Stable economy, daunting challenges

Namibia promotes a thriving private sector and tackles stark social inequities

The Namibian government has embraced liberal economic policies and seeks to diversify an economy dominated by mining and the services sector. While overall output rose at the robust average rate of 5 per cent per year in the first five years after independence in 1990, growth has since slowed. With the fiscal deficit expected to widen this year, the government faces formidable challenges, including high unemployment, widespread poverty and the vast income gap between white and black Namibians, a legacy of colonialism and apartheid. Nevertheless, the medium-term outlook seems promising, with continuing efforts to support private sector growth, increase foreign investment inflows and improve the social sector.

Since Namibia secured independence from South Africa nine years ago, the government has pursued policies that aim to promote a thriving private sector, increase employment opportunities and diversify the economy. Today, Namibia has one of the most open and investor-friendly economies in Africa.

Real GDP grew at an average annual rate of 5 per cent between 1991 and 1995, keeping well ahead of an annual population growth rate of 2.6 per cent. However, growth slowed in 1996 to a rate of 2.9 per cent, dropping further to 1.8 per cent in 1997, mainly due to external factors, such as falling commodity prices and adverse climate conditions, as well as declining productivity.

Growth in 1998 is estimated at between 0 and 1.5 per cent. However, a recovery in the construction sector, increased output in the fishing sector and increased offshore diamond mining are expected to boost growth this year.

But social inequalities, high rates of poverty and unemployment pose formidable challenges, while at the same time the government seeks to maintain investor confidence and growth in an economy that is highly dependent on the private sector.

The government aims to meet these challenges by investing heavily in education and training, expanding social services, providing safety nets for the marginalized poor, implementing land reform and affirmative action policies and, above all, continuing to embrace policies that promote further economic growth.

But increased fiscal spending on education, health and social services clashes with the government’s goal of progressively reducing budget deficits to 3 per cent of GDP. And overexpenditure by ministries and heavy recurrent spending on salaries for 70,000 civil service employees is forecast to have pushed nominal spending in fiscal year 1998/99 nearly 20 per cent above the level in FY 1997/98.

The budget deficit is expected to widen this year, largely due to increasing debt-servicing costs and the cost of financing Namibia’s military presence in the Democratic Republic of Congo conflict. The cost of servicing the national debt in fiscal year 1998/99 is expected to take up 6.51 per cent of the budget, or N$441.7 mn compared to N$333 mn the previous fiscal year. The involvement in the Congo was allocated N$30 mn in the 1998/99 revised budget but the economic costs of the war are also expected to include reduced foreign investment and aid flows. The European Union, for example, has announced that it will review aid to Southern African countries involved in the war.

The country’s external debt, however, is relatively small and Namibia, unlike many African countries, does not need to turn to the World Bank for relief. In fact, there are no World Bank loans outstanding to Namibia. The World Bank’s role in Namibia is currently confined to providing technical assistance to support the government’s efforts to reduce poverty, build local capacity, and enhance management of water resources.

With the private sector playing a dominant role in the economy, the medium-term outlook remains promising. The country is sparsely populated, but its investor-friendly policies have combined with political stability to make it one of the most attractive markets in sub-Saharan Africa. A foreign investment law, providing liberal investment conditions and full protection of investments, was enacted during the first year of independence in 1990. Companies which operate in the export processing zones (EPZ) enjoy a zero-tax regime while companies operating anywhere in the country are subject to competitive tax rates. Generous tax breaks are available for firms investing in the mining and petroleum sectors.

Namibia was deemed one of the “front runners” — a developing country that stands out for its success in attracting relatively high and growing levels of foreign direct investment (FDI) in per capita terms — by the UN Conference on Trade and Development (UNCTAD) in its World Investment Report 1998. According to UNCTAD, Namibia was the ninth largest recipient of foreign direct investment in Africa in 1997.

Namibia’s favourable economic environment has attracted commitments from donors and investors alike. Some 30 donor nations have made commitments totaling $600 mn to help fund
the country’s first five-year National Development Plan (NDP1), covering the 1996-2000 period. The European Union, Sweden, Norway, Finland, United States and Germany are among the largest contributors to Namibian aid. Germany, Namibia’s first former colonial power, is the largest single source of development and technical aid and accounts for 7 per cent of total foreign investment.

South Africa overshadows Namibia
But Namibia has to contend with the big shadow of South Africa, which has an economy 40 times larger. This is a legacy of the country’s colonial past: South Africa ruled the territory for 75 years. Today, South Africa accounts for 80-90 per cent of Namibia’s foreign trade and is the source of approximately four-fifths of all investment, including investment in the key sectors of mining, banking and insurance.

Events in South Africa often have ripple effects on Namibia. Southern African Customs Union (SACU), both dominated by South Africa. With SACU members Botswana, Lesotho and Swaziland, Namibia has been seeking renegotiation of some of the key clauses. Some economists argue that certain SACU arrangements constrain investment inflows, economic diversification and growth in these countries. Illustrating the downside of the close relationship, President Sam Nujoma said at a Cabinet meeting on 2 February this year: “If South Africa is in recession, must we also be in recession? What kind of logic is this? Our economy is, of course, linked with that of South Africa, but it has its own dynamics.”

At independence in 1990, Namibia attracted the attention of foreign investors who had long shunned South Africa because of its apartheid policies. But the transformation of South Africa into a

For example, when South Africa’s currency, the rand, came under speculative attack between May and August 1998, largely due to the contagion effects of the Asian financial crisis. The Namibian dollar, which is pegged at parity to the South African rand, in turn lost some 20 per cent of its value last year. Bank interest rates were pushed significantly higher, from around 16 per cent in March to 23 per cent in December, dampening investment and consumption.

Namibia belongs to both the Common Monetary Area and the

Diamonds dominate Namibia’s economy
Namibia’s economy is heavily dependent on mining, which contributed an average 21.5 per cent annually to GDP in 1991-95.

In 1997, revenue from the export of metals was $793 mn, or 56.9 per cent of total export earnings, of which diamonds contributed $552 mn, or 40.6 per cent. But after 80 years of exploitation, the diamond industry is having to face up to a new challenge — the stones are getting harder to find. Nevertheless, the country remains the world’s fifth largest producer of diamonds.

The Namibian Chamber of Mines reports that the number of carats per 100 tonnes of gravel fell from almost 7.6 in 1987 to some 2.7 in 1997. Furthermore, inland deposits “could be depleted within the next 10 to 20 years,” notes the Bank of Namibia’s 1997 annual report.

However, the industry is stretching its operations offshore. Today, Namibia is the only country that mines diamonds from the seabed. Some 29,000 carats, or 4 per cent of total diamond output, were recovered offshore in 1990, rising to 623,000 carats, or 44 per cent of total output in 1997. “If the expansion plans of the diamond producers are successful, offshore output is expected to surge to 1.27 mn carats in 1999 and 1.60 mn in 2000,” says the Bank of Namibia. Namibia is expected to increase its total diamond production from an estimated 1.4 mn carats in 1997 to 2.2 mn carats a year by 2000, according to the Bank of Namibia.

Much of Namibia’s diamond trade is in the hands of De Beers, which mines half of the world’s diamonds — in Namibia, Botswana and South Africa — and in the past controlled up to 80 per cent of the global diamond market, worth around $50 bn in 1997. However, the Russians are encroaching on De Beers’ territory in Southern Africa. Looking at the long-term, Russian engineers are preparing to start a $15-20 mn geological hunt for diamonds in Namibia, near the Kalahari Desert, on the Botswana border, and a $150 mn search under the sea, on the continental shelf. Russia’s largest producer and exporter of rough diamonds, Alrosa, is planning a major joint-venture investment in undersea mining of diamonds in Namibia.

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Namibia: making democracy work

After the political, economic reconciliation is now the ‘second phase of our struggle’

A country which went through a bitter and prolonged war of liberation, Namibia celebrated its ninth year of independence in March. In an interview with Africa Recovery, Prime Minister Hage Geingob talks about his government’s efforts to foster democracy and development.

By Peter Mwaura

Since independence, Namibia has been relatively peaceful and stable. How have you managed this?

Our struggle was about peace. We, therefore, upon achieving independence, adopted a policy of national reconciliation. We said we had a bitter past, we hated each other, but after independence we should hold hands. We should live together and forget the past and forge ahead, because we all belong to Namibia and must do what we have to do to live in peace.

How did you sell the policy of reconciliation to the whites?

Swapo, headquartered in Lusaka during the struggle,initiated the policy. We started to invite some whites to come out to Zambia to meet us. They didn’t know us as ordinary human beings, that we also had basic needs like they did, like wanting our children to have three square meals a day, and to go to school, and come back unmolested. So when they discovered that we have the same desires, they accepted the policy of reconciliation.

Does reconciliation in practice mean an acceptance of socio-economic inequalities?

No. Unfortunately, there are some white Namibians who think the policy of reconciliation was derived from a position of weakness. They feel that it’s a one-way street — that we should reconcile and they maintain their privileged positions. We have now achieved political reconciliation. Now we must move together as citizens to look at economic reconciliation. And that is very difficult. That’s what we call the second phase of our struggle.

Some 5 per cent of Namibians, mainly white, control 72 per cent of GDP. Annual incomes range from an average of US$14,000 for whites to US$85 for the poorest blacks. What are you doing about this skewed distribution of wealth?

Affirmative action, which has been applied in societies where there was racial discrimination, is part of the economic reconciliation. In Namibia the policy is being applied by favouring the majority who were disadvantaged during the colonial era. But we don’t do it at the expense of lowering standards. We say that if two people apply for a government job — one white, one black — we will give preference to the black person who may have the same qualifications but less experience, because experience you only gain when you are on board. After having been excluded, we say it’s nonsense to demand experience. Now, the same affirmative action will apply to women, white or black, but mostly to black women who were also left out like black men.

And in the private sector?

Affirmative action policy is working at government level because we are in charge of that, but not in the private sector. The government is going to introduce a bill in parliament to require the private sector to apply affirmative action. The bill, however, will take some time because you have to consult all the stakeholders.

How far have you gone in leveling the economic playing field?

Namibia is trying to level the playing field so the black people and the coloureds who were left out can enter the mainstream of economic activities. The government has already achieved this in the lucrative fishing industry. We have decided to have quotas for new entrants in the business, so that blacks and coloureds are given quotas [86 per cent of Namibians are black, 7.4 per cent mixed and 6.6 per cent white]. They use their quotas to negotiate with owners of fishing boats to catch for them.

The government plans to do the same with the...
other economic activities. But it does not want to level the playing field by taking away from the rich people, bringing them down to the poverty level of the others. First enlarge the cake, because the problem is caused by the small cake we have. You invite local and foreign investors and create the conditions conducive for investment. And one of the conditions is peace. So in these nine years, we’ve been doing that. If you have peace, democracy, then you have created the conditions for foreign investors to come in. And, by so doing, hopefully you enlarge the cake.

**How are you solving the problem of unemployed Swapo ex-fighters?**

We realized that we trained them to fight — that’s the only skill they have. So immediately after independence, we set up the Development Brigade to try to retrain them, give them skills. But their minds are set that they must carry the gun, so even if we give them a project, they want to join the army. Now, obviously in peacetime, you don’t have to have a big army. So our army is very small. But what we are doing therefore is to pass a pension bill for veterans so that those who are old, or those who are injured, etc., can be retired and at least get a monthly income. Those who are still able-bodied may be absorbed into the army or police; those who are handicapped may be given a pension.

The ex-combatants are saying it took too long to look into their plight, which is true. They are saying they have been very peaceful, they have been waiting, and that we only act when they agitate. So we are now saying they’re right. Let’s stop everything and have a comprehensive approach and end this problem once and for all.

**In changing the constitution to allow President Nujoma to stand for a third term of office, are you not sending the wrong message about democracy in Namibia?**

In the last elections, we got a two-thirds majority, which means that the people wanted Swapo. And they knew that with a two-thirds majority we could amend the constitution. They delegated us to go to the parliament on their behalf and do responsible things. And giving President Nujoma a third term is one of the responsible things. We are doing what is good for Namibia, not for the US or UK. The peace we have had for the last nine years is not there just because we said there must be peace. Somebody must be leading the people to maintain that peace, a leader who has united us and brought tranquility. We are also saying this person has been a founding father of our nation. He’s a person who sacrificed all his life for Namibia. And we are saying, since we didn’t prepare our people psychologically, as Mandela has done [by grooming Thabo Mbeki to take over], the two terms he has had are too short.

**Are you not setting a dangerous precedent?**

President Nujoma’s third term is a one-time only provision. There are no precedents to be set. Technically speaking, his first term was transitional. He was elected, not by people as the constitution requires, but by a constituent assembly. And given the fact that he’s a founding father and we want peace to continue, let’s allow him to continue for five more years only.

We did not touch the restrictive clause of the constitution, which limits the presidential term to two five-year-terms. Instead, we amended the transitional clause to say that the first president shall be elected by a constituent assembly and shall serve for three five-year terms. So it is specific to Sam Nujoma. The third term is a reward — if you want to put it that way — to Sam Nujoma by the Namibian people because he has done such a good job. The amendment does not automatically make Sam Nujoma president for a third term. He still must stand for elections and people can vote him out if they don’t want him. So the will of the people will be done.

**But why has there been so much opposition to the third term from the press and opposition politicians?**

Which press? Gwen Lister [editor of *The Namibian*]? The hue and cry about the third term is empty noise by a tiny opposition and a press that is out of tune with the wishes of the Namibian people. Our High Commissioner in London [Ben Ulenga, a Swapo veteran] resigned because of the third term, thinking that he would have a following. But nobody supported him.

**Namibia has one of the freest presses in Africa. Why is your government critical of the press?**

Freedom of the press is one of the rights that you cannot amend. It’s an entrenched right in our constitution. So they can write and write until they get tired. But what we are saying is that we also have our own freedom, starting from the President. Somehow, if we are pointing out obvious mistakes and unprofessional ways, it is being interpreted by some people like we are criticizing the press. We are expressing our freedom of expression also. We are pointing out that the press must also carry out its responsibility of building the nation. Now if you just tell lies, write nonsense, insulting the President, we are saying: Look at our culture as Africans. In African culture, we respect our leaders. If I say that, that doesn’t mean that I’m against press freedom. I have my democratic right to tell them that they are wrong.
country in focus

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Environment and Tourism

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Tourism set to grow tremendously

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its contribution to GDP increased from 3.9 per cent in 1991 to 7.6 per cent in 1994. The 1995/96 “fish drought,” brought about by warm seas, hit the industry and underlined the need for conserving the fish stock for a sustainable fishing industry. However, in good climatic conditions, the industry typically grows at 6 per cent a year.

Fish sales make up 30 per cent of Namibia’s export income, estimated at $350 mn. But fishing fleets are largely foreign-owned, although this is slowly changing, as they are increasingly being ‘Namibianized’ through black empowerment and affirmative actions being pursued by the government.

Tourism set to grow tremendously

With tourism becoming one of the fastest growing industries, investment is high and growth of 10 per cent per year is projected. Tourist arrivals increased by almost 9 per cent, from 461,310 in 1996 to 502,012 in 1997 and European tourists more than doubled in 1993-97. “We estimate that tourism will be the largest contributor to national GDP in six or seven years,” says Mr. Hennie Fourrie, Director of Tourism at the Ministry of Environment and Tourism.

By 2002, tourism will contribute around N$2 bn to GNP, according to Ms. Maria Kapere, the Director of Resource Management in the Ministry. At present 13,000 Namibians are employed directly in the industry and a further 13,000 in support industries.

A vibrant financial centre

This is illustrated by the progress of Namibia’s highly competitive financial market, which has a range of financial services and institutions that has been expanding since independence. Windhoek is a vibrant financial centre which hosts the Namibian Stock Exchange (NSX), opened in September 1992. The NSX is a robust capital market and one of Africa’s fastest growing stock exchanges. The number of companies listing their shares on the exchange has jumped from just one at the launch of the NSX to some 40 now. For a long time, the NSX ranked as second largest in Africa in terms of market capitalization (total value of equities traded), just after the Johannesburg Stock Exchange. With market capitalization of some N$150 bn in 1998 and turnover of about N$1 bn annually, the NSX now ranks as Africa’s fourth largest.

Linked electronically with the Johannesburg Stock Exchange, the NSX is technically advanced, with an integrated computer system which distributes pricing and volume information to a wider audience outside. Brokers in Johannesburg, for example, are able to follow trading on the NSX in real-time. Through an agreement signed last September with South Africa, Namibia is the first of the 14 member countries of the Southern Africa Development Community (SADC) to link up with the Johannesburg Stock Exchange. The landmark agreement signaled the beginning of greater cooperation and integration of bourses within the SADC region.

The NSX is one of the calmest markets in the region as it benefits from a law that requires Namibian companies to invest 35 per cent of their funds in local assets. However, billions of dollars of Namibian funds have been invested outside the country, particularly in South Africa, where there are greater investment opportunities. The outflow of capital from Namibia, mainly to South Africa, is estimated at N$200 mn per month. The government has said it will now concentrate on attracting back those funds for investment in Namibia.

Skewed income distribution

The government needs to concentrate on a host of other challenging socio-economic problems. The biggest problem, perhaps, is income distribution. Namibia’s per capita income of $2,220 (1997) is more than four times the average for sub-Saharan Africa and puts it in the league of some lower middle-income East European countries. But the figure masks one of the most unequal income distribution patterns in the world. The richest 1 per cent of households consume as much as the poorest 50 per cent. A legacy of apartheid, income distribution is also divided along racial lines. The white minority, which owns most of the land and major businesses, is in the top tier, with the black majority at the bottom.

“The paramount challenge Namibia faces today is the alleviation of its high rates of poverty and inequality,” says Mr. Dirk Hansohn, a senior researcher with the Namibian Economic Policy Research Unit (NEPRU). This lopsided
income distribution is even more striking as Namibia is considered rich by African standards.

The government has initiated a number of programmes to address poverty and the inequality in income distribution. Some of the programmes, however, appear to deal with the symptoms rather than causes. One of the programmes provides a pension for people aged over 60 or who are disabled. With N$169 mn budgeted for the 1998/99 fiscal year, the pensions play an important part in alleviating widespread poverty. A monthly allowance of N$160 per month is provided and although this hardly covers basic necessities, a significant number of households, especially in the rural areas, depend on the pensions as their main source of income.

The government is also focusing on small and medium enterprises (SMEs) to create jobs, improve income distribution and contribute to private sector growth. A sum of N$13 mn was initially earmarked in 1997 to support SMEs, which typically face legal, financial, marketing, technical and managerial problems. Already, there are some 160,000 SMEs, half of which are in retailing. “It is micro economic industries, as well as self-employment, that will create jobs. So we are aiming small,” Prime Minister Geingob told Africa Recovery.

Another route that the government is taking to create jobs and promote export-led growth is through export processing zones. The EPZs are tax havens that provide many incentives for manufacturing industries that target export markets. The regime allows investors, local or international, to operate free of taxes and certain labour law restrictions in any part of the country. “We regard the whole country as an EPZ,” says Mr. Geingob.

Overcoming urban bias in health care

The government is also investing heavily in education, training and health — up to 40 per cent of its annual budget — to correct the imbalances of the colonial past and alleviate poverty and hardship.

Since independence, the government has aimed to improve health services by shifting resources from curative to preventive care, with emphasis on community-based clinics and primary health care. It now spends 13.5 per cent of its budget on health — the second largest allocation after education in the 1998/99 budget — and it is trying to overcome the urban bias in favour of rural areas and the poor. This has brought significant improvements in health care.

The country’s major health problems include childhood diseases such as diarrhoea and respiratory infections, high rates of maternal and infant mortality, pneumonia, malaria and tuberculosis. But HIV/AIDS has become the leading cause of death, taking as many lives as malaria and tuberculosis combined. It may also be the country’s greatest development threat says the UNDP Namibia Human Development Report 1998. Already, life expectancy in the 1995-2000 period is 52.4 years with the AIDS factor, compared with 61.3 years without, says the Joint United Nations Programme on HIV/AIDS (UNAIDS). Worse still, life expectancy may plunge to 40.6 years (with AIDS), in 2000-2005, it adds.

Prime Minister Geingob told Africa Recovery the government is doing everything to educate the people about the danger posed by AIDS. But, he emphasized, it is up to the people to change their lifestyles. “They don’t seem to want to. What do we do? It’s terrible,” he said, adding that part of the problem is that doctors, for whatever reasons, do not say anybody ever died of AIDS. “It’s always of other complications, such as tuberculosis. So maybe if we can say ‘died of AIDS’, it may help.” The Namibia Human Development Report 1998 also calls for more openness, saying the silence that still surrounds AIDS in Namibia is a dangerous obstacle in meeting the challenge.
Country in focus

Namibia

An acute shortage of skilled manpower. According to Prime Minister Hage Geingob, many skilled workers who fought for Namibia's independence have never been to school, 54 per cent never went beyond primary school, and only 2 per cent reach university or college.

The government spends more than 25 per cent of its budget on education — nearly twice as much as on health. However, critics say, the effectiveness and efficiency of spending could be improved by distributing resources more equitably and spending more on education materials and less on teachers' salaries.

Still, educational opportunities have increased dramatically since independence. The number of pupils entering secondary school, for example, has quadrupled to more than 12,000 today. And a commission, set up in 1998 to examine proposals for educational reforms, began work in January this year.

Unemployment is another burning social problem, having increased sharply in recent years, from 19 per cent in 1991 to 32.9 per cent in 1993 and 34.8 per cent in 1997. Most of the unemployed have little education and poor skills, according to 1998-2010 National Human Resource Plan and 38 per cent of them are aged 15-24. According to H&E Labour Consultants, by 1996 combined adult unemployment and underemployment had reached 60 per cent of the labour force, with new entrants to the labour market estimated at 20,000 people per year.

The problem of unemployment among the ex-combatants who fought for Namibia's independence has been particularly explosive. Efforts to rehabilitate them through a number of Development Brigade Corporation companies, set up specifically for the purpose, failed to alleviate the problem as some of the companies went bankrupt and, according to Prime Minister Hage Geingob, many of the ex-combatants "want to be just in the army." A total of 9,511 have been registered for possible recruitment by the government or government-affiliated bodies.

In addition to unemployment, the country has an acute shortage of skilled manpower. According to the National Human Resource Plan, Namibia's labour force was characterized at independence by considerable skills shortages on the one hand, and a large army of unskilled and unemployed people on the other. Rapid population growth since independence has made the situation worse.

Clearly, Namibia has a long way to go in building an equitable society. But all factors considered, Namibians can look back with satisfaction on the first nine years of independence in which they have built a nation from the ashes of war, fostered a peaceful democracy and generated a robust private sector. In the circumstances, the tasks that remain, including correcting the glaring inequities inherited from more than a 100 years of brutal colonialism and apartheid, are formidable but not insurmountable.

Agriculture still marked by years of apartheid

Perhaps in no other area of economic activity in Namibia is the difference between rich and poor as stark as in farming, a result of the country's colonial and apartheid past. The sector is characterized by unequal access to good land and sharp differences in incomes. Since over 70 per cent of Namibians live in rural areas and are dependent on agriculture — the sector is by far the single largest employer — there is widespread poverty and some social and political discontent.

The sector is divided between white commercial farming and black communal farming. Some 4,200 white farmers own 36.2 mn hectares and employ some 36,000 black labourers on farms that average 8,620 hectares. The communal farmers operate on a total of 33.5 mn hectares but support 1.2 million people, or 95 per cent of the farming population. Access to communal land is governed by custom and there are no freehold titles. It is also overcrowded, overgrazed and prone to drought.

Pre-independence policy favoured the white commercial farmers, who enjoyed subsidized inputs, services and controlled prices, particularly of maize and beef, which were well above world prices. The government has since independence revised its agricultural policy but the communal farmer still remains the underdog.

"The subsidies and direct agricultural services have been poorly targeted, the extension staff have been ill-prepared for their work, asked to take on work that is inappropriate, and have been unable to reach the most needy," the Namibia Economic Policy Research Unit stated in a 1996 report. "Farm production and rural incomes remain low. The framework for the price controls on beef and maize is still in place. The benefits are weighted in favour of the commercial producers and monopolistic processors."