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NAMIBIAN AGRICULTURE: POLICIES AND PROSPECTS

by

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RÉSUMÉ

L'étude considère le développement agricole en Namibie dans le cadre de l'environnement économique et envisage des politiques susceptibles d'aider au processus de réforme et de mener à une économie plus équitable et plus dynamique. Elle montre que l'augmentation du revenu des petits exploitants constitue le seul moyen d'améliorer la situation de la majorité des pauvres namibiens et passe en revue les meilleures possibilités permettant d'accroître le rendement agricole sans nuire aux grands propriétaires exploitants dont le rôle est vital dans l'économie.

L'importance, pour le développement agricole, des accords douaniers et monétaires signés entre la Namibie et l'Afrique du sud ainsi que d'autres mesures externes, est analysée. La réforme structurelle des prix et du marché est freinée par ces externalités qui ont par ailleurs certains avantages. L'évaluation de l'ensemble de ces questions fournit les fondements pour une analyse des réformes envisageables en Namibie et met en relief les liens entre politiques agricole et économique.

SUMMARY

The study examines agricultural development in Namibia in the context of the economic environment, with a view to providing policy perspectives which may assist in the process of reform towards a more equitable and dynamic economy. It shows that the improvement of smallholder incomes provides the only means of improving the position of the majority of poor Namibians, and examines how best to raise agricultural output without endangering the large-scale farmers who are vital to the economy.

The significance for agricultural development of the customs and monetary agreements between Namibia and South Africa, and other external policies, is examined. The reform of pricing and marketing structures in Namibia is constrained by these external arrangements, but they also provide some benefits. The assessment of these and other issues provides the basis for an analysis of the reform options facing Namibian agriculture and the links between agricultural and economy-wide policies.

PREFACE

In developing countries, structural adjustment and trade liberalisation are matters of immediate and deep concern. Research carried out within the OECD Development Centre's programme on Developing Country Agriculture and International Economic Trends aims to provide fresh perspectives which may facilitate the reform process.

The Centre's research on agriculture incorporates several components: a conceptual component to provide analytical guidance for the broader issues; a global general equilibrium model to analyse the overall trends and policy consequences; country case studies to look at the reform options and their implications for individual representative countries; and a component to analyse the links between economic reform and technological change in agriculture. This paper is an element in the third component: it provides analytical insights into the interactions between the macro environment and agricultural development in Namibia.

The study focuses on the implications of different policy options, concentrating on the interaction of Namibia's internal and external economic environment and its implications for economic growth, incomes and agricultural production. As is generally the case elsewhere, analysis of agricultural sector policies in Namibia has for the most part excluded the broader macro policy environment. This has resulted in a failure to recognise the economy-wide significance of trade and macroeconomic policies and their effect on the agricultural sector, which in Namibia, as in Africa as a whole, remains a primary source of employment and incomes.

This study, in examining the interactions between the external and macroeconomic policy environment and agricultural sector policies, highlights the significance of these links. It exposes the key policy questions facing independent Namibia and provides recommendations for reform of external, economy-wide and sectoral policies in favour of more equitable and sustainable development.

Namibia — indeed the whole of the southern African region — is at a crossroads in the design and implementation of its domestic and foreign policies. This study provides an original and timely examination of critical policy issues. We trust that it will prove of direct relevance and assist in the process of reflection and reform in Namibia and its neighbours, thereby promoting sustainable and equitable development.

Louis Emmerij
President of the OECD Development Centre
June 1992

I. INTRODUCTION

This study examines the recent past and future prospects of Namibian agriculture. The Namibian Economic Policy Research Unit (NEPRU) was commissioned by the Organisation for Economic Co-operation and Development (OECD) Development Centre to undertake this study as part of a research programme on Developing Country Agriculture and International Economic Trends. Most of the other studies in this programme have taken structural adjustment and economic liberalisation as their starting point. Namibia's problems have been altogether different in that they stem largely from structural imbalances from the country's still very recent colonial past.

The study, therefore, focuses mainly on those agricultural issues arising from Namibia's past status as almost a fifth province of South Africa, namely its continued close economic ties with South Africa and the peculiarly lopsided structure of the economy and distribution of income. It examines how best to raise agricultural output in such a way as to maximise the dispersal of the resulting increases in income; as will be argued, in the short term higher incomes for smallholder farms is the only way to raise living standards for the majority and thus help to reduce the gross inequality that currently characterises Namibia. This must however be done without endangering the viability of the present large-scale commercial farming sector.

Namibia is very much a part of the international economy and a substantial part of this study has therefore been concerned with the nature of its international economic relationships as they affect agriculture, but also with trying to form a judgement as to how prospective changes in the international environment, including the likely changes to a more representative form of government in South Africa, might affect the market for Namibia's exports of agricultural produce.

As intended we have throughout concentrated on policy issues. It needs, however, to be stressed at the outset that, in contrast to the other countries selected for this research programme, Namibia is very much restricted in its freedom of action. Being part of the Southern African Common Monetary Area and of the Southern African Customs Union it has virtually no independent say in monetary or trade policy, the two areas that figure most prominently in the other studies. The value of its exchange rate is a reflection not of its own policy or of its own economic conditions, but of South Africa's, since the South African economy is overwhelmingly the most powerful in the region.

II. AGRICULTURE IN THE NAMIBIAN ECONOMY

Namibia became an independent country only in March 1990 after a century of colonial, and especially South African, rule. It exhibits the classic features of a dual economy with an inequality of income and wealth that is so marked that although Namibia has a GDP of $1.9 billion, or $1 300 per capita, which places it in the category of middle income countries, it is in fact being treated as if it were "least developed" since the GDP per head of 55 per cent of the population is a mere $85 a year — although that figure excludes non-marketed production.

For a country with a small population of no more than some 1.4 million, Namibia's total GDP is relatively large at $1.9 billion (1990). This is due to two highly productive activities, which constitute one side of the dual economic structure: first, mining of uranium, diamonds, gold, copper and zinc (mostly owned by RTZ, De Beers and CDM); second, commercial agriculture, consisting predominantly of livestock production, is also relatively productive though its value is somewhat less than that of mining.

Commercial Agriculture and Communal Tenure

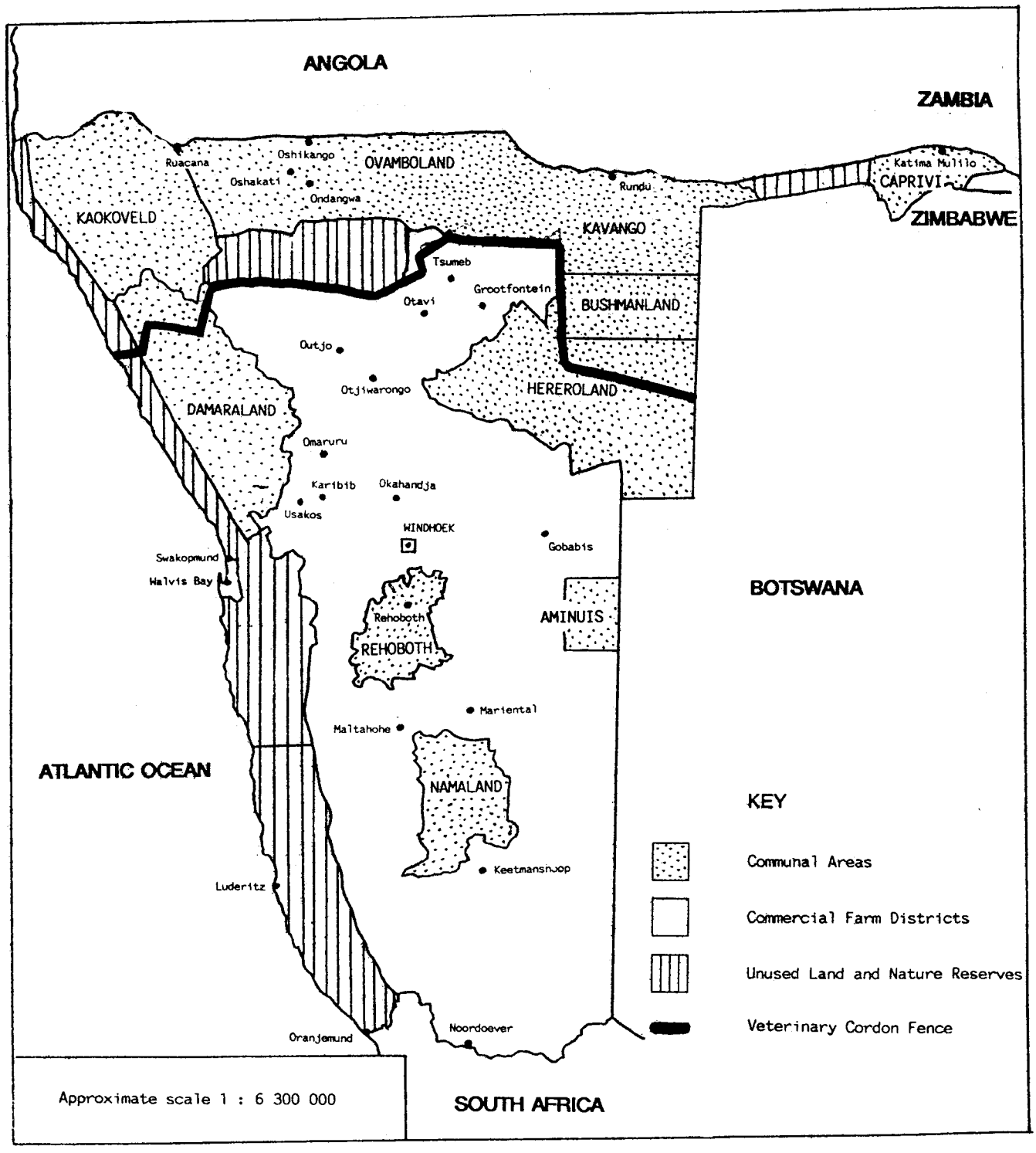
Commercial agriculture is practised on some 4 000 very large, mostly white-owned farm enterprises in the southern and central part of Namibia where a system of freehold land tenure prevails and production is for the market. In the north of Namibia, and the former reserves of central and southern Namibia, the tenure system is communal (see Map 1). It is here that 70 per cent of the black Namibian population live. The majority derive their livelihood from small-scale farming using traditional methods of cultivation and producing almost exclusively for self-consumption. The most commonly grown crop is millet and in some areas maize. Sorghum is grown to brew a nutritious alcoholic beverage called *omalondu*. In addition most farmers have a few head of cattle, goats and sheep. Cattle are basically a store of wealth but they are occasionally slaughtered and the meat is sold on local markets, to provide the means with which to buy maize during the lean season when stores of staple grain have run out. The principal reason for the difference in the type of agriculture practised on the communal farms of the north and the commercial as well as communal farms of the south is rainfall. The north has a reasonable rainfall and therefore lends itself to arable farming. The more southern parts of the country are arid so that in most parts only an extensive form of ranching is possible.

Manufacturing Industry

Namibia's manufacturing industry accounts for only 5 per cent of GDP and consists mostly of processed food, bottled and other beverages, furniture, and some of the simpler forms of engineering. Manufacturing establishments are small. Only a handful employ over 100 workers. But they are predominantly "modern sector", in other words they use power-driven machinery. By contrast with Nigeria, Ghana, or even Kenya and Zambia, there is virtually no "informal sector" manufacturing, although there are some informal sector micro-enterprises in distribution, and in providing drink and cooked food.

Map 1

GEOGRAPHICAL DISTRIBUTION OF COMMUNAL AREAS



Source: Namibian Economic Policy Research Unit, based on F. Adams and W. Werner, "The Land Issue in Namibia: An Inquiry", NISER, Windhoek, 1990.

Imports and Trade Environment

The juxtaposition of a high-income population, exhibiting a highly variegated life-style, and the lack of domestic manufacturing industry largely explains Namibia's high propensity to import. Some $1.1 billion or 60 per cent of GDP is spent on imports. The high propensity to import is, of course, also explained by the relative weakness of the balance of payments constraint. The Southern African Customs Union (SACU), the Common Monetary Area (CMA) and the high value of exports are the other components in the explanation.

We will return to the CMA and SACU in a moment. Meanwhile 95 per cent of Namibia's imports come from within or via SACU. These imports consist of consumer goods, investment goods and food. The high proportion of imports that come from South Africa shields Namibia to some extent from the price effects of a depreciating rand, and the determined import substituting industrialisation policy in South Africa appears not to have led to excessive prices of manufactures as has happened in so many other countries. SACU tariffs for agricultural and agriculture-related products are low by the standards of many other countries that have pursued a policy of import substituting industrialisation.

Namibia forms part of the Southern African Customs Union and uses the South African rand as its currency although it intends to introduce its own currency in due course. The intention is to follow the example of Swaziland rather than that of Botswana and to maintain the new Namibian dollar at par with the rand — at any rate for the time being. SACU comprises South Africa itself plus the three BLS countries (Botswana, Lesotho and Swaziland) and Namibia. It is supposed to be a free trade area with a common external tariff. The external tariff is revenue raising in intent but there is provision for levying higher, protective duties not only by South Africa itself but, with consent, also by other member states. In practice South Africa plays a dominant role in determining tariffs, and nominal tariff rates vary widely.

There is an agreement among the five members of SACU that all the revenue from import duties should accrue in the first instance to South Africa which then allocates shares to the others. This is done on the basis of a fixed formula which is supposed to reflect the proportion of total imports that end up in each of the member states, but includes a substantial enhancement. The minimum enhancement is 1.42 times the amount that would be received without this compensatory factor. Namibia, being a newcomer to SACU, does not yet have a properly established basis for its share of these customs revenues as no accurate import statistics are as yet available. At present it appears to be receiving a good deal more than was expected, but the BLS countries, too, have always done rather well out of SACU where revenue is concerned. No doubt it has suited South Africa to err on the side of generosity as the price for keeping SACU intact. SACU provides South Africa with a much larger market for its agriculture, manufactures and commercial services than it would otherwise have. We shall return to SACU and its role in the trade of agricultural produce in Section V.

Improving Living Standards for the Majority

One of the major problems facing Namibia is how to raise living standards for the majority, most of them living in the north, engaged in small-scale agriculture and producing principally for self-consumption. How poor they are is not easy to determine and there is a good deal of confused thinking on the subject. Take cattle ownership, which is often blamed for wasting good arable land, or for soil erosion. One needs to remember that it is often cattle ownership which enables farmers to survive lean months: they slaughter a cow and sell the meat, using the proceeds to buy more grain. Second, a major reason for their having so much livestock is that it represents past accumulations of savings. People living on the margin of subsistence do not save, so that the existence of large numbers of livestock casts some doubt on the commonly held belief in the prevalence of dire poverty. At any rate the nature of poverty and its causes need to be redefined. We are not saying that it does not exist; clearly some farming families are very poor, as witnessed in the fact that they own little or no livestock. All we wish to suggest is that the solution to the problems of poverty requires a much closer look at its causes than it has hitherto received.

Another misconception about the level of incomes in the north arises from the common practice of thinking about economies as though they consisted of a number of self-contained sectors — "the agricultural sector", "the mining sector", etc. This practice of dividing economies into sectors sometimes obscures the fact that households may belong to more than one sector. In Namibia, as in other African countries, it is common for people working in the mines for example to retain a home in the communal farm areas. Their farm is looked after by their families who then also derive from it an income in kind and sometimes even in cash. Eventually the mine worker returns. Meanwhile the mine worker's household income consists of two parts: the family farm income, and the migrant's wage, part of which is often remitted home.

People retain and even acquire farms whilst working away from home partly because they provide security, partly because it is a way of maximising household incomes, and partly because there is no point in abandoning a farm if one cannot sell it, having no individual title to it. The right to land is dependent on farming it.

It is in this context that one may pose the question whether success in raising farm incomes may be expected to reduce the flow of migrants to the towns or mines or to other destinations in the south. Economic analysis would seem to suggest that it would not, unless the higher farm incomes are conditional on a higher male labour input. The reason is that however much farm incomes go up, households will continue to be better off on two incomes than on one. It is only when the second income adds very little to the first that a preference to stay at home with one's family becomes operative and may cause the flow of migrants to fall. Many countries have been disappointed that urban migration has continued unabated even when there have been marked increases in rural incomes. It is because they have ignored this widely prevalent inter-sectoral relationship. It is safer to assume that rural-urban migration will continue, albeit at a decreased rate, rather than live in hope that it will cease if there is successful rural development.

We turn last to the question of how best to go about raising the incomes of the majority. One way to answer that is to look at the contribution made by different economic activities to:

a employment or self-employment
b income of employees or the self-employed
c government revenue
d value of exports.

The different activities contribute in different measure to each of the variables. For example, mining makes by far the largest contribution to exports and also makes a considerable contribution to government revenue, but it employs only 14 000 (see Table 1). Services, both public and private sector, are by their nature labour intensive and therefore employ and pay wages or salaries to much greater numbers whilst manufacturing employs fewer than 10 000. Services contribute almost nothing to export earnings — with the exception of the expanding tourist industry — and their contribution to government revenue is minimal, or even negative if one deducts the cost to the government of paying its employees.

Commercial agriculture's contribution is closer to that of mining; it employs more than twice as many workers but pays them much less. Farmers pay taxes but their contribution is minuscule compared with that of mining. Most of the 4 000 commercial farmers raise livestock which is then either exported on the hoof or slaughtered and exported as meat. Ninety per cent or more of the output of commercial agriculture is destined for export but it contributes only 12 per cent to total export earnings compared with the 76 per cent share of minerals. Commercial farming is changing, as later sections will show: suitable land has been converted to arable and in years of good rainfall now produces virtually all the maize that is bought in Namibia — "bought" as distinct from being produced by small cultivators for self-consumption. Some of the domestic demand for wheat is also supplied by the commercial farmers. An interesting new development, as yet only in its infancy, is horticulture, both for the local market and for export. We shall describe that in detail later.

Conclusion

What emerges most clearly from this discussion is that whatever contribution mining, manufacturing, commercial agriculture or services may make to export earnings or government revenue, the activity which most affects the income-earning opportunities and the standard of life of the great majority is communal agriculture. A 10 per cent increase in output in communal agriculture will have a far greater impact on the living standards of the majority than an equal increase in the output of any other activity, be it mining or commercial agriculture. If that increase of, say, 10 per cent in the output of communal agriculture could then also be converted into cash there could be further immediate repercussions. It would at once create a market for goods manufactured in very small local enterprises using only hand tools, as happened in Kenya where simple furniture, paraffin lamps and charcoal stoves came to be made in ever increasing numbers as farm incomes started to increase. Such

things can be produced cheaply, so that there would be no problem in under-cutting the prices charged for imports from South Africa. Being a labour intensive activity, an expansion of "informal sector" micro-enterprise production would immediately multiply income earning opportunities and incomes.

Namibia is fortunate in having a "modern" sector which can be relied upon to create employment opportunities without recourse to government finance, provided only that the investment climate created by the government remains favourable. The government can therefore concentrate its resources on the area where the impact on living standards is most direct, *viz*. the area of communal smallholder agriculture.

The sections which follow will deal with agriculture as a whole, if only because the two types of agriculture practised in Namibia, different though they may appear at first sight, are ultimately linked. But we shall argue that wherever resources have alternative uses and are freely available to be used either in communal or commercial agriculture it will need to be shown that their use in commercial agriculture has a substantially higher pay-off which overrides the case on distributional grounds for raising incomes in the communal areas.

Table 1

EMPLOYEES BY INDUSTRIAL GROUPS

Industry	Public Sector	Private Sector	Total	Per cent
Agriculture & Hunting	-	34 400	34 400	19
Fishing	-	1 700	1 700	1
Mining & Quarrying				
- Metal	-	7 700	7 700	4
- Diamond	-	1 600	1 600	1
- Other	-	800	800	0.4
Manufacturing	700	8 800	9 500	5
Electricity & Water Supply	1 300	-	1 300	1
Construction	1 100	11 600	12 700	7
Wholesale & Retail Trade, Catering & Accommodation Services	1 700	27 700	29 400	16
Transport & Communication	6 400	1 500	7 900	4
Government and Personal Services	43 900	29 800	73 700	40
Financing, Insurance, Real Estate and Business Services	300	4 000	4 300	2
Total	55 400	129 600	185 000	
Per cent	30	70		100

Source: *Manpower Survey 1988*, Table 2 (SWA/Namibia Department of Economic Affairs).
Note: 1. These figures relate only to recorded employment in the formal sector.

III. THE DOMESTIC MARKET FOR FOOD

In this section we shall attempt to describe present patterns of domestic demand for food and how that demand is satisfied. The object is to determine, first, the extent to which demand is met from domestic sources, second, what is imported from South Africa and, third, why. This is a necessary prelude to addressing the question whether domestic supply can be increased, especially in ways that would raise incomes of smallholder cultivators in the communal areas.

The Domestic Market for Agricultural Produce

Consumers and Consumption Patterns

Food consumers in Namibia vary considerably in needs, incomes and tastes. At one extreme there are the urban inhabitants in formal sector jobs with relatively high wages who buy all their food at formal retail outlets. Apart from beef, mutton, and some dairy and fish products, most of these people's food requirements are met by imports from South Africa. At the other extreme are those who grow exclusively for self-consumption and manage to meet all their own needs. All the evidence seems to suggest that the latter category is now in the minority. Nowadays most people in rural areas need to purchase food for at least part of the year. This proportion varies considerably between the north and the south because the harsher climate in the south does not yield the freely available resources of the natural environment in the north and the more dispersed population makes trade more difficult. The majority of the Namibian population thus falls somewhere in between these two extremes.

The section of the population which buys all its food includes those people living in Windhoek and other towns, those working in the mines, and those who are engaged in other activities that preclude producing their own food. In addition most small cultivators need to buy some food either to tide them over the lean season or to add some variety to what they themselves produce. It is unfortunately easier to establish categories of consumers, as we have done, than to give even the most approximate estimate of the number of consumers in each of these categories. One can use census data for a rural-urban breakdown but the figures from the 1991 census have not yet been analysed. One can use Manpower Survey statistics to estimate numbers of employees in the mines but they do not reveal how many of the employees have families living with them, let alone the average size of those families. Most difficult of all is to know how many small cultivators are purchasers of food to supplement what they grow themselves. We therefore refrain from attempting to make an estimate.

Maize and Millet Consumption

In all poor countries the most important foods are those high in starch, and Namibia is no exception. For the mass of the population this generally takes the form of millet or maize. Small cultivators produce as much of it for themselves as they can and make up the rest with purchased grain. Millet is the preferred crop in the northern region and maize in the southern region. When all the millet has been consumed

small cultivators in Ovamboland, Kavango and Caprivi buy maize because, apart from very small quantities of millet traded in the locality, maize is the only grain widely available. This maize is either imported or grown by the mostly white commercial farmers in the Tsumeb-Otavi-Grootfontein triangle.

The other principal source of demand for maize comes from those who do not grow any of their own food — town dwellers, miners and other employees and their families. The quantity of maize purchased by off-farm dwellers is reasonably stable. The quantities purchased by small cultivators, however, varies with the state of the harvest. In recent years total purchases, made up of imports and Namibian commercially produced maize, have varied between about 40 000 and 66 000 tonnes a year.

Meat Consumption

In contrast to most other poor countries the abundance of livestock in Namibia means that meat is widely consumed, even among poorer people. Many households in the rural areas of all parts of the country own livestock including cattle, goats and sheep, which are slaughtered occasionally for self-consumption. Livestock also provides milk which is consumed fresh or in the form of sour milk or cream. Many farmers keep chickens although not in large numbers. The number of pigs appears to be on the increase, especially in the peri-urban areas where they live off scraps and on communal farms in the south. Game hunting takes place virtually everywhere to provide meat for self-consumption as well as for commercial sale.

Fruit, Vegetables, Wild Foods and Fishing

In the north crop production represents an important source of food supplies at the household level. Most of the production of beans, pumpkins, and groundnuts tends to be destined for self-consumption. The output of cultivated fruit and vegetables from both commercial and communal farms is small even though, in the north, the climate would permit it. Only in the south along the Orange River are fruit and vegetables commercially grown on irrigated land.

The gathering of wild foods, especially wild spinach, berries and nuts, in the better watered north represents an important source of food particularly during and after the rainy season, especially because they can be dried. Along the Okavango, Zambezi and Chobe Rivers in the far north fishing is an important additional source of protein both for self-consumption and for sale.

Generally speaking, food intake, even among the relatively poor, shows some degree of diversity except for the lack of consumption of fruit and vegetables. Diets exhibit considerable seasonal variations.

Purchases

Purchases constitute a source of food supplies for almost all households. Food is usually purchased for cash. A generally very low level of annual household cash incomes in rural areas, an estimated R3 600 for families living in the more arid southern communal areas and R4 700 for those living in the north, means that demand for marketed food is primarily for basic foodstuffs, such as millet, maize and sometimes meat. These products can be bought from informal outlets or from friends and relatives. More sophisticated or exotic products are purchased from shops.

The use of cash is becoming increasingly widespread and is now needed not only for school uniforms and hospital treatment, but even for buying millet in informal markets. Millet sent by Ovambo families to their relatives in Windhoek is often paid for in cash. Millet is also traded informally across the Angolan border. There is however little trade between the three regions where millet is consumed, Caprivi, Kavango and Ovamboland. In contrast to millet maize is mainly bought from shops.

High Income Consumption

Most food that is purchased is bought by town dwellers and by employees and their dependants working elsewhere. There is however a wide gap between the typical patterns of consumption of the middle classes and the majority who are ordinary wage earners. There are some 80 000 whites alone, virtually all of whom are in the high income brackets. If the number of black Namibians in this category added a further 60 000 the total of 140 000 would constitute 10 per cent of the population. Since much of that middle class is concentrated in Windhoek and a handful of smaller towns it is also a highly concentrated demand.

This explains why there are numbers of large supermarkets carrying almost as wide a range of products as one would expect to find in Western Europe. The difference is that virtually everything they and the smaller Portuguese-run neighbourhood shops sell is imported from South Africa. Since Namibia itself was regarded until 1990 as part of South Africa it is hardly surprising that most of the supermarkets themselves are part of South African-based firms. Only foodstuffs whose freshness is important and which cannot easily be transported long distances, such as bread and milk, come from domestic suppliers, as do a few other products like beer, soft drinks, soft margarine and chocolates. Chickens and eggs too are now locally produced by three commercial farmers and sold directly to shops and catering establishments.

Fresh fruit and vegetables are imported from South Africa at an estimated rate of some 500-750 tonnes per week. South African fruit and vegetables have been cheap relative to imports from elsewhere because it produces a surplus and because subsidies and have favoured commercial farmers. It is also cheap because trucks taking meat to South Africa compete to attract return loads and offer very low freight rates.

The dominance of South African supplies in the Namibian middle class market is not solely due to the colonial link of the recent past. Any potential domestic producer of these products would also have to contend with the fact that South African goods are cheap because they are subsidised in at least two ways.

First, South Africa pays exporters an export subsidy intended to encourage exports to the rest of the world, but there seems to be evidence to suggest that this subsidy is also paid for exports to Namibia in clear breach of the spirit and the letter of the Southern African Customs Union. Second, an industrial decentralisation scheme offers housing and labour subsidies, transport rebates, interest and rental concessions, electricity subsidies and training grants to businesses set up in certain identified areas. It is a hidden subsidy and although this scheme is due to be phased out by July 1993 at the latest, its more modest replacement the "Regional Industrial Development Programme" will still be a form of subsidy (see Section V).

All this makes any attempt at import substituting very difficult. Where fruit and vegetables have begun to be grown by commercial farmers as a way to diversify it has proved easier to export the produce to Europe than to try to break into the well established supermarket network. Small quantities of fruit and vegetables, grown by commercial farmers, are in fact sold in Windhoek, but they are sold not in the supermarkets or other retail outlets but rather from the back of trucks direct to consumers. This does not present a serious challenge to established retailers.

When it comes to tinned food the Namibian market may not be big enough to enable factories to operate at minimum cost, though there may be a few products, like corned beef, where production for the local market could be combined with exporting. There is a rapid increase in world demand for corned beef, perhaps in response to the high price of meat and fish. Meatco has recently started a new product line of tinned ready-made meals.

Consumption of Wage Earners

Two-thirds of the inhabitants of the towns are not high income earners. Their consumption pattern, dictated by their much lower income, is totally different, consisting predominantly of maize meal, meat, and sometimes also Namibian pilchards in tomato or chili sauce. Occasionally they will buy cabbages, onions and carrots. Interestingly, much more of what these wage earners consume is domestically produced, especially since the great increase in maize production began in the mid 1980s. The fruit, cabbages and onions mostly come from South Africa but the pilchards are canned in the South African occupied enclave of Walvis Bay.

Apart from onions and cabbages, low-income consumers in the towns also occasionally buy small quantities of other vegetables and fruit. Caring more about price than quality they will buy lower grades from local shops or markets than are on offer at the middle-class oriented supermarkets.

If one of the difficulties for domestic growers trying to break into the middle-class market is that they may not be able to provide the reliability of South African suppliers, the urban low income consumer market may provide a better opportunity.

Conclusion

Except in a drought year, Namibia is now largely self-sufficient in the food consumed by the majority — both rural and urban — though their diet is inclined to be monotonous at best, and grossly deficient at worst. But though "self-sufficient" in the sense of not requiring imports, communal farm households and wage earners in towns and elsewhere are anything but self-sufficient in what they consume, depending heavily on maize produced by the large commercial farmers. High-income consumers are not self-sufficient in either sense. Very little of the food they eat is produced domestically: most of it is imported from South Africa.

In the next section on the supply of food we shall explore the extent to which further import substitution of food may or may not be feasible or desirable. So far import substitution has come overwhelmingly from the large commercial farms. The next section will need to consider what scope there may be for smallholders in the communal areas to participate in this process.

IV. THE SUPPLY OF AGRICULTURAL PRODUCE

The last section looked at factors determining domestic demand and the question of whether potential exists for selling a greater quantity of domestically produced agricultural products to domestic consumers. This section will address the question of supply.

The basic objective of development policy is to raise the living standards of the majority. In the case of Namibia this will require major emphasis on those engaged in agriculture in the communal areas. For their living standards to rise they must acquire the means both to increase their marketable surplus and also to exchange it for cash. In other words supply must be increased and ways must be found to sell more of the output. However, achieving greater national food security, by increasing the proportion of domestic output in the national supply at the expense of imports, will not necessarily improve household food security in terms of people's access to basic foodstuffs, and indeed might actually reduce it if the resources for increasing production are concentrated solely on large-scale mechanised farms.

This section will therefore look first at the issue of food security to establish how best to achieve increased food output and its equitable distribution. The constraints to supply are then considered, first in the communal areas where there is ample evidence to show that the present low input/low output system of agriculture could be made more productive through increased provision of inputs and better farming practices, and then in the commercial areas where only a limited range of agricultural output is produced. Once constraints have been identified the question of how government can best contribute to easing them is addressed.

Food Security

The issue of food security in Namibia is dealt with in some detail in the World Bank country study (1991) which argues for increased cereal production in more fertile regions to supply nearby markets. Because transport costs reduce export parity prices in more remote areas to levels at which production cannot be sustained without subsidies, the study argues against a policy of total food self-sufficiency which is not considered the most efficient use of resources. Instead, given that cheap alternative sources of staples are usually available from neighbouring countries, except in times of exceptionally severe drought, more emphasis should be placed on cultivating higher value crops where transport costs constitute a smaller share of total costs and which are therefore more profitable.

This analysis is basically sound but several additional issues need to be addressed. First, will arable production in the most fertile areas make any contribution to raising smallholder incomes? Although most marketed cereal output is currently produced by large-scale farmers in the Tsumeb-Otavi-Grootfontein triangle the bulk of the land suitable for rainfed crop production lies in the northern communal areas. Thus it appears that a policy of stimulating staple food production in these areas would indeed have beneficial effects on rural incomes. Experience in Zimbabwe demonstrates that sizeable increases in output can be achieved by small farmers.

Communal farmers in Namibia have long been deprived of even the most basic facilities. Given this almost total neglect it is highly likely that once inputs are available, improved marketing facilities have been created and attractive producer prices are offered considerable increases in productivity and output can be achieved.

Second, once the limits to such a policy are reached and communal farmers have experience with producing regular surpluses for sale the question of which higher value crops to start growing will arise. At present smallholders have little experience with crops other than staple cereals. Thought must be given to this question now. Often small farmers simply cannot afford to risk their futures with new products. What crops would be suitable for cultivation and what markets for them exist? Will small communal farmers really be able to grow higher value crops bearing in mind that increasingly sophisticated and expensive inputs may be required?

Lastly, is it likely that there will continue to be reliable sources of imports, so that diversification does not threaten household food security? The answer to this is almost certainly yes. Although South African agriculture is undergoing a shift away from cereal and towards livestock production, this is not expected to lead to significant increases in prices. An increase in the marketing of higher value crops would of necessity involve improvements of distribution channels. Thus such a policy would not jeopardise people's food security.

As far as the commercial sector is concerned recent experience with maize production appears to show that market related increases in price are sufficient to stimulate sizeable increases in output. In fact maize production has grown several-fold since the inception of the Agronomic Board in 1985, even though prices have been set at or below import parity levels and commercial arable farmers receive no direct subsidies. However, whilst these increases in grain production are to be welcomed it must be recognised that they have done nothing to raise the incomes of those in the communal areas who actually buy much of the maize.

The Constraints to Supply in Communal Agriculture

Introduction

There are few estimates of output in the communal areas. The Budget Economic Review of 1991 estimated the value of "subsistence" agriculture to have been R74 million in 1990, projected to increase to R85 million in 1991. "Commercialised" agriculture was estimated at R405 million, rising to a projected R447 million in 1991. It is not clear how the figures for subsistence production were arrived at and what precisely they cover. The World Bank's figures appear to be internally inconsistent: "communal agriculture" is estimated to contribute 15.4 per cent to "overall sectoral output" or roughly R70-80 million in the late 1980s, but "traditional economic activities" are later valued at R175 million for 1988.

Table 2 gives an overview of the communal areas. The population and livestock figures may be safely assumed to be reasonably accurate but those for grain production should be treated with some caution. Surveys carried out for the Land Reform Conference, convened in 1991 as a forum for discussion on all aspects of land

reform, point to proportions of livestock herds sold or consumed by households of around 15 per cent for cattle and 13 per cent for goats in Ovamboland. There is evidence that these are low compared to other communal areas but if they are used to calculate meat production in all communal areas one arrives at annual figures of about 130 000 head of cattle and 170 000 sheep and goats.

Table 2

POPULATION AND AGRICULTURAL ACTIVITIES IN COMMUNAL AREAS IN 1991

Regions	Population (000)	Activity	No. of livestock LSU(000)	SSU(000)	Output (000 tonnes)
Kaokoland	26	stock farming	88	221	
Ovamboland	615	millet & stock	350	372	48 (millet)
Kavango	137	maize, millet & stock	93	29	4 (maize)
Caprivi	71	maize, millet, sorghum & stock	97	4	10 (maize)
Damaraland	33	stock	29	132	
Bushmanland	4	limited	2	1	
Hereroland	44	stock	179	128	
Rehoboth	34	stock & limited cropping	46	212	
Namaland	16	stock	12	235	
Total	980		896	1 334	

Source: 1991 Population Census, July 1991 Livestock Census, Early Warning and Food Information Unit, Windhoek.

Adapted from Table 5.2 in World Bank (1991).

Notes: LSU = Large Stock Unit (cattle)
SSU = Small Stock Unit (sheep and goats)

The Land Reform Conference gave a detailed picture of conditions in the communal areas. These can be summarised as follows:

(1) There is a shortage of land for both grazing and crop production.
(2) Livestock and crop farming compete for land.
(3) Cattle are not viewed as providing a source of income and are therefore rarely sold for slaughter except when grain stocks have run out and cash is needed to buy maize or millet.

(4) Crop production has failed to keep pace with demand and this has resulted in the communal areas' becoming increasingly dependent on grain imported either from the commercial areas or from South Africa which must be paid for in cash, underlining the importance of cash incomes in the communal economy.

(5) The present systems of land use and land allocation are deeply rooted in people's minds and massive inequalities of wealth exist, partly as a result of a gradual breakdown of traditional systems of land allocation and tenure.

The importance of cash incomes in the rural economy cannot be overstated. People need cash to buy staple cereals when they run out of what they produced themselves. It is clear that most farmers do not produce enough to last them throughout the year. In the Cuvelai region of Ovamboland, for example, three-quarters of the households who grow crops are also obliged to purchase millet or maize for several months of the year. Outside the Cuvelai nearly two-thirds of those growing crops purchase some staple grain as well. The region is a net importer of staple grains. Furthermore, the degree of self-sufficiency of the northern communal areas has declined over the past decade.

Many but by no means all people are in the fortunate position of having a relative working in the formal economy who can send cash remittances. This is an extremely important source of income. So is the monthly R92 state pension received by everyone over the age of sixty, of whom there are about 60 000, 40 000 in the rural areas. Others less fortunate are forced to slaughter livestock for cash. Research for the Land Reform Conference found that one household in six in Ovamboland claims to have no cash income at all.

The situation in the south is even more acute. In these drier areas of the country people have to go out to work because they rely even more on purchased food and materials for housing. In addition, the population there is scattered and it is impossible, for example, to sell meat on informal local markets as demand is not concentrated enough.

Increasing Output and Incomes in the Communal Areas

We must now examine ways in which output and incomes might be raised in the communal areas. We begin with one of the most fundamental questions in Namibian agriculture: whether communal land tenure inhibits greater commercialisation and production. With European history in mind, it is often taken for granted that private ownership is a necessary precondition of increased productivity. But this is not necessarily so. We shall argue that it is only in the communal grazing of livestock, not in arable farming, that communal tenure acts as a brake on progress.

In the communal areas there is no freehold. Each household is allocated a piece of arable land which is then individually farmed, and the usufruct is held until the death of the owner. In addition everyone has the right to keep livestock on the common grazing lands and there is no limit to the number of livestock that households may graze. This system affects livestock farming and arable farming in different ways.

In the case of livestock farming it leads to overgrazing. Livestock are seen as a symbol of prestige and a store of wealth on which to draw in an emergency such as drought, rather than as a source of regular income. Consequently there is a tendency for the stock of livestock to become ever bigger. The community as a whole would benefit if it were not so and if each household had its own grazing land there would be a far better chance of preventing overgrazing. But because of a "fallacy of composition" it is not in anyone's interest to advocate privatising the grazing land.

In the case of arable farming, the position is quite different. Although no one has title to land, farming takes place as if the land was in private ownership and there are no conflicts between the individual farmer and the community. Farmers have every incentive to be efficient. Once a piece of land has been granted the user has complete freedom to use it as he sees fit. A user's access to a piece of land is exclusive. The only important difference is that the user is not entitled to sell the land or pass it on to his children, or even his widow, thus precluding its being used as collateral. This does not, however, preclude many households from being headed by women.

As far as crop cultivation is concerned there appears little doubt that productivity in communal areas can be raised even without any change in the system of land tenure, provided only that farmers are given access to the inputs enjoyed by commercial farmers, such as fertilizer, improved seed and fencing. One question that this raises is how these inputs should be paid for. Should the farmers themselves pay for them and if so, at full cost or at subsidised prices? Either way they would then need to be able to borrow and that again raises the question of whether to charge them market interest rates or not. It also raises the question of how such loans should be secured. In the absence of freehold, land cannot be pledged. Some might argue that a system of promissory notes would be sufficient. A better alternative, already being tried here and there, is to harness community pressure as an instrument for repayment. It might turn out that in the end it is cheaper to provide inputs free of charge.

Turning to livestock farming it seems clearer that progress is indeed hindered by communal farming systems. Although it has been pointed out that enclosure does not automatically ensure an end to overgrazing this might only serve to show that enclosure is a necessary but not a sufficient condition for good management practices. Perhaps one can stop overgrazing under communal ownership by taxing or fining communities if they exceed given scientifically determined stock limits, or adopting some kind of progressive levy. However, an attempt to introduce grazing fees in the south proved impossible to implement. Ultimately the answer to overgrazing is likely to be the splitting up of common grazing lands and their allocation to individual owners, however unpopular that may be at present. The form of ownership (household, kin-based, co-operative) and tenure (individual freehold, use-right, leasehold, rental) may vary, as may the mix of access rights in a given area and the pace of tenure reform.

The problem is bedevilled by the fact that the herds of those using common land vary enormously in size from just a few animals to several thousand. The distribution of livestock holdings appears to have become more skewed in recent

years. Privatisation of pasture land is taking place in any case as the process of fencing off by the larger and more powerful herd owners has already begun, and although no precise figures are available, the practice is thought to be widespread. When the legality of such enclosures is questioned the farmers either claim that they were promised the land by the old regime, or they assert that they are merely heeding the government's call to commercialise which they maintain is impossible without private tenure. As a result of enclosure smaller farmers are left with less land on which to graze. Moreover it tends to be the best land which gets enclosed, and routes from one seasonal grazing area to another are cut off.

We have argued that the adoption of a freehold tenure system is not a precondition to increasing arable production. In the case of livestock production it may be a necessary condition even if it is not a sufficient one. It may not matter for arable production that the system of land tenure is unlikely to be changed in the foreseeable future. There are no plans to move to a system of private land ownership, even gradually. However, one of the reasons why the government has not come down firmly against farmers who fence off communal grazing land may well be a tacit recognition that enclosure might help to avert still more overgrazing and lead to productivity increases. The government's unwillingness to act is of course much resented by smaller herders who see their access to communal grazing being steadily reduced.

In all likelihood enclosure by itself will not solve the problem of overgrazing. That problem will be solved only when people start being prepared to sell their cattle as a means to secure a regular income by doing so.

Commercialisation of Livestock

If arable production is to be increased ways may need to be found to reduce livestock herds. If herds become smaller it could free land for increased crop production, but the extent to which land is presently overgrazed is probably quite considerable and a dramatic increase in offtake would be required in order to relieve pressure on land and free more for arable production. The question of how land should be divided for use between arable and livestock production is a difficult but important one. Ideally, destocking would have a twofold beneficial effect on communal living standards — a higher offtake would lead to increased incomes and more land would become available for crop production with beneficial effects for food security. The question is whether people are ready for these changes and whether there is demand for the extra meat produced.

Changes in attitudes towards cattle, which are partly seen as stores of wealth, must go hand in hand with increasing saving opportunities in the rural areas. There might be scope for extending Agricultural Bank services for savers. People are likely to be rather suspicious of attempts to monetise their savings but this has one big advantage in that drought will no longer have the effect of wiping out people's wealth at a stroke. At present people in most of the communal areas, with the exception of Caprivi, sell and consume fewer cattle than die through drought and disease.

Cattle farmers in the northern communal areas have no protection against drought. They try to take their cattle to less affected areas but, because of the barrier to stock movement presented by the Veterinary Cordon Fence, they do not have the option of quickly increasing their offtake with the onset of drought and selling their cattle to South Africa where, at worst, they are paid the South African floor price. Under the new marketing arrangement discussed below this may start to change but it will do so only very slowly.

Marketing Infrastructure

If a farmer is to earn more he must be able to sell any surplus he may have. In the past there was a dire lack of facilities to enable communal farmers to do so. They could sell livestock and surplus grain locally, but there was nothing comparable to the infrastructure from which the commercial farmers in the south benefited.

Now at last Meatco pays meat producers in all parts of the country the same price for meat of the same quality. Whether this price, which is determined on South African markets, is high enough to encourage people to sell to Meatco abattoirs remains to be seen. In the past it was more remunerative and less trouble to sell in the informal markets, the so-called bush markets. Informal market prices were relatively high because the quantities involved were small. A small increase in offtake might not seriously depress these prices because there is probably some unsatisfied local demand. However, if the government is to succeed in persuading farmers to increase their offtake substantially, then farmers will need access to the sort of marketing facilities the commercial farmers enjoy. The new Meatco policy is a step in the right direction, but farmers will also need better access to transport. That need not necessarily be provided by the government. There is scope here for enterprising individuals with vehicles to take the initiative and provide farmers with this service. If not, Meatco may itself have to provide the service.

Very little millet or maize produced in the northern communal areas is marketed although small informal markets outside government regulation do exist. Most of the maize on sale comes either from large commercial farms mostly in the Grootfontein-Otavi-Tsumeb triangle or abroad. The government did start a pilot millet marketing scheme in the north in 1990 which operated through the Agronomic Board. The prices offered to farmers were high compared to those for wheat and maize. Unfortunately, for reasons that are still unclear the scheme ended in some disarray and had to be taken over by the Ministry of Agriculture.

Another important facility is storage. In Ovamboland millet is stored in baskets; when it runs out maize has to be bought for cash. The poorer the storage facilities, the sooner stocks run out because vermin and the damp can make deep inroads into them. Usually it makes better sense for farmers to sell their crop immediately after the harvest and buy food as required — but only if a proper marketing, storage, and distribution system are in operation. This is at present not the case.

The Veterinary Cordon Fence (VCF) and Border Fence

One major obstacle to selling more livestock from the communal areas of the north is the existence of a veterinary cordon fence which at present divides the country in two. Such a fence is not unique, as one look at the map of Botswana shows. Its existence is necessitated by veterinary regulations in South Africa and the EC which must be adhered to if meat is to be exported from Namibia. Meat from north of the fence can only be exported if it is canned. The real purpose of such restrictions has probably less to do with considerations of health than with a desire on the part of privileged farmers to restrict competition. Be that as it may, the government's aim is ultimately to move the fence as far north as possible. This move will be accomplished gradually by moving the fence in pockets. After each move the cattle in the pocket created will be brought up to international veterinary standards which may take as long as seven years depending on whether the communities involved want to keep their old cattle or are willing to replace them with new disease-free animals.

At present most meat in the north is sold locally in informal markets as we have seen. Little of it goes to Meatco's small Oshakati abattoir which for most farmers is a long way off. Marketing in this way avoids costly transport and abattoir regulations, thus saving both the producer and the consumer money. If, however, communal farmers can be persuaded greatly to increase slaughtering as a way of increasing their incomes the local demand may not suffice. For the moment, the excess over local demand would have to be canned or otherwise processed so that it can be sold south of the VCF. That would oblige farmers to take their cattle to the Meatco abattoir rather than selling it in the informal markets as at present. The prices paid by the abattoir might have to be higher to induce farmers to do that. Whether canners and other processors would be able to absorb the resulting increase in meat input prices is an open question. If not that will seriously undermine the idea of raising incomes through increased sales of cattle — at any rate until such time as the north is disease-free and able to export its meat to South Africa or Europe.

Another fence is also in the process of being constructed along the Angolan border. The reasons given are the need for defence, customs collection, prevention of cross-border raids, and the enforcement of veterinary regulations. Aside from the social problems caused by building a fence along what is clearly an artificial colonial border which runs right through the living space of a homogeneous population, there are also economic consequences. Informal trade across the Namibian-Angolan border has never been properly measured but it is undoubtedly an important factor in the local economy. It is important to people on the Angolan side who often rely on Namibian supplies of food and it is important to Namibians as a source of income. Human gates at regular intervals are planned but trade will inevitably be restricted.

Credit

We touched briefly on the subject of credit above ("Increasing Output and Incomes in the Communal Areas"). We return to it now. In the past communal farmers have found it very difficult to borrow because they had no collateral to offer. The Agricultural Bank lent only to commercial farmers whose freehold land had been surveyed and would therefore serve as collateral. This effectively excluded those in

the communal areas who have no individual title to land. Their needs were rather unsatisfactorily dealt with by the various ethnic agricultural credit boards which now no longer exist.

The Agricultural Bank Amendment Act was intended to widen the Bank's role so as to enable it to lend to communal farmers, but for the moment it seems to be restricting its lending exclusively to the richer communal farmers, some of whom have fenced off large areas of common land for the exclusive use of their own livestock. The idea is to lure such farmers away from the communal areas by offering them cheap loans with which to acquire farms in the freehold areas, as they come on the market. It is supposed to be a condition of these loans that they not only give up their rights to land in the communal areas but also that they sell any other business, such as shops or garages that they may own in the communal areas so as to make sure that they move away lock, stock and barrel. This latter condition is quite unrealistic since there will be nothing to stop people from carrying out sales to relatives which ensure their continued effective control.

The scheme as a whole is intended to provide more land for smaller farmers. The Land Reform Conference made it clear that such an arrangement would be popular with many people in the communal areas. However, there are a number of problems with this proposal:

(1) In order to encourage larger communal farmers to leave common areas considerable incentives will have to be offered. At present such farmers pay nothing for their land, no income tax and nothing towards agricultural infrastructure. Moving into commercial farming would entail a whole host of extra costs in addition to the requirement that such farmers give up other business interests in the communal areas. One of the costs they could encounter is the proposed land tax which commercial farmers at present do not pay. Anyone considering a move would make very careful calculations before finally deciding.

(2) If communal farmers with large herds are to be encouraged to move in this way then the commercial farms they occupy will have to guarantee an adequate level of income. It is unclear how high that needs to be.

(3) This solution to land shortage in the communal areas will maintain the dual nature of Namibian agriculture; high income commercial farming and low-income farming in the communal areas.

(4) Most serious of all, there can be no guarantee that these large farmers will not divert their loans into other businesses that many of them have, instead of using them to move from the communal to the commercial (freehold) areas of the country as intended.

On the other hand such a policy, if it can be made to work, would have several advantages. It would be popular with small farmers in the communal areas and would work to their benefit by vacating much sought after land. There are unutilised farms

in the commercial areas and the age profile of the present commercial farmers probably means that more farms will be put up for sale in future as their offspring go to the urban areas for more attractive work. The hope is that the loans will be used to buy these farms.

We turn now to the question of credit for small farmers in the communal areas. We saw that various ethnic agricultural credit boards which were supposed to perform this role have been abolished. To take their place the idea is being examined of establishing a new Agricultural Development Corporation, one of whose purposes would be to provide credit to smallholders at well below market rates of interest (4 per cent compared to 20 per cent). It is to operate under the umbrella of the Ministry of Agriculture although it will also be expected to work closely with the Agricultural Bank. Its resources will be modest so that it is unlikely to make a major contribution to the supply of credit.

It is, however, in any case an open question whether the lack of credit is really a major constraint to increasing output or the commercialisation of small-scale agriculture. It is unclear why credit is needed or on what scale. There is plenty of anecdotal evidence, partly reinforced by new banking statistics, that savings may be a good deal higher than is often supposed. Given the marked and sharpening social differentiation in most communal areas, however, it is probable that many small farmers do need credit at particular times in their farming careers and the seasonal production cycle. If it turns out that there really is a need for such credit it might be better to let existing institutions provide it rather than incur the major cost of setting up a new institution. All this, however, takes us far beyond our brief.

Summary: Communal Agriculture

The thrust of the argument in this section has been to stress the importance of increasing production and sales in the communal areas. This requires both an intensification of production and an extension of cultivation into areas presently used to rear livestock. The latter may imply a greater willingness to treat livestock as a source of income. That may in turn be facilitated by giving graziers better opportunities to sell livestock at remunerative prices. If large graziers can be persuaded to move to the freehold areas and vacate their land that will also extend the frontier of cultivation. In the case of arable farming the opportunity to grow more millet, maize or sorghum may be better at present than to attempt to diversify into fruit and vegetable growing for urban markets further south (Windhoek for example). Even that will involve the adoption of new techniques. These we have not discussed here. Insofar as they involve increased use of purchased inputs, such as improved seeds, fertilizers or pesticides, they may require more credit than is available to small cultivators at present.

We now turn to the possibilities for increasing output in the commercial (freehold) areas of Namibia.

Table 3

OUTPUT OF COMMERCIAL SECTOR IN 1990

Product	Production (tonnes)	Value (R000)	Imported/Exported
Wheat	4 293	2 334	86% imported
Yellow Maize	1 555	583	90% imported
White Maize	29 089	12 162	47% imported
Sunflower	611	483	94% imported
Cattle	70 353	272 845	82% exported
Small Stock	17 848	109 711	86% exported
Pigs	1 755	7 371	41% imported
Karakul Pelts	-	13 812	99% exported
Game	-	32 970	-
Eggs (number of)	2 659 800	6 118	10% imported
Milk (litres)	6 468 001	6 209	self-sufficient

Source: A. Botes (1990), Ministry of Agriculture, Water and Rural Development.
Note: These figures exclude communal area production.

What Are the Constraints in the Commercial Areas?

Constraints to Supply

Freehold land in Namibia is suited to livestock farming and little else. There are areas such as the Tsumeb-Otavi-Grootfontein triangle (see Map 1) in the northern part of the freehold area where there is more rainfall and where fertile land exists which is used for large-scale crop cultivation. Furthermore, irrigation projects such as those near the Orange River in the far south and near dams are being successfully run. However, the climate and land in the freehold areas are generally such that their comparative advantage lies clearly in extensive livestock farming.

Namibia is self-sufficient in beef, mutton and goat production. The domestic market is clearly saturated and is not expected to grow significantly over the coming years. However, the population is increasing at 3 per cent annually and shifts in consumption patterns as a result of rising incomes and changes in taste might help to increase demand over the longer term. This present demand constraint means that the Namibian meat industry will have to continue to look abroad for its main markets. Traditionally South Africa has been the main destination of Namibian meat exports and trade is regulated by quotas negotiated between the Namibian Meat Board and the South African Meat Board. This may suggest that the livestock industry is demand constrained but this is in fact not the case as quotas are often not fulfilled. If they are,

when the South African market is saturated by destocking during severe drought, Namibia's access to the EC market with a quota of 60 000 tonnes over five years affords an important and high-priced safety valve. Constraints in the meat industry are thus very much on the supply side.

Turning to cereals, Namibia has in the past been an importer of maize and wheat. However, this situation is rapidly changing in the case of maize and the last few years have seen considerable increases in production to a point close to self-sufficiency. This has been achieved without raising producer prices above import parity prices. Thus it would appear that no particular supply constraints exist apart from the highly variable rainfall, which because of the marginal production causes large variations in yield from the same planted area. On the other hand production of wheat, which is grown as a winter crop, partly under irrigation, has remained static despite considerable price increases and despite the fact that there is considerable scope for import substitution.

At this point it is perhaps more profitable to start growing higher value crops, possibly for export (see Section V). This would not only improve the incomes of a few commercial farmers but also make a valuable contribution to the balance of payments, something which will take on increasing importance in years to come.

There is undoubtedly potential for horticulture to become a greater source of foreign exchange earnings. The question is what is inhibiting it. We shall return to that question in Section V, but one reason is probably a certain conservatism amongst commercial farmers who have never been used to look beyond the borders of South Africa because they did not need to, and because they had no reason or encouragement to engage in import substituting. This may have to change.

Take the example of pigs. Namibia currently imports most of the pigs it slaughters (only one major pig farm exists in the whole country, near Gobabis). It would appear that there is ample scope for increased pig production but there are technical problems to be overcome like the adverse effect of temperature on pig carcasses, lack of local pigfeed, high transport costs of feed from South Africa and pig diseases carried by wild swine. However, the greatest constraint appears to be innate conservatism. Where potential markets clearly exist there may sometimes be a case for government financial assistance for an initial period, even if that means subsidising the commercial farmers rather than smallholders in the communal areas.

It is however important not to exaggerate the conservatism. There are, for instance, three large commercial chicken farms and some smaller ones. All sell direct to shops, hotels and restaurants. Even in the communal north a large broiler enterprise was recently established with a capacity to produce 5 000 chickens a month for the local population who constitute about half of Namibia's total population. Whether this firm will be able to withstand South African competition it is too early to say. However, in the case of both pigs and chickens, competition from large South African exporters poses a serious challenge and, because of periodic dumping, a real disincentive to risk-taking by local investors.

As will be explained in Section V a beginning has also been made with fruit, vegetable and flower growing, and ostrich breeding.

Processing Facilities

Namibia has the capacity to slaughter all the meat it requires for domestic consumption at Meatco and municipal abattoirs, most of which are under-utilised except at the peak of the seasonal cycle. Furthermore, sufficient capacity exists for further processing not only for the domestic market but also for export. There is however at present only one tannery which is Italian owned. Meatco intends to build another and there is some concern that it will use its monopoly position as a slaughterer to deny other users of hides access to reasonably priced inputs once this operation is under way. There is some overcapacity in processing facilities for maize, wheat and especially sunflower seeds.

Prospects and Problems

Commercial agriculture has been a vital contributor to export earnings, to the domestic meat supply and more recently, also to the domestic supply of maize. There is a widespread belief that commercial livestock farming is very profitable. Its profitability has however been substantially the result of very favourable treatment by the government which provides it with highly subsidised veterinary services, access to protected high-priced markets, assistance in times of drought and, above all, a very favourable tax regime. The most important financial concession for farmers is that, with the permission of the Receiver of Revenue, they have the right to be taxed at a rate determined by reference to average farm income over the current year of assessment and four previous years. With the present high inflation rates this results in considerable tax savings. In addition no tax on land is levied but, like any other business, farmers pay a marginal rate of 42 per cent on taxable income, no GST on repairs and parts, and have a 100 per cent capital expenditure deduction allowance.

The net result is that commercial farmers have been, on balance, subsidised. It has been estimated that in 1988/89 subsidies and tax concessions resulted in a negative net contribution by commercial agriculture to the exchequer of about R47 million. Whether this situation has changed is difficult to assess but no major changes in taxation have occurred since. However, commercial farmers now pay just below market rates of interest on the loans they receive from the Agricultural Bank.

The question then arises whether it makes sense to continue to subsidise commercial farmers who manifestly are better off than small communal farmers. The socially unpalatable answer may well be that if Namibia wants to continue to export meat on the present scale it may have no alternative but to continue to subsidise commercial farmers. These farmers have alternative opportunities and if their incomes are reduced they will sell their farms and earn a living in other ways. That is already happening among white farmers and may create opportunities for some of the larger communal farmers to take their place. Subsidising black Namibian farmers may seem to some less objectionable, though they will also have incomes well above the average.

The important point is that commercial farming on the present ownership pattern may not be quite the lucrative occupation that many think it is. Many farm enterprises are at best marginal, having depended on colonial subsidies and cheap loans. Reduction or removal of these will result not only in abandonment of farms, taking land out of production, but also in greater concentration as the larger, more efficient farm enterprises expand. These two dynamics will be modified by several pending policy changes likely to increase production costs.

First, there are the proposals to introduce a land tax and to bring pressure to bear on commercial farmers to increase land utilisation. Both would cause costs to increase and make farming correspondingly less profitable.

Second, the new Labour Code will clearly lead to increased labour costs which account for 15-30 per cent of total costs on the best run farms. Added to this there are proposals to require agricultural employers to increase provision for the health and general welfare of their employees. That too will raise labour costs though these may be offset by efficiency gains of having healthier and more contented workers. Increased labour costs will hit livestock farmers and horticulture harder than arable farmers and may bring about a further switch to arable farming. The 1988 Manpower Survey puts the number of farm workers at 34 400, a figure which is not likely to have changed dramatically since then. On a commercial livestock farm a ratio of about one farm labourer per 100 cattle is required. Labour is difficult to replace with mechanised alternatives. This is not the case for arable farming. A Ministry of Agriculture survey shows clearly that arable labour productivity in the Orange River area is considerably higher than in livestock farming.

A number of other problem areas exist in commercial agriculture. The first is that it is heavily indebted. This has come about as a result of agricultural input inflation, leading to increased borrowing at ever higher commercial rates of interest. A 1990 study showed sharply rising agricultural costs and relatively small increases in sales proceeds. One reason for the sharp rises in input costs could be the depreciation of the rand in recent years, brought about by South African, not Namibian, conditions. This would, however, mostly affect those goods imported from outside SACU like the more sophisticated types of farm machinery which are not manufactured in South Africa. Namibian agriculture is however more dependent on South African inputs such as fertilizers and fodder.

It is often asserted that SACU membership means Namibia is obliged to import most of its farming inputs from South Africa when it could otherwise pay less for external supplies. However, SACU tariffs in agricultural inputs are not especially high (25 per cent maximum). They are there as much for their revenue raising capacity as for their protective function and South African industries in this field are reasonably competitive. Furthermore, at a time when Namibia still uses the same currency as South Africa and the rand is set to continue to fall in value in relation to other currencies it is to Namibia's advantage to continue to import from South Africa. It is therefore questionable whether there would be cost benefits in importing more agricultural inputs from sources other than South Africa, either from in or outside SACU.

Conclusion: Towards a Unified Agriculture?

Namibian agriculture has long been divided into two distinct farming systems, the commercial and communal sectors. One has received all the benefits modern farming techniques can provide whilst the other has been left to stagnate. Clearly the new government has started to address the needs of the communal areas but there is a danger that the dualism that characterises the agricultural sector will continue and even be strengthened by present policy. The two sectors manifestly have very different needs. However, the long-term aim of policy must clearly be to bring the two sectors closer together under common regulations and common institutions. In the foreseeable future that is unlikely to happen. What may, however, happen is that increasing numbers of black Namibians will take over farms that whites, who have greater alternative opportunities, will vacate, as has happened in Kenya. Namibia cannot afford to jettison the contribution made by the commercial farms but from the viewpoint of raising the incomes of the majority, the major thrust of government expenditure must now be on agricultural development in the communal areas.

V. THE EXPORT MARKET FOR AGRICULTURAL PRODUCE

This section examines the present pattern of agricultural exports, stressing the preponderance of meat and livestock exports and the overwhelming importance of the South African market, but also the emergence of a new market in the EC since Namibia's independence two years ago. A number of new developments are then described: the beginnings of a diversification of products and of markets. Next, we consider the institutional framework within which trade takes place and examine the changes taking place and how they are affecting, or are likely to affect, Namibia's agricultural exports. We conclude by looking at the longer run — when there may be a very different kind of government in South Africa and when the Uruguay Round of GATT is finally concluded.

Table 4 summarises the composition of Namibia's principal agricultural exports and their destination.

Table 4

COMPOSITION OF NAMIBIAN AGRICULTURAL EXPORTS AND THEIR IMPORTANCE TO SOUTH AFRICA, 1991

	Value of exports (rand million)	Destination (Percentage) South Africa	EC	Other	South Africa: Namibian exports as: % of imports	% of consumption
Cattle and beef[1]	224.6	68	30	2	86	3
Small stock[2]	100.6	100	-	-	91	1
Karakul pelts	16.0	-	100	-	-	-
Karakul wool	1.8	100	-	-	-	-
Ostrich skins	10.1	5	95[4]	-	-	-
Ostrich eggs	3.4[3]	-	100[4]	-	-	-
Ostriches (live)	2.0[3]	-	100[4]	-	-	-

Source: World Bank

Notes:
1. This includes tinned beef.
2. The South African term used to describe sheep, lambs and goats and their meat.
3. Since May 1990 (estimated by producers).
4. Includes other European countries.

The table shows that until recently exports have been limited to

(1) livestock or meat,
(2) karakul pelts and wool and
(3) ostrich skins.

It also shows the overwhelming importance of South Africa as a market for Namibia's exports, but recently Nambia has begun tentatively to follow the example of Côte d'Ivoire, Ghana, Kenya and Costa Rica which have successfully diversified their exports by adding pineapples, flowers and vegetables to their traditional exports — all destined for Europe. In the same way Namibia has recently started to export grapes, melons, live ostriches, and may soon start to export cut flowers, tomatoes, mangoes and other tropical fruits. Furthermore a new market, Angola, has opened up for beef exports. These new initiatives may prove to be of great importance to the future of agriculture as diversification away from meat exports to South Africa may become vital.

Traditional Exports

Livestock and Meat Exports

Table 4 shows the overwhelming preponderance of cattle and beef exports and, likewise, the importance of the South African market. In the past two years beef has also begun to be exported to Europe. The EC opened its market to livestock after independence when Namibia joined the Lomé IV Convention. For 1991 and 1992 Namibia was allocated a yearly beef quota of 10 500 tonnes which will go up to 13 000 tonnes for the years 1993 to 1995. Namibia receives a higher price for beef sold to the EC than in South Africa. It is one of six ACP countries that have been granted access to the EC market for beef. Only Botswana has a higher quota, viz. 19 000 tonnes; Zimbabwe and Madagascar have a quota of 8 000 tonnes each, Swaziland 3 000 tonnes and Kenya 142 tonnes. In total these purchases from African countries represent only 6-7 per cent of EC beef imports and 0.6 per cent of domestic consumption. Namibia has not so far been able to take up the quota in full. In 1991 only 73 per cent of the quota was used, the reason being the higher prices offered for better cuts on the South African market.

South Africa also imposes an import quota on Namibian livestock which is renegotiated annually on the basis of export projections submitted by Namibia. The South African quotas, like the EC quotas, are in most years sufficient, but in times of drought Namibian producers may need to slaughter more cattle than the quota permits them to sell in South Africa. In the past South Africa has been willing on such occasions to allow Namibia to exceed the quota, but when its own slaughtering capacity was fully used it has restricted imports above the quota to slaughtered animals. That has occasionally caused short-term seasonal problems for Namibia when its own slaughtering capacity has been run to capacity. More seriously, when Namibian and South African market and climate conditions combine to create a glut, as happened in the late 1970s, Namibian cattle farmers suffer both low prices and the imposition of sharply reduced quotas, sometimes precisely when cattle have to be marketed or die.

Exports to South Africa are regulated on the Namibian side by the Meat Board. It determines the quantities which each producer may supply, basing its quotas on the producers' share of the total during the preceding five years. Ninety-five per cent of the quota goes to the producers who are organised in the Meatco Cooperative. The system makes it very difficult for newcomers who do not wish to belong to Meatco to obtain a foothold in the export trade to South Africa.

Often calves are exported on the hoof to South African markets because (1) there are no feedlots in Namibia, (2) the market for calves is very lucrative and (3) it is useful to maintain this trade channel for times of drought. Despite this justification for exporting calves on the hoof to South Africa the Namibian Meat Board tries to discourage it by means of an export levy. The levy applies both to the exports of calves on the hoof and to beef exports but is much lower for the latter. This differentiated export levy has apparently failed to discourage producers from selling in the highly lucrative South African market. The lion's share of these levies flow into a stabilization fund whilst the remainder is used to finance the Meat Board's running costs. The fund is used to make the industry more effective. For instance, in early 1992 R750 000 was made available to boost exports of processed meat from the communal areas north of the VCF.

Namibian beef cannot compete outside the protected markets of the EC and South Africa with producers such as Argentina, Uruguay or Brazil which together are the largest beef exporters in the world.

Table 5

NAMIBIAN BEEF PRICES IN RELATION TO PRICES ELSEWHERE, 1990

(Namibia = 100)

Namibia	100
South Africa	105
EC	116
Argentina	81

Source: Industry Sources

Table 5 shows Namibian beef prices in relation to average prices elsewhere. Argentina is taken as a proxy for the (unprotected) "world market" price. It shows how dependent Namibia is on the protected markets of South Africa and the EC. What may eventually alter the picture is if Namibian beef comes to command a premium on the grounds that it is "green"; Namibia is one of only a very few countries in the world where cattle are exclusively pasture fed and receive no additives in their occasional supplements of yellow maize. This may appeal to the increasing number of health

conscious consumers. On the other hand, consumption of all beef world wide is declining as a result of a growing preference for white meat which contains less saturated fat and is therefore thought to be less prone to cause coronary heart disease.

Turning now to sheep and goats, Table 4 showed that the only market for these is South Africa. Namibian mutton is not competitive in the rest of the world. In the EC mutton is subsidised and elsewhere prices are depressed, allegedly because Australia and New Zealand have in recent years dumped their mutton and lamb on the world market following the sharp decline in wool prices. Goats are mainly exported on the hoof to Durban (Natal) where a large Muslim community creates demand specifically for live goats. The number of goats exported is a fraction (11 per cent in 1991) of the sheep exported.

Recently Meatco has started to export small quantities of high-quality beef to Angola and there is believed to be a flourishing local cross-border trade from the communal areas of the north. Prices are apparently a little higher than in South Africa. Whether there is scope for expansion is at present far from clear.

Karakul Pelts and Wool

Karakul pelts and wool, at one time an important export, now only account for just over 2 per cent of the value of agricultural exports (see Table 4). Since the introduction of the karakul sheep in 1907 the Namibian karakul industry has become the second largest Persian pelt supplier after the former Soviet Union. Pelts mainly produced on commercial farms are sold by public auction in Frankfurt. Part of what is auctioned in Frankfurt is not physically taken there but is sold to a firm in Namibia that makes fur garments mainly using Finnish designs. These garments are then sold, primarily in Italy, Spain and Germany. At the beginning of the 1980s the demand for karakul pelts declined sharply. Export earnings fell from R43 million in 1980 to R20 million the following year and were only R15 million in 1991. A recovery of the industry is unlikely. Demand has dropped due to a combination of milder European winters, aggressive marketing for mink which competes with karakul, and the worldwide campaign against real furs. The initial halving of exports between 1980 and 1981 was compounded by severe drought in Namibia which decimated karakul flocks and dramatically reduced supply. When it came to rebuilding the flocks farmers preferred to restock with high meat-yielding species of sheep.

The karakul industry may appear to be virtually dead and will certainly not be a major future source of agricultural income. However attempts are still being made to revive it. For instance, an agreement has been reached with Afghanistan and Kazakhstan, whose pelts are heavier, to market the pelts jointly, as that may prove more attractive; the first joint auction is planned for May 1992. The International Karakul Secretariat is also trying to penetrate the fur market in the former GDR.

At one time it looked as if karakul wool might prove an alternative to pelts. Like merino wool it normally commands a high premium, but exports have never been substantial because the return from selling pelts has usually been higher. When the price of merino wool collapsed in 1991, so did that of karakul wool, and export proceeds were halved.

New Exports: Ostriches, Fruit and Flowers

We turn now to a number of very recent developments which have started to diversify agricultural export products and markets. During the last year or two ostrich skins, melons and grapes, as well as live ostriches and their eggs, have begun to be exported to Europe, albeit on a very small, experimental scale.

Ostrich skins started to be sold in the mid-1980s mainly to the United States, Japan and Germany, and the total numbers exported had risen to over 7 000 in 1991, yielding some R10 million. A number of ostrich skin handbags have also been exported, mainly to South Africa. However, the quality of their design does not meet standards overseas.

In 1990 **live ostriches and their eggs** entered the export market for the first time and since then some 3 000 ostriches and 8 000 eggs have been exported yielding a total of some R5-6 million. They have gone to Holland, France, Italy, the United States, Canada, Mexico and elsewhere. Namibia has observed that the ostrich industry has become a very lucrative business in the United States where Namibian expertise is much sought after.

In future the **meat of ostriches** may also be exported. A factory originally built to process game is being altered to take ostrich meat, which, known for its low cholesterol content, is expected to sell well in Europe. Moreover since EC health regulations for birds are less onerous than for animals, ostrich meat, which is also covered by the Lomé IV Convention, can enter the EC on an open import licence.

It may also be possible to increase the export of **hides and skins** to the EC. As the proportion of livestock that is slaughtered before being exported increases, so the supply of hides and skins (which are in "joint supply" with meat) will increase. They may be difficult to sell in South Africa, but might easily find a market in Europe. If the quantities rise sufficiently to constitute 1 per cent of exports, they would also benefit from the provisions of STABEX (see below). It would be preferable if some part of that trade could take the form of leather rather than hides and skins, because that would create more employment and income. It would also absorb some of the excess capacity in the existing tannery, which will be even greater when new tanneries at present being built come on stream.

Melon and grape exports to Europe are an even more recent development which owes much to a Windhoek-based company with connections in Holland, and which started to export the produce of a small group of Namibian producers in late 1991. The melons and grapes go first to Holland, by air and by sea, but may end up

anywhere in Europe. The European market for fruit and vegetables is highly transparent and marketing can therefore be planned efficiently and profitably. This has been a pioneering venture which has not depended on government assistance, but the quantities exported so far have been very small.

Access to the European market has been facilitated by the following advantages:

(1) The Lomé IV convention offers preferential access and assistance with starting up production and marketing.

(2) Namibia's fruit and vegetables ripen during the European winter when prices are at their highest and when there is hardly any competition from European producers.

(3) Namibia's excellent infrastructure facilitates access to the EC.

(4) One of the directors of the Namibian export house is Dutch, which helped communications with his counterpart in Holland.

Much of the same reasoning applies to the production and export of **flowers**, although that is even less developed than trade in melons and grapes.

We believe that there is considerable scope for increases in the production and exports of these new products as has been demonstrated in neighbouring countries such as Zimbabwe, but success in the future will be crucially dependent upon factors that have already played a very important role in the success already achieved:

(1) There need to be people in Namibia and/or overseas who know their way around the intricacies of these markets.

(2) If any of these exports are to come from communal areas, there will need to be some degree of initial assistance. Some may come from the EC under the Lomé Convention but much may have to be provided by the government, including promotional activities.

One of the problems with the various new initiatives described here is that they all emanate from the commercial farming sector and therefore do very little to raise the incomes of the majority who live in the communal areas. Admittedly the new horticultural ventures, as well as the ostrich production and flower growing, are very much more labour intensive than cattle raising or even grain production, but to maximise the impact of these activities it is important to try to help cultivators in the communal areas to enter the field. One problem is their distance from Windhoek International Airport. However, the produce currently exported is in one particular case transported about 700 km by road to the airport and can still be sold at competitive

prices in Europe. Furthermore, it may be possible to convert an existing disused military airfield in the north to civilian and commercial use. Whether it would be economic to fly produce direct from there to Europe is questionable but could perhaps be investigated.

Recent and Prospective Trends in the International Market for Agricultural Produce

The South African Market

We saw in Section II and especially in Table 4 the importance to Namibia of the South African market, but also the importance to South Africa of meat imports from Namibia. The market for Namibian agricultural exports to South Africa has been affected by two developments there: first, an officially sponsored switch from maize to beef production by paying farmers to convert land from arable to livestock raising and, second, the policy of phasing out maize subsidies. The aim has been to increase agricultural output as a whole.

The idea of the "land conversion scheme" was to reduce high risk maize production on marginal land in favour of more extensive livestock farming in the hope that this would raise the aggregate value of output. At the same time maize subsidies are being gradually reduced. The original aim in 1987 was to convert 1 million ha of land but so far only 477 000 ha have been converted. It has however had the intended effect of increasing beef production and although this does not necessarily imply that there will be a reduction in meat imports from Namibia, it is a development that needs to be watched. So far it appears not to have adversely affected Namibian exports.

In addition to the land conversion scheme and the phasing out of maize subsidies, South African regional policy also has a peripheral bearing on agriculture. The present industrial decentralisation package, offering a battery of subsidies, rebates, concessions and grants to industries willing to locate in regions that the government is anxious to promote, will have been phased out by mid-1993, to be replaced by a new Regional Industrial Development Programme. This new programme, unlike its predecessor, will only operate for a strictly limited period, and it will be profit and output oriented. It will affect agriculture only to the extent that some farm machinery manufacturers or firms producing other than farm inputs such as barbed wire, fertilizers, etc., are affected. Since the new scheme will be less generous, this implies that farm input prices may be expected to rise, thus raising costs of South African agriculture. This in turn might have favoured Namibian exporters to South Africa, but for the fact that Namibia, of course, buys her farm inputs from the same source at the same prices. The effect of this change is therefore likely to be neutral.

It is however possible that the change may favour the development of Namibian processing industries. South African processors of meat etc. will have a lower level of subsidy which might make Namibian processors more competitive. For example a Namibian game processing factory has been adversely affected in recent years by a South African competitor able to pay more for game as a result of the decentralisation scheme, which is now to be abolished.

This might also be the place to refer to a change in South African policy which might affect imports to Namibia from South Africa. South Africa is about to replace a number of existing export promotion schemes by a much simpler and more transparent General Export Incentive Scheme. Namibia has long suspected that subsidies that were supposed only to be paid on exports that went outside SACU were in fact also received by exporters to Namibia. Increased transparency may make these illegal subsidies easier to spot and to control, and that could make Namibian products less exposed to South African competition. A future South African government may also be more sensitive to Namibia's legitimate grievance in this respect.

The EC Market and Lomé IV

For two years now Namibian beef, the country's principal agricultural export, has enjoyed access to the lucrative EC market under the provision of Lomé IV and the beef protocol. Beef prices in the EC are artificially maintained at well above world market prices. In order to maintain these prices the EC charges a "levy", a kind of additional import duty, on imported meat, which is roughly equivalent to the difference between the EC price and the world market price. Under Lomé IV and the beef protocol a number of ACP countries including Namibia have been given preferential access to this market, paying only 10 per cent of the levy. The remaining 90 per cent is "rebated" — meaning that this does not have to be paid. What this means is that Namibia and the other ACP countries receive a price for their beef which is only 10 per cent below that received by European farmers and therefore higher than the prices received anywhere else. It is estimated that this price difference is potentially worth between R30 million and R60 million a year to Namibia.

The commercial farmers' co-operative Meatco has the exclusive right to sell beef to the EC, partly because it owns the only three EC approved abattoirs (Windhoek, Okahandja and Otavi). It uses the higher sales proceeds obtained from exports to the EC in a number of ways. Part of it is passed on to its members in the form of a 10 per cent premium payment for certain cuts of meat destined for the EC market. This reinforces Meatco's dominant position in the market because other buyers, for example Hartlief, are having to pay farmers the same higher prices that Meatco is able to offer them. Most of these other buyers are engaged in the processing industry, and a large part of their output is exported to South Africa. The largest of the processors, Hartlief, is now exporting about R10 million worth to South Africa, but this trade is threatened by the higher input prices the processors are having to pay at a time when South African meat prices are actually declining.

Most of the extra funds accruing to Meatco from sales to the EC are used for other purposes, such as to upgrade further abattoirs in the communal areas to EC standards, and to finance the meat marketing scheme north of the VCF. This is more in line with the intentions of the levy rebate which is granted because Namibia is a low-income country. Some regard the premium payment to (mostly) white farmers whose income is well above the average as an anomaly. On the other hand, commercial farmers have to incur extra costs to meet the exacting standards of the EC. However, the balance of advantage is strongly tilted towards the exporters.

Future price levels of beef in the EC are uncertain. Under the Common Agricultural Policy (CAP) beef prices are artificially raised and there is now increasing pressure, not least from the United States in the context of the Uruguay Round, but also from consumer interests within the EC, to reform the CAP and reduce the subsidies on beef production. This would of course have an adverse effect on the price received by Namibia for its exports to the EC. However in the long run lower prices might also lead to an increase in the quantity demanded depending on the elasticity of demand for beef in Europe. Another development which can be expected to exert a downward pressure on prices is that the former East Bloc countries have, or may, become new suppliers of beef to the EC. Although the Lomé IV agreement runs for 10 years quotas will be renegotiated in 1995, by which time the prospects may look less favourable.

Considering these factors the impact of Lomé IV on the development of agriculture and rural development may prove to be less than was originally anticipated. Meatco, being aware of these uncertainties, is increasingly aiming its marketing strategy at other African countries like Zimbabwe, Zambia and Angola. But a poor outlook in the European markets does not *ipso facto* make the prospects of expanding sales elsewhere any better.

We turn now to karakul pelt and wool exports. These too are affected by Namibia's status as an ACP country. In principle they are covered by STABEX, a scheme under Lomé IV intended to stabilize export earnings. As described earlier, the export of karakul pelts has declined steeply and Namibia hoped to obtain some compensation under the provisions of the STABEX scheme. This has proved to be a vain hope because, to be eligible, karakul pelts would have had to constitute at least 1 per cent of total exports. This they have never done, and even if karakul wool were added to the pelts, the figure would still be well below 1 per cent of export earnings, whose total reflects the very substantial exports of uranium, diamonds and other minerals. This matter is however still under discussion. In any case the karakul industry has benefited slightly from some other forms of assistance under Lomé IV which have been used to upgrade the pelt tannery and to train a few Namibians in Italy in the manufacture of garments made from karakul.

It is impossible to predict what consequences the Single European Market, to be completed by the end of 1992, might have for Namibian exports. In principle, the establishment of a large integrated economic union might be expected to encourage protectionism, but it is hard to believe that this would be directed against the kind of products that Namibia will want to export — even assuming that increased protectionism were actually to occur. Sometimes when increased internal competition

results from the formation of a customs union, producers try to reduce the blast by persuading governments to increase protection from outside the customs union. But EC internal trade in most agricultural produce has already been integrated for many years by the operation of the Common Agricultural Policy and there is no reason to expect further increases in protectionism in that area.

What is perhaps more worrying is the possibility that before imported produce may circulate freely within the EC market, it may need to have been processed in the EC, so that it qualifies as being "of European origin". The effect would be to make it more difficult to export semi-processed or processed agricultural produce. For instance it would increase the obstacle to exporting leather instead of hides. In addition, harmonisation of technical rules and standards may result in stricter entry requirements. EC certification for both slaughterhouses and processing plants may come to be required for all meat exports to the EC, no longer only for red meat.

If, under pressure from the Uruguay Round, the EC is obliged to reform the Common Agricultural Policy, this might indirectly affect Namibia. The initial effect of a CAP reform would be to reduce the artificially enhanced domestic European price of beef. This would lead to some increase in European meat consumption and a fall in production which will put an end to European surplus beef production entering world markets. Other things being equal, the world market price might be expected to rise to the point where the two price levels converge. How would this affect Namibia? The fall in European prices would reduce its export earnings from the EC but the simultaneous rise in prices in the rest of the world would benefit Namibia to the extent that it is able to diversify its export markets for beef.

Regional Markets

There are sporadic exports to Angola but, except in the case of beer, the quantities have hitherto been small. Current developments in Angola may however facilitate an increase in trade in the near future.

Angola's economy has been shattered by years of war and its people are short of everything, but Angola has very little foreign exchange and, parallel markets apart, only the state trading corporation is in a position to pay for imports. As its once lucrative export trade recovers, and defence expenditure declines, its ability to import will increase. Coffee exports are unlikely to recover, and diamonds not for some years. Oil exports however are buoyant even now and it is only because half the foreign exchange proceeds from oil are immediately set aside to pay for defence imports, past and present, that there is so little foreign exchange for consumer goods imports. Now that the war is at last over the situation can be expected to improve and it should be possible for Namibia to penetrate the Angolan market with beef, other livestock and, in years of good rain, maize.

The Caprivi and Trans-Kalahari Highways, both under construction, open the prospects for further trade intensification with Namibia's neighbouring countries by reducing transport costs. Transporting to Zimbabwe, Zambia and Botswana will become easier and quicker and as soon as Walvis Bay, Namibia's only deep sea

harbour, becomes an integral part of Namibia, a new transport network will be available for trade. At present Walvis Bay, despite continued diplomatic efforts by the government of Namibia, remains in South African hands.

Future of SACU, PTA, SADCC and the GATT

Changes in the institutions which govern economic relations between countries in the southern African region may affect Namibia and its agriculture. Take the **Southern African Customs Union** (SACU) which comprises South Africa, Botswana, Lesotho, Swaziland and since 1990 also Namibia. As we saw earlier the BLNS countries receive a disproportionate share of the joint customs revenue pool, the effect of which is to benefit their exchequers by a good deal more than their imports from outside SACU would have warranted. This is to compensate them for the handicaps that membership of SACU imposes on them, like the handicap to industrialisation of not being able to protect themselves from the competition of South African industries.

These customs pool receipts have been a major source of revenue for all four countries. For example Lesotho's budget is 92 per cent dependent on SACU receipts which in Namibia generated just over 40 per cent of tax revenue in the 1991/92 financial year and 34 per cent of total revenue. A drastic drop in SACU revenue would have a very adverse effect.

The South African authorities are now planning to reform the trade regime and envisage the elimination of import licensing and surcharges as well as a phased reduction in import duties. If South Africa liberalises its highly protective trade regime, which it has in fact begun to do, the other members of SACU will inevitably have to follow suit. But they have not even been consulted. Furthermore, South Africa is known to want to abolish the present formula used to distribute the customs receipts and replace it by bilateral arrangements. The negotiating power of its partner states in SACU is very weak and would be even weaker if each had to negotiate separately with South Africa. The whole future development of Namibia's trade and government revenue (including agricultural exports) is likely to be affected by these proposed changes.

Namibia is unlikely to want to leave SACU which provides it with a substantial part of its government revenue, with free access to its most important market, South Africa, and with a cost-free customs collection. Against that, it provides no protection from South African industries and therefore handicaps the development of, for example, agricultural processing industries. On balance the benefits of remaining in SACU are likely to outweigh the costs.

We turn next to the **Preferential Trade Area** (PTA) between a number of southern, central and eastern African states. Namibia is not at present a member but has agreed to join on the same terms as Swaziland and Lesotho. PTA member countries grant each other preferential access, as the name implies. Up to now the PTA has not achieved what it initially aimed at: the majority of member states have not implemented the agreed reduction of tariffs, and in some member states non-tariff

barriers continue to exist, especially restrictive import licences. The major impediment to inter-African trade may in any case not be tariffs or other barriers to trade but rather the high cost of transport and the similarities between the economic structures of the partner states.

Two SACU member countries, Lesotho and Swaziland, have joined the PTA. Special temporary provisions had to be made as their membership might otherwise have opened a back door into the whole SACU area, because they might have re-exported goods obtained on preferential PTA terms to other countries in the SACU area. In practice it is improbable that either Lesotho or Swaziland will import more than the occasional token consignment from any other PTA member state because there is little that they can produce more cheaply than South Africa. The same will apply to Namibia.

Namibia has applied to join the PTA on the same terms as Lesotho and Swaziland, i.e. within the SACU framework. SACU, for all its disadvantages, clearly has a great deal more to offer Namibia than the PTA, though one has to remember that the PTA is not merely a trade agreement. In the field of agriculture for example the PTA offers a whole range of programmes varying from livestock development to food marketing, trade fairs, food security programmes, the establishment of a PTA leather and leather products institute in Addis Ababa, an emergency disease control programme and the development of multinational fertilizer projects. It is these programmes rather than the trade preferences which are likely to have a beneficial effect on Namibia and which explain why it has applied to join.

We turn next to the **Southern African Development Co-ordination Conference** (SADCC), which Namibia joined in 1990. SADCC was initially established to reduce the external economic dependence of southern African states, especially on South Africa, by promoting balanced and regional co-operation between member states. In terms of intra-regional trade the contribution of SADCC has been marginal. SADCC is an informal integration arrangement, unlike a customs union or free trade area. Members benefit from the location of capital projects in their countries and from the co-ordination of regional development assistance which had been one of its principal achievements.

In the light of current changes under way in South Africa and its possible future membership, SADCC has already begun to redefine its role in the region towards the promotion of intra-regional trade which presently constitutes only 5 per cent of the overall trade in the region. A democratic South Africa would be an important contributor to SADCC and would vastly strengthen the organisation. A further future option for SADCC is to establish closer links with either the PTA or SACU. So far it is too early to say how a restructured SADCC might affect Namibia let alone its agriculture, but South African membership would not of itself remove the gross structural imbalances or lack of integration in regional economic relations.

Lastly, we turn briefly to the **GATT** and to the question of how the Uruguay Round may be expected to affect Namibian agriculture. The GATT Uruguay Round for the first time includes agriculture. If it is eventually brought to a successful conclusion, the effect on Namibia will be as described earlier — European beef prices

are likely to fall but prices in the rest of the world might rise. If the price falls exceed the price rises the quantity of Namibian meat demanded might conceivably increase, but there are too many imponderables to make sensible forecasts.

Future Developments in South Africa

Namibia's most important agricultural export market is South Africa. There is at present uncertainty when apartheid will give way to a more representative form of government in South Africa, and what effect that would have on Namibian exports. The policies of the parties concerned have not yet been spelled out but government expenditure on agriculture is certain to focus more on the development of the present Bantustans and the level of support for white agriculture, including livestock raising, is likely to continue to decline. In particular this might be expected gradually to reduce floor prices for livestock towards world market prices and that, in turn, would reduce the prices paid for Namibian meat and livestock exports to South Africa.

Both the major political players, the National Party and the African National Congress, derive their political support mainly from the industrial centres and the urban townships, where keeping down or reducing the price of food will be of primary interest. That does not necessarily imply reducing subsidies to white farmers. Farmers may abandon agriculture if prices are deliberately reduced, which could in the long run cause prices to increase again. Social expenditure (education, health care, housing) will no doubt continue to increase greatly when a new government comes to power but what the effect will be on general economic conditions and therefore on imports from and exports to Namibia is at present totally unpredictable.

It would be interesting to trace the probable consequences for Namibia of alternative scenarios of what might happen on different assumptions about future policy in South Africa, but the data for doing that simply do not exist. The uncertainties about future policy are in any case such that it would be difficult even to choose alternative assumptions.

VI. CONCLUSION

Namibia's relatively high income per head is largely derived from the wide variety of minerals it produces. It is a substantial exporter of diamonds, uranium and other valuable minerals. But whilst mineral extraction and exports are important as a source of government revenue and of foreign exchange earnings, they provide few income earning opportunities, and the majority of the population depend in whole or part on smallholder agriculture for their income. The 4 000 very large ranches mostly belong to white farmers in the central and southern parts of the country where arable farming is virtually ruled out for lack of rainfall. Ranching is the major commercial agricultural activity but, like mining, provides very few income earning opportunities, so that the great majority are left to earn fairly meagre incomes in the northern part of the country near the Angolan border which in a normal year enjoys better rainfall, making it possible to grow crops. Most of what they produce is for self-consumption within the household.

If they are not quite as poor as is sometimes suggested the reason is that, as households, they often have additional sources of income from members of the family earning wages in the towns, mines or elsewhere. The practice of thinking of economies as consisting of sectors tends to obscure these important linkages.

Even so, the only way to bring about improvements in living standards for the majority is to endeavour to find ways to increase the output and marketable surplus of smallholders. More urban employment opportunities will bring some benefit, but not nearly as much as a rise in the income of the largest category of people in the country who are small cultivators and graziers. That apparently very simple and rather obvious finding is, unfortunately, often lost sight of. This study returns to it time and again because it has to be the dominant policy objective in any attempt to raise living standards in the short to medium term. In the longer term Namibia may seem to lack a comparative advantage in either arable or livestock farming, but that does not *ipso facto* give it a greater comparative advantage in various alternatives that might spring to mind. Moreover, people have in any case somehow to earn an income here and now, and in a newly independent country they expect that income to rise. Smallholder agriculture alone is capable of responding to those expectations.

That raises the question of whether the domestic food market might absorb a potential increase in agricultural output. When one examines, for instance, the large high-income market in Windhoek and other towns, one is struck by the way in which it is overwhelmingly supplied from South Africa. That seems to constitute an obvious case for an active policy of import substitution, but we reluctantly conclude that it would be very difficult. Other impediments to import substituting are South Africa's export and decentralisation subsidies, the availability of low freight rates from South Africa, and the difficulty of persuading existing retailers to switch to new sources of supply.

Where a few commercial farmers have tried to grow fruit and vegetables to supply the domestic market they have in the end found it easier to export their produce to Europe, although small quantities are sold at stalls in the capital.

Turning to the supply side, some increases in income can be attained by increasing the sale of livestock. However, ultimately if one wants to raise incomes in the communal areas one must also raise levels of production of crops. To some extent this can be done by improved techniques of husbandry but it may also involve an extension of the frontier of cultivation into land currently used to graze livestock. This would in turn involve a greater willingness to treat livestock as a source of income rather than a store of wealth, so that less land is needed for grazing. However, another reason why so little livestock is at present offered for sale is the lack of a market, or rather of proper market mechanisms such as those enjoyed by the large commercial farmers further south.

A commercialisation, first of livestock and then also of any surplus grain, would raise cash incomes. That in turn would enhance the market for simple durable consumer goods and provide a stimulus to increased "informal sector" activity in manufacturing which, at present, hardly exists. It may also be possible to diversify communal agriculture especially to produce fruit and vegetables in the northern regions. It will however be no easier to introduce these into the middle-class markets of Windhoek for example than has been the case with produce grown by the commercial farmers.

With rising local incomes and growing urbanisation in the north, however, there will be an expanding market for the produce of more diversified agriculture closer at hand. It may also be possible to convert one of the large disused military airfields to serve as a springboard for shipping horticultural produce to Europe but that would need first to be carefully investigated.

The commercial farms in the centre and south of Namibia produce the large quantities of meat that are such an important part of its export trade to South Africa and, since independence and accession to the provisions of the Lomé Convention, also to Europe. Namibia is fortunate in having access to these two highly protected markets where meat can be sold at above world market prices, because they both are supplied by high cost producers. Commercial farmers make profits largely because the government subsidies and services they receive exceed what they pay in taxes, and because they have access to protected high-price markets. If meat prices start to decline, which could happen if the EC reforms its Common Agricultural Policy (CAP) and if the South Africans continue to reduce the level of support they have been giving to their white farmers, and if at the same time costs go up because of the new Labour Code and for other reasons, many of the present commercial farmers may decide to sell their farms.

It is possible that their land will be bought by black Namibians some of whom have at present very large cattle ranches in the communal areas. There are plans to lend these farmers the money to buy commercial farms on highly subsidised terms on condition only that they abandon their land in the communal areas and thus provide more space for smaller farmers and for returned exiles who want to start farming. What is crucially important is that commercial livestock farming continue for the time

being as Namibia cannot afford to forego the resulting export earnings. One may hope that communal farmers will gradually come to join the commercial farmers as meat exporters when their cattle are brought up to the health and sanitary standards imposed by the importing countries.

This raises the question of the prospects for agricultural exports and the need to explore what may happen after a change of government in South Africa, after reforms in Europe's CAP, and after revisions in the Southern African Customs Union, the Preferential Trade Area and the Southern African Development Co-ordination Conference. We also try to assess how Namibia might be affected by a successful conclusion of the Uruguay Round of the GATT. All that is very largely a matter of crystal-ball gazing rather than economic forecasting.

The data for proper forecasting on alternative assumptions simply do not exist. One indication of what might be possible is given in an account of the area of non-traditional exports, which examines recent attempts to diversify the agricultural export base. In recent years efforts have been made to enter the European market with non-traditional exports — fruit, vegetables, ostriches, flowers — for all of which the market appears to be expanding. The problems that had to be overcome are useful pointers to the policies that need to be formulated to expand such exports. What has still to be determined is what opportunities there might be for farmers in the communal areas to participate in this export trade which has so far been pioneered exclusively by some of the commercial farmers.

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