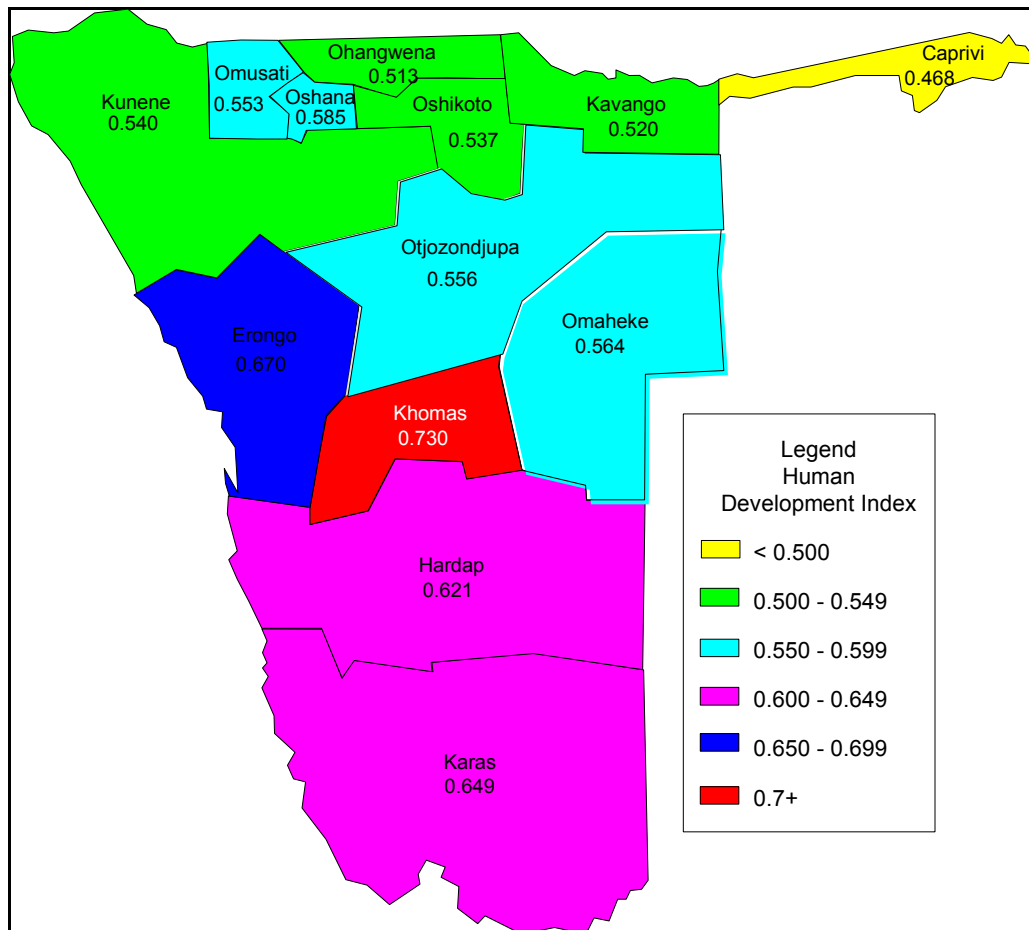


Namibia:
Economic Review and Prospects
1999/2000



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EXECUTIVE SUMMARY

The global economy has found its way out of crisis. The East Asian economies have bounced back, the USA continues to grow robustly, and Europe has recovered. African economies are set to grow steadily in 2000. This positive world outlook provides an enabling environment for growth of the Namibian economy through increased demand for its exports. Developments in South Africa, Namibia's main trading partner, also look increasingly positive. Considerable progress has been made in economic policy reform, resulting in improved long-term growth prospects. A growth rate of more than 3% is expected there.

Provisional growth estimates for 1999 are 3.7%. Growth in 2000 is expected to be higher - it may reach or even exceed 5%, and will thereby be a real increase on a per capita basis. The Namibian Dollar, linked to the Rand, is expected to hover around its current 6.50 per US\$. In line with the development in South Africa, inflation will remain at around 7-8%.

This growth will be based primarily on growth in agriculture, fisheries, mining, construction, tourism, trade, and transport & communication. Having had good rains, agriculture will grow by

more than 4.5%. The fishing sector will grow in excess of 7%, which will stimulate the fish processing sector. Mining, benefiting from higher global growth, will increase its output by some 4%. Similar growth rates are expected for the manufacturing sector. For the tourism sector, expectations have been downgraded owing to spill-over from the Angolan conflict, to some 7% growth. Because of increased demand and planned investments, both trade and transport & communication will grow stronger by some 7%. Growth of the public sector is expected to slow down from 4.8% in 1999 to 4% in 2000. Due to this growth pattern, where growth is concentrated in traditional sectors, the diversification into manufacturing and service sectors will remain limited.

NEPRU's third annual business climate survey again provides interesting results. Further trade liberalisation is welcomed by the majority of businesses. Business performance in 1999 improved moderately with an increased demand. Capital investment in 1999 increased. The business climate was generally regarded as more positive than in 1998, and the outlook for 2000 is optimistic on the whole. The key concerns of the business community are crime and the lack of skilled labour.

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List of abbreviations

BoN	Bank of Namibia
CBS	Central Bureau of Statistics
CSO	Central Selling Organisation
ct	carat
DRC	Democratic Republic of Congo
EPZ	Export Processing Zone
EU	European Union
EU-RSA FTA	European Union-Republic of South Africa Free Trade Agreement
FTA	Free Trade Area
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
ha	Hectare
HIV/AIDS	Human Immune Virus/Acquired Immune Deficiency Syndrome
IMF	International Monetary Fund
kg	kilogram
kv	kilovolt
lb.	pound
m	million
MET	Ministry of Environment and Tourism
MFMR	Ministry of Fisheries and Marine Resources
MHSS	Ministry of Health and Social Services
mt	metric tonnes
MTI	Ministry of Trade and Industry
NACOBTA	Namibia Community Based Tourism Association
NAMAC	Namibia Macroeconomic Model
Namco	Namibia Minerals Corporation
NamibRe	Namibia National Reinsurance Corporation
NEPRU	Namibian Economic Policy Research Unit
NSX	Namibia Stock Exchange
NTB	Namibia Tourism Board
NWR	Namibia Wildlife Resorts
N\$	Namibia Dollar
ODM	Ocean Diamond Mining

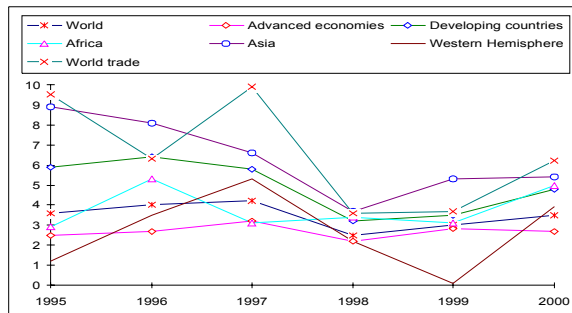
OPEC	Organisation of Petroleum Exporting Countries
oz	ounce
SACU	Southern African Customs Union
SADC	Southern African Development Community
SME	Small and Micro Enterprises
t	Tonnes
TAC	Total Allowable Catch
TCL	Tsumeb Corporation Limited
UNDP	United Nations Development Programme
USA	United States of America
US\$	US Dollar
VAT	Value Added Tax
VCF	Veterinary Cordon Fence
WASCOM	Wage and Salary Commission
WTO	World Trade Organisation

MACRO-ECONOMIC OVERVIEW

A positive outlook on the world economy

The global economy found its way out of the crisis originating in East Asia more rapidly than was expected. Growth projections for most regions have been upwardly revised, and the East Asian economies in particular have bounced back. The USA economy continues to grow robustly, while the major West European economies recovered. However, some risks remain, especially with respect to the USA economy, whose 'soft landing' after a long boom is not secure.

Figure 1 Global economic growth by region, 1995 to 2000



Source: IMF 1999

African economies are set to grow steadily in 2000, by an average of 5%. However, the gap between successful reformers opening up and others marred by crisis and civil unrest will widen still further.

... provides an enabling environment for growth of the Namibian economy.

This scenario provides a very positive stimulus by increased demand in Namibia's main export markets – in the first place Europe, followed by Asia and America.

The South African prospects are also encouraging

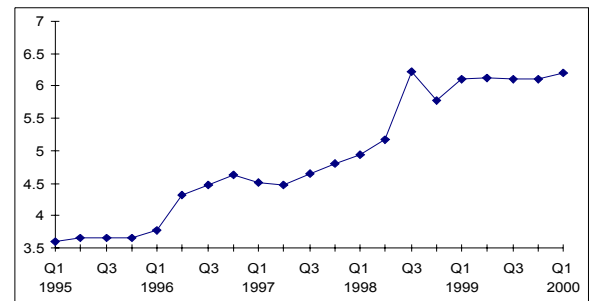
Developments in South Africa, Namibia's key trade partner, are also increasingly positive. While structural impediments remain (labour market rigidities, the slow pace of privatisation), great strides have been achieved by the new South African government. These are universally recognised, especially in the areas of fiscal and monetary policy. Foreign exchange

regulations have been eased, and further relaxation is expected. Growth in excess of 3% is expected there. As confidence in the economy and economic policy grows, increasing growth is expected for the future, which in turn will result in higher demand for Namibian exports.

The key indicators of the Namibian economy are bound to follow the South African economy.

The Namibian Dollar with its fixed link to the South African Rand is not expected to devalue further than a rate of 6.5 per US\$ until the end of the 2nd quarter, and stabilise at this level over the next months. The current weakness of Rand and N\$, resulting primarily from the strength of the US\$ against Euro, is not expected to continue.

Figure 2 Namibian Dollar versus US Dollar, 1995 to 2000

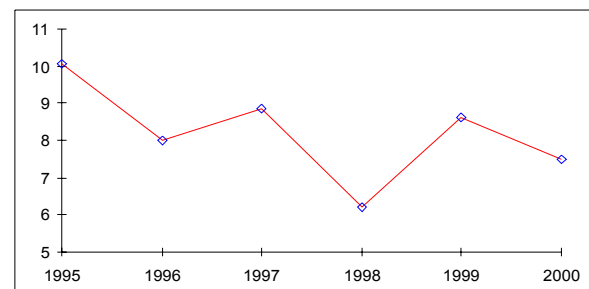


Source: Bank of Namibia 1999b; for 2000: NEPRU estimate

Namibia's macro-economic overview

In line with the South African development, inflation will remain around 7-8%.

Figure 3 Inflation rate, 1995 to 2000

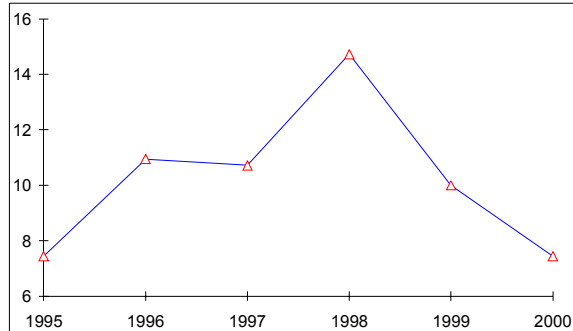


Source: Bank of Namibia 1999b for 2000: NEPRU estimate

Further decline in the nominal prime interest rate is not anticipated during this

year, but stable inflation will lead to a lower real interest rate in annual average. This will provide an important stimulus to domestic demand and investment.

Figure 4 Real interest rates, 1995 to 2000



Source: Bank of Namibia 1999b; for 2000: NEPRU estimate

Growth will increase led by higher international and domestic demand

Provisional growth estimates for 1999 are 3.7%. Growth in the current year may reach 5%, based primarily on growth within the agricultural sector, fishing, mining, construction, tourism, transport & communication and trade. Based on good rains, agriculture will grow in excess of 4.5%. The fisheries sector is expected to grow in excess of 7%, which will have linkage effects on the fish processing sector. Mining has started to benefit from increased international growth, which results in higher prices as well as demand for both diamonds and base metals. Growth for this sector is forecast at 4%. The manufacturing sector will grow with plus 4%, led by the fish processing sub-sector.

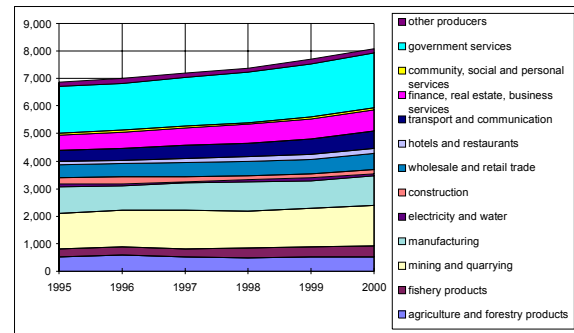
THE AGRICULTURAL SECTOR

During the past eight years, agricultural output has fluctuated due to the variable weather conditions impacting on both crops and livestock, but particularly on livestock destocking and restocking. In 1999, the rainfall situation improved in March, resulting in the Maize Triangle and the Northern Communal Areas receiving 75% of normal rainfall during the season. This was a relief for farmers, who had experienced a dry spell from the beginning of January to March. The South received below normal rainfalls, coming very late, which had a direct impact on the livestock sector. With the heavy rains that fell from late 1999 to early 2000, the performance of the agriculture

The tourism sector is expected to continue its growth of about 7%. Transport & communication and trade will grow more strongly than in 1999 because of increased domestic demand and planned investments, both at around 7%. Major projects include the deepening of the Walvis Bay harbour, the Skorpion zinc mine, the railway extension from Tsumeb to Ondangwa, and the desalination plant at Swakopmund.

After the elections, public pressure for employment and expenditure will reduce. In line with this, the growth of the public sector in 2000 is projected as lower than in 1999 - 4.8 (1999) and 4% (2000). However, there is a risk that past growth rates may be retained. Comprehensive reform of the public sector is not expected to start during the current year.

Figure 5 Composition of the economy in N\$m, 1995 to 2000



Source: CBS 1999; for 1999 and 2000: NEPRU estimate

As in the past, Namibia's growth is based on a fragile foundation and may be subject to downward revisions. Key risks include weather and international demand (as explained above).

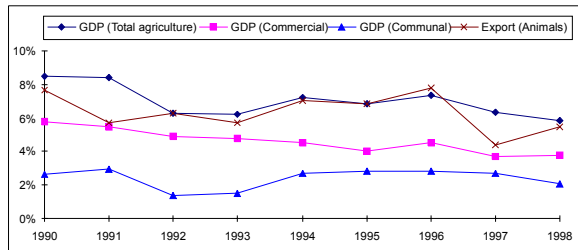
sector looks promising, as long as these do not become storms which could damage crops.

Contribution to GDP

The agricultural sector continues to play a significant role in the economy directly and indirectly since the manufacturing sector relies on its inputs. Its contribution to GDP stood at 5.9% in 1998, down from 6.4% in the previous year. In 1998, the contribution of the commercial sector to GDP was 3.8%, while the contribution of the subsistence sector to GDP stood at 2.1%. The commercial sector is made up of both livestock and crops. Livestock production plays a very important role in the

communal areas, where 56% to 60% of the cattle were between 1995 and 1998. In the case of goats, 60% to 65% are in the communal areas. Mahangu is an important crop in the North Central region, Kavango (rainfed) and Caprivi communal areas. About 70,000 tons are planted and it is marketed informally. The agricultural sector provides the main source of livelihood and employment for 70% of the population.

Figure 6 The agricultural sector's role in the economy, 1990 to 1998



Source: CBS 1999

The financial position of farmers

During 1998, the financial position of the farmers was negatively affected by the poor weather conditions. From 1990 to 1998, the total agricultural debt per hectare increased by about 103% in nominal terms. In real terms, the total debt remained constant per hectare, but still resulted in a deteriorating financial position for farmers. Farmers were affected by high input costs, including a steep increase in oil prices in 1999, which continued to increase in 2000, and had a profound impact on fuel prices and low producer prices.

It was expected that the economy would show an upward trend in late 1999 which would be carried into 2000. A growth rate of 3.5% was forecast for 1999, and for 2000 it was expected to be above 4.5%. Private consumption expenditure in South Africa is expected to grow, even higher than the economic growth rates, which would positively affect the demand for agricultural products, including meat, fruit and vegetables.

Prime interest rates are expected stay at the current level. The low interest rates combined with low inflation will increase consumer's cash flow and private expenditure.

This positive situation in terms of increased economic growth and low interest rates gives rise to a positive outlook for the year 1999 and 2000. However, agricultural debt per large stock unit is expected to increase towards levels of N\$880 from N\$813 in 1998, as a

result of a decrease in herd numbers. The percentage of the herd required to pay off total debt will stabilise at around 64%, but could decline, if - as forecast - interest rates decrease and herd numbers increase. Overall debt is expected to increase slightly to just above the 1998 figure of N\$989 million.

Cattle

The poor climate and the continuing problem of bush encroachment have affected the beef industry, which has not yet recovered from the forced emergency marketing strategy - the result of the drought in 1996. Production for 1999 is estimated at around 340,000 cattle, which is an increase of 6.25% from 1998. In the event that the rainfall improves, this may increase to 360,000 cattle. The majority (46%) of cattle are marketed through export abattoirs and are followed by cattle marketed in South Africa. In terms of marketing through export abattoirs, in 1999, 159,522 cattle were marketed south of the Veterinary Cordon Fence (VCF), compared to 126,824 in 1998, and only 19,995 cattle were marketed in 1999 north of the VCF as compared to 18,488 cattle in 1998. The figures indicate that fewer cattle were marketed in South Africa (a drop of 4,692 from 1998) and through butchers (a decrease of 7,469 cattle from 1998) in 1999. This could be the result of farmers anticipating better rains during 2000, thus holding onto cattle. However, as a result of the war in Angola, MeatCo is no longer buying cattle in the north and stock theft is increasing, neither of which help in the marketing of cattle.

Small stock

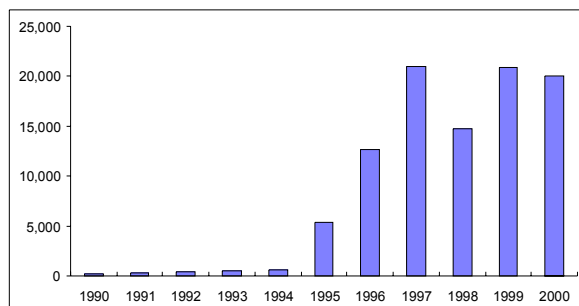
As with the beef sector, the small stock sector was similarly affected. Production has remained constant, fluctuating between around 2.0 and 2.4 million over the past five years. About 1 million sheep and goats were marketed, with the majority (76%) marketed through South Africa. This was the result of the higher offtake rates to the middle of the 1990s. It is expected that with prospects of better rainfall, production may improve slightly in 2000. In terms of karakul pelts, the 1998 price declined by some 25% on international markets as a result of the economic crisis in Russia and the East. Due to the decline in the Namibian exchange rate, the pelt price in Namibian dollars increased by 6%. Forecasts for 1999 and 2000 are that prices will remain stable and may even show a slight increase.

Given the positive price trends, pelt production is expected to increase to 100,000 and 130,000 for 1999 and 2000 respectively as farmers, even in the communal areas, increase their herds and new farmers enter the sector.

Ostriches

This sector is fairly young, but has great potential for growth in Namibia. It has established itself as one of the larger sub-sectors within Namibian agriculture. The number of birds marketed increased from 200 birds in 1990 to 20,891 in 1999. From these figures it is clear that the trend has been upward, except in the case of 1998, when the figure dropped to 14,748 birds marketed. This was the result of developments on the international markets, where the Asian crisis and an oversupply on the world market of low grade skins led to a steep decline in world producer prices to unprofitable levels.

Figure 7 Ostriches marketed, 1990 to 2000



Source: Ministry of Agriculture, Water and Rural Development, 1999b

Many producers in Namibia decided to stop production, which left abattoirs with a shortage of slaughter birds, and prices remain low. In 1997, there were 60 active ostrich farmers, but the number has now dropped to 20. World-wide economic prospects are positive for skins and the demand for the meat is increasing as people begin to realise its health benefits. It is expected that about 20,000 birds will be marketed in 2000. This figure would have been higher had it not been for the floods in Mariental in March 2000, which destroyed some 3,000 eggs and resulted in about 1,700 deaths of chicks. In the aftermath of the floods, more birds could have died.

Agronomy

Crops

From 1997 to 1998, crop production decreased as a result of unfavourable weather conditions. White maize is primarily grown in the commercial farming areas and Caprivi, with small amounts cultivated in communal farming areas. White maize production decreased from 40,200 tonnes (t) in 1994 to 25,043t in 1998. For 2000, production is estimated at 35,000t, which is good but not sufficient to enable farmers to recover from the low yields of previous years as a result of drought. Wheat production declined by over 50% from 1994 to 1998. The average yield of maize is very low, in comparison with neighbouring states. On average over the last 8 seasons, only 1 ton per hectare (ha) was produced, where the normal average in reasonable rain years lies around 1.5 - 2 tonnes per ha.

Producer prices increased significantly in the early part of 1999, as drought was anticipated (and consequently a maize shortage) in South Africa. Since the shortage crisis did not materialise, prices returned to normal levels. The real price has been declining since 1990 and is not expected to change in the 1999/2000 production season.

Cotton

Since the middle to late 1990s, cotton has become an increasingly important option for producers. It is more drought resistant than maize, is excellent in terms of quality and fibre, and has become attractive as a cash crop. During the 1998/99 season, production was around 4000t, and is expected to remain at that figure for 2000. Both communal and commercial farmers are planting cotton as an alternative crop with good potential for Namibia's arid climate. South African agents purchase cotton from Namibian producers at world prices, which tend to fluctuate, and it is transported to South Africa. In addition, the agents provide extension services such as advice, seed and inputs to the producers.

Grapes

Vineyards have grown by almost 1000 ha since independence from a small base of 32 ha. In 1993, 1,473t of grapes were produced, and by 1998 production had more than doubled to 5,964t. It is expected that with the entry of the Namibia Grape Company and Groot Gariep into grapes, production will increase to 10,033t in 2000. Grapes are

exclusively produced in the Karas region, more specifically in an area close to the Orange River, and the remaining 20% of vineyards are in Stampriet and Mariental. About 80% of the grapes are exported to the EU, generating foreign exchange for Namibia. The production of grapes is not affected by drought, since in 1992 and 1993 increases of 42% and 240% was experienced, when the agriculture sector was badly affected. Grape production is a viable option given Namibia's arid conditions, although a major constraint to expanded production will be the availability of water.

Prospects

With overall positive prospects forecast for the Namibian economy, in terms of good rainfall and increased economic growth, the agricultural sector is expected to grow from 3% in 1999 to 4.6% in 2000. Increased producer prices as a result of high demand is a positive sign. The declining interest rates and low inflation are encouraging for the cash flow situation of farmers, which could result in improved production. It is expected that the reduction of subsidies to the communal

farmers in 1999 and continuing into 2000 will negatively affect their livelihoods. Farmers are expected to pay for fuel, drugs, seeds and fertilisers, which are added costs for them. Hence in planning production, these items must be factored. Farmers must look for ways in which such costs can be recovered in order to make production a profitable exercise.

During 2000, the SADC Trade Protocol and the European Union-Republic of South Africa Free Trade Agreement (EU-RSA FTA) will be implemented and the current Lomé Convention will expire. White maize producers will be affected by the SADC Trade Protocol, so Namibia has made a request for sensitivity on the grounds that the Caprivi producers have a micro-economy that will be distorted by uncontrolled imports of maize from southern Zambia. Under the EU-RSA FTA Namibian beef, wheat, maize and dairy products are excluded from the Agreement. Under the Lomé Convention, Namibia is requesting an increase in the beef quota as well as an extension of the quota to include seeded table grapes. The implementation of the trade agreements are not expected to affect Namibian products in 2000.

THE FISHERIES SECTOR

General Overview

Fisheries remains one of the major economic sectors in Namibia, despite mixed signals on the sector's performance in 1999. The third quarter was the second in succession which experienced a drop in landings of high value species such as Hake and Orange Roughy, because the species were harder to find. However, while the overall output of the fisheries sector showed strong growth in the first half of 1999, 6.9% and 8.9% for the first and second quarter respectively, it declined

significantly during the third quarter (minus 11%).

The Pelagic industry experienced a serious financial crisis due to over-stocking, an all-time low of global prices for fish meal, fish oil and canned fish, and stagnating markets due to a high supply from South Africa.

Despite these trends, the value of total output is expected to have increased by 50% from N\$2.2 billion to some N\$3 billion in 1999. This can chiefly be attributed to increases in landings of horse mackerel.

Table 1 Total landings in metric tonnes, 1997 to 2000

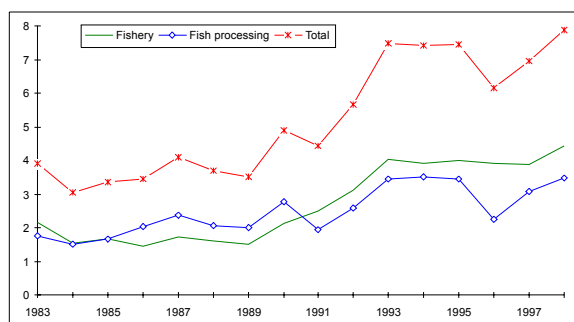
	1997	1998	1999*	2000#
Pelagic	142,712	159,138	226,287	263,144
Demersal	111,446	182,692	256,294	292,647
Mid water	213,290	305,565	323,035	353,018
Deep water	7,702	15,000	21,954	23,977
Tuna	2,248	2,686	3,124	3,562
Line fish	1,143	1,357	1,572	1,786
Crustaceans	2,280	2,300		
other	35,040	9,012	44,988	44,962
Total	515,861	677,750	877,254	983,096

* preliminary; # estimates

Source: Information provided by the Ministry of Fisheries and Marine Resources (MFMR)

Contribution to GDP

The sector's contribution to GDP (at 1990 constant prices) continued to grow during the late 90s, reaching 4.4% in 1998, with a sharp increase of 17% from 1997. Adding the contribution of the fish processing industry, the relevance of the sector is more evident: 7.9%, or approximately N\$2.5 billion in monetary value.

Figure 8 Share of fisheries and fish processing of GDP, 1983 to 1998

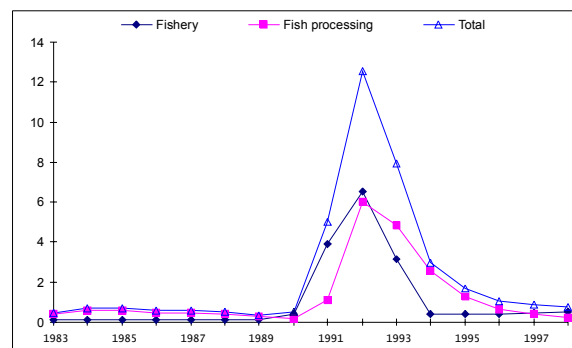
Source: CBS 1999

Gross Fixed Capital Formation

The contribution of the fisheries and fish processing sector to the Gross Fixed Capital Formation (GFCF) remains minimal, hovering at around 0.5% in recent years.

The fact that existing fish processing facilities are used below full capacity makes the likelihood of a change of this trend in the short term very unlikely. Significant investment

shortly after independence, declining Total Allowable Catches (TACs) and uncertainty about their future trends caused the sharp drop. Necessary diversification within the sector to exploit additional market segments and new markets to avoid over-reliance on traditional markets could result in higher investment in the coming years.

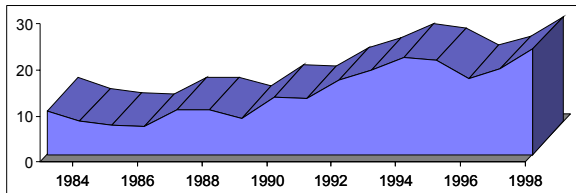
Figure 9 Share of the fisheries and fish processing sector to GFCF in %, 1983 to 1998

Source: CBS 1999

Export earnings

Export earnings from the fishing industry continue to grow steadily. They are recovering from the slight decline experienced in 1995 because of adverse oceanic conditions, subsequent low catches and over-supply of canned fish.

Figure 10 Share of fish and fish products as % of total exports of goods and services, 1983 to 1998



Source: CBS 1999

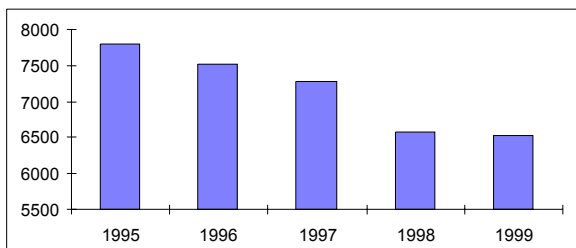
The combined share of exported processed and unprocessed fish represented 22.9% of all goods and services exported in 1998 - an increase of 11.7% from the previous year.

The bulk of fish catches (around 95%) is exported. The expansion of the domestic market is hampered among other factors by relatively high prices and a consumer taste that is not in favour of fish products. As a result, only about 10% of the population are regarded as fish consumers.

Employment

The fishing industry provides considerable employment. 6,537 fishermen were employed on fishing vessels, of whom 60% were Namibians. This represents a slight decline from the 1998 figure when 66% of the total employed were Namibians.

Figure 11 Employment on fishing vessels, 1995 to 1999



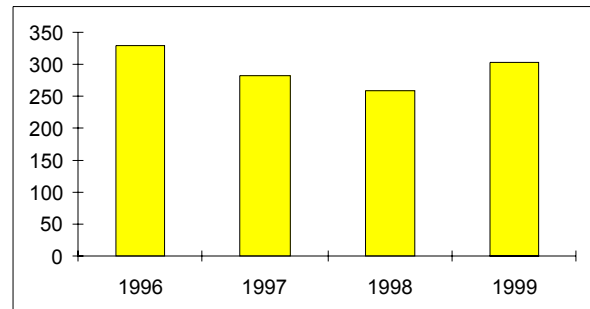
Source: Information provided by the MFMR

Despite the increase in the number of vessels operating in Namibia, the number of crew members declined, which may be a reflection of the use of new labour-saving technologies. 71% of the vessels were registered in Namibia - a significant drop compared to 84% in the previous year.

The persistent low TACs and landings in the pelagic sector took its toll on employment on land, as the number of vessels operating in the sector shrank to 13 from about 50 at independence. In addition, seasonal workers at cannery plants were retrenched. It is

therefore estimated that on-land employment in the fish processing sector was below the 1998 level of some 7,600.

Figure 12 Number of vessels, 1996 to 1999



Source: Information provided by the MFMR

The new quota fees give strong preference to Namibian-owned and Namibian-based vessels, with the principal objective of empowering formerly-disadvantaged groups.

Table 2 Quota fees allocated 31 May 1999 in N\$

	Allocated to Namibian Vessel	Allocated to Namibian-based Vessel	Allocated to Foreign Vessel
Hake	440	660	880
Horse mackerel	34.4	51.6	68.8
Pilchard	110	165	
Crab	330	495	660
Rock lobster	1,100		

Source: Information provided by the MFMR

Performance of the major species

Hake

The hake industry continues to look bright. The TAC was increased by 27%, from 165,000 metric tonnes (mt) in 1998 to 210,000mt in 1999/2000. However, a survey conducted in February 1999 indicated that the total biomass of hake had declined to 900,000 mt, from more than a million mt in 1998. Total landings increased to 180,100mt, from 150,095mt in 1998. A survey was planned for the beginning of 2000 to establish the further trend in biomass. The outcome is of significance not only for the fisheries sector, but for the economy as a whole, since hake is the most important species.

Pilchards

The pilchard industry is still experiencing problems. In 1999 the TAC was lower than that of 1998 (85,000). 45,000mt were finally allocated in 1999 after 55,000mt were announced earlier in the year. Furthermore, the total biomass declined significantly, as indicated by a survey in April 1999 which found a total biomass of 280,000mt, which dropped half a year later to just 100,000mt. However, pilchards are recovering rapidly, under favourable conditions. More worrisome for the industry are the large stock holdings that persist despite a reduction in catches - 42,800mt in comparison to 68,562mt in 1998. This can mainly be attributed to higher TACs in South African waters which enabled the South African industry to supply its entire market by itself.

Horse mackerel

The biomass for this species is estimated at 1.9 million tonnes, by far the largest biomass for all fish species in Namibia. The TAC was stable at 375,000mt over the past year with actual landings slightly lower than in 1998 - 311,336mt and 312,422mt respectively.

The species is an important contributor to export earnings, of some N\$500m per annum. However, it is a low-value species, and research has been conducted into embarking

on further value-added production such as the filleting of the fish.

Table 3 Total Allowable Catch, 1996 to 1999/2000

	1996	1997	1998	1999-00
Hake	170,000	120,000	165,000	210,000
Pilchard	20,000	25,000	65,000	45,000
Horse Mackerel	400,000	350,000	375,000	375,000
Crab	2,500	2,000	2,000	2,000
Rock Lobster	250	260	300	300

Source: Information provided by the MFMR

Prospects

The prospects for this sector for the year 2000 are good, though experts from the fishing industry consider the 13% growth forecast by the Bank of Namibia over-optimistic, and anticipate one of around 8%. The challenge ahead is to restructure the fishing industry as a whole in order to diversify the supply of products and to reach the end-consumer directly through increasing value added production.

Canning facilities for pilchards could be used for the canning of other products to minimise the problems the pilchard industry is facing.

THE MINING SECTOR

General Overview

1999 was generally a lacklustre year for international metal prices apart from a resurgence in the diamond industry. Prices of most metal commodities started and ended at similar levels, owing primarily to low demand. Despite these poor conditions the industry performed satisfactorily. Exploration expenditure continued at a high level showing an increase of about 41% from N\$124m (1998) to N\$175m for 1999. Similarly, non-exclusive prospecting licenses increased from 464 (1998) to 518 (1999), and registered claims doubled from 85 to 176 over the same period. However, exclusive prospecting licences - implying that no other person or company will be granted a licence for the same mineral or mineral group in the area - decreased to 92 from 178 (1998) and pending applications from 102 to 56 (1999).

A new Diamond Act was promulgated during 1999 and came into effect on the 1st of April 2000. The act covers the handling of all rough diamonds within Namibia - onshore and offshore within the Exclusive Economic Zone - whether synthetic or natural, while polished diamonds remain outside this legislation. Its intention is to enhance the market access of smaller operators and value addition activities.

With the acquisition of 92% of Ocean Diamond Mining shares by Namco in the last quarter of 1999, Namco's production is expected to increase to 400,000 carats in 2000, thus bringing it close to Namdeb's marine production of about 500,000 carats

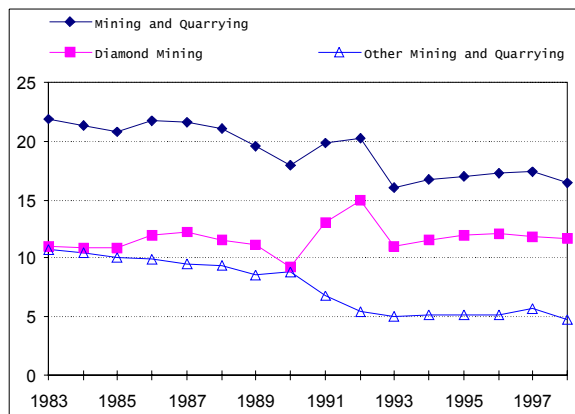
The year was the first full year of production for the NamGem Diamond Manufacturing Company, producing some 100 finished stones per day at an average size of 14 points. The company currently employs 51 staff - up from 36 in 1998.

Finally, the year 2000 started with good news for Namibia's economy from the mining sector. Ongopolo Mining and Processing Limited - a partnership between some managers of the former TCL mine and the trade unions - secured the remains of the former TCL assets. 'Export Processing Zone' (EPZ) status has already been granted for the smelter at Tsumeb, and production is expected to start later in the year. The re-opening will benefit the regional economy through the employment of about 800 workers and the demand for goods and services.

Contribution to GDP

The mining sector's contribution to GDP decreased slightly by one percentage point from 17% to 16% in 1998. This can be directly attributed to other mining and quarrying activities whose contribution dropped by one percentage point to 4.7% from 5.7%, due to the closure of the TCL mine. Whereas diamond production increased by 13.8% during 1999, the production for most other minerals declined. Hence, only a slight growth of the sector can be expected for 1999. However, the sector's contribution to the economy is not fully described regarding its contribution to GDP.

Figure 13 Contribution of the mining sector to GDP, 1983 to 1998



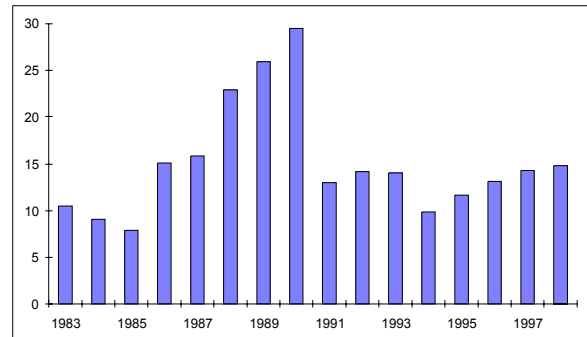
Source: CBS 1999

Mining companies account for over 40% of company taxes, and diamond mining companies contribute further through diamond royalties. Overall, the sector contributes almost 8% directly to total government revenues.

Gross Fixed Capital Formation

In an attempt to improve efficiency, productivity, and competitiveness as well as keeping abreast with the latest technological developments, the industry invested significantly in capital formation during 1999. More than N\$220m was spent on various investment projects by major companies. However, without major additional investment it is expected that the figure for the whole sector reached the level of 1998.

Figure 14 Contribution of the mining sector to Gross Fixed Capital Formation, 1983 to 1998

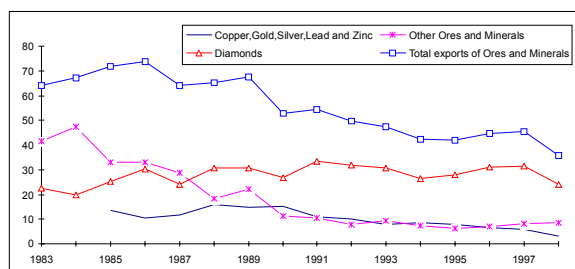


Source: CBS 1999

Export earnings

The closure of the TCL mines, declining commodity prices, and a cut in rough diamond sales by the Central Selling Organisation (CSO) could have led to a fall in the share of export earnings during 1998. However, an increase in diamond sales by the CSO of approximately 57% and a positive trend in major retail diamond markets is likely to compensate for the fall during 1999.

Figure 15 Share of the export earnings by the mining sector, 1983 to 1998



Source: CBS 1999

Employment

Employment declined only moderately during 1999. 5,653 employees were on companies' pay-rolls, in comparison to the previous year's 5,673, which excluded the TCL workers. Whereas some companies plan to reduce their workforce - for instance Namdeb plans to cut its workforce by 1,400 until 2003 - the reopening of the former TCL mines (about 800 workers), and the development and subsequent opening of the Skorpion zinc mine will raise employment during this and the next year.

Performance of Minerals

Diamonds

All major retail markets have shown a positive trend during 1999, with continuing strength in the USA, increased recovery in South East Asia, and steady growth in Europe. The low level of stocks in the cutting centres at the beginning of the year, together with improved sentiment through the diamond industry, enabled the CSO to increase its sales by some 57%, from US\$3,345m (1998) to US\$5,240m in 1999. Similarly, Millennium marketing activities that began in the second half of the year, having some positive impact on sales, are expected to continue throughout 2000. Therefore, better sales of rough diamonds may be expected this year as well.

Diamond production increased by approximately 13,8% from 1.44 million carat (ct) in 1998 to 1.639 million ct (1999). Off-shore operations alone accounted for 55,5% of total production at just over 910,000 carats from Debmarine, Namco, ODM, and Diamond Fields Namibia. Namdeb had a satisfactory year of production with its on-shore production of 716,100 carats. The country's leading diamond producer increased its total

production slightly by 14,548ct to 1,275,228ct. Namco - through the acquisition of ODM - more than doubled its production from 98,857ct to 256,445ct in the year under review. The average realised diamond price went up by 7% to US\$151 per ct. Namco expects its production to increase by 45% to 400,000ct in 2000. This is to be achieved through the contribution from the second mining system, NamSSol II, which is expected to be 25% more powerful than NamSSol, together with the phased upgrade of ODM's mining vessels. Total off-shore diamond production will therefore exceed one million carats in Namibia in 2000.

Uranium

The first quarter of 1999 saw an improvement of about 6% in Uranium oxide production. However, due to poor prices owing mainly to oversupply on the global market, overall production declined slightly by 3% from 3,278 metric tonnes (mt) to 3,171mt in 1999.

The average restricted price for 1999 stood at US\$10.20 per pound (lb.) approximately 1% below 1998's level of US\$10.41. Similarly, the average unrestricted price fell from US\$9.01 per lb. to US\$8.25 per lb. in 1999. However, production is expected to increase by approximately 10% in 2000, in line with delivery requirements to existing customers.

Gold

Gold production by the Navachab Mine increased by 8.2% in 1999, from 1,855 kg in 1998 to 2,008 kg. During the year several factors, including the drop in gold prices and a six-day strike by workers, threatened the planned life-span expansion of the mine. The mine entered into a two-year extension until 2005, while the extension up to 2012 is currently under review.

Gold prices dropped as low as US\$250 per ounce (oz) in mid-1999. During mid-October prices skyrocketed by around 20% to more than US\$300 per oz. This was in response to a five year moratorium announced by a number of European Central banks and the IMF on gold sales over a 400-tonne limit, and an agreement to limit their gold loans. Since then, prices have fluctuated between US\$280 and US\$300 per oz.

Copper

There was no copper production in 1999 following the provisional liquidation of the TCL

mines. However, the situation is likely to improve in 2000 following a take-over of the mines by Ongopolo Mining and Processing Limited, which will start operations in early April 2000.

Despite slight price increases during 1999 resulting in US\$1,842.54 per tonne, in January 2000 medium term price expectations were bleak, since demand in developed countries is expected to level off, while increases of just 4% are expected for Asian economies over the next five years. Alternative applications of the metal are being developed to offset losses in use due to the advancement of fibre-optic technologies.

Zinc

Output of zinc concentrate fell by 12% to 69,193t. This was mainly due to the planned mining of the lower grade areas. The average price improved by 5% to US\$1,076 per tonne.

Following an agreement between the shareholding companies - Iron and Steel Corporation South Africa (Iskor) and PE Minerals - the owner's name of the mine's assets was changed to Rosh Pinah Zinc Corporation (Pty) Ltd. Moreover, the future of the mine is now certain and it is expected that production of zinc concentrates could increase by 30% to 95,000t in the near future.

Lead and Silver

Rosh Pinah's lead output decreased by 20.6% to 19,283t due to a reduction in overall grade mined. The average price for the metal remained fairly stable, opening the year at US\$495 and closing at US\$478 per t. It is hoped that recent improvements to the Lüderitz harbour will help reduce transportation costs involved with Rosh Pinah's sales system of trader tenders for overseas shipments.

Output of silver in lead concentrates by the Rosh Pinah Zinc Corp. increased by approximately 62%, from 5.97 metric tonnes to 9.67mt in 1999. Demand for the metal remained at a low level during 1999, resulting in an average price of US\$5.22 per oz, down by 5%.

Prospects

The re-opening of the Tsumeb mines by Ongopolo and commencement of production later in the year, and an increase in diamond output is expected to lead to a growth of about 4% in 2000. The Skorpion zinc mine is expected to start production in mid 2001, which will increase the mining sector's economic contribution and boost the transport sector.

FOCUS: Namibia's economic reform and the labour market

Government policy is aimed at promoting growth and employment, and reducing poverty and inequality. Key instruments for achieving these aims are high expenditure on education, health, a universal pension system and other social services, as well as measures to create employment and to redress inequities on the labour market. At the same time, the Namibian Government follows a market-oriented economic policy, aimed at achieving growth. This policy includes a balanced budget, a conservative approach to foreign debt, and public sector reform. Such reform is, however, still in its infancy.

A key means to create welfare is employment. Independent Namibia inherited a highly segmented labour market, where every defined 'ethnic group' had differentiated access to employment and to wages, with a major underlying factor being unequal access to education. Poverty and inequality remain major problems. Unemployment has increased, as the declining agricultural employment and increasing number of school leavers have not been compensated by commensurate increases in employment in the industrial and service sectors.

Namibia's formal sector is large relatively to the 'informal sector' and is characterised by high incomes. Sheltered by the high tariffs of the Southern African Customs Union (SACU), these are increasing and outstripping productivity increases. They also reflect the high degree of unionisation and the scarcity of skills. In contrast, the small non-agricultural informal sector and agriculture (crucial in terms of employment) provides low, market-determined incomes. Poverty is concentrated among the rural population (subsistence farmers, agricultural and other workers).

Confrontational labour relations were also inherited, and have not yet been overcome despite a policy of reconciliation and collective bargaining. This is identified as a key problem by investors. A related problem is that the trade unions represent mainly the predominantly non-poor urban workers and employees.

The involvement of labour market institutions in the process of economic reform is limited, due to two principal factors. Firstly, the institutions do not yet represent the social partners in their entirety, and secondly, this capacity of economic policy analysis is itself limited.

Measures to augment the role of social partners in the formulation of economic policy reform include the following:

- strengthening the voice of currently underrepresented groups (low-paid workers, especially in the informal sector; informal sector operators);
- strengthening the capacity of the social partners in economic policy analysis;
- strengthening institutionalised tripartite mechanisms;
- providing better information to the general public (e.g. capacity-building of economic policy journalists); and
- providing timely and comprehensive economic information (statistics) to facilitate an informed debate.

Source: Hansohm, Venditto and Ashipala (1999)

THE MANUFACTURING SECTOR

General overview

The manufacturing sector, regarded as a potential growth pole in the economy, performed poorly during 1999. Substantial negative growth rates were recorded during the first three quarters, of 6.9%, 15.1% and 12.8% respectively. Growth estimates by the Bank of Namibia are gloomy, with minus 4.6% for 1999. An improvement is expected for 2000 resulting in a growth of 4%.

Fish processing

The trends were chiefly attributed to the poor performance of the fish processing industry. Although higher Total Allowable Catches were granted, hake and pilchard landings in particular showed a decline, while the TAC for Orange Roughy was cut because this species was not available. The pilchard industry is also struggling, with canned products being kept in storerooms because of low demand.

Meat processing

The decline in fish processing was not offset by the meat industry, which showed favourable trends. Owing to widespread below-average rainfall during the last season, farmers reduced their herds, which led to increasing numbers of cattle being marketed and slaughtered. Cattle from the commercial areas slaughtered in export abattoirs exceeded last year's total figures by some 26%. The total number of cattle marketed stood at 348,632, roughly 28,000 (or 8.7%) more than in 1998. The proportions of export abattoirs in cattle marketed increased by 6 percentage points to 51.5%, while the market share of local

butchers dropped by almost 3 percentage points to 5.5%. Overall, more value added production took place in Namibia and fewer cattle were exported on-the-hoof to South Africa (43%, in comparison to 46% the previous year). However, the average beef carcass mass in export abattoirs dropped slightly from 225.9kg (1998) to 223.2kg in 1999. Prices averaged at N\$7.71 per kg and it appears that the downward trend is bottoming out. Export markets in particular showed a strong performance. The South African market experienced low competition from foreign competitors, owing amongst other factors to the recovery of the South East Asian economies, and a recovery of prices for Argentinean meat in the USA. The Namibian meat industry further benefited from the trend with the US Dollar and British Pound. Transport costs are paid in US\$, and had decreased, while the strong British Pound resulted in higher export revenues.

The ostrich abattoir in Keetmanshoop - an EPZ company - started slaughtering in September 1998 and tanning in February 1999. It has a slaughtering capacity of 400 birds per day, which it hopes to achieve after a phasing-in period of five years. Almost 34 tons of meat were exported to some European countries and South Africa up to the end of 1999. While the demand is fairly good, the supply is low as a result of the low prices of recent years. However, prices are recovering and it is expected that more farmers will start breeding birds again.

Other manufacturing

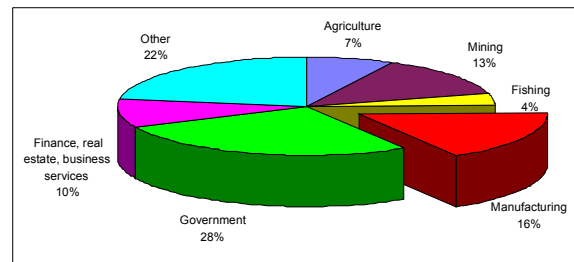
The foam and beverages sub-sectors were negatively influenced by the collapse of Angolan demand. The non-alcoholic beverage industry experienced a significant decline, while the foam industry tried to venture into new businesses - such as furniture - to diversify the product range and level out the drop in demand for mattresses. On the other hand, the beer industry saw an increase in domestic sales of 5%, in export sales to South Africa of 22% and of 6.8% to other countries (except Angola), which necessitated investment in additional brewing capacities. Namibia Breweries now captures 39% of the South African Premium beer market of one million hectolitres, or 1.5% of the total market of 25 million hectolitres.

The chocolate industry experienced relative stagnation in business activities over the past twelve months, with disappointing Easter business, and Christmas business picking up late. Although quite small in comparison to the South African industry - production of 300t per annum compared to 18,000t - virtually all production is sold on the South African market, where very little domestic competition in hand-made speciality chocolate exists. Other sub-sectors performed poorly during the first half of the year, such as food, leather products, chemicals and hygiene products.

GDP contribution

Despite several incentive schemes, the contribution of the manufacturing sector to GDP has not increased significantly since Independence. While the sector constituted roughly 12% of GDP between 1983 and 1989, the share stood at 14.6% for the last nine years of Independence. NEPRU estimates a share of 16% for 1999, which is low in international comparison (South Africa 23%, Zimbabwe 30%). It is not expected to change during 2000.

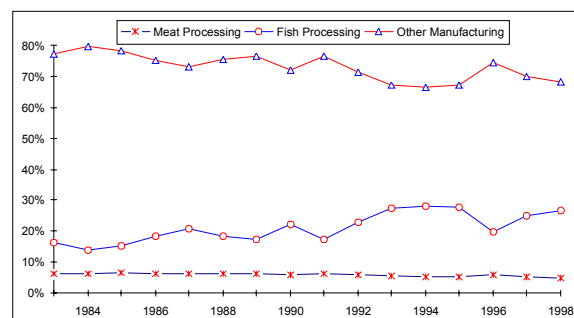
Figure 16 GDP composition by sector in %, 1999



Source: NEPRU estimate

The graph below indicates that the contribution of the fish processing sector increased during the nineties, from 22% to almost 27%, with fluctuations. At the same time, meat processing showed a slight but steady downward trend, from roughly 6% to 5%. Both sectors together constitute one third of the value addition in the manufacturing sector. These sectors are highly susceptible to climatic changes.

Figure 17 Contribution of the manufacturing sector to GDP in %, 1983 to 1998

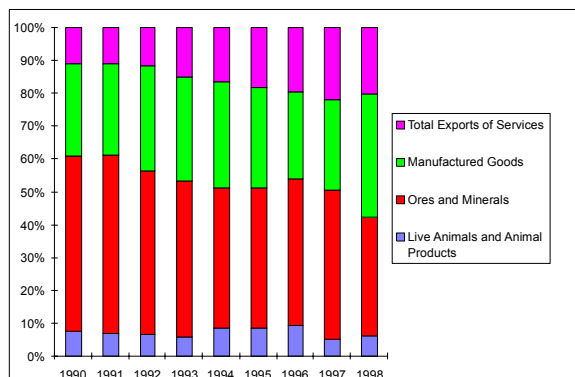


Source: CBS 1999

Contribution to export earnings

The manufacturing sector has increased in importance as an export earner since independence, contributing an all-time high of 37% to export revenues in 1998.

Figure 18 Composition of Namibia's exports, 1990 to 1998

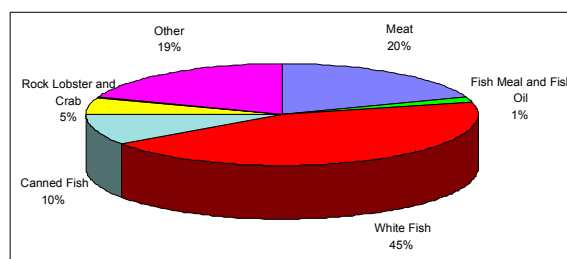


Source: CBS 1999

Once again, this is low on an international scale, particularly when compared with middle- (72%) and high-income countries (81%). Results from NEPRU's business climate survey support this conclusion. 50% of manufacturing companies sold their entire production in Namibia, and almost 90% sold more than three quarters within the country. This is surprising against the background of various government incentive schemes. It cannot be explained by export obstacles, since only 33% of companies indicated these factors as having a strong or very strong impact on their business. However, interesting to note is that two-thirds of companies identified import-related factors as 'strong' to 'very strong' obstacles. This could include high SACU tariffs against non-SACU countries. Most companies of the sample that exported, sold their goods within SADC, SACU and to the EU. There was no company exporting to America or Asia. On the other hand, businesses are open towards trade liberalisation. 65% expect positive impacts, whereas only 6% anticipate negative impacts on their business.

Fish and fish products are the main manufactured exports. They account for some 60% of total manufactured exports, followed by meat and meat products with 20% and other manufactured goods. In particular exports of white fish increased significantly from 14% (1990) to almost 45% in 1998, while on the other hand the share of other manufactured goods declined from 36% to 19% over the same period.

Figure 19 Composition of manufactured exports, 1998



Source: CBS 1999

The EPZ scheme

The EPZ scheme continued to attract interest. The number of companies granted EPZ status increased from 62 in 1998 to 83 (March 2000). Almost 50% of these companies are joint ventures, 34% including Namibian companies. The scheme has aroused most interest among German companies (10%), followed by Chinese (7%) and South African (5%). The interest from companies all over the world indicates that the Offshore Development Corporation has been quite successful in promoting the scheme. Of the 83 companies, 17 have commenced their business activities. The companies that are fully operational invested N\$149.2m, and created 353 new jobs. However, this fell short of projected investments of N\$247m and 1,145 new jobs. Furthermore, the number of companies that withdrew from the scheme increased substantially from six (1998) to 22. This is mainly attributed to the failure to meet the requirement to export 100% of production outside SACU during the first year, which can be lowered upon application to 70% for subsequent years. However, if a company wants to sell up to 30% of production on the domestic or SACU market, it has to pay import duties for the products. This often makes it non-viable, and companies decide to withdraw from the scheme. Other reasons mentioned include the failure to raise the required funds for their operations, and more recently, the situation in Angola that deters investors focusing on that market. Six of the 22 companies continue to operate by producing for the SACU market. They invested some N\$60m and created jobs for 374 employees.

Employment

According to the latest Labour Force Survey from 1997, 22,840 people were employed in

the manufacturing sector, which constituted 6.4% of total employment. Although employment in some sectors increased during 1999 its share of total employment will probably not have changed significantly owing to the absence of any larger investment. Our Business Climate Survey revealed that a third of the responding enterprises retrenched staff during 1999, and only 6% employed more workers. No change can be expected for 2000, since the same number of companies indicated that they will either retrench workers or employ more, whereas the majority (53%) will stick to their present workforce size.

Prospects for 2000

In general

The sector is expected to swing upwards and grow by plus 4% in 2000. A more optimistic forecast is also supported by the responses to the Business Climate Survey. 35% of companies expect either moderate or strong growth of their turnover during this year, in comparison to 18% who anticipate that their turnover will drop slightly.

The opening of a long-life milk plant in January and the construction of a pasta plant - due to commence production in August 2001 - indicate some diversification within the sector. However, it continues to depend on agricultural and maritime products, and thus in turn on climatic conditions. There is therefore a necessity to venture into other processing activities. As some successful examples have proven, it is viable to import raw materials for processing in Namibia and export the final product, thereby exploiting export incentive schemes and lower labour costs than those of South Africa, even if the productivity is also lower. An exploration of more of these opportunities could be a worthwhile undertaking.

Fish processing

In general, increased landings are expected for this year. However, according to sources from the fisheries sector, catches for hake are unpredictable for the year 2000, though higher prices are expected. The outlook for the pilchard industry seems bleak, caused by low sales and increasing diesel prices. Therefore it would be worthwhile diversifying into more value-added production and exploring new markets to avoid stagnating or decreasing demand in the traditional markets.

Processing of agricultural products

Namibia was blessed with a good rainy season this summer. Thus, a higher output in crop farming can be expected. A harvest of 5 tonnes per ha for maize and above-average production of mahangu and cotton is expected. Cattle farmers will start rebuilding their herds, which will lead to a decrease in the number of cattle marketed. A drop in the number of marketed cattle by 8% to 315,000 is expected, though with a higher weight. The outlook for meat prices is more positive, since there are hardly any intervention stocks available in Europe. The discussion in the EU on genetically manipulated maize as fodder for the meat industry is not expected to have an impact on the Namibian meat industry in the near future. Yellow maize is almost entirely imported from South Africa, where the market share of genetically manipulated maize is in the range of 5%. The ostrich abattoir will not reach its targeted increase this year because of the flood in the South that destroyed eggs and killed chicks in February 2000. A drop in exports of up to 20% is expected.

Much depends moreover on the WTO's decision on the European Common Agricultural Policy and its subsidies for farmers. It could lead to a reduction in subsidies in two to three years' time. The EU-SA FTA is expected to have a positive impact on Namibia's agricultural sector. Input costs for the agricultural sector will decline, while stronger competition in the meat market and subsequently lower prices cannot be expected, since red meat is excluded from the Free Trade Agreement.

Other manufacturing

Higher demand is expected in the chocolate and beverage industries (10% due to an increase in the local market). A new Schnapps plant is under construction, which will start operation in April 2000.

EPZ companies

A new Industrial Park is planned for Katima Mulilo providing facilities for EPZ companies and SMEs. Construction work is expected to start in March and to be completed by August 2000. Further interest in the Oshikango EPZ depends on the security situation in Angola, which has hampered business activities there. A major investment can be expected in the near future with the development of the Scorpion Zinc Mine site in the South, and subsequently the construction of the refinery,

which was granted EPZ status. The reopening of the former TCL mine under the new ownership of Ongopolo Mining and Processing Limited and the granting of EPZ status to its

lead smelter further supports positive expectations about the processing sector's performance in 2000.

FOCUS: Can Namibia do better?

In the run-up to the 1999 election, NEPRU prepared a series of 5 Viewpoints to inform the economic policy debate on the options for economic policy. Five areas were identified as crucial:

1. taking advantage of globalisation;
2. creating an effective public sector;
3. reducing poverty and inequality;
4. improving public education; and
5. creating a productive financial sector.

Despite a trend towards liberalisation, the economy of Namibia - as part of SACU - is still relatively closed with high tariff barriers. However, the indications of both the experiences of other countries and economic theory are that countries which are open to international trade (as well as to foreign investment and labour migration), fare better. Consumers gain, and domestic producers have incentives to become more productive and competitive on export markets. 'Open' countries are better able to attract foreign investment and technology. It is shown that neither the small size of a country nor the fact that it neighbours a large country need necessarily be disadvantages. More aggressive openness through both regionalisation and global integration is advisable. Maximising gains from increased openness, effective private-public interaction, improved labour relations and institution building are all necessary components.

Another vital area of policy reform concerns the public sector. Despite a number of policy reform initiatives, Namibia's public sector is still relatively large on an international scale. Evidence indicates that large size is often connected with low growth. Large public sectors are vulnerable to economic shocks, and deflect resources from the rest of the economy, which might be able to make better use of them. They often manifest poor management and service delivery, and may lead to dangerously high levels of political patronage. The reform of Namibia's public sector could generate high returns. Elements should include tax reform, privatisation, outsourcing, and de-politicisation. The vision should be towards a smaller, more open, and more efficient government.

The third key area of policy focus is the reduction of poverty and inequality. Although considerable progress has been made in the provision of social services, poverty remains widespread. Policy needs to be based on a comprehensive understanding of the causes and articulation of poverty and inequality. The measurement of income alone does not capture the whole phenomenon: attention must also be given to health, education and the voice of the poor. The most effective policy is a focus on employment-intensive growth, which should be complemented by a system of social 'safety nets' for those unable to respond to new employment opportunities. Important policy areas include primary education, small enterprise promotion, primary health care, the empowerment of local communities, and housing. A particularly effective and simple measure would be to raise cash transfers: the existing old age and disability pensions, which have a high direct poverty-alleviating impact, have fallen in real terms.

A crucial policy for poverty alleviation, employment creation and economic growth is education. This is recognised by Government, and considerable resources are spent on education accordingly. The impact of education policy cannot be increased by further increase in spending, but rather by a focus on equity, quality and efficiency.

Greater mobility of resources (including teachers), more equal distribution between regions and greater private contributions could all help. Teachers should be given incentives to perform. A focus on primary education and a stronger labour market orientation are also necessary.

The last area of policy focus is the creation of an increasingly productive financial sector, which would add value by collecting savings, managing risk, and allocating resources efficiently. Helpful measures include a focus on small business growth through an economic approach to small business promotion, and on more competitive and accessible banks. Existing institutions, such as the Stock Exchange, could be made more economically useful.

Source: NEPRU Viewpoints 22-26 1999

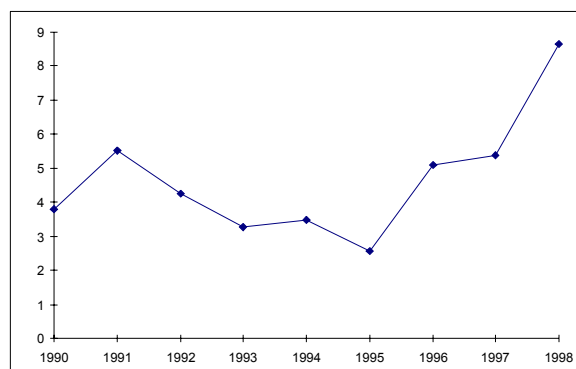
THE ENERGY SECTOR

General Overview

The energy sector plays a vital role in the economy, as provider of reliable and cheap energy not only to the production sector, but also to households. In 1999, imported electricity accounted for 42.5% - mainly from ESKOM in South Africa - falling from 67.7% (1997) and 54.6% (1998).

The electricity sub-sector is currently experiencing major investments in new sources of energy, as it did in the 1970s. Once these projects are completed, it will be another 15 to 20 years before the need for further substantive investments arises again. However, energy consumers will be faced with higher tariffs to recover investment costs. In 1998 this sector accounted for 8.5% of total investment in the economy, and this figure has probably risen with the major projects initiated.

Figure 20 The sector's contribution to GFCF in %, 1990 to 1998



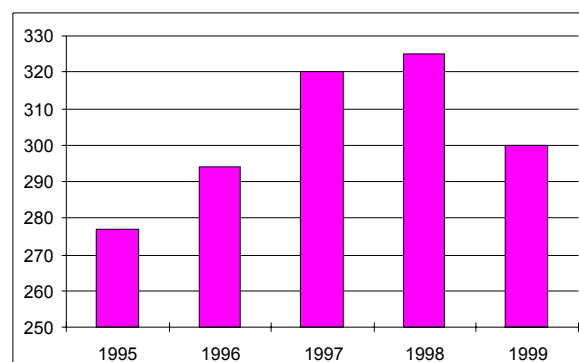
Source: CBS 1999

1999 saw the completion of the first phase of the 400kv power line between Aries in South

Africa and Kokerboom in Namibia. Once the project is completed, Namibia will have spent N\$900 million, which is almost three and a half times the amount spent in 1998 (N\$263m). The power line forms part of the regional power pool, envisaged to ease access to and enhance the reliability of electricity supply within the region.

As Figure 21 indicates, demand for electricity has shown a steady increase over the last five years, with the exception of 1999, where there was a fall in demand. This is largely attributed to the reduced demand from the mining sector, due to the closure of Tsumeb Corporation Limited.

Figure 21 Maximum demand in megawatt



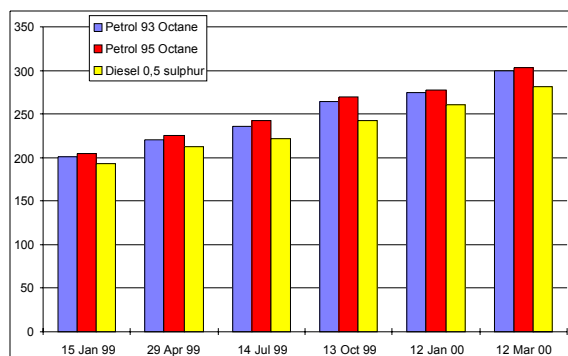
Source: NamPower undated

Fuel-consuming sectors of the economy have been particularly hard hit over the last year by increases in fuel prices. Apart from the initial decrease at the start of 1999, fuel prices have increased no fewer than four times since then. The increases were necessitated by a sharp rise in global crude oil prices, which was the result of OPEC countries limiting their production output and the higher than expected demand for oil. Prices went up from

a low of US\$9.53 per barrel (February 1999) to almost US\$30 per barrel a year later, representing a staggering hike of more than 210%. However, domestic fuel prices increased only modestly by 26.3% cushioned by the National Energy Fund, which receives eight cents per litre from the fuel levy. It was put in place to limit the impact of fuel price fluctuations.

Not surprisingly, these increases had an inflationary impact on the domestic economy. The short-distance taxi fares in Windhoek increased from N\$3.50 to N\$4.00 (14.3%) during 1999, while the long-distance taxis (which consume mainly diesel) adjusted their fares between N\$2 and N\$5, depending on their destination.

Figure 22 Fuel prices in cents per litre for Windhoek, Jan. 1999 to Mar. 2000



Source: Information provided by the Ministry of Mines and Energy

Fuel represents 23.1% and 7.4% of total direct input costs per hectare per production cycle for dry-land and irrigation farmers respectively, implying that agriculture production cost rose during the year. This put further pressure on a sector that has to cope with fluctuating climatic conditions. Furthermore, the marine fishing sector, as one of the main diesel consumers in the country, has striven for a reduction in fuel taxes to curb production costs. Since the fuel tax provides for the maintenance of roads, the sector does not benefit from its payment. Despite the rise in fuel prices, the demand also rose. Namibia's fuel outlets increased their output from an average of 80,000 litres per month (in the mid-90s) to 93,000 litres per month (in 1999). This represents a 16% increase in demand for fuel over the past few years.

Rural Electrification

At the beginning of 2000, roughly 10% of rural households had been connected to grid electricity - slightly up from 8% to 9% in 1997. It is estimated that roughly 27% of the total population is connected to the grid. Given this relatively small percentage, government and NamPower are looking into other ways of providing rural households with power. One of these is the "Home Power" Project, which has led to 270 Solar Home systems from 50 Watt up to 250 Watt already being installed in rural households. The relatively high cost of solar panels (anything between N\$5,400 and N\$23,000) appears to be a major obstacle preventing people from using solar-energy, although the Ministry of Mines and Energy, in conjunction with the Namibia Development Corporation, is making financing available for the purchase of these units.

Prospects

Future demand for electricity will come from the re-opening of the former TCL copper mine later this year, the Scorpion zinc mine and the proposed energy-intensive silicon metal plant in Omaruru, which is expected to commence production in October. Hence, the sector is expected to grow by some 3%.

The rural electrification master plan currently underway examines the options of expanding the electricity grid. Other power-generating sources under investigation are the Epupa Hydro Power Plant, the Kudu Natural Gas project (set to be operational in 2005/2006) and the Lüderitz Wind Power project. The Lüderitz Wind Power plant is in its pilot phase. A large-scale plant will only be established following negotiations with key players to pay for this relatively expensive electricity source. If these projects materialise, they will make Namibia not only self-sufficient but will also provide for energy exports. Recently, an agreement between NamPower and the Angolan electricity utility was signed for the power supply to nine Angolan villages by NamPower. The construction of the required transmission lines is due to start in July 2000 and will be completed within a year.

The recent above-average rainfall in Namibia should make NamWater's task of providing affordable water supply to the nation easier. However, power generated at the Ruacana Hydro Power station is dependent on good

rains in Angola, thus it is still too early to establish whether output will increase.

Oil prices are sensitive to supply and demand. Therefore with the approaching summer months, the Northern Hemisphere heating oil requirements will decline, putting downward pressure on oil prices. Furthermore, OPEC countries' agreement to curb output expires at the end of March 2000, combined with the fact that these countries are coming under increasing pressure to raise output levels. Thus the prospects for decreasing oil prices is very good. However, since fuel is purchased in foreign exchange, the recent depreciation of the South African Rand against the US\$ could off-set this trend. The implementation of the new Petroleum Products and Energy Amendment Act 2000 in April will not remove retail price controls immediately, but will open the markets in a controlled fashion in the long run.

The water sub-sector is set to face a new regulatory framework with a proposed new water bill. Currently Namibia still uses the Water Act 54 of 1956. If the proposed new bill

comes into law it will grant water the status of a national asset. This would also give government access to water that originates on private property, which is currently not the case. Furthermore, the new bill is aimed at addressing the problems commonly associated with free public goods, namely inefficiency due to misuse and overuse. In order to overcome the problem of common property rights, the bill makes provision for non-land owners to apply for the right to use water, which was previously restricted to land-owners. Thus, user rights are seen as a tool to protect Namibia's water resources. The increasing demand for water and the fear of depleting underground reservoirs at the coast resulted in the plan to set up a desalination plant near Swakopmund. Pilot plants of the short-listed tender companies were tested at the coast at the beginning of 2000. The commencement of the project, however, depends on reaching agreements with the coastal municipalities and Rössing Uranium Mine on the increasing costs for water. Increasing costs for water will lead to a more efficient use in the production process.

Table 4 Water usage and estimated value added per cubic metre by sector

Sector	% of water use	N\$ value added per m ³
Commercial crops	17.92	<0.2
Commercial cattle	10.20	<6.9
Communal cattle	12.60	5.0
Grape Production	8.26	26.5
Diamond mining	5.32	83.6
Other mining	4.54	91.7
Non-fish manufacturing	1.88	345.7
Fish processing	0.31	757.1

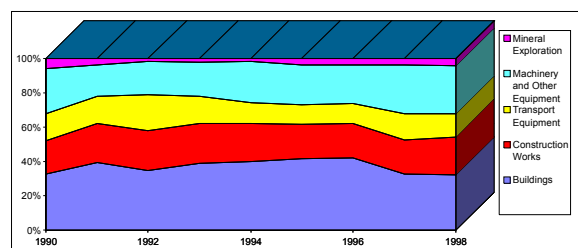
Source: Kalili 2000

THE CONSTRUCTION SECTOR

General overview

The construction sector's contribution to GDP declined from 1996, mainly due to a general decrease in economic activity, in turn owing to high interest rates since mid-1998. This is reflected in the following graph, illustrating the declining share of building and construction work in total gross fixed capital formation. While its share exceeded 60% in almost every year up to 1996, it dropped to mid-50% in 1997 and 1998.

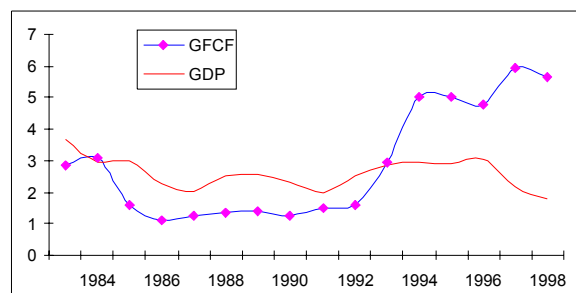
Figure 23 Gross fixed capital formation by type of asset, 1990 to 1998



Source: CBS 1999

However, the sector's contribution to GDP as calculated in the National Accounts is considered a low estimate, since it covers only part of the sector. Apparently, the figures are based only on information provided by municipalities, so that for instance, government capital spending is left out. Therefore, the sector's share of GDP is estimated at around 4%, rather than 2.5%.

Figure 24 The construction sector's role in the economy in %, 1983 to 1998



Source: CBS 1999

The trend of decline has reversed, as from mid-1999. Government expenditure on capital projects increased by 22% to N\$645m for the financial year 1999/2000. The amount budgeted for new work, as opposed to ongoing projects, more than tripled from an all time low of N\$33.5m to N\$148m. In particular, the Khomas region has benefited from the development budget. 15% of the budget has been allocated to capital projects located in this region, followed by Caprivi with 11%. Between 2% and 3% is budgeted for projects in each of the other regions. 45% is not regionally specified, but refers to spending nation-wide (30%) and in the North (15%).

Since the government sector including parastatals accounts for some 65% of turnover of the construction sector, the budget has an enormous impact on construction activities. However, the effects of the budget are not immediately felt by the industry, owing to a time lag of three to six months. To date,

smaller building companies in particular have benefited from smaller government projects such as the upgrading of health centres and schools, and the construction of additional classrooms.

Furthermore, the steady and significant decline in interest rates has revived private demand, particularly amongst residents. The trend is indicated in the growth of mortgage loans. Total mortgage loans provided to the private sector by commercial banks and other financial institutions rose by 20%, 15% and 25% over the first three quarters 1999, compared to the respective quarters of the previous year. The share of mortgage loans as a percentage of all loans went up from 39% in the first quarter to 45% in the third. Furthermore, the value of construction plans swung upwards by 30% in the third quarter. As a result, the negative growth of 12.9% that the sector experienced during the first quarter turned into an increase in output by 27.8% during the third quarter. However, the growth figures have to be seen against the background of a bottoming-out depression. Preliminary figures indicate a growth of 2.6% for 1999.

Concerns continue to exist about the presence of Chinese construction companies. Reportedly, they are state-owned companies employing few Namibian workers, (mainly bricklayers), rather bringing in their own skilled and semi-skilled labour. There is the suspicion that these companies are not in Namibia to make profit, and thus can submit low bids for tenders. Another concern is the spread of HIV/Aids, which affects the more highly-skilled workers in particular. Due to the low margins in the sector, no additional programmes are run for the prevention of the illness by construction companies. On the other hand, there were some positive developments during the year 1999. Very few strikes occurred, reflecting improved relations between trade unions and companies. Moreover, the tender procedure improved, and bids now have to adhere to the specifications given in the tender, in order to be considered. This is a change from previous procedures, and levels the playing field between companies by rendering the tender process more transparent.

Prospects

The construction sector is optimistic about prospects for this year. Several big projects

are to commence, such as the Naval Base at Walvis Bay, the development of the Skorpion Zinc mine near Rosh Pinah - including the construction of a power line - and the extension of the railway line from Tsumeb to Ondangwa, where preparatory work has already begun. NamWater continues to pursue plans to construct a desalination plant near Swakopmund, though since an agreement with the municipalities involved has not yet been reached, the commencement of the project is unclear. However, the Namibian construction sector will not reap the full benefits of these projects, since foreign specialist companies will be involved. Besides these large projects, new shopping centres are

under construction (e.g. in Oshakati) or in the pipeline (at the campus of the University of Namibia), and the demand for residential areas is high. Bordering with the residential area of Hakahana, two new areas - Havanna I and II - are under construction.

The budget for the financial year 2000/2001 further supports the optimistic outlook. Capital expenditure accounts for 14.9% of the total budget, up by one percentage point. Although this increase seems moderate, one has to consider that road construction works are no longer part of the budget, but now fall under the responsibility of the newly created Road Authority. Overall, it is expected that the construction sector will grow by more than 5%.

FOCUS: Baseline survey on small and micro enterprises

In 1997, the Government of the Republic of Namibia launched the Policy and Programme for Small Business Development. Small and Micro Enterprises (SME) were identified as a main target group for promotion within the policy framework adopted to alleviate poverty and to foster growth.

In order to facilitate the implementation of the Policy and Programme on Small Business Development, reliable data regarding the real size, structure and characteristics of the SME sector were needed. For this purpose the Ministry of Trade and Industry (MTI) carried out a baseline survey on small and micro enterprises which covered the four northern regions of Namibia (MTI 1998) and the Erongo and Otjozondjupa regions (MTI 1999).

The 1999 census findings identified 4,287 small and micro enterprises in the regions of Erongo and Otjozondjupa. Half were trading businesses, 23% were in the service sector and the remainder in manufacturing, together with a small number of construction companies. These figures echoed those of the Northern regions, where trading business represented 60%, and manufacturing and services 36% and 4% respectively.

Table 5 Results from the first two SME surveys

Sectors	Northern Regions (1998)	Erongo and Otjozondjupa (1999)
Manufacturing (incl. beer and liquor brewers)	7,229	806
Trade (incl. cucca shops)	6,812	2,188
Service	581	975
Other sectors		318
Total	14,622	4,287

Note: In the case of the Northern Regions, a large number of manufacturing activities were mainly related to the production of beer and liquor for sale. This explains the high representation of this sector, i.e. 60%. (Ministry of Trade and Industry, 1998: 9)

In order to provide in-depth information on the general characteristics of the enterprises, in each case a representative sample of the SME population was identified. The main findings for the 1999 census which were markedly similar to that of the 1998 were as follows:

General characteristic of the business:

- Micro enterprises dominated the sample both in terms of average monthly sales and number of employees. On average two persons were employed.

- Half of the businesses were less than three years old and two thirds were less than five years old.
- Businesses were mainly conducted from a fixed indoor location.
- One third of the businesses were not registered, and 88 % indicated that they did not belong to any Business Association.

Personal characteristics of the entrepreneurs

- The age of the businessperson showed wide variation, with the average age being 38 years. 61% of the interviewees were male and 39% female.
- The majority of the enterprises (82%) were managed by the owners of the businesses and only 18% by employed managers.
- Fewer than 8% of the entrepreneurs did not have any education at all, while 74% of respondents to the survey had education levels between Grades 5 and 12. However the majority of the managers (75%) had never attended any management training course and an even higher percentage (79%) had never attended a technical training course.

Financing

- Most of the interviewed entrepreneurs (62%) used their own savings to start up their businesses.
- The majority of the entrepreneurs (61%) had never applied for a loan. Two thirds of those who applied received a loan. The main reasons for not receiving a loan were: complicated loan application procedures; lack of track records; and failure to draw up a business plan.

Problems faced in businesses (most important problems perceived by the businesses)

- Lack of credit for working capital;
- Lack of credit for investment;
- Lack of demand or payment;
- Lack of management training; and
- Lack of market information.

Support services perceived as needed

- Credit for working capital or investment;
- Business planning to get a loan;
- Market information; and
- Advice on business organisation.

The MTI has initiated the third phase of the SME baseline survey with the coverage of the Khomas region in 2000. With the current survey, more than 74% of the country's population will be covered by baseline surveys. This will give the MTI an outstanding basis for monitoring the impact of its programmes in the future.

Preliminary findings shows that in the Khomas region (which consists chiefly of the Windhoek municipality) a total of 5,359 small and micro enterprises were counted. More than 70% were involved in trading activities, with the remainder in services and manufacturing. While the city's attraction is a pull factor for new job seekers, most are not successful in their search. Trading activities offer the lowest entry barrier to start a micro or small business.

THE WHOLESALE AND RETAIL TRADE SECTOR

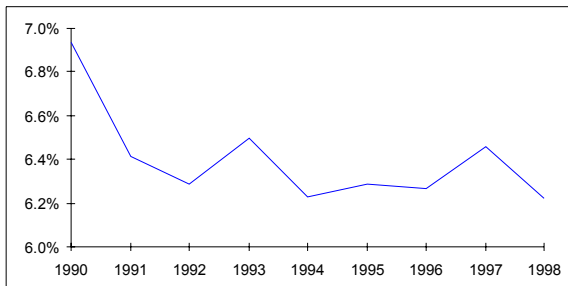
Overview

The wholesale and retail trade sector faced a difficult period from mid-1998 to the beginning

of 1999. Consumption expenditure dropped significantly during this period owing to high interest rates, and resulted in the sector's lowest share in GDP over the period 1983 to 1998. The trend reversed during 1999 with

steadily declining interest rates, dropping from 24.2% (September 1998) to 16.5% (January 2000).

Figure 25 Sector's contribution to GDP, 1990 to 1998



Source: CBS 1999

In addition to declining debt services, the demutualisation of Sanlam and Old Mutual improved the cash flow of private households significantly, leading to higher consumptive demand. However, the news was not all positive. The intensified war in Angola impacted negatively on business turnover in Oshakati and Oshikango. Overall, albeit from a low starting-point, a growth of up to 10% is assumed for 1999. Competition within the sector became tough during 1999 not only due to the decline in consumer expenditure but also to new outlets of South African chains. New shopping centres opened in Oshakati. While some businesses had to sell branches, others see the competition as a challenge to increase efficiency. One of the problems the sector is facing concerns labour: qualification-levels of school-leavers in the North are relatively low. Thus companies either bring staff from Windhoek or have to invest in significant training programmes.

Results from the Business Climate Survey

The analysis of NEPRU's Business Climate Survey corroborates the trend outlined above. From a sample size of 19 companies almost 50% indicated either a slight or strong growth

of turnover during 1999, whereas more than 50% faced an increase in demand. The rating of the business climate in general was even more favourable, with 63% rating it as better than in 1998. Despite the positive rating and significant investment by almost two-thirds of the companies, the labour market was barely affected. The same proportion of companies (42%) employed either more or fewer employees. For 2000 the situation appears worse, since only 16% intend to employ more people, in comparison to 21% that intend to retrench staff. On the whole, companies which retrenched staff during 1999 intend to continue releasing employees, whereas 88% of companies that employed more plan to keep at least the same level of employment. However, this trend is somewhat surprising, since more than two-thirds of companies expect to grow and only 5% expect a decline in their turnover. Furthermore, 53% of the businesses intend to invest during 2000, which is considerably lower than for 1999 (63%). Intentions expressed for the future generally err on the side of caution, so it can be assumed that more companies will invest during this year.

The main problems identified by companies as having a very strong or strong impact on business are crime (83% of the companies) and lack of skilled labour (71%). In this context, almost all companies have implemented training programmes for their staff. Government regulations are seen by some 69% as a hindering factor for their business, whereas only a third of the businesses indicated that strikes have a very strong or strong impact.

Prospects

The prospects look bright for 2000 despite some uncertainty about the direction interest rates will take. Competition is expected to increase further with the opening of new shops in the North and the coast in particular. A similar growth for 2000 as for 1999 (up to 10%) is forecast.

THE TOURISM SECTOR

General Overview

Tourism is regarded as one of the pillars of the Namibian economy with a high potential for jobs and income generation. The country's political and economic stability since independence, combined with well developed accommodation facilities, a quality

infrastructure, and a wide variety of natural attractions have contributed significantly to the sector's growth. However, the attack of a rebel movement at Katima Mulilo in August 1999, robberies of tourists, and the current insecure situation in the north-east have diminished growth expectations. Estimates for 1999 are in the range of 7%. This is chiefly based on increases in arrivals of high-yielding tourists

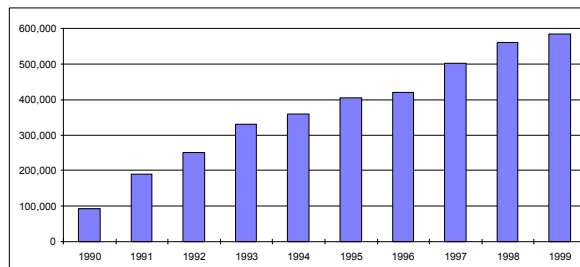
from Germany and South Africa, which grew by 7% and 10% respectively.

Namibia is also recognised at international level, and was elected as a member of the World Tourism Organisation's executive council in 1999.

Tourist arrivals to Namibia

Tourists are defined by the World Tourism Organisation as visitors entering a country with the intention to stay at least one night and not more than one year. Excluded are returning citizens and returning foreign nationals who are resident in the country. This definition does not differentiate between visitors coming for leisure or for business. The number of tourist arrivals in the country jumped from less than 100,000 in 1990 to more than half a million in 1999. It is estimated that arrivals have increased by about 5% in 1999 compared to 11.5% in 1998.

Figure 26 Tourist arrivals in Namibia, 1990 to 1999



Source: Ministry of Environment and Tourism (MET) 1998, for 1999: NEPRU estimate

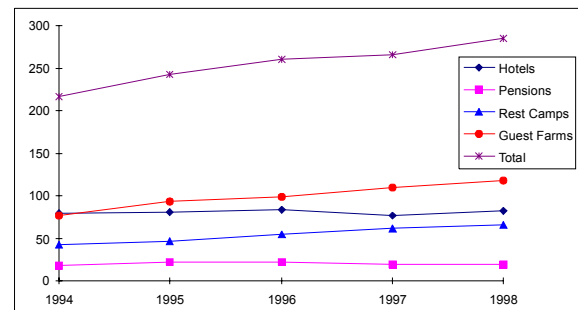
A breakdown of the tourists by nationality for 1998 revealed that about 37% came from South Africa and 32% from Angola. Overall, three quarters of the visitors were from Africa and 20% from Europe. Since only a fraction of African visitors are coming for leisure as opposed to business (trade) or employment-seeking, the number of foreigners benefiting from the tourism industry is estimated to be around 260,000 - less than half of total arrivals.

Moreover, the increase in the number of arrivals could be misleading. It has been observed that the tourist's duration of stay has declined by 30% to 35% over recent years. Whereas visitors spent an average of 18 nights in Namibia about three years ago, it is now estimated to be some 12 nights. It can be expected that the decline is levelled-out by a higher number of local tourists. However, it is

very difficult to estimate the extent to which this has happened.

Despite the low bed-occupancy rate (about 44% in 1998), a lack of accommodation existed in certain regions and new establishments have been opened. A new N\$35 million hotel is due to open soon in Ondangwa, a region that has been underserved with accommodation. Furthermore, the Bed and Breakfast Association reported that its membership increase from 89 (1998) to 221 members today. The establishments are mainly located in Swakopmund, Windhoek and along the main roads. The Bed and Breakfast sector is still not regulated by an Act, and subsequently standards are not controlled. It is essential to ensure quality standards to attract tourists in the future.

Figure 27 Number of establishments



Source: MET 1998

Namibia Wildlife Resorts

The Namibia Wildlife Resorts (NWR) was launched in April 1999 and took over all parks, conservation areas and recreation resorts previously run by government. These will now be managed along sound commercial principles. The NWR has started to renovate and upgrade the standard of all its rest camps throughout the country, in 1999 assisted by government with some N\$20m. Some of the major projects were the renovation of the restaurant and shop in the Okaukuejo rest camp, which burnt down in 1997, and the upgrading of the Sesriem camp at Sossusvlei. According to the NWR the backlog of renovations will be completed by the year 2001. To improve the customer service, an on-line reservation system based on a Website and a reverse-call system for clients will be introduced by June 2000. It should be considered to extend office hours of the information offices so that reservations can be made over the weekend and after 17h00.

The necessary investment to meet expectations on the standard of facilities and accommodation and the application of commercial principles will probably result in higher prices in the near future.

Community Based Tourism

Community-Based Tourism in Namibia has aroused an increasing degree of interest. NACOBTA (Namibia Community Based Tourism Association) - a non-governmental organisation - plays a major role in helping rural communities with business plans and training to establish community-based tourism facilities. It extended grants and loans of about N\$120,000 in 1999 to these communities, representing an increase of more than 200% compared to 1998. For 2000, an increase by about 25% to N\$150,000 is envisaged. In addition to financial support, various training courses were conducted, ranging from a basic introduction to tourism to developing a Community Based Tourism Enterprise.

About 25 community enterprises that are fully operational - of the total NACOBTA membership of 45 - were estimated to have generated a revenue in excess of N\$700,000 in the year 1999. This represents an increase of some 50% compared to the previous year. Around 5 to 10 new entrepreneurs will become fully operational this year adding more to the

revenue. NACOBTA expects the revenue to triple when all the enterprises are fully operational.

Prospects

The projected sectoral growth of around 8% will not be achieved this year, as the sector has already been adversely affected by the spill-over effects of the war in Angola. Most of the lodges and tourists resorts have been closed down in Caprivi and Kavango due to the lack of tourists in the area. A number of trade fairs to be held in the first quarter of this year in various parts of Europe will be used as a platform to market Namibia tourism and to inform accurately on the security situation in Namibia. It is expected that tourist arrivals will pick up again following this initiative.

One of the main challenges in the tourism industry is the creation of the Namibia Tourism Board (NTB). It is expected that the long-awaited legislation will be forwarded to parliament at the beginning of the new session. The NTB is necessary for combined marketing efforts and to regulate the tourism industry. Regulations are still lacking for foreign-based tour operators and for newly emerging accommodation facilities such as Bed and Breakfast establishments, for which the Act of 1973 does not make any provision.

THE TRANSPORT AND COMMUNICATION SECTOR

General overview

The first impression foreign investors and visitors get of a country is the state of its infrastructure, which will be a major factor influencing investment decisions. The importance of Namibia's transport and communication sector increased in terms of its contribution to GDP between 1990 and 1998. In 1990 it contributed N\$282 million (measured in constant prices) which increased to N\$497m (1998). Its share to overall GDP increased from 4% to 6% over the same period.

The announced tax hikes on fuel of about 20 cents per litre in May 1999 and 19 cents per litre early this year led to price increases in the transport sector. The Namibia Bus and Taxi Association for instance increased its short-distance fares in Windhoek by 14%. This affects the poor, since they use public transport, and it absorbs a significant proportion of their income.

The introduction of Value Added Tax (VAT) - expected for end-October 2000 - is likely to affect the transport sector through more time-consuming border procedures, which would in turn increase transport costs. Varying VAT rates between a number of countries in Southern Africa can hamper regional integration and trade.

Transport sector

Roads

Major road infrastructure developments were undertaken during the course of 1999. In particular, main roads to the North, such as the section between Oshivelo and Oshakati, and Okahandja and Otjiwarongo, and roads in the North central were rehabilitated and upgraded. More than N\$250m was spent on these projects, which were designed as labour-intensive projects where possible. They are expected to contribute to economic development and stimulate private investment.

The Trans-Caprivi Highway, as part of the Walvis Bay-Ndola-Lubumbashi corridor, and in particular the Katima-Ngoma section (estimated at N\$108 million) is still under construction, with some parts being completed mid-March 2000.

Namibia and Zimbabwe signed a bilateral Cross-Border Road Transport agreement in December 1999, which is intended to facilitate the smooth flow of goods and passengers (especially commercial road traffic) between the two countries, subsequently enhancing the development of a competitive commercial road transport industry. In July 1999 Namibia signed a similar agreement with Zambia. However, the unstable security situation in the North-east impacts negatively on the corridor, reducing returns from the investment, and benefits from the road transport agreements.

The poor usage of the Trans-Kalahari Highway continues to be of concern for transport sector and the governments involved. At the planning stage, it was estimated that a total of 320 vehicles per day would use the highway, of which 25% would be heavy vehicles. A joint technical investigation team found out at the end of 1999 that only an average 160 vehicles per day crosses the Botswana/Namibia border, of which 10 to 20 (less than 13%) are heavy vehicles. Problems identified as hindering the utilisation of the highway include: opening hours of border posts, limitation of driving hours on a section of the highway, lack of facilities on some sections of the highway, different mass and dimensional limits in the three countries, people and domestic animals on the road, non-compliance of sections of the highway to the minimum geometric standards, and problems with official controls at borders and road blocks. These concerns were already raised shortly after the opening of the highway.

It is seen as essential that border posts are open from 06h00 to 24h00, with an extension to 24 hours in the longer term. Furthermore, SADC countries should implement common traffic regulations such as maximum loads and dimensions of vehicles to enhance the cross-border flow of goods.

The membership of the Namibian Bus and Taxi Association increased from 1,500 in 1998 to 3,000 in 1999. 15 new taxi ranks are envisaged for Windhoek in the year 2000, indicating the expansion of the industry and the increase in mobility. Taxi drivers co-operating

with robbers and thugs are the main concern of the association.

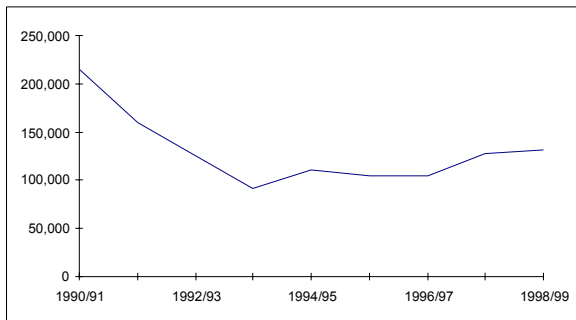
Rail transport

The current rail network covers 2,382 kilometres and consists of 16 stations rendering commercial services. During 1997/1998 the total tonnage conveyed increased by 7.1% to 1,699,881t. A feasibility study on the extension of the railway line from Tsumeb to Ondangwa and subsequently to Angola has been completed. The positive assessment resulted in the commencement of preparatory works on a labour-intensive basis such as bush-clearing by the Ministry of Works and Transport. The next step will be to tender the consulting service for the design and supervision of construction works. A loan agreement between Namibia and Kuwait was signed to the tune of N\$130m at the beginning of April 2000 to co-finance the project, the cost of which is estimated at N\$288m. The development and opening of new mining sites in the South will increase the demand for transport facilities to Lüderitz. Thus, the defunct 140 km Aus-Lüderitz railway line will be revived at the cost of N\$68m over three years. This could attract export cargo from as far afield as the Upington area.

Upgrading and modernising the railway system is vital if Namibia is to attract more shipments. The transportation of imported cargo declined by 19.5% in 1998 and exported cargo by 6.8%, chiefly attributed to the TCL closure.

Since the implementation of the Starline services - TransNamib's passenger service - in 1995, the number of passengers increased by some 25% to more than 131,000. Preliminary figures for 1999/2000 reveal that a further increase can be expected. Estimates for the six month period from April to September 1999 were 74,549. The introduction of special student fares has contributed to the favourable trend.

Figure 28 Number of passengers by rail, 1990/91 to 1998/99



Source: TransNamib undated

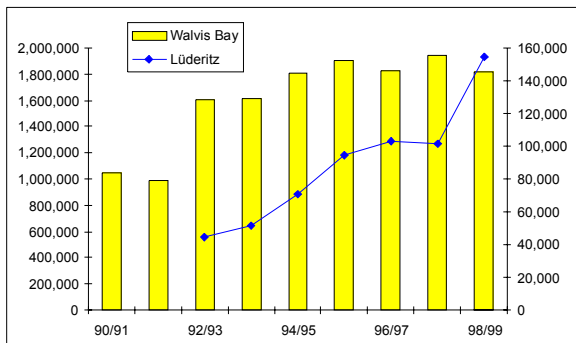
The safety performance of rail transport is vital for the sector. One accident occurred, resulting in injuries and damage of N\$5m.

Ports

Projects to upgrade port facilities at Walvis Bay and Lüderitz to the tune of N\$56m were completed, including the enlargement of the container terminal and modernisation of container handling equipment. Moreover, the construction of a new quay wall of 500 metres and the deepening of the Lüderitz harbour to 8.15 metres was completed early this year.

After a surge from just one million tonnes at the beginning of the nineties, the total cargo handled at Walvis Bay hovered at around 1.9 million tonnes over the past four years. Lüderitz experienced a more than threefold increase in cargo handled from 1992/93, to almost 155,000 tonnes in 1998/99.

Figure 29 Cargo handled at Walvis Bay (left hand scale) and Lüderitz (right hand scale) in tonnes, 1990/91 to 1998/99



Source: Information provided by the Namibian Port Authority

Monthly figures up to December 1999 indicate a further increase for Lüderitz, whereas Walvis Bay could end up at the level of previous years. However, the re-opening of the mines at Tsumeb and an improvement in the security situation in the North east, which could attract shipments from neighbouring countries, may

lead to an increase during the course of the year.

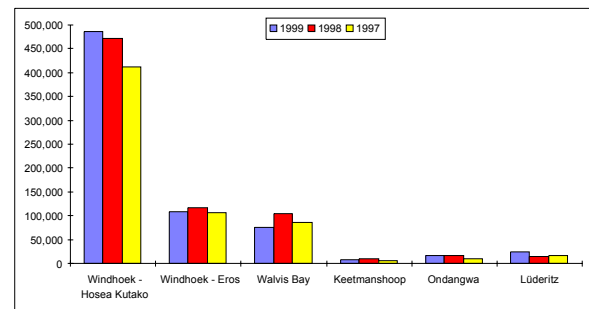
To attract more cargo and serve a greater number of direct overseas connections, further upgrading activities are underway. The harbour at Walvis Bay is being deepened at a cost of N\$100m to accommodate larger ships. Free port facilities and grain silos are being constructed, and a new 8,000t synchro-lift is planned. At Lüderitz tug facilities are being expanded. All projects are expected to be completed over the next one to two years.

Air Traffic

The Airport Company Bill was implemented at the beginning of February 1999 resulting in the commercialisation of the eight main airports. At the three international airports, namely Hosea Kutako, Eros and Ondangwa, rehabilitation and extension works have started and were in part completed. Work at further airports will follow.

Passenger movements at the Hosea Kutako International Airport (Windhoek) increased by 3% to almost 386,000 in 1999, whereas other main airports experienced a decrease. The busiest airport concerning aircraft movements is, however, Windhoek Eros with almost 41,500 movements, followed by Hosea Kutako with more than 12,000. Ondangwa airport is expected to increase in significance since it serves the growing centres in the North, and links with Angola.

Figure 30 Passenger movements at major airports, 1997 to 1999



Source: Information provided by Namibia Airport Company

The development of Walvis Bay as the second most important international airport depends on upgrading works, so that larger aircraft can link this industrial centre directly with Europe. This is particularly important for the fisheries sector, which currently exports frozen fish mainly through Windhoek or South Africa.

Government increased its shares in Air Namibia to the tune of N\$10.5 million during

the 1999/2000 financial year. A new Boeing 747-400 Combi was purchased for about US\$114m (around N\$684m) by Air Namibia through a guarantee by the Export Import Bank of the United States. It is structured as a 12-year full pay-out finance lease, with the aircraft serving as collateral. Continuing financial support by the government indicates that new partnerships with significant airlines should be pursued to enhance competitiveness and economic viability. Furthermore, regional co-operation increasing the links between SADC countries should also be considered.

Prospects of the transport sector

It is expected that mining output will increase during 2000, resulting in increased demand for transportation services. In particular, the re-opening of mines and the lead smelter at Tsumeb by Ongopolo Mining and Processing will lead to the transportation of output from the mines to the port, as well as that of inputs to the mines and the lead smelter. In addition, more construction activities will improve the sector's performance.

Communication sector

Further investment was carried out by Telecom Namibia during 1999 to upgrade local communication networks and automate further

stations. However, the total amount decreased from N\$271m to less than half this sum (N\$128m), which can be attributed chiefly to the completion of major investment in the previous year and the postponement of investment to the financial year 1999/2000. The telephone service capacity increased from 147,710 to 168,340, whereas the direct exchange lines increased from 105,877 to 114,908 during Telecom's financial year 1998/99. In addition, investment in the mobile telecommunication network resulted in coverage of almost 90% of the population. The number of its customers rose by 65% to 33,000 within one year, to the end of September 1999, leading to a market penetration of more than 2%. Further investments are planned by both sub-sectors for the year 2000.

The predicted Y2K Millennium computer bug did not cause any major transition problems in Namibia. Nearly all sectors reported smooth transition into the year 2000.

The main challenges the industry has to cope with are: shortage of electricity in rural areas, vandalism to properties, "snail mail" performance in the postal service, shortage of technical skills and information technology, and the impact of HIV/AIDS.

It is expected that the transport and communication sector will grow by 7% in 2000.

THE FINANCIAL SECTOR

General overview

Once the financial crisis eased which started in Asia and spread to other emerging markets, the Namibian financial sector operated in a relaxed atmosphere in 1999, recovering from surging interest rates and exchange rate depreciation. The lesson learnt from the financial crisis was that the increased vulnerability of financial markets due to global integration had to be countered by enhanced monitoring of financial institutions. The Namibian financial sector is one of the smallest in the region, with only five authorised banking institutions, and is highly integrated with South Africa. However, it is composed of a strong and healthy banking industry. This is indicated by its ability to mitigate the impact of the 1998 financial crisis. Furthermore, the conservatism of Namibian banks in credit extension helped to minimise risks and defaults, and ensured a strong and well-accepted financial industry -

crucial in ensuring economic growth. Finally, as a result of careful preparation, the millennium Y2K-bug did not cause any significant disturbance.

The persistent gap between savings and investment - with savings exceeding investment, which is unique for a developing country - is regarded as a cause for concern by government. The outflow of funds, mainly to South Africa, is widely perceived as a loss. As a result of this, the government has taken various measures to reduce the outflow. These include a 35%-of-domestic-asset requirement for insurance firms, and the establishment of the Namibia National Reinsurance Corporation (NamibRe) in terms of Act no. 22 of 1998. NamibRe is heavily opposed by short-term insurers who will be forced to re-insure 25% of their risk with NamibRe. Furthermore, their profit commission will be abolished and NamibRe will have the right to change the terms of any reinsurance

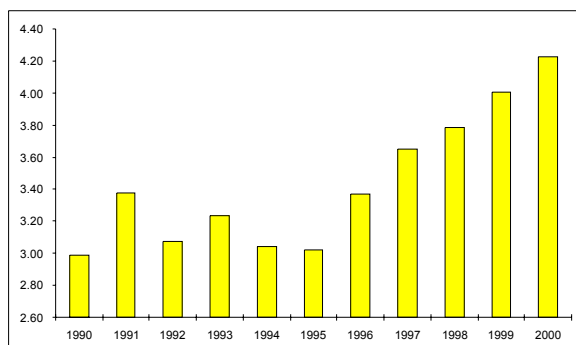
placed with it, which will result in high costs for the industry. A case is still pending with the High Court to prove whether the law is constitutional, and the case is expected to drag on for a while. The outflow of funds from Namibia is, however, indicative of insufficient investment opportunities within the country which meet the level of risk investors are willing to take. Creating an investment-friendly environment rather than forcing savings into investment with a higher risk and/or lower return will result in financial investment in the country.

The Namibian economy received a boost of about N\$434m in 1999 through the demutualisation of two insurance companies, namely Sanlam and Old Mutual. Although its impact on the banking industry may not be clearly evident, it reportedly helped to ease bad debts.

Contribution to GDP

The sector started from a low level of 3% at independence, and experienced some fluctuations in the years that followed. Since 1995, the sector's contribution to GDP has increased steadily.

Figure 31 Contribution to GDP in %, 1990 to 2000



Source: CBS 1999; for 1999 and 2000: NEPRU estimate

It is estimated that the sector grew by around 8% in 1999, compared to 6.2% for the previous period, resulting in a contribution of 4.2% for 1999. A growth of up to 10% is expected for 2000.

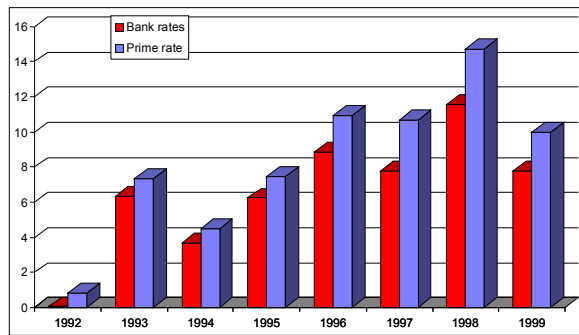
Interest rates

Prime rates in Namibia reached a peak of 24.20% in September 1998, but then started to decline. In February 2000, it was cut by one percentage point to the current 15.5%. Given the prevailing economic conditions domestically and in the region, it can be

expected that the prime rate will drop by half a percentage point in the second quarter of 2000.

The high level of interest rates caused a decline in credit extension and, subsequently, a reduction in consumption and investment. However, credit started responding to declining interest rates in the third quarter of 1999. This led to a growth in total credit extension of about 9% from N\$8,973.4m (September 1998) to N\$9,620.8m (January 2000). The same growth rate is expected for this year.

Figure 32 Real bank and prime rate in %, 1992 to 1999



Source: Bank of Namibia 1999b; for 1999: NEPRU estimate

The Namibian Stock Exchange

The Namibian Stock Exchange (NSX) has recorded robust growth in terms of overall and local market capitalisation, and the liquidity ratio in 1999. A total of N\$2,014m worth of shares was traded in 1999, compared to N\$1,035m in 1998, resulting in an increase of about 100%. Furthermore, trading in local shares increased by almost 100%, from N\$76.4m to N\$148.2m. The high volume of trading can be attributed to the installation of a new trading system, soaring foreign and local share prices, coupled with the effects of de-mutualisation. Overall market capitalisation followed the same trend, up from N\$159,378m to N\$333,916m in 1999, whereas local market capitalisation increased from N\$2,515m (1998) to N\$4,258m.

The number of deals increased by 74% during 1999 compared to 1998. This led to an

MICRO-LENDERS

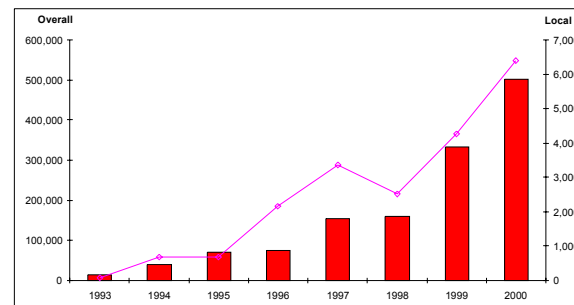
The Namibian banking industry provides a highly sophisticated service to high- and middle-income groups, while the rest of the population has been under-served for years. This has led to the entry of micro-lenders into the industry to serve the un-banked community (niche market). It indicates a profitable niche in the market which the formal sector is not serving. The Ministry of Finance defines a micro-lender as a person whose loans does not exceed N\$10,000 per person, repayable within 60 months from the date of disbursement. The number of micro-lenders is estimated at about 200, with 300 - 400 clients on average. Most clients are regular customers. The majority of lenders offer micro loans below N\$1,000 for a very short period of time. The mushrooming of micro-lenders proves that the market is profitable. Realising this potential, commercial banks have started offering services to this community since 1999, and at present two of the five commercial banks in Namibia - Bank Windhoek and First National Bank - are providing such a service. The perception is that it is only as a matter of time before other banks follow suit.

The Ministry of Finance decided to repeal Section 15e) from the Usury Act of 1968, which exempted foreign money lenders from the laws regulating the industry, with effect from 15 February 2000. Furthermore, the new regulations require micro-lenders to charge annual as opposed to monthly interest rates. For amounts not exceeding N\$6,000, a maximum interest rate

increase in liquidity of about 67%. The local liquidity ratio - the ratio of shares traded over the market capitalisation - of 4.5% is very low compared to that of the Johannesburg Stock Exchange (about 15%). A high ratio serves as a signal to investors about trading activities at a stock exchange, and supports companies' decisions about the listing at a stock exchange.

The NSX registered a high return on investment, with the overall index up by about 60% from 176 (1998) to 292 in 1999. Considering exchange rates, this is a gain of about 62% to investment in US dollars. A recent study indicated that among African stock exchanges, Zimbabwe offered the highest US\$ gains, followed by Botswana and Egypt, just beating NSX with about one percent. Given the prevailing interest rate, the NSX anticipates a relatively good trade growth of about 75% for the current year.

Figure 33 Overall (left hand scale: bars) and local market capitalisation (right hand scale: line) in N\$m, 1993 to 2000



Source: Namibia Stock Exchange 1999; for 2000: NSX estimate

of 30% is set, and a maximum of 27% for amounts in excess of N\$6,000. Before the introduction of the new regulation, entry to the industry was free, while the new regulations and registration requirements carry some costs for the market entry. The regulations are aimed at protecting the public against unlawful transactions.

However, the usefulness of the regulations are questionable. Setting maximum interest rates is somewhat arbitrary and does not prevent micro-lenders from charging additional fees. A more effective measure would be to adequately inform consumers about the different kinds of credits available and their costs.

Prospects

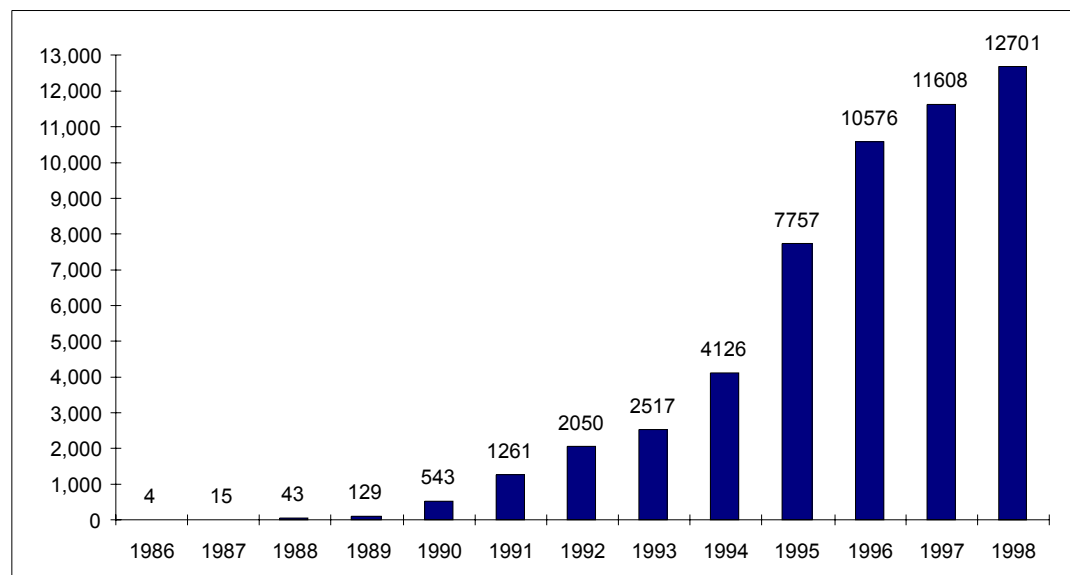
The banking sector is looking towards the year 2000 with confidence. Interest rates are low and beneficial to lending and borrowing. The good rainfalls and relatively good commodity prices this year will also benefit the sector.

The rating of South Africa's economy by international fund managers is expected to have a positive bearing on the Namibian financial sector because of the close links between the two. Assumed the favourable climate continues for the rest of the year, the financial sector is expected to grow by 10%.

FOCUS: HIV/AIDS

In October 1999, the number of reported cases of HIV/AIDS was 12,665, bringing the total number of cases since the recording of the epidemic to 65,895. It is thought that the total number of cases for 1999 is only moderately higher than for 1998. This indicates that awareness campaigns are becoming more effective.

Figure 34 Reported HIV/AIDS infection in Namibia, 1986 -1998



Source: Ministry of Health and Social Services 1999

In 1998, reported deaths due to HIV/AIDS amounted to 2,179, representing 23% of all reported deaths in hospital, and 41% of deaths in the 15 to 49 age group.

HIV/AIDS has thus become Namibia's principal public health problem, and at the same time a major threat to economic development. It could reverse the successes of the Namibian economy of the last ten years. UNDP estimates that direct and indirect costs could represent up to 12.3% of GDP (approximately N\$2,030 million) in the year 2000. The high impact of the disease on the most productive age group - 15 to 49 years - will not only have consequences in terms of productivity loss, but will also reduce the availability of skills. There is reason to believe that Namibia does not differ greatly from other African countries with high HIV/AIDS infection rates, where the educated are the most affected. Since one of the main characteristics of the Namibian labour force is the lack of skilled labour this will worsen the country's growth prospects.

The Northern regions will be most affected by the epidemic. These regions are characterised by the highest population density and the lowest level of income - below N\$2,000 according to the 1993/94 National Housing Income and Expenditure Survey - and with the highest spread of the HIV/AIDS infection. 34% of pregnant women in Oshakati test HIV/AIDS positive. Preliminary studies carried out on the effect on household income in the Kavango region show a reduction of income in the poorer farm households of up to 33%, with expenditure increases of up to 35% due to medical costs (Ministry of Agriculture, Water and Rural Development, 1999a).

In 1992 the National AIDS Control Programme launched the Medium Term Plan 1 to address the epidemic. With the realisation that HIV/AIDS cannot be regarded purely as a health problem, the Government launched the National Strategic Plan on HIV/AIDS for the period 1999-2000 - Medium Term Plan 2 - in 1999, which emphasises a restructuring and up-grading of the existing institutions, in order to create an effective multi-sectoral AIDS co-ordination committee.

The Ministry of Health and Social Services continues to play a leading role in designing health policies for the prevention and control of the spread of the infection, but each ministry is responsible for the development of programmes that target its specific needs. This obligation - to budget for planned action, and the positive response to awareness campaigns by some private/parastatal companies, should be seen as a clear sign of commitment. However, the overlapping of programmes, resulting in inefficient resource allocation, is to be guarded against.

The challenge ahead lies in the creation of awareness campaigns that reach the people, and of support mechanisms for those infected with the virus.

THE GOVERNMENT SECTOR

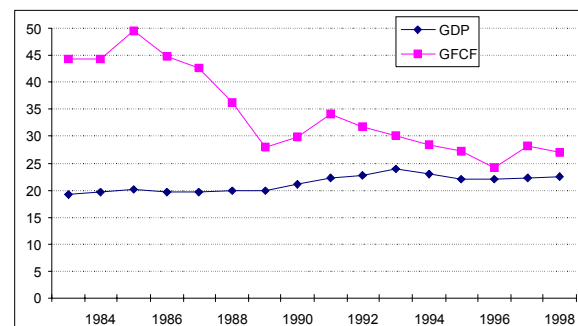
General overview

The government sector's contribution to GDP remained fairly stable, though high, over the past few years, reaching 22.5% in 1998. This increased in 1999, since the growth of government services is estimated at 4.8%, thus above the overall GDP growth of 3.7%.

This can mainly be attributed to the 'Peace Project' which offered employment to almost 9,000 ex-combatants. For 2000, the government sector is expected to grow by 4%.

Government's share of Gross Fixed Capital Formation dropped slightly to 27%. Increased expenditure on capital during 1999 could have reversed this trend.

Figure 35 Contribution of the government sector to GDP and GFCF in %, 1983 to 1998



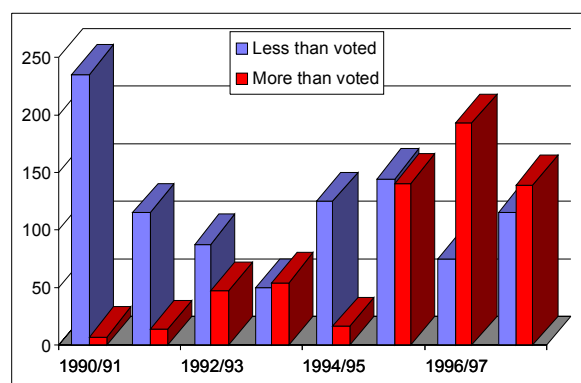
Source: CBS 1999

Auditor General's report

The latest Auditor General's report for the Financial Year 1997/98 revealed unauthorised spending of ministries of almost N\$140m,

which accounts for some 2.5% of the original budget. Several ministries under-spent, leaving an additional deficit of N\$24m. Two ministries (Basic education and Culture, Health and Social Services) constituted 76% (N\$106.6m) of the excess expenditure, while the Office of the President exceeded its original budget by the highest (14.0%). The item mainly responsible for the excess expenditure was personnel with N\$78m, caused by salary increments rather than an increase in employment (plus 498 to 67,230). Total personnel expenditure amounted to N\$2.8bn, or 49% of total expenditures, which represents a drop of one percentage point against its share in the previous budget, although personnel costs rose by 7%. While current expenditure budgeted for was exceeded by more than N\$140m, funds totalling N\$80m of the development budget were not used, because of delays in the tender procedure, non-acquisition of land, and less than approved spending on purchased items. Increased borrowing took its toll through an almost doubling of interest-related charges from 3.2% (1996/97) to 6.2%. The report revealed that budget control systems within certain ministries need improvement in order to avoid unauthorised expenditure and irregularities.

Figure 36 Under- and excess spending in N\$m, 1990/91 to 1997/98



Source: Republic of Namibia, various editions

The submission of the final accounts from some ministries to the Auditor General were delayed by up to three months. A further delay in the compilation of the report subsequently resulted in the report being tabled in the National Assembly in February 2000 instead of March 1999, as required by the State Finance Act. This makes it impossible for Parliament to react in a timely manner on unauthorised allocations.

Revised budget for 1999/2000

The revised budget for the financial year 1999/2000 did not reverse the trend. Parliament was asked to approve additional gross expenditure of N\$373m, while savings and suspension amounted to N\$115m, resulting in a net increase of N\$258m. Since revenue estimates were adjusted upward by N\$176m, N\$82m is to be borrowed in addition. The main contributor to the additional expenditure was the Ministry of Defence, which requested further funds to finance the involvement in the DRC conflict and to set up its military air combat capacity. The deficit is expected to reach 4.5% of GDP, and total debts, 23.5%. Despite decreasing interest rates, statutory expenditure is increased by N\$20m (4%) to N\$515m, accounting for 6.4% of the total budget.

The 2000/01 budget

The Finance Minister tabled the budget for the financial year 2000/2001 in the National Assembly on the 5th April 2000. His expenditure and revenue estimates are based on more favourable economic conditions during 2000, resulting in a GDP growth estimate of 4.9%, after 3.7% in 1999. Furthermore, interest rates are expected to drop to 13.5% by the end of the year reducing the increase in statutory expenditure (interest payments). Overall, the budget speech was well received, particularly on account of some of its policy announcements. The creation of a medium-term expenditure framework is envisaged which will enhance predictability, transparency, and efficiency. Moreover, it will strengthen links between the short-term annual budget and the five-year term National Development Plan, by which it will help to achieve the development goals.

Other policies are seen as enabling and stimulating the private sector. The outsourcing of road maintenance to the newly established Road Authority, the Road Fund Administration and the Road Contractor Company on the 1st April 2000 will be a first step towards the privatisation of these institutions. Further functions such as the administration of the Public Service Medical Aid Scheme or the Motor Vehicle Accident Fund are already either outsourced, or legislation is prepared for the commercialisation. The relaxation of foreign exchange control will place businesses in a better position - in particular in the region.

Finally, a review of the tax system was announced. This will hopefully lead to a more efficient, simple and transparent system. In this respect it would also be a worthwhile undertaking to review all the different incentive schemes for the private sector and the benefits accrued from it. It should be considered whether a lower tax level for all companies would be preferable to selected preferences for specific sectors.

Expenditure

Total expenditure amount to N\$8,446.9 million, and revenue is expected to the tune of N\$7,686.2 million resulting in a budget deficit of N\$760.7 million. The increase in expenditure by 9.0% - hardly different from the inflation rate of 8.6% - reflects a responsible fiscal policy. As a percentage of GDP, expenditure is expected to decline from 40.8% to 40.0%. The decline can be in part attributed to the following two factors:

- Statutory expenditure (interest payment) increased only moderately by N\$40.6m (8.2%) to N\$535.6m owing to low interest rates. Its share of total expenditure declined marginally from 6.39% to 6.34%.
- The implementation of the Roads Authority led to a considerable decline in the amount budgeted for the Department of Transport. Its budget dropped by N\$239.6m to N\$223.7m representing a share of 2.65% - down from 5.98% in the previous budget.

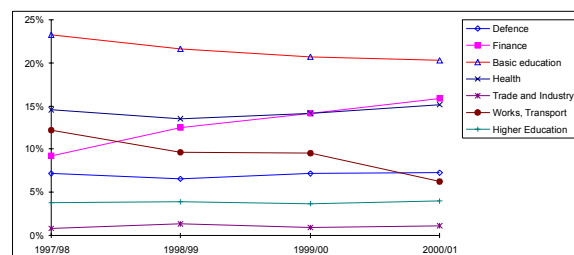
Overall, there are no major shifts in the allocation, by item or by vote. The merger of ministries does not have cost-saving impacts on this year's budget.

Education continues to absorb the largest share, accounting for 24.34% including the former Ministry of Youth and Sports. It is now followed by the Ministry of Finance with 15.83% reflecting an increased allocation to the contingency vote, (which almost doubled from N\$104m to N\$205m), to interest payments, and subsidies for Air Namibia and TransNamib. The latter totalled N\$68m, and it would be advisable to pursue the privatisation of these entities, seeking, in the case of the airlines, strong and reliable partners with whom to enter into co-operation.

The Ministry of Health and Social Services ranks for the first time third (15.14%), although its proportion of the total budget increased by one percentage point. The increase in the MHSS budget can partly be explained by the

meagre N\$40 per month increment of social pensions. The increase amounted to an additional N\$50m, which does not compare well with the additional N\$40m to the Pension Fund for Members of Parliament and other Office-bearers. It also fell short of poverty alleviation, since it is not an increase in real terms.

Figure 37 Expenditure by ministries in %, 1997/98 to 2000/01



Source: Republic of Namibia, various editions

The budget for the Ministry of Defence showed an upward trend. It now constitutes 7.3% (7.2% in the previous budget), up by 10.3% compared to the previous year's main budget. The increase can be explained with the ongoing involvement in the DRC conflict and the unstable security situation in the north-eastern region. Against this background, the increase is quite moderate.

Expenditure by item continues to be dominated by the wage bill, although to a slightly lesser extent - 44% in comparison to 46.6%. This is a positive development, freeing resources for other expenditure. However, there remains considerable room for increasing efficiency of public expenditure. An important measure would be the introduction of comprehensive performance assessment in the public sector, as envisaged by WASCOM. Moreover, the merger of ministries should not be seen as an end in itself but should support a streamlining of the public sector.

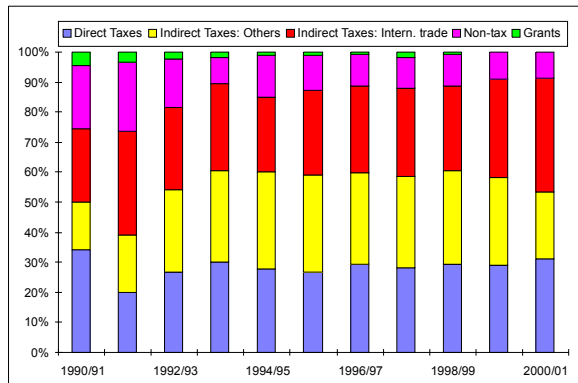
Goods and services increased marginally, but account for the second-lowest share (18.2%) since the first budget. Although road construction works were outsourced to the newly created authority, capital expenditure increased to 14.9% of total expenditure (13.9% in 1999/2000). This will stimulate the construction sector. However, capital expenditure is not good in itself but should be measured against its welfare impact - benefiting the poor through improved access to health and education facilities - and its improvement of the infrastructure to enhance economic productivity.

Revenue

Government's income is characterised by a substantial increase in SACU revenue. It is estimated that N\$636.6m more will flow into the state coffers, which is in part attributed to arrears' payments. Income from SACU now constitutes 37%. This is of concern, since it is not sustainable and will definitely decline in the medium term owing to global trade liberalisation, and in particular Free trade Agreements within Southern Africa. The introduction of Value Added Tax - envisaged for the end of October - is one step towards broadening the tax base and lessening the reliance on the SACU source. The improved economic performance is expected to boost personal income taxes by some 22% to N\$1.4bn and company taxes by 24% to N\$875m. Since a substantial part of the fuel levy is now redirected to the Road Authority as road user charges, income from this source is expected to drop significantly from N\$528m to N\$95m.

The tax burden - that is the ratio of taxes over GDP - remains high by international standards. It is estimated at 32.8%, in comparison to 32.3% in the previous budget.

Figure 38 Sources of government revenue in %, 1990/91 to 2000/01



Source: Republic of Namibia, various editions

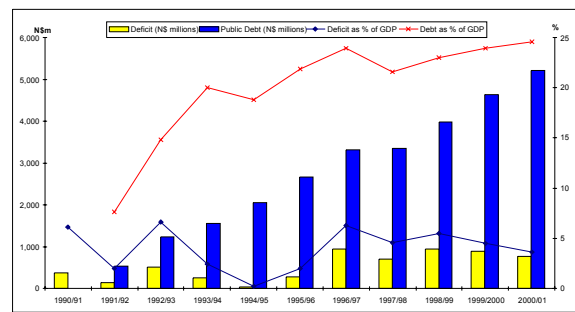
Debt

Low interest rates and unexpected additional income from SACU resulted in a decrease of the budget deficit from 4.2% to 3.6%. N\$90m

from the deficit of N\$761m will be financed by foreign loan facilities, whereas the remaining amount will be financed through Government Bonds and Treasury Bills. Total public debts will account for about 24.6% of GDP, up from 23.9%.

Since total revenue exceeds current and statutory expenditure by N\$497.5m the deficit is used to finance capital expenditure. Thus, the deficit can be justified if the capital projects yield a higher return in future benefiting rather than burden the next generation.

Figure 39 Public deficit and debts in N\$m and in % of GDP, 1990/91 to 2000/01



Source: Republic of Namibia 2000

Prospects

The policy announcements in the budget are encouraging, but their implementation should be closely followed. A public sector reform that curtails and streamlines the civil service, improved efficiency in public expenditure to cope with expected declining revenue in the medium term, and greater efforts towards poverty alleviation all require increased attention. The envisaged medium-term expenditure framework can enhance budgetary planning, and combined with stronger discipline concerning spending by ministries, excess spending should be significantly reduced. This, however, requires strengthening the Ministry of Finance within the Cabinet.

FOCUS: Policy, poverty and inequality in Namibia. The cases of trade policy and land policy

Poverty and inequality are pervasive in Namibia, and their alleviation is a key objective of Government. Researchers from NEPRU and the Chr. Michelsen Institute (Bergen, Norway) investigated the impact of two important policy areas - trade and land policies - on poverty and inequality.

The Namibian economy is characterised by stagnant growth and persistent high levels of poverty and income inequality. The trade regime is characterised by a high level of tariffs around SACU and numerous non-tariff barriers. These result in a high degree of import dependence on South Africa (trade diversion), and contribute to a stagnant level of global integration. One advantage of this system is the high proportion of trade tariffs in government income, collected easily and cheaply through SACU. They allow a large share of government expenditure in GDP, and specifically a high degree of social expenditure (health, education, pensions). These are principally pro-poor and, in terms of international comparison, very high in Namibia. However, they are characterised by inefficiency and inadequate targeting of the poor.

On the one hand, the system implies high taxes on consumers and an anti-export bias. The consumer tax is paid by all groups - due to the high degree of market integration of all, including 'subsistence farmers' as consumers. On the other hand, the small formal sector gains rents from the trade barriers, which are distributed between profits and wages. The economy is characterised by low-level competition and inefficiency. The distribution of rents among labour is highly influenced by the unequal levels of skills, in the context of a general deficiency of skills.

Namibia's trade regime is likely to change, owing to two external developments: the international trend towards trade liberalisation, codified in the Uruguay Round, and the planned FTA in SADC. At the same time, Namibia's stance towards trade liberalisation and regional integration is conservative and cautious. This can be explained to some degree by the dominance of producer interest groups (e.g. commercial farmers, import-substituting industries) opposing any threat to their competitiveness, while consumer interests are not well-organised. However, more important are the vocal public sector employees, and uncertainty on the part of government and the public about the likely outcomes of liberalisation.

The potential impact of change within the trade regime on Namibia's poverty and inequality are analysed in NEPRU's Research Report. The analysis is based on the assumption of unilateral trade liberalisation - Namibia leaves SACU, sets external tariffs to 0, and quantitative restrictions on agricultural products are abolished.

The impact of unilateral liberalisation includes:

- some growth;
- a large fiscal impact, with a possible adverse impact on poverty - although improved targeting and efficiency could compensate for this;
- considerable gains to consumers, who pay less for consumer goods;
- lower inequality;
- pressure on the sheltered sectors of the economy to become efficient, and pressure on rents (formal sector profits and wages);
- incentives for agricultural production, as the price of manufactured goods - previously protected to a greater degree - falls faster than agricultural prices, thereby increasing relatively; and
- limited ability of the agricultural sector (particularly the communal) to react in order to benefit from better incentives.

The impact of land reform on poverty is limited. Viable options of land reform in the commercial sector, which have an impact on poverty, barely exist.

Policy conclusions include:

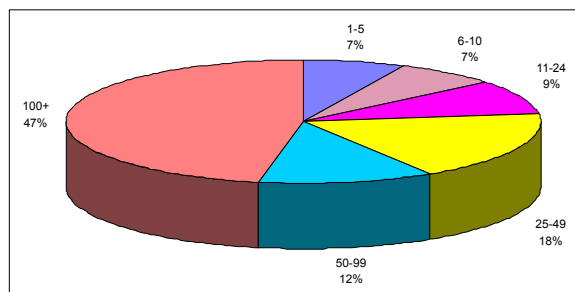
- phased, but rapid unilateral liberalisation of import tariffs and elimination of non-tariff trade barriers, which would boost the incomes of all consumers and eliminate the anti-export bias;
- improving the ability of the rural poor to exploit better relative prices for agricultural products;
- enabling the rural poor to switch to non-agricultural activities;
- streamlining of social expenditures and cost-recovery for non-poor; and
- improving the statistical system to allow more precise analyses of policy impacts on poverty.

Namibia: Business Climate Survey

NEPRU's third Business Climate Survey reviews the year 1999 and forecasts 2000. Standard questionnaires were dispatched to about 230 randomly selected companies across the country. The results should be treated with caution given that only 100 companies responded. Thus, a sectoral analysis was not always possible. The data is mainly analysed by company size and compared to previous Business Climate Surveys. Company size is determined by number of employees. Companies with 50 employees and more are classed large, while companies with up to ten employees are classed as small.

More than half of all businesses in the survey are large companies. This constitutes a bias towards large enterprises in the analysis since their actual share in the whole economy is lower. The medium-sized companies comprise 28% while the remaining 14% are small enterprises. Compared with the previous survey for 1998/99, more large companies responded in the current survey.

Figure 40 Responding companies by number of employees



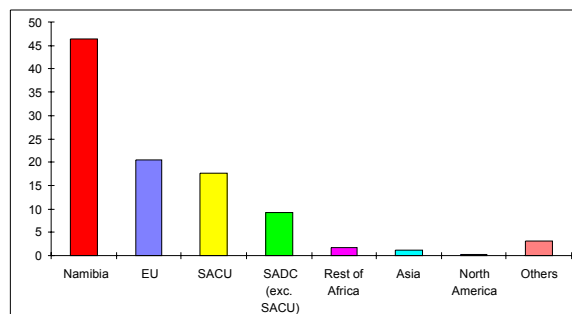
The overwhelming proportion (69%) of companies have been in operation for ten years or more, while only 2% started their business in the last two years. Of the companies in business for more than ten years, over 70% are large, and only 3% are classified as small.

EU important export destination

45% of the companies sell their products and services in Namibia only. Exporting companies sell on average 45% of their products in Namibia. It is mainly large businesses that export (72%), while 39% of small enterprises are involved in cross border trade. Although more companies export within the region, namely a third to SACU member

countries and 27% to the SADC region, the EU is more important in terms of the proportion of sales outside Namibia. It accounts for more than 20% of their sales in comparison to less than 18% and 10% for SACU and SADC respectively.

Figure 41 Share of sales of exporting companies to regions



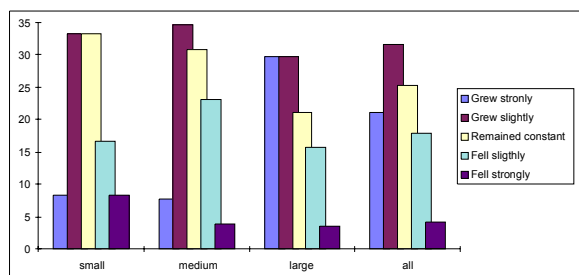
Trade liberalisation welcome

Interesting to note is that businesses involved in exports are less positive towards trade liberalisation than companies who sell exclusively in Namibia - 47% in comparison to 57%. The same proportion of enterprises (43%) indicated a neutral stand in this respect. Overall, 55% of all respondents expected a positive impact of trade liberalisation, and fewer than 5% a negative impact on their business. With this positive attitude of the private sector towards the removal of trade barriers the government should strive for further trade liberalisation.

Business performance in 1999 improved moderately

53% of all companies indicated a slight or strong growth in turnover for 1999. This is lower than in the previous survey where 60% of enterprises indicated growth for 1998. However, fewer companies faced a decline in turnover - 22% (1999) in comparison to 30% (1998). Large businesses in particular performed better (60%), whereas only 42% of medium-sized and small enterprises experienced growth. However, the business performance for 1999 did not meet the expectations companies had in 1998. Whereas 63% of all companies had expected a slight or strong growth for 1999, this was actually the case for only 53%.

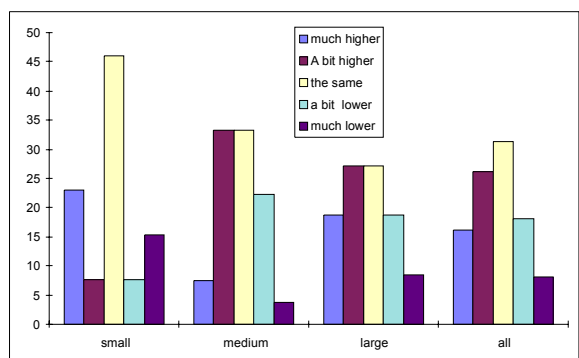
Figure 42 Business performance in 1999 compared to 1998 by size of company



Demand increased in 1999

42% of all companies indicated an increase in demand for their products and services for the year 1999 as compared to the previous year, and only 26% a decline. Whereas the proportion of companies who experienced lower demand did not vary significantly between the groupings (23% to 27%), a higher demand was dependent on the size of the company. 31% of small enterprises faced an increase compared to 41% of medium-sized and 46% of large businesses. These figures are, however, lower than in the previous Business Climate Survey, where 50% (large) and 43% (small) of enterprises indicated an increase in demand for 1998, which resulted in an increase for 49% of all businesses.

Figure 43 Rating of the demand for their products by size of company in 1999

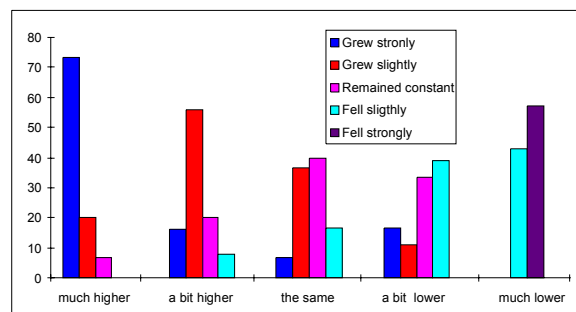


Demand determines business performance

As expected, a strong correlation could be established between demand and business performance. Enterprises that experienced a much higher demand grew strongly during 1999, and businesses with a slightly higher demand grew moderately. At the other end of the scale, a significant drop in demand resulted

in a strong decline in business performance. However, demand does not determine business performance exclusively, since more enterprises (53%) achieved a better business performance than experienced an increase in demand (42%).

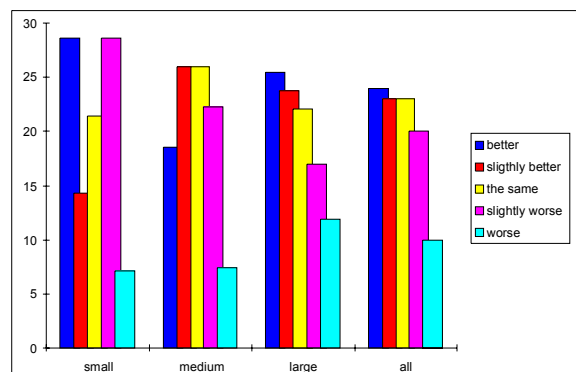
Figure 44 Correlation between demand and business performance for 1999



Improved business climate

Companies were more positive about the general business climate in 1999 than they had been in 1998. About 47% (40% in 1998) of all companies indicated a better or slightly better business climate, whereas 30% (41% in 1998) rated it as worse than in 1998. The data indicate that there is not much difference in the rating between the different groups of businesses. Large businesses appear to rate the general business climate slightly better than the overall average, whereas small enterprises tended to be more critical. Moreover, the company's age did not have a significant bearing on the rating.

Figure 45 Comparison in general business climate between 1998 and 1999 by size of company

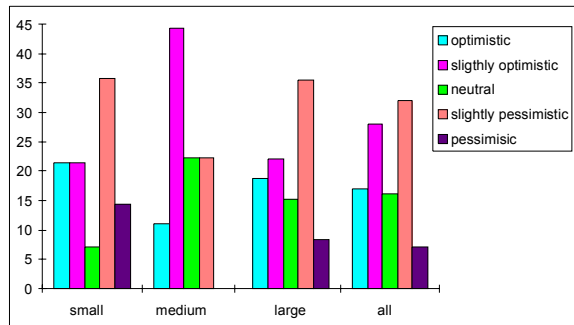


Medium-sized companies are more optimistic about business conditions

The existing business condition was rated more optimistically by medium-sized

companies than by the others for 1999. Only 22% of them were slightly pessimistic, in comparison to 50% (small) and 45% (large) that were slightly pessimistic or even pessimistic. However, compared to the previous survey the rating improved throughout all companies, with 45% (38% in 1998) expressing either an optimistic or moderately optimistic view.

Figure 46 Rating of the business condition in 1999 by size of company



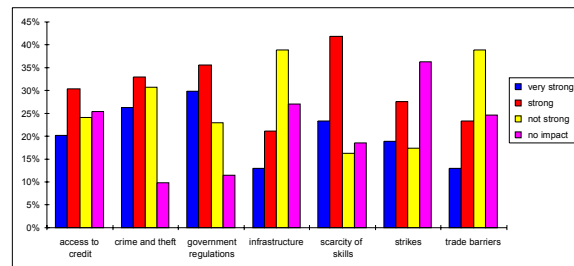
Crime major concern

Only 10% of all companies indicated that crime and theft do not have an impact on their business activity. This is the lowest score on the list of hindering factors. Almost 60% of companies indicated that crime had either a very strong or strong impact on business activity. The rating is only exceeded by government regulations (66%) and scarcity of skilled labour (65%). However, for more companies these two factors do not have an impact, namely 11% and 19% respectively. Not surprisingly, the tourism sector and the wholesale and retail trade sector are most worried about crime and theft. At the other end of the scale are the mining and fisheries sectors, which can be explained by the location of their production and the tough security measures of the diamond mining sector.

Strikes are regarded by 36% of companies as having no impact on business, representing the highest score in this survey (see Figure 47). Only 46% of the enterprises identified strikes as a significant problem either with a very strong (19%) or a strong (28%) influence. This represents the second-lowest score, succeeded only by infrastructure. It indicates that labour relations might be better than they are often publicly stated. Finally, trade barriers are not perceived as a major problem to enterprises. This is surprising given the high tariff barriers of SACU, but can be explained

with the export destinations (mainly EU and SACU - see Figure 41).

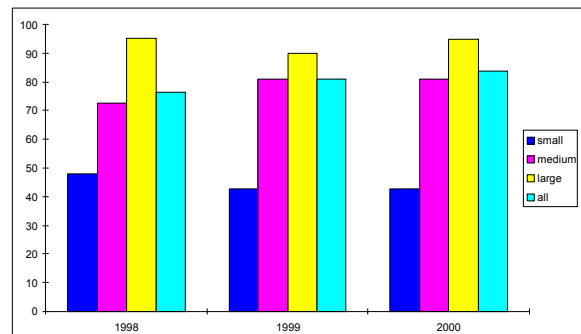
Figure 47 Impact on certain factors on business activities



Lack of skilled labour

For 23% of enterprises scarcity of skilled labour has a very strong impact on their activity and for 42% a strong impact. This highlights once again the low level of skills in Namibia. Large companies are particularly affected, of which almost three quarters indicated a very strong or strong impact, compared to 54% and 44% of medium-sized and small enterprises respectively. Therefore it is not surprising that 90% of large businesses implemented training programmes for their employees in 1999, whereas 81% and 43% of the medium-sized and small businesses did so. An even greater proportion of large enterprises (95) are planning training activities for 2000.

Figure 48 Training programmes for 1998, 1999 and 2000 by company size

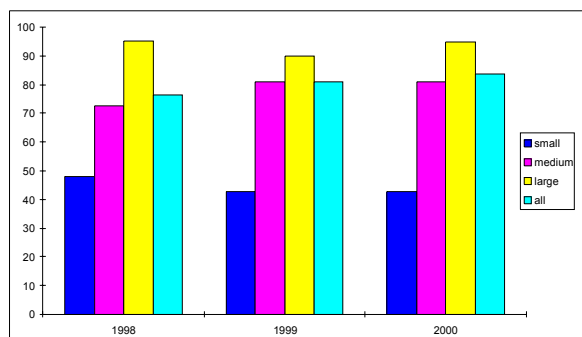


Capital investment increased

58% of all companies undertook significant investments during 1999 compared to 49% during 1998, though this is still lower than in 1997 (61%). Investors comprised chiefly of large enterprises (68%), whereas less than half of small and medium-sized businesses embarked on investment during 1999. These results exceed the investment intentions indicated for 1999 in the previous survey,

however. The prospects for 2000 are reasonable, with 55% of all businesses expecting to undertake significant investment, once again led by large companies (67%). 87% of large companies that embarked on capital investment in 1999 intend to invest during 2000 as well, whereas 74% of companies that did not invest do not plan to do so in 2000. This strong correlation was also observed in the previous surveys indicating continuous growth of expanding companies.

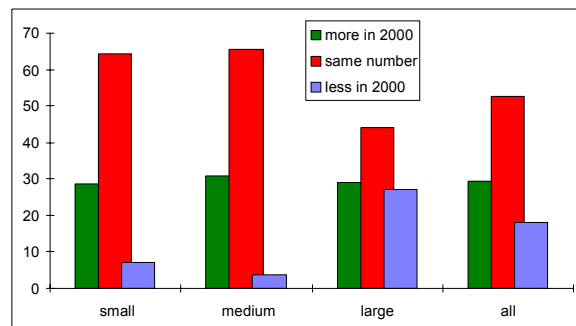
Figure 49 Investment in 1998, 1999 and expected for 2000 by company size



Increasing employment opportunities

The survey reveals that about 36% of all companies employed more staff in 1999 than in the previous year, whereas only 26% employed fewer. Once again, it was mainly the large companies, which set the trend. 45% of them employed more, as opposed to 31% that employed less. For the remaining categories more employment was offset by less employment. Overall, it is difficult to assess the quantitative net impact on the labour market. However, it corresponds with the intentions of companies in the beginning of 1999. At that time only 25% planned to increase their workforce. The prospects for the year 2000 look brighter for additional employment in small and medium-sized businesses. Significantly more of these companies intend to increase the number of workers, whereas no additional employment can be expected from large enterprises (Figure 50).

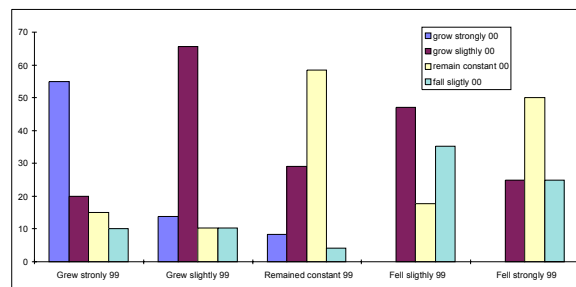
Figure 50 Anticipated employment level in 2000 by size of company



Optimism reigns for 2000

Business people are optimistic with regard to their companies' performance for 2000. 60% anticipate a strong or moderate growth and only 13% a moderate decline. Small enterprises are more cautious about the future than their larger counterparts. Furthermore, companies that performed well in 1999 expect the same for 2000, whereas most of the companies who experienced a fall in turnover do not expect a further decline.

Figure 51 Correlation between business performance in 1999 and anticipated performance in 2000



The business climate for 2000 is also rated favourably. Only 20% of all companies anticipate a worsening climate, while 44% expect an improvement. In particular, medium-sized enterprises are leading the optimists, whereas in previous surveys it was the large ones.

Conclusion

Overall, the results of this survey support a more optimistic view of economic prospects. The business climate and business conditions in 1999 were rated better than in 1998, and most companies anticipate further improvements during this year. The positive attitude of enterprises towards trade liberalisation bodes well for the implementation of the SADC Free Trade Area and global trade liberalisation. As in previous years, small businesses are always more cautious or even

pessimistic about the state of the economy than their larger counterparts. A few recommendations can be made on the basis of the findings of the survey:

- Increased emphasis on and more efficiency in combating crime are needed;
- Since scarcity of skilled labour is continually rated among the top factors hindering business activities, priorities in education should be matched with labour market demand;
- Government regulations should be reviewed, whether they enable business or rather hinder activity; and
- Further export destinations should be explored to lessen the dependency on two main regions, namely SACU and EU.

List of Interviewees

Mr Adkins	Game Namibia
Mr S. Brown	Deloitte & Touche Consulting Group
Mr R. K. Bunjun	Namibia Wildlife Resorts Ltd
Mr Dammes	Continental Enterprises
Mr E. Davidson	NACOBTA
Mr S. Gaogoseb	Ministry of Agriculture
Mr J. Hill	Standard Bank
Mr N. Hipangeluua	Ministry of Mines and Energy
Mr J. Hoffmann	Namibian Agricultural Board
Mr Hoogenhout	Nampower
Mr O. Horsthemke	Namibia Agricultural Union
Mrs J. Jacobs	Ministry of Environment and Tourism
Mr M. von Jeney	Ministry of Mines and Energy
Mr L. Kiggundu	Ministry of Works, Transport and Communication
Mr S. Lamberth	Ministry of Fisheries and Marine Resources
Mr S. Moir	First National Bank
Mr H. Mueller	Ministry of Mines and Energy
Mr M. Mwinga	Bank of Namibia
Mr H. Niedermeir	Namibia Stock Exchange
Mr J. Nosmas	Namibia National Farmers Union
Mr P. N. Postema	Construction Industries Federation of Namibia
Mr F. J. van Rensburg	Ministry of Finance
Mr J.C. Rogers	Chamber of Mines of Namibia
Mr H. Rotter	Fishing Industry Adhoc Committee
Mr J. le Roux	Meatboard of Namibia
Mr Shepherd	Wecke & Voigts
Mr W. Shiimi	Bank of Namibia
Mr J. Smith	Namibian Ports Authority
Mr F. T. Thirion	First National Bank
Mr V. Tjimune	Namibia National Farmers Union
Mr N. Tjozongoro	Ministry of Finance
Ms B. Uris	Namibian Agronomic Board
Mr C. van Wyngaarden	Construction Industries Federation of Namibia
Mr E. van Zyl	Bank Windhoek

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APPENDIX: ECONOMIC INDICATORS

GDP composition (based on current prices), 1983 to 1998

Year	Agriculture	Fishing	Mining	Manufacturing	Total Finance, Real Estate and Business	Government	Others
1983	8.3%	1.7%	22.4%	11.5%	7.5%	20.4%	23.0%
1984	8.5%	1.4%	21.7%	11.3%	8.0%	21.1%	22.4%
1985	7.5%	1.3%	28.1%	10.3%	7.5%	19.0%	19.5%
1986	8.3%	1.2%	26.6%	10.6%	7.1%	19.3%	19.5%
1987	10.2%	1.4%	20.5%	11.6%	7.5%	21.7%	19.9%
1988	10.0%	1.5%	23.6%	10.8%	7.3%	19.2%	19.4%
1989	8.9%	1.6%	24.3%	10.9%	7.5%	18.5%	19.3%
1990	8.5%	2.1%	17.9%	12.5%	8.2%	21.1%	20.3%
1991	8.6%	2.7%	16.1%	11.8%	8.3%	23.6%	19.7%
1992	5.3%	3.0%	13.8%	12.3%	8.6%	25.4%	21.2%
1993	5.3%	3.4%	9.9%	14.0%	9.1%	25.4%	21.5%
1994	8.2%	3.3%	12.0%	13.7%	8.2%	22.7%	20.5%
1995	7.7%	3.2%	9.8%	13.9%	8.4%	23.4%	21.5%
1996	7.7%	3.5%	12.3%	11.6%	8.4%	24.8%	20.0%
1997	6.5%	3.3%	12.0%	12.6%	8.9%	24.7%	20.2%
1998	7.1%	3.7%	11.2%	14.4%	8.8%	23.8%	19.5%

Source: CBS 1999

GDP and GDP per Capita (constant 1990 prices), 1990 to 1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
GDP (N\$million)	6,054	6,550	7,017	6,897	7,335	7,607	7,770	7,975	8,165
GDP per Capita (N\$)	4,412.52	4,645.49	4,842.7	4,632.0	4,803.5	4,829.8	4,820.1	4,839.2	4,852.9

Source: CBS 1999, with population estimates from UNDP, 1998

Inflation Rates, 1990 to- 1999

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
12.06	11.83	17.87	8.54	10.76	10.06	8	8.85	6.2	8.58

Source: CBS 2000

Real Interest Rates, 1992 to 1999

	1992	1993	1994	1995	1996	1997	1998	1999
Prime Rate.	0.85	7.33	4.51	7.44	10.93	10.71	14.71	10.81
Bank Rate.	0.04	6.34	3.68	6.23	8.84	7.77	11.56	5.84

Source: BoN 1999b

Balance of Payments in N\$ m, 1990 to 1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Imports fob	3,183	3,392	3,962	4,362	4,993	5,615	6,582	7,442	8,021
Exports fob	2,816	3,256	3,740	4,226	4,688	5,145	6,035	6,190	7,067
Merchandise TB	-367	-136	-222	-136	-305	-470	-547	-1,252	-954

Source: BoN 1999b

Export Composition in N\$ m (current prices), 1983 to 1998

Year	Live Animals and Animal Products	Fish and Other Aquatic Products	Ores and Minerals	Manufactured Goods	Electricity	Total Exports of Goods, fob	Total Exports of Services	Total Exports of Goods and Services
1983	88	1	742	222	1	1,054	104	1,158
1984	90	1	881	214	4	1,190	122	1,311
1985	121	1	1,337	242	4	1,705	153	1,857
1986	146	1	1,731	278	6	2,162	184	2,346
1987	209	1	1,401	378	7	1,996	189	2,185
1988	225	2	1,716	447	9	2,399	236	2,635
1989	264	2	2,246	507	9	3,028	301	3,329
1990	242	2	1,672	889	10	2,816	341	3,157
1991	246	4	1,989	1,013	4	3,256	399	3,656
1992	268	16	2,107	1,343	6	3,740	484	4,224
1993	281	27	2,349	1,569	0	4,226	746	4,971
1994	483	57	2,367	1,780	1	4,688	920	5,608
1995	547	26	2,650	1,918	4	5,145	1,143	6,288
1996	689	17	3,344	1,984	0	6,035	1,450	7,485
1997	400	14	3,605	2,171	0	6,190	1,752	7,942
1998	562	14	3,186	3,303	2	7,067	1,808	8,875

Source: CBS 1999

Terms of Trade, 1990 to 1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Terms of trade	100.0	81.7	80.7	77.3	86.4	86.8	89.1	79.7	84.5
Export prices	100.0	89.9	97.7	103.9	130.0	131.3	149.3	156.5	176.5
Import prices	100.0	110.0	121.1	134.3	150.5	151.3	167.5	196.4	208.8

Source: CBS 1999

Exchange Rates (Namibian dollar per foreign currency), 1990 to 1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
US Dollar	2.533	2.768	3.014	3.375	3.560	3.647	4.346	4.623	5.531	6.098
GB Pound	4.926	5.045	4.673	5.033	5.546	5.734	6.817	7.547	9.166	9.756
German Mark	1.688	1.767	1.905	1.974	2.264	2.554	2.870	3.181	3.154	3.268
Japanese Yen	0.019	0.022	0.024	0.031	0.035	0.039	0.040	0.038	0.042	0.054

Source: BoN 1999b

Direct Investment in N\$m, 1990 to 1990

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Foreign direct investment	76.5	332.7	337.2	180.7	347.9	554.9	553.3	419.2	532.0
Domestic public investment	498.0	521.0	812.0	726.0	911.0	922.0	1,097.0	1,291.0	1,563.0
Domestic private investment	792.0	586.0	877.0	1,197.0	1,387.0	1,677.0	2,104.0	1,440.0	1,480.0

Source: BoN 1999b and CBS 1999

Government Debts and Deficit, 1990/91 to 1999/00

	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01
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Deficit (N\$ millions)	369.1	139.7	519.5	250.1	27.2	270.1	940.1	697.8	947.9	881.0	761.0
Public Debt (N\$ millions)	n.a.	535.4	1,223.0	1,557.5	2,055.0	2,673.0	3,316.0	3,347.0	3,988.0	4,627.0	5,212
Deficit as % of GDP	6.10	2.00	6.60	2.41	0.23	2.01	6.30	4.57	5.45	4.50	3.6
Debt as % of GDP		7.6	14.8	20.0	18.8	21.9	23.9	21.6	23.0	23.9	24.6

Source: Republic of Namibia 2000