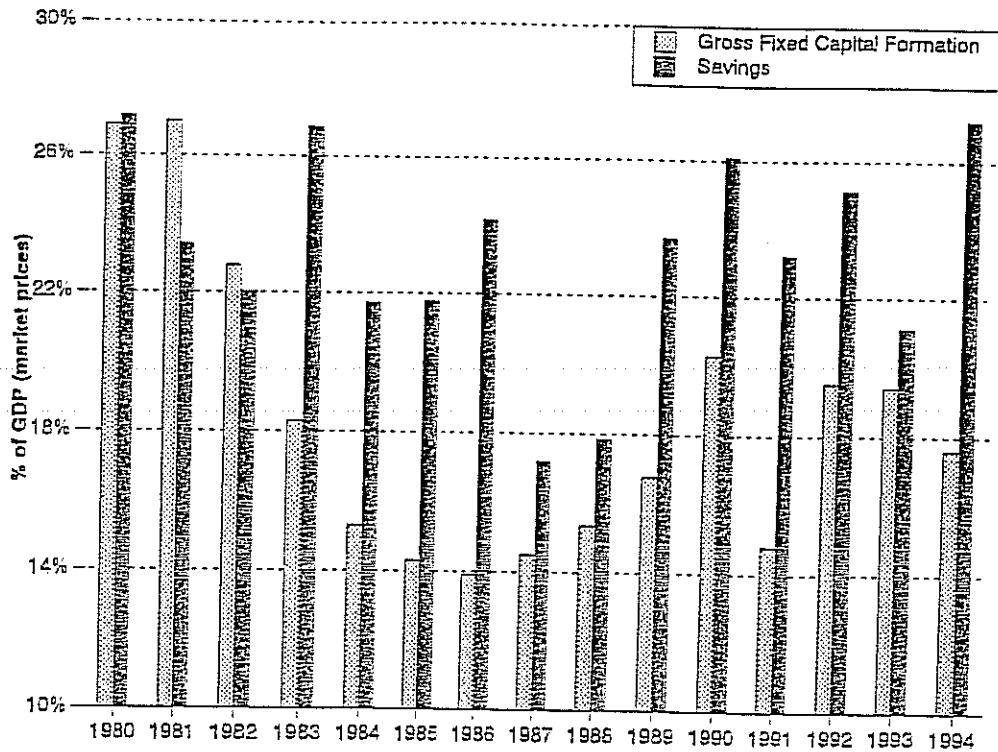
2.20 At Independence Namibia's currency was the same as South Africa's, the Rand. No independent monetary policy was therefore possible. Namibia is a member of the Common Monetary Area and the new Namibian currency, the Namibia dollar introduced in September 1995, is pegged one-for-one with the South African rand. Namibia's exchange rate policy has therefore been identical to that of South Africa. The rand remains on a crawling peg system the rate of change of which is related to a trade-weighted basket of foreign currencies. The average real effective exchange rate has remained more constant, with nominal depreciations offsetting a higher rate of inflation in South Africa and Namibia than in her trading partners.

2.21 The pegging of the Namibia dollar to the Rand requires that the Bank of Namibia operate its monetary policy broadly in line with that of the Reserve Bank of South Africa. Many Namibian banks and financial institutions remain integrated into the South African banking system. The Bank rate of interest in South Africa rose sharply in the late 1980s, but has fallen from 18% in 1990 to 12% in the last quarter of 1993. The Namibian Bank rate of interest has closely followed that of South Africa since Independence. Given the parity of the Namibia dollar with the South African rand, the only macroeconomic stabilization tool for Government is fiscal policy. Under the current fixed exchange rate the impact of a rising deficit assumes greater imperative. It could cause the dollar to be overvalued, if it fuels wage inflation.

Capital outflow

2.22 The close integration with South Africa, the presence of many South African financial services companies in Namibia, the low rate of domestic investment and the perception of limited investment opportunities have combined to put Namibia in the unusual position of being an exporter of capital. This is discussed in greater detail in Part D.

Figure 2.7 Savings & Investment, 1980-94



Balance of Payments

2.23 Table 2.3 shows Namibia's balance of payments position for 1990 to 1994. The balance of payment position is characterised by increasing current account surpluses and capital account deficits. A surplus on the current account of the balance of payments has been maintained throughout the post-Independence period. With the exception of 1990, Namibia has exported a higher value of merchandise goods than it has imported. These surpluses are more than offset by net imports of services but the current account as a whole has been consistently in surplus as a consequence of high net investment income and transfers in the form of aid and SACU payments.

2.24 The current account surplus has been mirrored by a deficit on the capital account. There are signs of change and it appears that Government's efforts to create an improved investment climate are making some progress. The capital account shows healthy signs of increased direct investment in Namibia from abroad and decreasing (but still large) outflows of Namibian savings abroad in the form of portfolio investments through life assurance and pension fund companies.

Table 2.3 Balance of Payments, 1990-94

	current NS million				
	1990	1991	1992	1993	1994 (prov)
Merchandise exports	2,809	3,351	3,826	4,214	4,692
Merchandise imports	(2,892)	(3,092)	(3,601)	(3,815)	(4,106)
Services (net)	(655)	(974)	(1,067)	(897)	(913)
Transfers (net)	756	857	1,060	883	920
Income (net)	105	266	78	197	155
[A] Current account	123	388	296	582	748
Direct investment (net)	73	315	230	78	88
Portfolio investment (net)	(488)	(872)	(721)	(453)	(750)
Other (net)	(117)	44	213	200	282
[B] Capital account	(532)	(513)	(278)	(175)	(440)
[C] Change in reserves	95	(34)	(19)	298	266
[D] Balancing item (errors)	504	91	(37)	(109)	42
[A]+[B]-[C]+[D]	0	0	0	0	0

Note: Negative numbers in parentheses

Source: *Bank of Namibia, 1995*

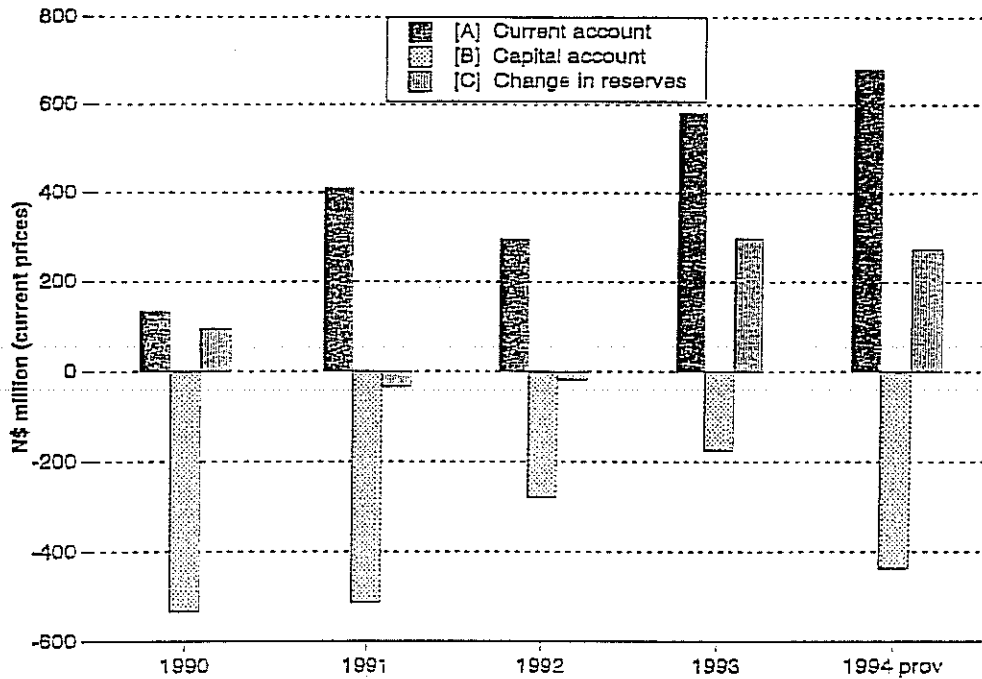
Terms of trade

2.25 The decline in Namibia's terms of trade experienced since the mid-1980s continued between 1990 and 1992. Indeed, the country has experienced tremendous and adverse fluctuations in international prices. In 1993, there was an improvement in the terms of trade to nearly their 1990 level, due to a rapid improvement in export prices as against a moderate increase in import prices. Nevertheless, this represents a deterioration as compared to the 1980s and is one result of the lack of structural change in the economy. If Namibia is to become less vulnerable to fluctuations in the terms of trade, it must diversify its exports. Trade policy is a crucial element in a diversified and export-oriented growth strategy.

Inflation

2.26 Due to the dominant influence of South African-produced goods in Namibia's imports, and the pegging of the Namibia dollar to the Rand, consumer price inflation remains heavily influenced by the behaviour of prices in South Africa. Prices in Windhoek are generally 20 to 25% higher than those in Johannesburg due to extra transport cost from South Africa and oligopolistic tendencies in a small market. The high cost of domestically-produced goods and services also influences overall inflation. Currently Namibia's high public sector wage and salary bills and the rising budget deficit

Figure 2.8 Balance of Payments, 1990-94



constitute an added source of price inflation.

2.27 Government's objective of achieving rapid growth with macroeconomic stability requires that price inflation be kept within reasonable limits. Consumer price inflation rose from 12.1% in 1990, to 17.9% and 8.6% in 1992 and 1993 respectively. Subsequently inflation rose to 11% in 1994. These inflation rates are broadly similar to those of the 1980s, when inflation fluctuated between 9.1% and 15.5%.

Employment Trends

2.28 Prior to Independence employment opportunities were denied to the majority of the labour force through discriminatory laws and practices, a situation which was compounded by the lack of good education and vocational training. As a result few blacks had the necessary skills for formal or self employment. In 1991 fewer than 11,000 people had received technical or vocational training and fewer than 8,500 people had attended university.

2.29 The introduction of the Labour Code in 1992 has eradicated most repressive practices, but the structural imbalances in the economy described above and limited supply of skills makes it difficult for the majority to find employment or to start income generating activities apart from subsistence agriculture. Opportunities in arable production are limited due to lack of water and low productivity resulting in little or no surplus beyond the needs of typical poor household. It has been estimated that less than 20% of household income is derived from agriculture in former Ovambo region (with under 1% being derived from crops), 16% in Kavango and 34% in Caprivi.

Table 2.4 Employment, 1991-94

Sector	Thousands			
	1991	1992	1993	1994
Agriculture (commercial)	4	4	4	4
Agriculture (subsistence)	137	141	146	150
Fishing	2	2	7	7
Mining	14	13	11	11
Manufacturing (excl. fish)	12	12	12	13
Fish processing	2	3	5	5
Electricity and water	2	2	2	2
Construction	14	19	20	20
Trade	33	35	35	37
Transport and communication	10	10	10	11
Finance and business services	9	9	9	10
Social services	10	10	10	10
General government	67	69	73	72
Other producers	3	3	3	3
Total formal employment:	181	190	202	204
Informal employment	45	141	143	149
Labour force	492	510	528	544
Unemployed	92	n/a	n/a	n/a

Source: NPC adjusted Population and Housing Census 1991 and NPC projections

2.30 Data from the Population and Housing Census (1991) and labour force surveys indicate that just over half the population are considered to be economically active, with the majority of those employed in subsistence agriculture (47%). The second largest employer is the public sector, while manufacturing (including fish and meat processing) in contrast employs less than 9%, and the mining and construction sectors each employ only 6% of the total labour force.

2.31 According to the census data just under 19% of economically active population above 15 considered themselves completely unemployed in 1991. The level of unemployment is much higher in the urban population - 26.1% compared to 16.2% in rural areas. Unemployment is also higher among the younger section of the population: 53% of the unemployed are under 25 years of age. But these figures do not completely reveal the full extent of the problem. A 1991 labour force survey showed that over 41% of the economically active population were *underemployed* (33% of men and 49% of women). Recent estimates put unemployment rate at about 30%. Anecdotal evidence suggests regional variations in this rate, with the south facing slightly higher rates than the north. The current trend in unemployment can be attributed to: the overall sluggish economy since the 1992 drought, a freeze on public sector hiring as part of public sector rationalization, and the decline in the mining sector, especially retrenchments by Consolidated Diamond Mining, (now renamed Namdeb) the largest private sector employer.

2.32 Since Independence, total employment has risen but mainly due to increases in public sector employment. National Planning Commission projections suggest that unemployment and underemployment worsened since Independence. With nearly 16,000 persons being added annually to the labour force, this situation exerts considerable pressure on policy makers to identify opportunities for job creation. A particular factor which has slowed the creation of jobs has been the continued bias of the Namibian economy towards capital-intensive techniques. Some sectors such as diamond mining are inherently capital-intensive. However, in sectors such as construction and industry, there is potential for substituting labour for capital. Government will introduce policies to encourage such substitution.

Government Finance

2.33 At Independence, Government was obliged to restructure the civil service to reflect new priorities, in the context of a pre-Independence agreement to guarantee the positions of civil servants of the former administration, this implied increasing recurrent expenditure. Wages and salaries constituted 24% of total expenditure in 1989/90, and had risen to 49% in the 1993/94 Budget. Government, recognising that this trend was unsustainable, introduced a freeze on recruitment in Government in 1993. As a result, the rapid rise in the budget deficit has been contained and the level of expenditure on wages and salaries has stabilized at 48% in 1994/95.

2.34 Since 1990, a growing budget deficit has emerged due to this increased expenditure, a fall in the growth of revenues and worsening terms of trade. The rate of growth of revenues declined, from an average of 7.5% per annum in the 1980s, to an average of 2.6% between 1990-1993. Expenditures continued to grow at an average of 5.5% during the same period. From a position of budget surplus during the 1980s, the deficit grew from 1.2% of GDP recorded in 1990/91 to 5.4% in 1992/93. Since then, Government has moved to restrict the growth of the deficit and provisional figures for 1994/1995 showing the deficit below the 5% mark. Government has set a target deficit figure of 3% of GDP to be achieved by the end of the NDP1 period.

2.35 Government's deficit reduction strategy has focused on attempting to expand revenues collected through, expanding the tax base and improved efficiency in tax collection and administration. Expenditures have also been reduced in response to the rising deficit. However, Government continues to borrow to finance the deficit. The result is that total debt outstanding has increased from 13.5% of GDP in 1989/90 to 17.7% of GDP in 1992/93. As of 1994/95 financial year, total outstanding public debt was recorded at NS2065.0 million which is equivalent to 19.5% of GDP. This is still low by international standards. Namibia's sound credit rating therefore provides the Government with the option of borrowing on international markets to finance long and medium term development.

2.36 At Independence, Namibia inherited a debt of R 714 million, nearly 13% of GDP. Most of this debt was owed to South Africa, but, following the transition to democracy, South Africa agreed to cancel the remaining debt. Since Independence Namibia has pursued a conservative foreign borrowing strategy and the present debt to GDP ratio is one of the lowest in the world. In 1993, Namibia's external debt to GDP and debt-service ratios were 12.5% and 3% respectively. These ratios are low compared to other

low-income and middle-income countries. The debt to GNP ratio in 1992 averaged 61.2 for low-income and 40 for middle-income countries where their respective debt-service ratios were 24.5 and 18.4. Government has moved to curb the budget deficit to ensure that this favourable position is maintained.

2.37 Indebtedness need not be a problem if it is used to finance prudent investment. The level of domestic borrowing will be determined by taking into account its effect on the domestic financial market. This steadily smaller deficit will be financed primarily through the sale of Government treasury bills and bonds to the domestic market.

Development assistance

2.38 Independence opened the way for official development cooperation with overseas donors. In the first four years of Independence, Namibia received foreign assistance in the form of grants in cash and in kind in the order of US\$450 million during the first three years of independence. Table 2.5 shows the support to Namibia for the first four years of Independence. Total resources to Government have risen and then fallen with a greater proportion of assistance taking the form of non-budget support for projects. The fluctuations are explained by changing levels of food aid and emergency assistance received during drought years. These issues are treated in more detail in Section D.

Table 2.5 Foreign Development Assistance to Namibia, 1990-94

Type of Assistance	current N\$ million				
	1990	1991	1992 ¹	1993 ¹	1994 ¹
Cash grants	140	240	396	325	308
Budget support to GRN	62	156	96	127	154
Non-budget support to GRN	8	17	176	125	116
Grants to Namibian NGOs	70	67	124	73	38
In kind grants	143	125	184	123	114
Goods	76	23	72	34	19
Services (including TA)	58	86	97	79	85
Educational scholarships	9	16	15	10	10
Total Grants	283	365	580	448	422

Note: 1 provisional

Source: *Bank of Namibia (unpublished, May 1995)*

3. Economic Outlook And Growth Prospects

3.1 Namibia's short-term growth prospects appear favourable and are essentially determined by exogenous factors. Medium-term growth prospects are more uncertain but have the potential to be excellent. To realise short-term growth targets, Government will create an enabling environment conducive to private sector development and will diversify the sources of growth. In the short run, better climatic conditions and upswing in the world economy and the South African economy are expected to rekindle growth which will be primarily export-led. In mining, the improved outlook for the world economy should increase demand for diamonds and result in slightly higher growth for the sector, even though actual volumes will remain unchanged. Continued good yields from offshore marine operations will contribute to the recovery in mining. Uranium exports could recover slightly as sales commitments at the higher export price are satisfied. Quota allocations indicate that processed fishing will continue to grow rapidly, in catch and in exports because of increased investment and the move into higher value-added fish production. A recovery in the South African economy, due to the lifting of sanctions and the transition to democracy will have favourable effects on growth in Namibia.

3.2 The achievement of medium-term growth targets hinges critically on the nation's ability to manage skilfully the transition from a heavily primary-based economy to one whose engine of growth is centred in the secondary and tertiary sectors. The improved performance of processed fish is forecast to taper off towards the end of the decade. In addition, mining output (excluding diamonds and uranium) is expected to deteriorate, while the resurgence in diamonds and uranium will be vulnerable to world prices and demand. The outlook for agriculture is not too encouraging for existing products. In particular, beef prices are expected to fall steadily in real terms in the medium-term. All these expected declines point to the need for Namibia to capture new sources of growth. Two main areas have been identified: tourism and manufacturing. A three-pronged strategy that maximizes the current boom in the fishing sector and focuses on sector-specific policies in tourism and fishing will take advantage of Namibia's natural resource endowments and address the pressing need for employment creation.

Preconditions for Growth

3.3 An important determinant of macro-economic stability is the size of the fiscal deficit. A prudent fiscal stance is important for economic growth for three reasons. First, a non-sustainable deficit is inflationary and can lead to excessive debt, crippling future growth. Second, the size of the deficit reflects on the Government's macro-economic management skills, and hence fuels investors' perception of risk and reduces their willingness to invest. Third, large deficits mean lower public savings and forces the Government to borrow which can lead to crowding out of private investment, though this is not currently seen as a major problem in the short term.

3.4 In addition to maintaining a prudent fiscal stance, Government will improve the allocation of expenditures to increase efficiency. As Government expenditure constitutes almost 40% of GDP its composition can contribute greatly to growth. On the current expenditure side, expenditure that contributes to strengthening the human capital base and improving the skills of the labour force will increase productivity, clearly noted in NDP1. With respect to capital expenditure public, investment in economic infrastructure will be important. Maintaining a reasonable network of roads, a well-located port (Walvis Bay), and satisfactory telecommunications within the country and with the outside world are crucial.

3.5 A study commissioned jointly by the Ministry of Environment and Tourism (MET) and the National Planning Commission (NPC) found that approximately 280,000 tourists visited Namibia in 1993 generating about NS500 million (10.9 percent of GNP) of which NS160 million (3.5 percent of GNP) accrued directly to Government as revenue. The abundant natural attractions and sound infrastructure suggest that tourism could be much expanded. Good communications with the rest of the world, the ready availability of international airlinks, and a high standard of domestic road networks underpin the good infrastructure that Namibia is endowed with; these make the country a prime location for tourists conferences and meetings. The Government White Paper on Tourism (1994) estimates that with the appropriate policies, tourism could double its current employment. Achieving these goals for tourism, and tapping its potential, will depend on committed and rapid implemented of the policies outline in the Government White Paper.

3.6 On the basis of these developments, Government's macro-economic model projects that economic growth during the Plan period will be in the range of 4.5% to 5%. Obviously the impact on poverty and income distribution cannot be readily assessed. Government will adopt specific measures to ensure that income distribution will not remain as skewed.

3.7 With respect to the impact on employment, it is estimated that during the Plan period employment will increase by 4% per annum, though without deliberate measures the backlog or the new entrants to the labour force will not be absorbed. Thus unemployment, may remain at best at the present rate of about 25%. These are some of the critical issues that will confront the Government during the Plan period. Indeed, specific and major measures may need to be evolved to improve the rate of labour absorption during the plan period 1995/1996 - 1999/2000.

**PART B: Development Objectives and Strategies
1995/1996 - 1999/2000**

4. Development Objectives

4.1 Government has set the following as the national development objectives for 1995-2000 period:

- Reviving and sustaining economic growth
- Creating employment opportunities
- Reducing inequalities in income distribution
- Alleviating poverty

4.2 These objectives outlined in the draft NDP1, commit Government to pursuing policies as outlined in the Constitution, which include improving the welfare of its citizens and promoting economic growth "based on the principles of a mixed economy with the objective of securing economic growth, prosperity and a life of human dignity for all Namibians" (Article 98). The Constitution also enshrines basic human freedoms, including the right to own and dispose of property, which set democratic limits on the means Government can employ in pursuing its economic and social objectives. Government's commitment to strive for economic and social freedoms within a democratic framework is noteworthy and exemplary in Africa. Clearly, the Government has fully committed itself to these goals during the past five years.

National Development Strategy for 1995 - 2000

4.3 Government is aware that the effort to achieve all four development objectives may embody certain trade-offs between the different objectives. However, the NDP1 exercise has enabled Government to consider the ways in which all of these objectives can be met, identify possible trade-offs between them and begin to develop mechanisms for minimising the trade-offs. The preparation of NDP1 was seen as a starting point in this process. Naturally, there is still some way to go in developing appropriate policies and strategies for achieving all Government's objectives, as explained further in Part C of this document.

4.4 The planned strategy shows a commitment to a mixed economy, in which the private sector will play an important role in income and employment generation. To achieve this objective, Government will provide the necessary macroeconomic, legal, regulatory and institutional framework to support private sector development. Government's strategy which is pivoted on the need to achieve growth with equity is dependent on the provision of the necessary incentives to foreign and private investors, while meeting the needs of the previously disadvantaged and vulnerable.

4.5 Government's strategy as outlined for the NDP1 period is based on the following principles:

- providing an enabling environment for private sector development
- human resource development
- investing in people
- increasing people's participation
- ensuring development is sustainable
- making government more efficient and responsive.

4.6 Each of the principles is discussed briefly below, while Part C of the document provides a more detailed discussion of key policies and programmes for achieving Government objectives.

4.7 **Private Sector Development:** The measures to be introduced are intended to encourage private sector development and increased participation of communities and individuals in their own development. Since Independence, Government has started to develop an "enabling environment" for economic growth including:

- pursuing the appropriate macro-economic policies,
- improving the regulatory framework,
- provision of transport and communications infrastructure,
- playing an active and catalytic role in assisting the private sector,
- concentrating on the areas with the greatest potential for job creation and income generation.

4.8 At the same time, Government sees private sector growth as the best means of reducing poverty while recognising that there is still a need for Government targeted programmes to alleviate poverty, particularly for the most vulnerable. The most vulnerable include children and women in difficult circumstances, those suffering from abuse and discrimination, alcohol and drug abuse victims, the elderly and disabled, and communities affected by disasters and emergencies such as drought. Such support will focus on helping the vulnerable to become more self reliant, where appropriate.

4.9 **Human Resource Development:** Human resources development refers to the skills, knowledge and training embodied in the country's population, it is a key strategic components of economic development. Government views human capital as an integral part of the country's capital stock and is taking steps to rectify the critical human resource problems inherited at Independence. Government will continue with measures in this field including vocational and academic training and job creation programmes outlined in NDP1.

4.10 **Investing in People:** Government will continue its commitment to the provision of education and health services (25% of the total resources for NDP1 are to go to education and 16.6% to health and social services) and to redress inequalities by reorienting services and facilities to meet the needs of those previously neglected. Investing in people will address the dual aims of improving the welfare of the population, particularly the disadvantaged, and promoting economic growth, in

recognition of the significant role that investment in education and training can play in economic development.

4.11 **Increasing People's Participation:** Government's development strategy for NDP1 places increased emphasis on encouraging and empowering people, both individuals and communities, to play a greater role in their own development. This approach has several benefits: it ensures that programmes and facilities are designed and implemented so as to meet the real needs of communities; achieve greater community commitment and contributions to maintaining facilities; and reduced costs of maintenance to be borne by Government. And most importantly, this approach can help to overcome the sense of powerlessness felt by the majority of Namibians as a result of the apartheid policies of the pre-Independence authorities.

4.12 Local NGOs have been very active in encouraging the participation of communities in their development. However, collaboration between NGOs, communities and Government is a relatively new approach and Government will continue to foster stronger collaborative efforts with NGOs to develop community capacity in the design, implementation and management of development programmes.

4.13 **Sustainable Development:** Sustainable development is development that lasts. Government recognises the need for economic growth to be sustainable, not only from an environmental perspective but also from a financial, economic and institutional point of view. The expenditure projections underlying NDP1 are based on a prudent fiscal policy that will ensure the sustainability of public expenditures, by reducing the size of the deficit and avoiding the need for excessive borrowing.

4.14 Other sustainability issues include the need to take account of and plan for the recurrent costs arising from development projects, including donor funded projects. Institutional capacity is another important aspect of sustainability. Government's expenditure plans are also based on an assessment of institutional capacity to implement development projects. Where necessary international technical expertise will be utilised in an individual and institutional capacity-building function.

4.15 **Ensuring environmental sustainability:** Environmental issues will play a major part in the approval of new projects in the NDP1, as well as in the formulation of sectoral policies and programmes. A more detailed discussion of environmental management is included in Part C.

4.16 The high rates of population growth make it all the more difficult to achieve increases in per capita incomes and to make these increases not only economically but also environmentally sustainable. The majority of the population live in areas which are environmentally fragile and where the fertility rates are highest: 6.3 total fertility rate in the northern communal areas compared to a national average of 5.4 according to the *Namibia Demographic & Health Survey 1992* (NDHS), which is among the highest in the world. During the next five years Government will formulate a Population Policy to coordinate population related programmes, such as health and education.

4.17 **Efficient and Responsive Government Services:** Government will continuously evaluate the size of the Public Service during NDP1, restructuring the composition in an

evolutionary manner and devolving certain functions of central Government. In addition, steps will be taken to make Government more efficient and responsive to the needs of the population, including defining responsibilities and developing capacity at the local government level.

4.18 The ownership and efficiency of parastatals will be reviewed, and some activities that remain within Government will be commercialised, such as the management of tourism facilities and bulk water supply. Government will enter into performance contracts with parastatals so as to increase their autonomy and reduce the need for government subsidies, while also ensuring that parastatal activities are consistent with Government's social and environmental policies. Government will also consider the expansion and introduction of cost recovery where appropriate, taking due consideration of the impact on equity and poverty alleviation.

4.19 Government will also aim to make more effective use of limited resources, through improvements to the planning, budgeting and monitoring systems so that scarce resources are allocated to priority areas. Improvements to the planning and budget system and the links between the recurrent and development budgets should be facilitated by the recent incorporation of the National Planning Commission Secretariat into the Ministry of Finance.

4.20 The discussion of sectoral issues in Part C highlights the fact that many sectoral strategies and programmes still need to be designed in detail, and will need further research, through the collection of basic data and analysis of various development strategies. Namibia is in the fortunate position of being able to draw on relevant research in the region, particularly countries with similar ecological (Botswana) and political (Zimbabwe) circumstances.

4.21 In addition, many sectoral strategies and programmes cut across several institutions, including the private sector and NGOs. These coordination mechanisms will need to be strengthened during NDP1.

Part C: POLICY ISSUES

5. Macroeconomic Policy

Monetary Policy

5.1 Namibia's membership of the CMA has an important bearing on prevailing monetary and exchange-rate policy. The Namibia dollar will remain pegged at one to one with the South African rand for the foreseeable future. In the Common Monetary Area capital is allowed to flow freely between member states which means that nominal rates cannot differ substantially from South African interest rates without giving rise to large capital inflows or outflows. This implies that Namibia cannot pursue an independent monetary policy, and that the most important macroeconomic instrument available to Government is fiscal policy.

Fiscal Policy

5.2 Since Independence, Government has started to use the tax system as a tool to achieve national development goals. Direct tax rates for companies and individuals have been lowered to improve the investment climate and promote growth and employment. At the same time, the tax threshold has been raised taking low income earners out of the lowest tax bracket whilst indirect taxation has been changed so consumers now pay less for basic goods and more for luxury goods. These measures have contributed to improving income distribution and alleviating poverty.

5.3 By international standards Government revenue as a proportion of GDP is high and Government does not intend to increase the tax burden on the economy further. Instead, it is envisaged that further revenue increases will come about as a result of economic growth and improved tax administration and collection. Currently, Namibia devotes a very low share of public expenditure to tax collection: less than 1% of total expenditure in 1993/94. An increase in resources for tax administration will be accompanied by further improvements to the operations of the Receiver of Revenue.

5.4 Government's medium-term tax strategy is to broaden the tax base and move towards an administratively simpler and more equitable tax regime comprising the following elements:

- Over the long-term, Government will seek to reduce taxes on external trade which create anti-export bias and other distortions, gradually replacing them with other forms of indirect taxation.
- Government will investigate the possibility of replacing the General Sales Tax (GST) and the Additional Sales Duty (ASD) with a Value-Added Tax (VAT).
- Wherever possible, tax breaks and tax exemptions will be replaced by direct subsidies which reduce the scope for tax avoidance, promote transparency, and are easier to target.

- The tax system will not discourage labour-intensive production. Current tax deductions and accelerated depreciation rules for investment will be reviewed.
- Government will seek to make the tax rules simpler and more equitable.
- Luxury consumption will be taxed at a higher rate.

5.5 Government aims to reduce the budget deficit during NDP1 to 3% of GDP. This will be achieved through greater emphasis on resource mobilisation without raising tax rates as well as more restrained expenditure. Thus Government will concentrate on increasing the efficiency with which it delivers services to the growing population rather than taking an ever larger proportion of resources from the rest of the economy.

6. Employment Promotion and Capacity Building

Employment Promotion

6.1 Historical figures on employment by industry during the period upto 1994 are shown in Table 2.4. Employment aggregates show that the estimated level of formal employment will increase from 181,000 in 1991 to 216,000 in 1996 and 244,000 thousand by 2000. Most of the increases will occur in the secondary sector (manufacturing, electricity and water, and construction) and non-Government service sectors whilst formal employment in primary sectors will grow only slightly. Overall, the rate of growth of formal employment is expected to average 3% during NDP1.

6.2 Formal employment is rather easier to estimate than subsistence agriculture and informal employment for which no available time series exist. However, estimates in Section 3 suggest that even if the subsistence agriculture sector manages to absorb 3% more labour every year, a growing number of people will be obliged to find employment in the informal sector.

6.3 This presents Government with a considerable challenge. To raise incomes and alleviate poverty a concerted effort by Government, NGOs and donors will need to assist those outside the formal and subsistence agriculture sectors to find productive employment. It is estimated that in 1991 about 83,000 people found themselves in informal sector employment, of whom about 39,000 were employed on commercial farms. It is not possible to estimate how informal employment has changed since 1991, but there may be up to 150,000 more people requiring informal sector employment or self-employment by the year 2000.

6.4 Much of Government employment policy in the post Independence period has focused on reversing the apartheid labour laws and regulations, by introducing freedom of association, improving labour relations and conditions of employment, through the Labour Act of 1992. During NDP1 Government will take a more active role in developing employment promotion policies, through collection of data and analysis of employment issues, such as skill requirements, causes of unemployment, and appropriate strategies for employment promotion. A Development Fund is to be established to assist the disadvantaged, unemployed, disabled and retrenched workers through financial assistance to employment promotion projects, training and retraining.

6.5 Obstacles to increasing employment are high labour costs and lack of skills in comparison to other countries in the region. Previous distortions led to extreme inequality in wages and Government is to undertake in-depth investigations of wage levels and payment practices in all sectors. In the longer term higher wages will need to come about as the result of increases in productivity of labour in all sectors through improved access and quality of education and training.

6.6 In addition, labour-intensive programmes of public works will be investigated based on the experience of the Ministry of Works, Transport and Communications of labour intensive projects. Experience of such programmes in other countries, such as Zimbabwe will provide a useful starting point in assessing the potential of similar programmes for Namibia.

Capacity Building

Central and Local Government

6.7 Government is giving priority to the strengthening of its public service management bodies, including the Directorate of Human Resources Development in the Office of the Prime Minister, and training committees are being established in all Ministries to ensure that each has a comprehensive programme for staff development. Government's policy on remuneration of skilled staff is to ensure that public sector pay remains competitive with the private sector, in order to avoid a situation where Technical Assistance is required not because there are no qualified Namibians but because public sector remuneration fails to attract them. (Technical assistance in the context of capacity building is discussed in Part D). Salaries in the public sector is currently being reviewed by the Wage and Salary Commission.

6.8 Government is committed to decentralisation and bringing decision making closer to the people. Local Government was based on racial rather than geographical basis before Independence and this has been redressed by the election of regional councils in 13 regions in 1992 whose representatives make up the second house of Parliament, the National Council. The Local Authorities Act (1992) provides for election of representatives in Local Authority Councils for municipalities, towns, villages and settlements.

6.9 Since 1990 funds have been provided to all towns, villages, settlements and regional councils for development activities and regional and local councillors have been trained in planning. However, much is still to be done in defining the exact

responsibilities of local government both in terms of the division of responsibilities between central and local government, and between the various tiers of local government itself. Mechanisms for incorporating local government planning into national planning will also need to be worked out in detail.

Community Development

6.10 Increased community participation is one of the key components of Government's development strategy as described in Part A. The Community Development Directorate is responsible for working with communities, and had established 525 Community Development Committees structures by 1995 for coordination with Government and NGOs. Many ministries plan to work more closely with communities, for example, some community organisations have been set up to locate and manage water points and community groups have been involved in the establishment of child care and education facilities. The Beneficiary Assessment undertaken as part of the Public Expenditure Review revealed that increased community participation and empowerment of communities to manage water points are seen as the most important improvements to provision of water supplies.

7. The Productive Sectors

7.0 All sectoral objectives will be met in the context of the national development goals and medium-term macroeconomic climate and policies discussed above. This section describes briefly the salient features of these objectives, policies, and programmes, highlighting major issues and identifying areas where further policy and programme initiatives may be required.

Trade and Industry

7.1 As noted in Part A, Namibia is an extremely open economy. Imports and exports each account for at least 50% of GDP. The demand and supply for tradeable goods, and trade policy initiatives, have a major impact on all sectors of the economy. Namibia's import pattern is heavily biased towards imports from South Africa. Some 90% of all imports to Namibia come from (or enter the country via) South Africa. Imports enter the country by road, at the Walvis Bay port, and to a much lesser extent by air. The largest category of imports is consumer goods. Imports of intermediate goods are also substantial.

7.2 Namibia's export pattern is much less dependent on South Africa. Exports to South Africa account for only 27% of exports. More than half of Namibia's exports are bound for European markets. Namibian exports are dominated by the export of diamonds (non-processed) and other mining products. Over the past 5 years these made up on average 56% of total exports. In 1993 and 1994 this share came down, due to the slump in world market prices for minerals and the diamond sales quota imposed during 1993. Raw and processed fish are another important export product, followed by the relatively smaller contributors to export earnings: processed meat, live animals, hides and skins and electricity.

Renegotiation of SACU

7.3 In 1990, Namibia became a formal member of SACU. Namibia had been a *de facto* member of SACU for much longer. However, full membership ended a period during which Namibia had received an arbitrarily determined share from the Common Revenue Pool.

7.4 Namibia and her SACU partners have recognised the need to reform SACU. The SACU tariff regime is known for its complexity, with almost 12,000 tariff lines, ad valorem and formula duties and surcharges. However, this is likely to be changed with the implementation of the South African offer to GATT - endorsed by Namibia - which will reduce the number of tariff lines by about half and eliminate formula duties and surcharges. Namibia became a member of GATT (now the World Trade Organisation) in September 1992 and is now in the process of ratifying the Uruguay Round Agreement.

7.5 The Ministry of Trade of Industry recently conducted a major study on Trade Policy Reform, with the assistance of the African Development Bank. The study suggested that the structure of protection and of decision-making in SACU hampers manufacturing development in Namibia. The renegotiation of SACU began in November 1994, and is ongoing. Namibia is widely acknowledged to have played an influential role in these negotiations.

Diversification of Trade

7.6 The concentration in both sources of imports and destination of exports points at non-optimal exploitation of the gains from trade. Regional and international markets are insufficiently explored and Namibia stands to gain from active marketing in and sourcing from non-traditional supplier and export countries. Several trading contacts are being developed with African and Asian countries.

7.7 One of the major strategies for increasing export-led development is the establishment of Export Processing Zones (EPZ), to provide relief from the anti-export bias of duties on inputs which reduce manufacturers' international competitiveness. The Walvis Bay EPZ has been formally launched on 29 May 1995. Considerable effort is being made to ensure that the EPZ proposal is successful. Indeed, it is seen also as a major future source of employment in the country.

Encouraging Manufacturing

7.8 For the manufacturing sector, one of the main constraints is the lack of a skilled workforce. During the next five years Government is to place greater emphasis on vocational training. The creation of the Ministry of Higher Education, Vocational Training and Science and Technology in March 1995 is the first step towards this goal. The next is the assessment of all vocational training institutions. In the fisheries sector, the National Fisheries Training Institute has been established to develop skills for Namibianisation of the fishing industry. Similar management and technology training will be developed for fish processing companies.

7.9 The Ministry of Trade and Industry is embarking on a private sector investments survey, to provide better information on the trends in investment, reasons for locating in Namibia and how current policy could be improved to encourage greater investment.

7.10 Government aims to develop closer links with and provide necessary support to the private sector, both foreign and local investors, through strengthening of the Investment Centre and organisations such as the Namibia Tourism Board which will provide marketing, training and sector development assistance to the private sector. Government will conduct research on the processing of primary products and on trade and export development with particular reference to fisheries, minerals, tourism services, livestock and agricultural products.

7.11 For small scale industry, including the informal sector, Government will facilitate growth through:

- Improved coordination of institutions providing support to small scale businesses, such as MTI, many Ministries such as Youth and Sport, Higher Education, Vocational Training, Science and Technology and Labour and Human Resource Development, Local and Regional Government and Housing, the Department of Women's Affairs and the National Development Corporation, etc;
- Review and amendment of regulations and laws inhibiting development of small scale and informal enterprises;
- Support in the form of factory shells and incubator units;
- Introduction of a Vendor Development Programme aimed at securing market access for goods produced in the small scale and informal sectors, through facilitating links between small suppliers and large buyers, and enabling small scale business to supply Government contracts.

Agriculture

7.12 As noted in Part A, agriculture plays a key role in the Namibian economy, accounting for 9% of GDP and providing livelihoods for an estimated 70% of the population. However, the productivity of the agricultural sector is low, particularly in the communal subsistence sector, and unable to provide sufficient output to meet the needs of the rural poor. Scarcity of water, for both livestock and crop production, combined with limited productive land, present major constraints to increasing agricultural production.

7.13 However, while private-tenure farms are facing limited growth prospects at current levels of technology due to both land and water constraints, there is still some potential for increasing communal-tenure area production. These increases can be achieved through redirecting resources, market access and technical services to communal areas, which were previously biased in favour of the private-tenure farmers.

7.14 Much of the agricultural research activities undertaken to date have been inappropriate to the needs of the majority of farmers. They have largely focused on overcoming production constraints experienced by private-tenure farmers (principally,

cattle and sheep production). Basic work on crops and livestock in communal-tenure farms and on their farming systems remains to be done and the results communicated to the farmers and to the organisations which service them.

7.15 Since Independence, Government has redirected its efforts in the agricultural sector to farmers in the impoverished and under-developed communal tenure areas. For example, the introduction of the National Marketing Scheme being implemented by Meatco which led to the rapid increase in cattle slaughtered and processed in the Northern Communal-Tenure Areas. Numbers rose from an average of approximately 5,500 head in the years up to 1990 — less than 2% of total cattle marketed nationally — to 16,500 in 1993 — more than 4%. At the same time, the government has sought to sustain the performance of the economically-important private-tenure farms.

7.16 In 1995, the Ministry of Agriculture proposed a new Agricultural Policy which re-emphasises the priority that Government accords to the agriculture sector in economic growth and that the private sector will play a pivotal role in its development. The main thrust of agricultural policy for the NDP1 period will centre on the following strategies:

- Increased emphasis on improving productivity of communal areas through improved extension services and research into appropriate technologies and practices, through farming systems research.
- Diversification into production of non-traditional crops (e.g. grape and dates) and game harvesting.
- Mechanisms for increased access to credit for communal, particularly subsistence farmers will be developed through the National Agricultural Credit Programme.

Land Reform and Resettlement Policies

7.17 As noted in Part A, the distribution of land is extremely unequal in Namibia as a result of the dispossession of land from the majority during the colonial period. Since Independence, Government has laid the foundation for land reform through the Lands Conference in 1992, the preparation of the Commercial Land Reform Bill which had been passed by the National Assembly and was discussed by the National Council in early 1995, and the preparation of a Communal Land Bill.

7.18 However the exact procedures for reallocation of commercial land have yet to be worked out, as well as issues such as land tenure in communal areas. Funds are to be set aside for the purchase of underutilised land in freehold areas for redistribution to landless people. At the same time land administration is to be improved along with land use planning capacity so that land acquisition and distribution will be preceded by careful physical, social and economic appraisal to ensure that land redistribution leads to sustainable increases in output and incomes.

7.19 Namibia has already embarked on resettlement programmes targeted at ex-servicemen, displaced people, returnees and the landless. A number of these resettlement projects were poorly planned and as a result they have been slow to be implemented, are proving to be high cost, raising questions about the long term sustainability of the programme. During NDP1 the Ministry of Lands, Resettlement and Rehabilitation will

undertake an in-depth review of the resettlement programme learning from the experience of other countries who have implemented similar programmes such as Zimbabwe.

Environmental Protection and Natural Resource Management

7.20 Since Independence the framework for improved environmental planning and management has been put in place. During NDP1 the challenge will be to ensure that existing and future development activities are environmentally sustainable. This is to be achieved through improved planning and coordination of activities across many sectors, e.g. the development of the Green Plan into a cross-sectoral National Environmental Action Plan, and introduction of environmental assessment procedures for the whole of Government and the private sector. Appropriate regulations and pricing will be used to ensure that private sector activities are environmentally sustainable, for example water pricing will take account of the need to conserve water.

7.21 In common with many other countries, particularly in Africa, Namibia has moved from a policy of environmental conservation to one of sustainable utilisation of natural resources, e.g. forest resources including wood and other wild food products, wildlife resources for both hunting and tourism. Developing the potential of natural resource management is all the more necessary in Namibia where the arid climate limits the scope for increasing agricultural production.

Wildlife and Forestry

7.22 For other areas such as wildlife utilisation and forestry management Government is still in the process of developing its own capacity, as well as appropriate management practices and plans. During NDP1 efforts will focus on:

- collection and analysis of information on the types and location of natural resources;
- research into appropriate management techniques;
- developing communal and commercial natural resource management activities.

Developing Community Participation

7.23 Preliminary economic analysis indicates that wildlife utilisation on communal areas in the form of photo-tourism, trophy hunting and game culling could potentially provide significant financial returns to communal farmers as a complementary activity to livestock production, and good economic returns to Namibia. Pre-Independence laws however constrain the exploitation of this opportunity at the moment since wildlife on communal land is the property of the state and communal farmers have no rights of utilisation. The passing of appropriate amending legislation will facilitate communal area wildlife utilisation at optimum levels with consequent important socio-economic benefits for the inhabitants of communal areas.

7.24 A conservancy policy document for Cabinet approval is expected shortly. The management of nature resources will be devolved to the regional level and increased ties will be made to regional authorities enabling a stronger regional participation in tourism and wildlife development.

7.25 NGOs are already active in the area of community based natural resource management projects and Government will develop partnerships with NGOs to expand this approach to other parts of the country.

Developing Commercial Wildlife Utilisation

7.26 The Ministry will refine its policy on wildlife utilization on commercial farmland as well as on communal land. Conservation of the larger endangered species will be intensified and the strategy will include handling of problem animals and larger predators. The Ministry will actively support the development of private game reserves and conservancies whether these are developed in commercial or communal areas.

Fisheries

7.27 Significant progress has been made in reversing the pre-1990 unsustainable utilisation of fishing stocks through the introduction of controls (the Exclusive Economic Zone and Total Allowable Catches) on the numbers of fish caught. The further development of the fisheries sector (both fishing and fish processing) will be based on promoting private sector activity, but Government will continue to regulate and control the levels of catches so as to ensure the recovery of fish stocks. The promotion of the fisheries sector is based on a dual approach of controlling the levels of catches as well as research into appropriate levels of catches and management practices.

Protection of marine resources

7.28 Illegal fishing by un-licensed vessels in the Exclusive Economic Zone constitutes a major threat to marine resources. Another threat comes from pollution, dumping at sea, mineral extraction, oil spills and usage of prohibited fishing gears. To protect and conserve these resources, Namibia has put in place a surveillance service based on the operation of three patrol vessels one helicopter and one fixed-wing plane. The operation of this service is facilitated by supporting infrastructure at Arandis and Walvis Bay and is supplemented by a fleet of mobile vehicles for coastal patrols.

7.29 Fisheries inspectors are divided into two groups, permanent fishery control officers and fishery observers or so-called special inspectors. The two groups perform complementary tasks, although in different conditions and locations and ensure that marine resources are commercially exploited in accordance with the stipulations of the Sea Fisheries Act, 1992, and the Sea Fisheries Regulations of 1993.

Resource Management

7.30 In order to bring Namibian marine resources back to productive levels and to maintain them in a healthy condition, MFMR undertakes research on all commercial species. Research remains the prerequisite element in resource management — without it, no rational decision could be taken on matters related to the exploitation and harvesting of various marine resources.

7.31 Namibia has made a major investment in the National Marine Information and Research Centre (NATMIRC) which is responsible for research into the population dynamics of commercially important species. The Centre undertakes frequent stock assessments of these species which are conducted on board research vessels. The catches made by fishing vessels are also monitored, at sea as well as when being landed. The monitoring of catches includes data collection on catch composition, area where caught (position and sea depth), weight and length measurements, gonad activity and breeding behaviour, sex, age and feeding behaviour. All data (historical as well as recent) on each species are compiled, analysed and incorporated into the TAC recommendation which is submitted to the Fisheries Advisory Council once a year.

Tourism

7.32 In many parts of Namibia, low and erratic rainfall makes agricultural production unsuitable or even impossible. Such arid areas, however, often have a potential for utilization for tourism and wildlife purposes. Tourism is dependent on the preservation of Namibia's environmental resources: international market research points to unspoilt nature, the wilderness and wildlife as the main areas of interest for tourists to Namibia.

7.33 A total of 19 parks and reserves provide an exceptional tourist product with attractions spread all over the country. These resources include the Namib, the oldest desert in the world, the Fish River Canyon, the second largest in the world, the world-renowned sand dunes at Sossusvlei and the similarly famous Skeleton Coast as well as the international pearl for wildlife photography, Etosha National Park.

7.34 The political stability of the country together with a high-quality infrastructure and the development of accommodation facilities have formed the necessary background for developing tourism into a major contributor to the growth of the economy and to employment creation. Developments in the industry to date are very positive. However, increasing tourism pressure results in a need for building up a system to regulate, coordinate and secure proper development, bearing in mind the environmental fragility of Namibia.

7.35 Government commissioned a Namibia Tourism Development Study in 1992 which has provided the framework for the development of Namibia's tourism sector. In early 1994 a White Paper on Tourism was approved by Cabinet. In addition to increased cooperation with the private sector through the Namibia Tourism Board and commercialisation of tourism resorts as described above, the Ministry of Environment and Tourism will focus its efforts on ensuring that the development of tourism is environmentally sound and leads to increased incomes and employment opportunities for Namibians. Two key strategies will be to promote development that leads to high cost, low volume tourism so as to minimise the environmental impact, and to encourage community based tourism development, such as community based conservancy areas where wildlife utilisation and tourism are the major land uses.

8. The Social Sectors

Education

8.1 At Independence, Government established free primary education in the Constitution, as a right for every resident in Namibia. This education is compulsory and the Constitution prescribes that a child will not be allowed to leave school before completing primary education or reaching the age of sixteen. In order to fulfil this Constitutional obligation, Government has undertaken a major expansion of education. Namibia now spends 10% of GNP on education, a share exceeded by few countries in the world.

8.2 Since 1990 the primary and secondary education system has expanded considerably both in terms of enrolment rates (a 10% increase in 1990, followed by increases in line with population growth rates) and in the numbers of schools constructed (188 new schools) and teachers employed (19% increase since 1989). The overall increase in enrolment at primary school level between 1989 and 1993 has been only 15% whereas the corresponding increase at junior secondary level has been 43% and at senior secondary level 148%, reflecting increased demand for secondary education since 1990.

8.3 However the expansion of the education facilities and numbers of qualified teachers has barely kept pace with the expansion in enrolment numbers. While additional resources have been targeted to primary education, there are still inefficiencies as demonstrated in the high levels of repeaters (32% average for Grade I). Almost 25% drop out of school after the first year and additional 12% after the second year. Further restructuring of expenditures and services is therefore required, particularly in reallocation of funds to previously disadvantaged regions, which still receive lower levels of funds per learner. It costs two and a half times as much per year to keep a learner at primary school in Windhoek as in the Ondangwa region, with the major difference accounted for by higher number of qualified teachers and lower learner-teacher ratios in the south.

8.4 Government has now reviewed some of the major causes of the high drop out rate and the low quality of teaching staff in the primary schools. It intends to increase resources available to the education and has initiated measures of abolishing certain aspects of education which were financed by the public sector.

Health

8.5 Immediately after Independence, the Government declared its commitment to the goals of equitable distribution of resources and equity of access to basic services by the under-privileged, impoverished and under-developed majority of the population. In the health sector the first major step towards achieving these goals was the unification of the fragmented second-tier structures under the central control of the Ministry of Health and Social Services.

8.6 Primary Health Care was seen as the best means of reaching the majority of the population and a PHC Directorate was created with a number of new divisions, units and health programmes. The budgeting process was decentralised to the district level. Another significant development was the creation of a family and community health unit to guide the planning, implementation and monitoring of mother and child health (MCH) programmes, and a national PHC committee to facilitate the development of national policies. In addition, PHC and CBHC (community-based health care) guidelines were launched and the implementation of some of the strategies has achieved considerable progress.

8.7 In 1990 the health system's financial, physical and human resources were unequally distributed by region and by level and type of service provision. Data regarding the availability of antenatal, delivery and family planning services in 1990 show marked regional variation. More recent data from the NDHS regarding access to reproductive health services indicate an improvement in the overall distribution of facilities. There are presently 99 facilities in the Northwest, 74 in the Northeast, 48 in the Central and 80 in the South Regional Directorates.

8.8 By establishing primary health care as the guiding policy for restructuring health services, the MHSS has ensured a principal focus on preventive care but continues to recognize the importance of curative services within a comprehensive health system. Further rationalisation of health sector facilities will be undertaken on the basis of a Ten Year Capital Development Plan recently finalised in 1995. This Plan will set out a strategy for the rapid rationalisation of expensive and inefficient services, particularly hospital services, so that savings can be directed to improving primary health care services.

8.9 During 1995 to 2000, MHSS will focus on quality improvement, strengthening and consolidation of existing national programmes in order to ensure efficiency in service provision. These programmes are aimed at reducing the overall level of morbidity and mortality, with particular emphasis on the reduction of infant and child morbidity and mortality, the promotion of health and welfare of mothers and their children, and the reduction in the incidence of disease in general and communicable diseases in particular.

8.10 Quality and efficiency improvements will involve decentralization of the health system, development of an efficient management support from the central level and reorganisation of health administrative structures to conform with the overall political administrative structures. The MHSS will therefore establish 13 regional health management teams in all 13 administrative regions as well as 34 district PHC teams to provide support to communities, enhance inter-sectoral collaboration and extend outreach services to the under served communities.

8.11 In addition, the health system will be strengthened in the areas of health management information systems (HMIS) at all levels and research including community-based operational research, determination of patterns of utilization of health care, and health financing studies. These studies will review the equity, efficiency and cost-effectiveness of the system so as to identify areas of potential efficiency gains by various measures, such as decentralisation of operational management and budgetary control, and the feasibility of commercialization and/or privatization of various technical support services, including laundry, catering and cleaning services.

National Programme of Action for Children

8.12 In 1990 Namibia attended the first World Summit for Children in New York during which the World Summit Declaration of the Survival, Protection and Development of Children and Plan of Action to implement the Declaration were adopted. Since then, the Government has committed itself to the National Plan of Action (NPA) for the Children of Namibia. Child-centred targets for the year 2000 have been set for the alleviation of poverty, and progress to date has been encouraging. According to NPA statistics, substantial progress has been made with regard to a number of key health indicators as is shown in Table 1.6.

Situation of Women

8.13 The Department of Women Affairs (DWA) was established in 1990 in the Office of the President to improve the situation of women in Namibian society. Since then Government has done its utmost to improve the situation of women, having signed the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in December 1992.

8.14 Government has consistently applied affirmative action in its employment policies. The Namibian public service is now far more representative of the population than it was at Independence. The 1992 Finance Act established the independent tax status of women. Other legislation has been approved by Cabinet including the amendment of regulations on the Public Service Employees Medical Aid Scheme.

8.15 But it is social policy which has impacted most positively on the lives of women. For example, improvements in primary health care, particularly ante-natal care and child immunisation, have done much to improve women's lives.

Poverty Reduction and Alleviation

8.16 Government's development strategy distinguishes between poverty reduction, i.e. lifting the poor out of absolute poverty as measured in both incomes and quality of life, e.g health indicators and levels of education, and alleviating poverty, i.e. providing a safety net for the poor, particularly in times of drought.

8.17 The Plan embodies this two pronged approach to reducing poverty which includes promoting economic growth and providing improved health and education for all, as described above. Private-sector led economic growth is seen as the most effective means to increase incomes and Government will review its existing enterprise promotion programmes and introduce new measures to assist the poor as described above. Equal emphasis will be placed on expanding and improving social sector activities so as to continue improvements made in health and education indicators. In terms of poverty alleviation Government will continue to provide various safety nets such as the universal state pension for the elderly and disabled and drought relief in periods of drought.

Redressing Inequalities

8.18 Government has started to redress inequalities through reversing apartheid laws and regulations, introduction of affirmative action for the previously disadvantaged and reallocations in expenditures to areas of benefit to the poor in particular. During NDP1 Government will continue with these efforts, with particular emphasis on land reform and reallocations of expenditure to activities which benefit the disadvantaged sections of the population.

8.19 At the time of independence the country inherited a socio-economic structure which, five years after independence, still influences policy formulation. There have been major shifts in expenditures between sectors, with increased resources allocated to health and education in particular. Education and health in 1994/95 accounted for 42.4% of total expenditure compared to about 32% in 1990. Within education there has also been reallocations to primary education which increased from 40% of total education spending at Independence to 57% of total education spending in the 1993/94 budget.

Pensions

8.20 The pension was introduced before Independence and was characterised by extreme inequality. The system currently covers 61% of the eligible population - those over 60 years and the disabled. Whites received R 382 per month while some blacks received as little as R 55 per month. In 1994 the rates were equalised at N\$ 135 per month for everyone over 60 and the disabled, except for those whites over 60 at the time of the reform, for which the pension remained at N\$382. However, if the pension were expanded to all those eligible, the result would be 55% increase in expenditure on pensions. Calculations by the National Planning Commission project that in order to achieve 100% coverage, the pension scheme will cost N\$205.4 million per annum at the end of the decade compared to the current N\$124.9 million.

8.21 Government recognises that the expansion of the pension scheme to all those who are eligible is not sustainable and that all those who benefit may not actually need

this assistance. During NDP1, Government will assess the various options for targeting assistance to those most in need, including means testing, introducing contributions and other forms of social safety net provision.

Drought Relief

8.22 Drought is a regular occurrence in Namibia and it hits many of the poorest subsistence farmers the hardest. An estimated 625,000 people were directly affected by the 1991/92 drought. Government acted quickly and effectively to cope with the emergency. A National Drought Task Force was set up, chaired by the Prime Minister. Significant domestic and international resources were mobilised for drought relief schemes, mainly for food relief targeted at the most vulnerable groups numbering some 250,000 people, and livestock and crop support in the form of subsidised fodder purchases, financial incentives to slaughter and assistance with marketing.

8.23 Namibia has set up structures which involve the development of Government as well as NGO and donor capacity to plan and implement emergency programmes. The Emergency Management Unit (EMU) has sole responsibility of organizing national and regional emergency structures, implementing various programmes of disaster preparedness and coordinating emergency relief programmes when a disaster strikes. It is directly responsible to the Prime Minister and Cabinet. A National Emergency Management Committee (NEMC) composed of senior representatives of Government and non-Government agencies is the principal policy formulating and coordinating body.

Part D: NAMIBIA'S AID STRATEGY

9. Introduction

9.1 Namibia came late to Independence, and has learnt from the experience of other countries. Namibia's economic management continues to be based on the determination to maintain economic stability and the confidence of the private sector. Similarly, Government's perspective on aid is a cautious one. Government is determined to avoid dependency on external aid.

9.2 This part of the document outlines Namibia's aid management policy, looking at why Namibia needs external resources, reviewing Namibia's experience of aid, and outlining Namibia's aid management strategy.

10. Why Namibia Needs External Resources

10.1 Government recognises that the fundamental responsibility for development lies with Namibians, and that development requires first and foremost the efficient utilization of internal human and financial resources. However, Government is equally aware that the challenges of development are enormous, and that international assistance can — and does — make a difference.

Support for National Reconciliation

10.2 The disparities in Namibia's economy are deeply rooted, and their effects will persist for many years. Government has recognised that a radical short term redistribution of wealth and incomes would not be in the nation's best interest. It is important to maintain the viability of the modern sector of the economy, and to take advantage of the human and physical capital that it represents. The stability and growth of the economy since 1990 reflects the economic as well as the political success of the policy of national reconciliation.

10.3 Government is making strenuous efforts to uplift the majority of the population — by extending basic infrastructure to all parts of the country, by extending basic education and health services to all, and by seeking to encourage the traditional agriculture and informal sectors on which the majority of Namibians depend. These efforts deserve international support.

Backlog of social and economic infrastructure

10.4 Social and economic infrastructure is desperately needed to eliminate the backlog resulting from the discrimination of the colonial regime. In the rural areas especially, where over 70% of the population live, the violations of apartheid are still acutely felt. Most rural areas still lack basic schools, simple health and sanitation facilities, as well as access to clean water. Agricultural projects are crucial for expanding employment and marketing opportunities to some of the most deprived groups of subsistence farmers in Africa.

10.5 External support to government's decentralisation process will strengthen democracy and accountability as well as direct resources to the most deprived regions. It will help tackle the twin problems of widespread unemployment and rural underemployment as well as reducing the inequalities of income currently found in Namibia.

Tight fiscal constraint

10.6 During NDP1, it is proposed that government will make a substantial contribution to development spending, increasing its contribution to the Development Budget by about 6% a year in real terms. However, as NDP1 demonstrates, the country faces a tight fiscal constraint, and government is determined to maintain a sustainable fiscal policy. Consequently, it is suggested that government should ask donors to increase their contribution to development expenditure by the same 6% as government. Since total aid was at a lower than average in 1995/96, such growth will only restore the level of aid to recent historical levels.

Less-developed country status

10.7 At the time of Independence, the UN General Assembly recommended that all member states and all agencies of the UN system classify Namibia "as if a Least Developed Country" (LDC). It was recognised that the majority of Namibians ought not to be penalised because of the existence of a very well-off minority within Namibia. As shown in Part A, Namibia is in many ways less developed than its level of per capita GDP would suggest. There is extensive poverty, revealed not only in income figures but in indicators of nutrition, health and education and literacy.

10.8 Moreover, one of the criteria for designating LDCs is the share of manufacturing in GDP. Namibia continues to be dominated by primary and tertiary sectors of the economy, and the share of manufacturing remains below the 10% LDC threshold. The majority of the population depend on subsistence agriculture for a livelihood.

Namibia's Capital Outflow

10.9 Namibia is in position of being an exporter of capital. Domestic savings have been more than sufficient to finance existing levels of domestic investment, resulting in an outflow of savings. In the simplest macroeconomic perspective, Namibia does not have a "savings gap" for donors to fill.

10.10 Nevertheless, Government needs external support to compliment public investment. Government is not prepared to abandon the parity of the recently established Namibia dollar with the rand, in order to eliminate the capital account deficit. Government feels that the causes of Namibia's capital account deficit are structural rather than macroeconomic, and is taking action on these structural deficiencies.

10.11 Namibia's capital outflow is a consequence of the country's colonization by South Africa. The close integration with South Africa, the maintenance of the Rand as legal tender, the presence of many South African financial services companies in

Namibia, and the perception of limited investment opportunities, have combined to make Namibia an exporter of capital. Capital outflows go mainly to South Africa, through pension fund and life assurance companies.

10.12 Government is developing policies to encourage Namibian-registered pension funds and insurance companies to invest a larger share of their assets in Namibia. In the case of Namibian-registered pension and insurance funds, 35% of assets must now be invested domestically. Government is aware of the potential investment distortions that could arise if this ratio were increased at a rate faster than that warranted by the improved investment climate.

10.13 Namibia's macroeconomic strategy is entirely consistent with the continued need for aid flows to Namibia. In Namibia's development strategy, the private sector, including parastatals are expected to play a more vigorous role in increasing private sector investment. Government will create a macroeconomic enabling environment to facilitate this. In the medium-term, Government's policies of macroeconomic stability and investment in people will help stimulate private investment and retain domestic savings in the economy.

10.14 Nevertheless, long-term social investment is necessary if Government is to facilitate private sector investment. As Section E demonstrates, Namibia has a substantial funding gap in its public investment strategy over the plan period. If this funding gap is not filled Government will be forced to reduce the magnitude of public investment in order to maintain macroeconomic stability. Social spending on health and education will suffer disproportionately and it is likely that those previously most discriminated against will bear the brunt of austerity measures.

11 Namibia's Experience of Aid

11.1 At Independence in March 1990, the international donor community pledged its support for Namibia's nation building efforts. Namibia now has five years of experience as an aid recipient.

Trends in Aid Flows

11.2 Aid has made a significant difference to the resources available to Namibia. More than 50% of 1995/96 development spending will be financed by aid, and valuable assistance has also been channelled via NGOs. During the NDP1 period, Government will formulate a clear policy on development assistance to NGOs.

11.3 Aid to Namibia can be tracked using three sources. First, the UNDP publishes a Development Cooperation Report, including information on all external assistance to Namibia. Second, the Bank of Namibia has information in its Balance of Payments statistics on grants to government (from foreign governments, international organisations and NGOs). Third, the 1995/96 Development Budget includes estimates of funding for development projects from external sources during that financial year.

11.4 None of these three sources of statistics cover exactly the same types of funds. Efforts are being made by UNDP, the Bank of Namibia and the NPC Secretariat to coordinate aid tracking. Aid tracking is a difficult process, with many complications such as exchange rates and the differing financial years of donors. Furthermore, we should be aware that aid tracking in Namibia is a new venture. These statistics should be viewed as orders of magnitude, and more weight should be put on medium-term trends than on year-to-year fluctuations.

11.5 Table 11.1 summarises the available information regarding aid to Namibia, from these various sources. The Balance of Payments statistics of the Bank of Namibia, viewed alongside the estimate for total development grants to government in the 1995/96 Development Budget (which is broadly comparable), suggest that grants to government have fluctuated between NS200 million and NS325 million since Independence. The UNDP figures suggest a broadly similar pattern (probably underestimating aid in 1990).

Table 11.1: Summary Statistics on Aid to Namibia
(Constant 1990 NS millions)

	1990	1991	1992	1993	1994	1995/96
UNDP Development Cooperation Report						
Total External Assistance	160	293	320	311	-	-
Total excl. FOA and ERA	140	282	273	289	-	-
Total ITC and IPA	20	60	115	175	-	-
Bank of Namibia Balance of Payments Statistics:						
Total Grants to Govt.	202	252	325	255	204	-
Development Budget for FY 1995/96:						
Total development grants to Government	-	-	-	-	-	222
Total development grants and loans to Government	-	-	-	-	-	275

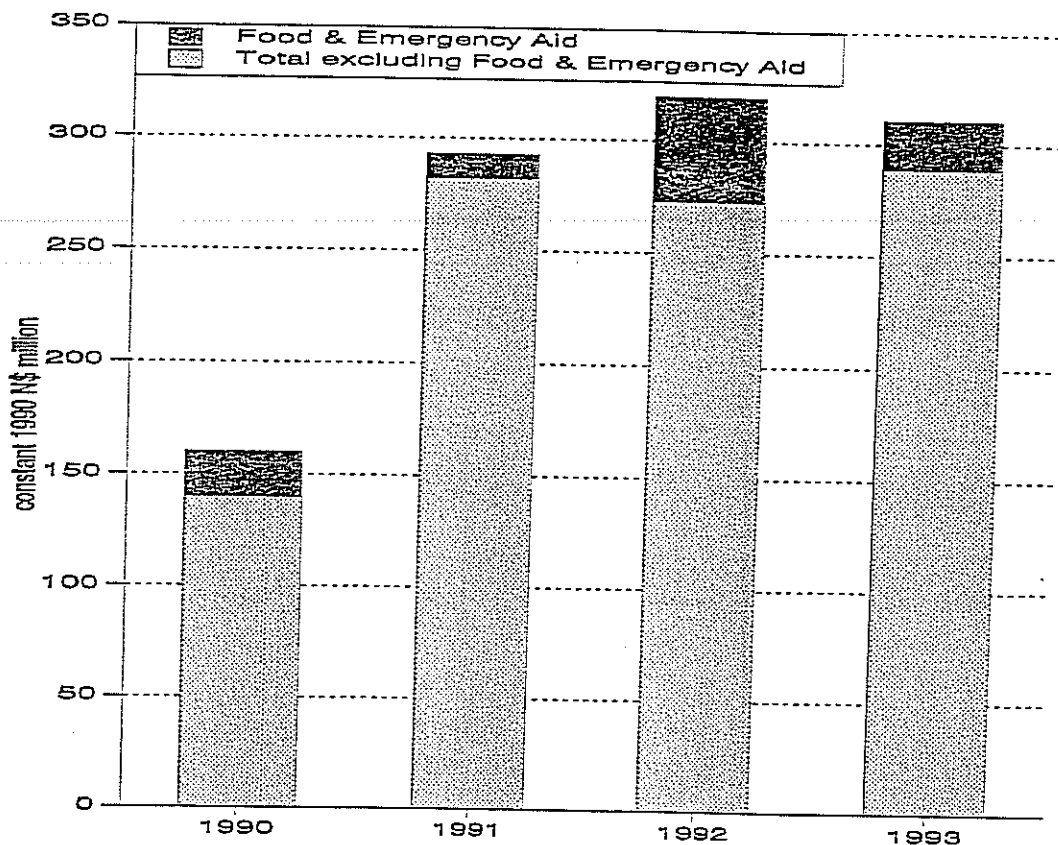
Source: UNDP DCR Statistics, BoN Statistics (provisional for 1994), draft PSIP.

Notes: Year end exchange rates have been used to convert UNDP figures from US\$ to NS. The annual CPIs in the 1994 Economic Review (NAMAf for projections) were used to deflate to 1990 constant prices. FOA = Food Aid, ERA = Emergency Relief, ITC = Investment-Related Technical Assistance, IPA = Investment Project Assistance. The Development Budget statistics use the revised statistics for external funds from the draft PSIP.

11.6 However, it should be born in mind that some of this fluctuation is due to the large amount of food aid (FOA) and emergency assistance (ERA) in certain years, to combat the effects of drought. Excluding these components from the UNDP statistics, the fluctuations in aid look considerably lower. If we dismiss the 1990 figure as an underestimate (in the light of the Bank of Namibia statistic for the same year), the

fluctuation is now in the range of N\$200 million to N\$290 million. There is no decline in 1993, as compared to 1992. This is illustrated in Figure 11.1.

Figure 11.1 : Aid since Independence



11.7 As Table 11.1 also shows, total investment technical assistance (ITC) and investment project assistance (IPA) appear to have increased significantly in every year in the UNDP figures.

11.8 The target for development aid of 6% growth on 1995/96, proposed in NDP1, is extremely modest. The growth is from a lower than average starting point. This rate of growth needs to be viewed in the context of the 3% rate of growth of population in Namibia. Namibia has in recent years diversified its contacts with external financing agencies, and this is likely to lead to growth of aid.

The Value of Aid to Namibia

11.9 The value of aid should not be measured simply in financial terms. Aid programmes have been instrumental in technology transfer and capacity building, and Namibia has been able to benefit from the sources of expertise that international development agencies offer.

11.10 Namibia has experienced some problems in utilising aid commitments. As in many countries, disbursements have commonly fallen behind targets because of delays in project identification, preparation and implementation. Namibia has had to build up many essential national institutions since Independence. The absence of such institutions was a constraint on implementation capacity, but that constraint is becoming less serious as institutions mature and experience is gained.

11.11 Overall, Namibia represents a very favourable environment for the implementation of development programmes: good infrastructure minimises physical bottlenecks; an honest and efficient public service has been maintained; and the Government's commitment to democracy and openness facilitates fruitful cooperation between Namibia and its aid partners. Aid agencies' evaluations of the effectiveness of their aid to Namibia have been generally positive.

11.12 Past problems in planning and aid management are gradually being corrected. The PSIP is being used as a means of providing policy guidelines and direction to donors of Government priorities. Government is now evolving a clear policy on foreign borrowing, counterpart contributions, reporting and accounting. At the same time a system is to be designed to include external assistance in the Budget. Finally a computerised system for recording commitments and disbursements and monitoring of aid is being developed.

11.13 Most of these weaknesses can be addressed now that Government has identified its priorities through the preparation of NDP1 and the PSIP. The next Section sets out the principles that Government will follow in its negotiations and dealings with aid agencies, taking account of problems experienced from both GRN and donor perspectives and Government's plans to improve aid management.

12. Namibia's Aid Management Strategy

12.1 The Government has primary responsibility for ensuring that aid is well used and that the efforts of various aid agencies are coordinated. Improved aid coordination and management are essential if Namibia is to utilise aid resources in a coherent and effective manner that will ensure steady and sustainable economic growth and serve to dismantle the legacy of the colonial apartheid system.

12.2 This section sets out Government's strategy for the use of foreign aid and assistance. It outlines the types and conditions of aid sought by Government, for both grants and loans.

Borrowing and Debt Management

12.3 A very restrictive approach to all forms of borrowing was taken at Independence. Government remains extremely concerned about the debt burden but recognises that selective borrowing, on appropriate terms and conditions, can play a legitimate role in financing the development programme.

12.4 The Government's determination to maintain a sustainable fiscal balance is emphasised in the earlier parts of this document. During next five years, the Government plans to lower the fiscal deficit to around 3% of GDP. Government's borrowing for development purposes has been very limited. Foreign borrowing will be considered for particular projects in cases where:

- i) the project involves productive investment; *or*
- ii) the project has a high probability of producing financial returns sufficient to repay the borrowing; *or*
- iii) the borrowing is on concessional terms which facilitate long-term repayment.

12.5 Namibia's debt ratios are extremely favourable especially with the rescinding this year of Namibia's colonial debt to the Republic of South Africa. The Government is determined to maintain Namibia's credit-worthiness. All public sector borrowing is carefully monitored. The Commonwealth Secretariat's CS-DRMS debt recording and management system has been installed, and there will be full cooperation between the Ministry of Finance and the Bank of Namibia to ensure that all borrowing is carefully tracked, and that no loans are taken out which do not satisfy the most rigorous criteria.

Aid and the Planning System

12.6 It is quite natural that aid agencies and Government may have somewhat different perspectives and priorities (the same is true of different agencies within Government). Government's aim is to develop a planning and budget system through which these differences can be reconciled and a set of programmes and projects generated that corresponds to national priorities and reflects an appropriate balance between different sectors and interests. The preparation of NDP1 (including the PSIP) is a key element of Government's strategy to improve the planning and budgeting system as a whole, and to assist in directing donor support to the economy.

12.7 One of the main problems until 1994/1995, was that aid funds channelled outside the State Revenue Fund have not been reflected in the Development Budget or Annual Budget, so that the sectoral allocations shown in the budget were not a true picture of total funds allocated to each sector. Thus Government may have been allocating funds to a particular sector without sufficient knowledge of funds already being provided by donors. Funds channelled outside the State Revenue Fund were reflected in the Development Budget for the first time in financial year 1995/1996.

12.8 Government will encourage the channelling of increasing amounts of external resources through the State Revenue Fund. If more aid is channelled through the State Revenue Fund, government's ability to account correctly for public resources will be reinforced. However, Government realises that it will not be possible for all aid to pass through the SRF. Donors can assist in Government's initiative to improve aid management by ensuring that all flows of development assistance are included in the Development Budget and logged in the National Planning Commission's IDIMS database.

12.9 Recent improvements in Namibia's project management system mean that even funds that are not channelled through the State Revenue Fund can be shown as "Outside the State Revenue Fund" in the Development Budget and PSIP. Government estimates that the Development Budget and PSIP include approximately 75-80% of the funds by-passing the State Revenue Fund. Government is committed to capturing 100% of these funds in future Development Budgets and PSIPs for the following reasons:

- They invariably involve costs and commitments to Government: even when no explicit financial contribution is stipulated, there are administrative and staff costs.
- In the long term, donor support will fall away and Namibia will be responsible for operation and maintenance. The only way to be sure that projects are sustainable is to keep careful track of all Government's long term commitments.
- Projects must not be considered in isolation: factors such as implementation capacity and the sustainability of recurrent costs have to be considered in terms of the combined implications of all projects in a particular sector.

12.10 Coherent financial and economic planning becomes increasingly difficult as government is not furnished with an accurate idea of the total level of external resources available in future years. Donors must supply government with financial information over a longer time period if these obstacles to efficient planning are to be overcome.

12.11 In order to strengthen the medium term planning process and utilise aid more efficiently, it is essential that donors provide information concerning their expected commitments and disbursements over a longer planning period. The Round Table conference is one particular mechanism that can facilitate this endeavour.

12.12 During NDP1, government will develop a monitoring system covering all projects, and will produce regular reports on project financial and physical execution. The National Planning Commission is currently developing both systems to ensure that they are operational during the next financial year. Government also will place the utmost importance on monitoring the *results* of development spending, to ensure that projects are meeting their objectives.

12.13 Thus, Government considers that aid projects should be just as carefully designed and appraised as those financed from Namibia's own resources. Government will work closely with donors to reformulate projects that do not measure up to the same appraisal criteria as domestically-funded projects.

Administrative Costs of Aid

12.14 Both Government and donors have an interest in minimising the administrative costs of aid. At the same time, Government recognises that donors have the right to be assured that their funds have been properly and effectively utilized. Government aims to maintain standards of budgeting, procurement, accounting and auditing that will enable donors confidently to channel their funds through the Government system.

12.15 Government acknowledges the importance of demonstrating its commitment to the projects and programmes that receive aid, and will normally do so by contributing to the staffing and local costs of grant-aided projects. The figure below show the trend of external assistance since 1990.

12.16 The administrative costs of aid, both for Government and for donors, are increased to the extent that aid is narrowly tied to specific projects. Government welcomes the movement of some donors to a more programmatic approach. The PSIP has been presented in programme form, and the Government intends to develop the programme approach further with clear links between recurrent and development expenditure programmes. Government will encourage donors to channel their aid towards the support of such programmes, rather than insisting on strictly project financing.

Sustainability

12.17 Government's concern to avoid dependency on aid has already been stressed. This implies that sustainability will be a major criterion in the design and selection of projects. While donors committing their resources to Namibia can be confident that:

- their resources will be used for a clearly defined programme of investment, which is consistent with the objectives, policies and strategies in NDP1.
- that the long-run operational costs and staffing requirements of all projects in the PSIP have been explicitly considered, and will be planned for at the outset.
- that the projects to which their resources are committed will be carefully monitored to ensure sustainability.

Technical Assistance and Capacity Building

12.18 Namibia will continue to have substantial technical assistance (TA) requirements during NDP1. However, Government is concerned to ensure that technical assistance inputs do not become self-perpetuating, without a corresponding development of Namibian capabilities. All parties must be clear about the roles assigned to TA personnel.

12.19 In association with the United Nations and other donors, Government has benefited from several projects supporting the major macro-economic institutions including the Ministry of Finance, National Planning Commission Secretariat, Central Statistics Office and Bank of Namibia. These projects are reviewed in more detail in the accompanying document on Economic Management. An integrated Economic Management Programme has been formulated for the next five years and its outline is contained in the accompanying document.

12.20 Government intends to develop a clear policy on the use of TA personnel throughout government so as to make most effective use of TA and ensure that their contributions lead to sustainable improvements in GRN capacity. The principles that will guide the TA policy are described below.

12.21 Where gap-filling is the immediate requirement, there must be parallel efforts to train Namibians who can take over from expatriates. If on-the-job training is the primary requirement, this must be reflected in the job descriptions and recruitment criteria of TA personnel, as well as in the way that TA performance is evaluated. Government recognises its responsibility to ensure that, where this is required, TA personnel are provided with appropriate counterparts, and that GRN personnel who undergo training are bonded to Government service for an appropriate period.

Regional Dimensions of Aid

12.22 Namibia actively participates in regional organisations, notably SADC. International cooperation amongst Southern African countries will become increasingly important. Namibia therefore welcomes the development of regional forums for the discussion of aid and development issues, and the development of regionally-oriented aid programmes to support the development of linkages amongst SADC countries.

Openness and Transparency

12.23 The holding of the Round Table Conference is a demonstration of the Government's commitment to openness and transparency in its relationships with donors. Keeping each other fully informed is an important aspect of coordination. Openness is essential to ensure that aid is integrated into national planning and budgeting processes, that aid agencies are satisfied with the use of their funds, that duplication and overlap are minimised, and that the lessons of experience can be widely shared.

12.24 One aspect of transparency is for all parties to be clear on the assignment of responsibilities for aid management. Government recognises that it must take primary responsibility for aid management.

Responsibilities for Aid Management

12.25 Responsibility for aid coordination was given to the National Planning Commission in 1990, "to follow up on the Donors Pledging Conference in New York, 21-22 June 1990, as well as to sign all Agreements between the Government of the Republic of Namibia and the donors, be they governments, international organisations or NGOs." The importance of having one institution responsible for coordination and mobilisation of donor assistance was realised even at this early stage in the development of Namibia's planning system.

12.26 As a culture of national development planning did not exist prior to Independence, and the exact role of the National Planning Commission took time to become clear, many ministries were able to develop direct links with donor agencies. This made it difficult for the NPC to coordinate donor activities. Government and the donor community must improve this situation and ensure that all externally funded projects have been properly appraised and reviewed for their consistency with overall national objectives.

12.27 The National Planning Commission Secretariat was given primary responsibility for coordination of donor assistance. All requests for donor assistance and dealings with donor agencies were to be channelled through the National Planning Commission. More specifically the role of the NPC has been:

- to prepare policy guidelines for development cooperation;
- to prepare donor profiles of the policies, procedures, criteria and approaches used by the various donor agencies;
- to assist in identifying and mobilising resources available to finance specific projects and programmes;
- advise ministries on the technical aspects of specific aid management for donor agencies, i.e. conditions of disbursement, monitoring of implementation, progress and financial reporting;
- coordinate preparation of documents for reviews, consultations and negotiations with donor agencies and sign Development Cooperation Agreements (loans excluded).

12.28 To support Government effort at aid coordination, UNDP has instituted a bi-monthly meeting with all donors during which experiences in their support for development are discussed. A comprehensive data base compiled by UNDP provides considerable data on external assistance to Namibia. The compiled information has been shared with the Bank of Namibia for Balance of Payment purposes and with the National Planning Commission for planning purposes. Government's own database on development assistance flows to Namibia, maintained by the National Planning Commission Secretariat and currently being upgraded will also support this endeavour.

12.29 Donors can assist Government in the development of an effective planning and budget system by working with the agreed contact institutions and contact officials, and by avoiding direct contacts with sector ministries. In addition, donor agencies can help to develop Government project planning and management capacity by involving sector ministry and Ministry of Finance officials in project preparation and appraisal missions.

Part E: FUNDING REQUIREMENTS

13. The Public Sector Investment Programme

Overview

13.1 Volume II of the First National Development Plan comprises a Public Sector Investment Programme (PSIP) for the five year period: 1995/96 to 1999/2000. The PSIP consists of descriptions of development programmes, and the associated projects, that have been identified for implementation in the next five years. Each sector, programme and project is costed year-by-year. These details are presented in tables 14.3 - 14.5.

13.2 The preparation of the PSIP is Government's first attempt to produce a five year public investment portfolio. However, improvements to the presentation of the budget started in 1993/94 with the preparation of the first Development Budget. This supplement to the Annual Budget presents estimates of expenditure for three years for each development project, and includes a brief description of the project activities. The three year estimates are rolled over every year. Three Development Budgets have been approved by Parliament to date.

Role of the PSIP

13.3 The projects included in the PSIP have been identified by line ministries as possible means to address the constraints, while implementing the policies and strategies outlined above. The projects were screened by the National Planning Commission to ensure consistency with government objectives and policies. However, Government is aware that existing capacity to prepare and evaluate projects needs further strengthening.

13.4 The PSIP demonstrates how the policies and strategies in the sector chapters could be implemented; and provides an overview of the development activities to be implemented during NDP1 for government officials, the private sector and donors. The PSIP provides a framework for donor funding, so that donors can direct their resources to activities identified as consistent with Government priorities. It enables the forward planning of development activities for the Plan period. It will also facilitate recurrent cost planning.

Scope of the PSIP

13.5 The PSIP restricts itself to "development" expenditures, i.e. those that are aimed at achieving development objectives rather than operational expenditures of Government. Thus they include expenditures on investment items such as purchase of land and construction of infrastructure, as well as operational expenditures which are not permanent or recurrent operations, such as capacity building projects, feasibility studies and systems development.

13.6 In preparing the PSIP, Government aimed at presenting a complete picture of all development programmes and projects to be implemented by Government during the NDP1 period, including all donor funded projects. Ministries were encouraged to provide information on all their projects, including those that had not been included in the Budget in previous years. While significant progress was made in capturing all donor funded projects, some donor funds remain outside the PSIP.

13.7 Improvements to budget presentation and classification mean that donor funds can be shown in the Development Budget and PSIP even if they are not channelled through Government accounts. There are four types of funding shown in the Development Budget and PSIP:

- domestic GRN funds
- donor funds channelled through the State Revenue Fund
- donor funds outside the State Revenue Fund
- projects where no source of funds has yet been identified: "To be Funded".

13.8 One of the key points to note is that many of the projects included in the PSIP are only at the identification stage in the project cycle. They still need to undergo detailed preparation and appraisal before being included in the Development Budget. This does not apply to all projects: some are already being implemented or have been approved for inclusion in the 1995/96 Development Budget.

13.9 The programme, sectoral and global totals in the PSIP are not guidelines. In many cases, the projects identified fall substantially below the guidelines indicated in NDP1. The project portfolio will be developed during NDP1. Project identification capacity in offices and ministries will be strengthened as an integral part of the NDP1 strategy.

14. Funding Requirements

14.1 Some of the donor funds required to pay for the programme outlined in the First National Development Plan have already been identified. In other cases, donor funds remain to be identified. This section discusses the role of aid in government's plans for development expenditures, and analyses which Votes have funding gaps.

The Global Financial Gap

14.2 The Development Budget financial gap is defined as:

Total Development Expenditure - (Government Contribution + Donor Commitments)

14.3 The financial gap represents the difference between planned government expenditure and resources currently committed. Table 14.1 demonstrates the size of the global financial gap during the remainder of the plan period.

14.4 It is apparent that the global financial gap increases rapidly throughout the planning period. This reflects decreased donor commitments rather than increased government needs. Government plans to increase development spending at 6% annually in real terms throughout the plan period. It is hoped that the international donor community will provide a matching rise in external funding. It has been shown that this level of development spending is sustainable and in line with government's implementation capacity and the country's ability to absorb external resources.

14.5 As Table 14.1 demonstrates, central government is requesting only a small amount of external funding for development projects, approximately equal to US\$ 758 million over five years (or US\$ 152 million per year), of which US\$ 276 million has already been committed. It forms approximately half of total Development spending during the NDP1 period. This can significantly improve the lives and opportunities of those currently without access clean water, education or health care. It will support the continuing fight against the legacy of apartheid and strengthen democracy and accountability within the country and the southern Africa region.

Table 14.1: Financial Gap 1996/97-1999/2000
NS million (Constant 1995/96 prices)

	1995/96	1996/97	1997/98	1998/99	1999/00	1995/6- 1999/00
Total Development Expenditure	943	1,000	1,060	1,123	1,190	5,316
GRN Committed	459	486	515	546	579	2,585
Donor Committed	484	338	140	20	13	995
Donor Funding Guideline	484	513	544	577	611	2,730
Financial Gap	0	175	404	557	599	1,735
Financial gap as % of Total Dev. Expenditure	0%	18%	38%	50%	50%	33%
Donor Committed in US\$ millions ¹	134	94	39	6	4	276
Donor Funding Guideline in US\$ millions	134	143	151	160	167	758
Financial gap in US\$ millions	0	49	112	155	166	482

Source: PSIP

Note: ¹ Using NS1 = US\$3.6 throughout period (i.e. constant 1995/96 US\$ millions)

Note: For a definition of the "Financial Gap" see 14.2

Financing the Gap

14.6 Government plans to finance the gap through external resources. Government is prepared to consider concessional loans provided by Namibia's development partners. These loans will all pass through the State Revenue Fund. However, government envisages that the vast majority of the gap will be financed through grants, of which the majority will be outside the SRF.

14.7 Namibia has a strong case for requesting grants rather than loans from its international development partners, since the majority of the development spending envisaged is for social spending and social infrastructure, rather than for immediately productive physical infrastructure.

Vote Financial Gaps

14.8 Figure 14.1 and Table 14.2 highlight the Votes that exhibit the largest financial gaps. The figure also illustrates the sums already committed, by donors and by government, for the period 1996/96-1999/2000 (constant 1995/96 N\$ thousands).

14.9 The disaggregation of financial information by Vote in Table 14.2 reveals that not all sectors require an equal amount of external funds. Government will have to meet a greater share of the resource requirements for Votes that are unlikely to be funded through external resources. The Votes of Health, Basic Education and Regional and Local Government and Housing have all been priority sectors since Independence and will still require donor's support throughout the plan period. The decentralisation of the regional tier of government must be supported while in its initial stages. All these measures if successful will help consolidate the progress achieved towards social justice since Independence.

14.10 The productive sectors of Mines and Energy and Fisheries require assistance to support private sector initiatives such as small scale mining and exploration and exploitation of new discoveries. Small scale mining projects will allow Namibian entrepreneurs to benefit from the country's rich natural resources, as will the exploitation of fishing quotas that were allocated with development objectives in mind.

14.11 Aid to the transport sector has allowed the construction of the Trans-Kalahari and Trans-Caprivi highways. These roads will facilitate the country's access to regional and international markets. The next stage of development will facilitate access for rural farmers in the deprived communal areas to regional towns where they will be able to market their produce and dynamise the local economy. In this context, aid to the environmental sector is necessary to preserve Namibia's impressive flora and fauna and ensure that agricultural development takes place on an environmentally sustainable basis.

14.12 Finally donor support to the macroeconomic institutions of government such as the National Planning Commission Secretariat (including the Central Statistics Office), other parts of the Ministry of Finance, and the Bank of Namibia, will be critical to the competent management of the country's economy during the years ahead.

Figure 14.1: Average Annual Financial Gap 1996/97-1999/2000
Constant 1995/96 NS thousands

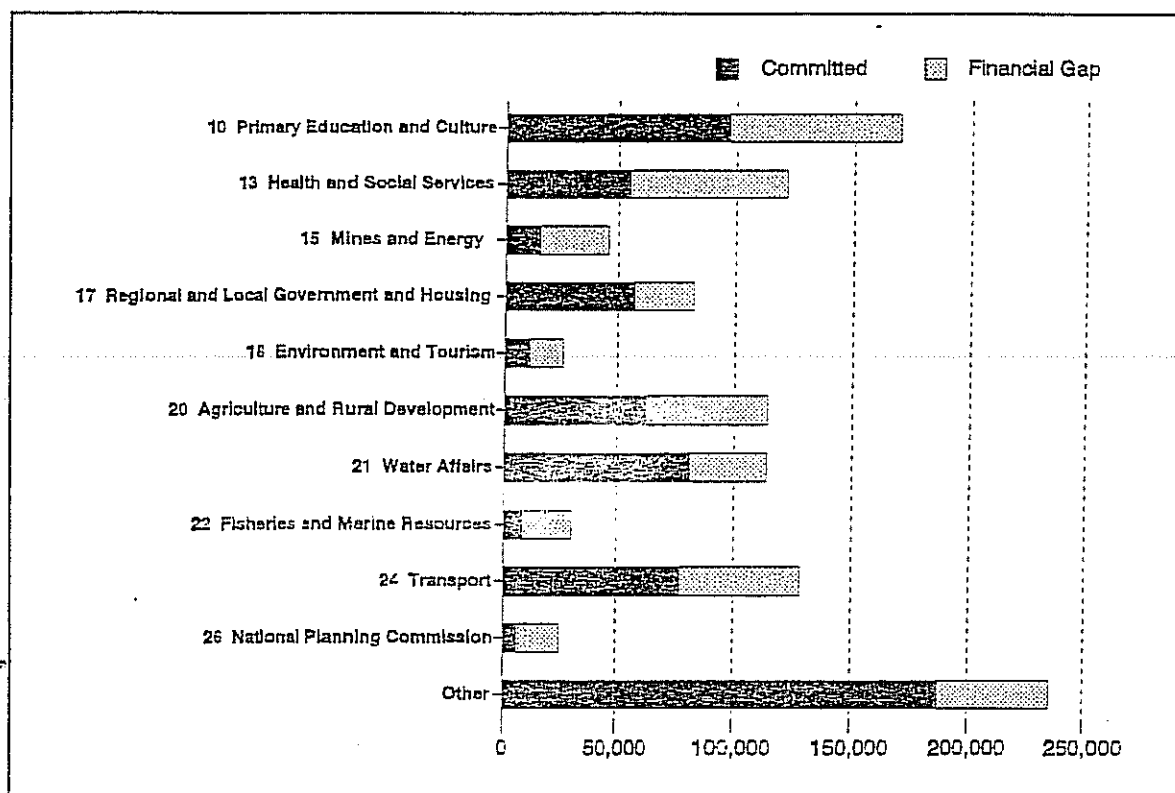


Table 14.2 : Average Annual Financial Gap 1996/97-1999/2000
(constant 1995/96 NS thousand)

Vote	Financial Gap
10 Basic Education and Culture	72,199
13 Health and Social Services	66,869
15 Mines and Energy	30,223
17 Regional and Local Government and Housing	25,375
18 Environment and Tourism (inc. Forestry)	14,812
20 Agriculture and Rural Development	51,446
21 Water Affairs	32,515
22 Fisheries and Marine Resources	22,057
24 Transport	51,096
26 National Planning Commission	19,037
Other	48,180
Total	433,809

Table 14.3: PSIP Identified Expenditure by Sector

		constant 1995/96 NS thousand					
CODE	SECTOR	1995-96	1996-97	1997-98	1998-99	1999-2000	TOTAL
RLG	Regional & Local Government	44,424	45,180	46,025	46,835	48,315	230,779
POP	Population in Development	1,848	1,819	2,300	2,200	1,900	10,067
LAB	Labour & Employment	300	200	0	0	0	500
RDV	Rural Development	3,782	2,000	300	350	0	6,432
FSN	Food Security & Nutrition	4,344	2,200	2,430	2,600	2,335	13,909
SOC	Social Welfare	6,228	6,120	5,440	6,318	4,227	28,333
ENV	Environment	5,580	29,900	33,100	17,100	11,100	96,780
LND	Land	5,000	6,064	5,025	5,221	7,624	28,934
AGR	Agriculture	100,079	96,354	45,230	7,014	3,187	251,864
FOR	Forestry	13,317	8,264	3,656	2,096	914	28,247
FIS	Fisheries & Marine Resources	41,480	18,987	23,687	9,600	66,800	160,554
T&W	Tourism & Wildlife	3,300	8,250	23,250	0	0	34,800
T&I	Trade & Industry	10,000	8,405	6,507	7,337	7,064	39,313
MIN	Mining	66,944	37,403	24,160	16,200	16,200	160,907
E&T	Education & Training	159,271	180,264	150,719	112,349	115,954	718,557
HLT	Health	89,910	86,446	77,253	85,618	89,895	429,122
H&S	Housing & Settlement	34,250	51,250	61,130	64,880	74,556	286,066
W&S	Water & Sanitation	94,808	101,403	95,662	84,241	63,360	439,474
TPT	Transport	106,747	140,204	131,293	134,429	203,100	715,773
EGY	Energy	18,149	32,992	15,732	16,377	17,168	100,418
CUL	Culture	14,625	34,755	34,707	25,934	16,140	126,161
LJS	Law, Justice & Security	47,658	41,432	44,761	56,259	65,281	255,391
GOV	Government Services	82,941	66,372	41,556	36,668	34,404	261,941
	GRAND TOTAL	954,985	1,006,264	873,923	739,626	849,524	4,424,322

Table 14.4: PSIP 1995/96 Identified Expenditure by Sector & Source of Funding

constant 1995/96 NS thousand						
CODE	SECTOR	GRN	Donor	TBF	TOTAL	
RLG	Regional & Local Government	44,424	0	0	44,424	
POP	Population in Development	0	1,848	0	1,848	
LAB	Labour & Employment	200	100	0	300	
RDV	Rural Development	2,050	1,732	0	3,782	
FSN	Food Security & Nutrition	748	5,596	0	4,344	
SOC	Social Welfare	5,420	808	0	6,228	
ENV	Environment	0	5,580	0	5,580	
LND	Land	5,000	0	0	5,000	
AGR	Agriculture	59,650	40,429	0	100,079	
FOR	Forestry	4,020	9,297	0	13,317	
FIS	Fisheries & Marine Resources	2,420	39,060	0	41,480	
T&W	Tourism & Wildlife	3,300	0	0	3,300	
T&I	Trade & Industry	10,000	0	0	10,000	
MIN	Mining	2,200	64,744	0	66,944	
E&T	Education & Training	59,750	99,521	0	159,271	
HLT	Health	43,992	45,918	0	89,910	
H&S	Housing & Settlement	34,250	0	0	34,250	
W&S	Water & Sanitation	60,680	34,128	0	94,808	
TPT	Transport	5,818	100,929	0	106,747	
EGY	Energy	5,507	12,642	0	18,149	
CUL	Culture	14,100	525	0	14,625	
LJS	Law, Justice & Security	47,658	0	0	47,658	
GOV	Government Services	47,455	35,486	0	82,941	
GRAND TOTAL		458,642	496,343	0	954,985	