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Deutsches Institut für  
Entwicklungspolitik

German Development  
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Discussion Paper

5/2010

# Industrial Policy in Namibia

*Christina Rosendahl*



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Bonn 2010

This Discussion Paper is part of a series of country case studies under the comparative research project on “Industrial policy in low- and lower-middle income countries” funded by the *Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung* (BMZ) and supported by the *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ). Further case studies see Annex II.

Discussion Paper / Deutsches Institut für Entwicklungspolitik  
ISSN 1860-0441

**Rosendahl, Christina:** Industrial policy in Namibia / Christina Rosendahl. – Bonn : DIE, 2010. –  
(Discussion Paper / Deutsches Institut für Entwicklungspolitik ; 5/2010)  
ISBN 978-3-88985-511-4

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## Abbreviations

AfDB	African Development Bank
ACC	Anti-Corruption Commission
AGOA	Africa Growth Opportunity Act
BEE	Black Economic Empowerment
BGR	Bundesanstalt für Geowissenschaft und Rohstoffe
CBNRM	Community-based Natural Resource Management
CRIAA SA-DC	Centre for Research Information Action in Africa, Southern African – Development and Consulting
DELEC	Delegation of the European Commission to Namibia
DPRU	Development Policy Research Unit
DRC	Democratic Republic Congo
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIV/Aids	Human immunodeficiency virus / Acquired immunodeficiency syndrome
IPPR	Institute for Public Policy Research
IPTT	Indigenous Plant Task Team
LaRRI	Labour Resource and Research Institute
M&E	Monitoring and Evaluation
MAWF	Ministry of Water, Agriculture and Forestry
MAWRD	Ministry of Agriculture, Water and Rural Development
MCA	Millennium Challenge Account
MET	Ministry of Environment and Tourism
MFMR	Ministry of Fisheries and Marine Resources
MME	Ministry of Mines and Energy
MRLGHRD	Ministry of Regional and Local Government, Housing and Rural Development
MSME	Micro-, Small and Medium Enterprises
MTI	Ministry of Trade and Industry
NAB	Namibian Agronomic Board
NAD	Namibian Dollar
NAU	Namibian Agricultural Union
NBRI	National Botanical Research Institute
NCCI	Namibian Chamber of Commerce and Industry
NDC	Namibia Development Corporation
NDTC	Namibia Diamond Trading Company
NDP	National Development Plan
NGO	Non-Governmental Organisation
NIC	Namibia Investment Centre
NMA	Namibia Manufacturers Association
NNFU	Namibian National Farmers Union
NPC	National Planning Commission
NPRS	National Poverty Reduction Strategy

NRP	National Resettlement Program
NUNW	National Union of Namibian Workers
ODC	Offshore Development Corporation
ODC S&P	Offshore Development Corporation Sites and Premises Programme
PEAC	Presidential Economic Advisory Council
PSD Policy	Private Sector Development Policy
R&D	Research and Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAideas	Southern African Initiatives for the Development of Enterprising Action and Strategies
SME	Small and Medium Enterprises
SOE	State-owned Enterprise
S&P	Sites and Premises Programme
TESEF	Transformation Economic and Social Empowerment Framework
UNAM	University of Namibia
UNDP	United Nations Development Programme
WTO	World Trade Organization



## Summary

Despite being an upper-middle-income country, Namibia faces multiple challenges in its economic development. The legacies of apartheid policies have nurtured a highly skewed distribution of assets and opportunities, and this has to date not been overcome. The private sector remains divided into a small number of large, profitable and mainly white businesses, and a large number of very small, unproductive, low-skilled and mainly black businesses. The economic structure is geared mainly toward the extraction of resources with limited value-addition and limited linkages to the rest of the economy. Small businesses face barriers to growth due to the large size of the country, its low population density, and limited purchasing power of the large part of the population, leading to high transaction costs and preventing economies of scale, amongst others. Nonetheless, Namibia has seen productivity growth and diversification in a number of sectors which have a potential for contributing to more broad-based, inclusive and sustainable growth.

The Namibian Government can pride itself on a stable political, legal and institutional environment and sound macroeconomic policies. To date, however, it has not played a proactive part in fostering new economic activities. The strategic goal of the Government is for Namibia to become a fully industrialized nation by the year 2030. This is to be achieved by processing Namibian raw materials and through import substitution of manufactured goods. This goal and the resultant strategies are, however, not based on rigorous economic analysis and disregard important constraints in the country's business and investment climate. The Ministry of Trade and Industry sees itself narrowly as a promoter of the manufacturing sector, rather than as a coordinator of cross-sectoral search processes for promising new activities. For the past ten years the Ministry has been in a process of revising its 1992 White Paper on Industrial Development. Due to a lack of consensus on the general direction, Namibia is left without any applicable policy that delineates its strategy for private sector development and industrial transformation as well as the role of the Ministry in achieving this.

Although social and equity concerns rank high in all policy papers, policies are not effectively targeted towards reducing spatial and social inequalities. The Ministry of Trade and Industry pursues stand-alone promotional activities rather than tackling full value chains in a comprehensive way. As the example of the Sites and Premises Programme shows, programs designed to support the development of Micro-, Small and Medium Enterprises are often top-down in structure and not targeted to businesses' real needs; they are not integrated, they lack outreach and are not aimed at creating linkages with larger companies. Since dialogue with the private sector is informal and ad-hoc, the interests of small businesses are not effectively represented in policy-making. Furthermore, policy implementation is hampered by an inefficient public service, lack of performance monitoring and built-in checks and balances – as shown strikingly by the example of the Export Processing Zone regime - and by a generally low level of democratic pressure on the Government. An exception to this is the example of the Indigenous Plant Task Team (IPTT), which carries out a constant search process for market-oriented pro-poor activities and supporting instruments, but which is mainly driven by Non-Governmental Organisations (NGOs) and donors.



## Introduction

Productivity growth is a precondition for increasing people's living standards and maintaining competitiveness in the globalised economy. Low total factor productivity is the key reason for persisting poverty in developing countries. The productivity gap separating poor and rich countries has never been as wide as it is today. Poor countries in particular thus need to emphasise productivity growth to alleviate poverty. The challenge is not only to develop more productive ways of doing business in the already established activities but also to accelerate the structural transformation from low productivity activities in agriculture, petty trade and skill-extensive services to new activities that are knowledge-intensive and exploit the advantages of inter-firm specialisation.

Undoubtedly, the main driver of structural change is the private sector. Still, governments have an important role in setting policy frameworks that allow for competition and encourage innovation and technological change, and in correcting market failures. For example, it may be important to encourage new activities that do not emerge spontaneously because several interrelated investments need to be made simultaneously that exceed the possibilities of individual entrepreneurs; or to support activities that do not pay off immediately for an individual investor but are likely to produce manifold linkages and spillovers in the future. Governments thus may accelerate structural change towards more competitive and higher value activities. This is what industrial policy is about.

While the theoretical case for industrial policy is not in doubt, there is no consensus about the right degree of intervention. The controversy is mainly about *selective* interventions that favour some sectors over others and thus interfere with price mechanisms as the main signalling device of market economies. Critics argue that governments are usually not very good at identifying coordination failures or anticipating future knowledge spillovers, and their decisions may well end up reducing allocative efficiency and creating perverse incentives for investors and bureaucrats alike.

It is now widely accepted that industrial policy *may* work well in countries with strong meritocratic public services and political checks and balances. However, opinions diverge widely with regard to the role of industrial policies in countries with very limited government resources in terms of finance and administrative capabilities. Hence, even if it is clear that these countries face particularly severe market failures, there is a big question mark as to the ability of governments to intervene in markets in a way that increases public welfare.

In any case, the appropriate policy mix is unlikely to be the same as in rich countries, because both the requirements and the capacity for public intervention are substantially different. Yet most empirical case studies of industrial policy focus on the old industrialised countries or the famous success stories of technological catching up (such as Korea, Taiwan, Singapore, Malaysia, Brazil, and Chile). Much less is known about the quality and the outcomes of industrial policies in countries at the early stages of institutional development.

This report on industrial policy in Namibia intends to help fill this gap. It is part of a comparative research project on "Industrial policy in low- and lower-middle income countries" funded by the *Bundesministerium für wirtschaftliche Zusammenarbeit und*

*Entwicklung* (BMZ) and supported by the *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ). Besides Namibia, the comparative research included Cambodia, Egypt, Ethiopia, Mozambique, Nigeria, The Syrian Arab Republic, Tunisia, and Vietnam.

For the purpose of the project we define industrial policy as any government measure, or set of measures, designed to promote or prevent structural change in ways that the government views as desirable. Two implications of this definition need to be highlighted. First, industrial policy has a normative perspective. Most policy documents both in industrialized and in low- and lower-middle income countries address a range of goals, including productivity growth, employment creation, social inclusion, and environmental sustainability. Second, policies may not only target the manufacturing sector to be defined as ‘industrial policies’, but also promising activities in agriculture or services.

As part of this project, a background report has been written that takes stock of the industrial policy debate and discusses the peculiar challenges of such policies in less developed countries.<sup>1</sup> For a comprehensive discussion of the pros and cons of industrial policy the reader may refer to that report. This country case study therefore concentrates on the Namibian experiences only.

It should be noted that, as in other developing countries, availability of reliable data is a major problem in Namibia. Likewise, monitoring and evaluation of policies is hardly ever done. This analysis and assessment of policy processes and impacts therefore relies to a large extent on qualitative information gathered from expert interviews and grey literature. The author is indebted to Robin Sherbourne for valuable comments on an earlier draft.

The report consists of six parts. Chapter 1 provides an overview of the main challenges for structural transformation in Namibia, looking at its current level of socio-economic development, the structure of the economy and important framework conditions for economic development. Chapter 2 looks at norms, structural factors and main actors that influence economic policy-making, as well as at the government’s overall performance in terms of effectiveness, transparency and accountability. Chapter 3 scrutinizes Namibia’s industrial development strategy, analyzing the relevant policy documents in terms of their objectives and strategies. Chapter 4 illustrates three industrial policy programmes, contrasting two government-driven programs with one program driven by the private sector and highlighting the costs and benefits of each. On the basis of these examples, Chapter 5 discusses the quality of these programs in terms of existing checks and balances and in terms of market- and demand orientation. Lastly, Chapter 6 draws overall conclusion about industrial policy in Namibia.

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1 Altenburg (2009).

## 1 Main challenges for structural transformation

### 1.1 Socio-economic development and sophistication of the economy

With a per capita income of US\$ 4,210 per year in 2008 (World Bank 2009), Namibia is categorized as an upper middle-income country by the World Bank.<sup>2</sup> In the past 10 years, average annual real Gross Domestic Product (GDP) growth amounted to 4.2% (AfDB / OECD 2008, 478). Poverty levels have declined,<sup>3</sup> and it is likely that Namibia will reach the Millennium Development Goals of eradicating extreme poverty and hunger, promotion of gender equality and empowerment of women as well as most sub-indicators of improvement of maternal health (NPC 2008, ix–xiii). The relatively high per capita incomes conceal the fact that Namibia is one of the world's most unequal societies, with a Gini-Coefficient of 0.6 (Bertelsmann Stiftung 2007, 14). Social well-being and economic opportunities strongly depend on ethnicity and geographical location. Next to a high HIV/AIDS prevalence and high inequality levels, one of Namibia's greatest social and economic concerns is unemployment. Standing at about 36.5%, with a 3% rise since 2000 (EIU 2008, 24), unemployment is highest in the most densely populated northern regions and among the youth. About 85% of the poor live in rural areas, and more than one third of Namibian households depend on subsistence farming as their only source of income – a number that has remained fairly static since independence in 1990 (IMF 2005, 24).

Mirroring these indicators, the Namibian economy is divided into a small and highly productive modern sector, concentrated in the urban centres of the country and engaged mainly in the extraction and services sectors, and a large number of micro-, small and medium enterprises. Linkages between the micro- and small and medium and large enterprises hardly exist, as do linkages between regions and sectors. The absence of linkages by small and medium enterprises (SMEs) in Namibia is striking: According to a 2005 survey, only 54 out of 368 surveyed SMEs receive or supply products or services from or to other businesses. In most cases, the linkage consists of a simple and informal buyer/seller nature, where the smaller business buys inputs from the larger partner or supplies simple services or products to larger enterprises. Only in two cases did the smaller companies contribute to another business's production process (Arnold et al. 2005, 33 ff.).<sup>4</sup>

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2 See: <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~pagePK:641331~pi:64133175~theSitePK:239419,00.html>

3 As measured in food consumption rates and the United Nations Development Programme (UNDP) Income Index, see AfDB / OECD (2008, 488); Levine (2007, 12). However, in five of Namibia's 13 regions, the Human Poverty Index has declined between 1991 and 2001 (Levine 2007, 22).

4 The survey is based on the official Namibian definition of SMEs. The definition is based on the criteria of employment, turnover, and capital employed, and differentiates between manufacturing SMEs (less than 10 employees, less than Namibian Dollar (NAD) 1,000,000 turnover and less than NAD 500,000 capital employed) and all other businesses (less than 5 employees, less than NAD 250,000 turnover and less than NAD 100,000 capital employed), MTI (1997, 2).

SMEs contribute only 2–3% to GDP (Erastus-Sacharia 1999, quoted in Dahl 2002, 62),<sup>5</sup> and upward mobility is very low. According to a World Bank study, Namibian manufacturing enterprises with less than five employees are only about as productive as same-sized enterprises in low-income African economies (World Bank 2007, 6 f.). Lack of access to finance, low education levels, lack of access to infrastructure and informality is much more widespread among Namibian microenterprises than in neighbouring countries (ibid. 7). In addition to competition from South African companies, Namibian micro-, small and medium enterprises face barriers to achieving economies of scale due to the extremely small domestic market with a population of just over 2 million (EIU 2008, 2). A low population density of only 2.5 per sq km further increases transportation costs (EIU 2008, 13).

## 1.2 Economic structure – challenges and potentials

This highly distinctive socio-economic situation can be explained by a number of factors, among them Namibia's large size and small population, dry climatic conditions, large natural resource endowment, and geographic location next to the strong economy of South Africa. In addition, Namibia's economic structure has been shaped and continues to be shaped by the history of colonial rule and apartheid. During South African rule, the Namibian economy was fully integrated into that of South Africa. Its economy was based on the apartheid principles of the migrant workers system, cheap forced labour, and expropriation of natural resources and other economic assets. The main function of the Namibian economy was to supply South Africa with primary, unfinished goods in exchange for South African consumer goods (Bertelsmann Stiftung 2008, 5).

### *Manufacturing, mining and fishing – low levels of value-addition*

Namibia remains closely integrated with the South African economy due to the lasting effects of apartheid policies, the colonial division of labour between the two countries, geographic proximity to South Africa, and – importantly – common membership in the Southern African Customs Union (SACU) as well as the Southern African Development Community (SADC). SADC recently formed a Free Trade Area. As a result of these factors, Namibia still imports almost 80% of its capital and consumer goods from or – to a quite large extent: through – South Africa (Kalaba 2006, 108). Unable to compete with South Africa on most items, Namibia's manufacturing sector is highly concentrated in the fish and meat sector, metal refinery and beer brewing (EIU 2008, 17, 27; Sherbourne 2009, 191). Due to recent growth rates in mineral processing, manufacturing accounts for roughly 12% to 15% (in 2008 and 2007 respectively) of GDP (CBS 2009a, 13) and over 40% of exports (mainly to South Africa, the UK, Spain and Angola), but for only 6.2% of employment according to 2004 data (Republic of Namibia 2008a, 5).

Upon gaining independence in 1990, Namibia had a well-developed mining industry based on world-class deposits of diamonds, uranium, copper, zinc, and lead (Sherbourne

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5 In contrast, according to an estimate by the Institute for Public Policy Research (IPPR), the contribution of manufacturing and services SME to GDP could be as high as 12% (Arnold 2005, 25). Both studies use the official Ministry of Trade and Industry (MTI) definition of SMEs.

2009, 127). Although now on a much lower level than in 1990, the mining sector remains the backbone of the economy, contributing around 13% to GDP and 60% of exports. As everywhere else in the world, a mineral-resource dominated export structure is coupled with low labour-intensity and a high dependency on fluctuating world demand and market prices. In general, the level of processing is rather low, due to reasons such as the chemical composition of products (which require production in close proximity to the next manufacturing stage), lack of highly-skilled industrial workforce, and small production quantities. In recent years, however, processing of raw materials has increased in the areas of diamonds, zinc and copper.

The contribution of the fishing and fish processing industry to GDP declined to only 4.5% (CBS 2009b, 22), as the industry is constrained by fluctuating oceanic conditions, the high impact of fuel prices on operational costs, and exchange rate volatility, amongst other industry-specific factors such as fragmentation. With the exception of hake, which is exported minced, as sausages, as baby hake, in the form of frozen fillets with and without skin, headed and gutted etc. (MFMR s. a., 24), most production is exported without further processing. Value-addition takes place mainly offshore and its level has remained virtually unchanged since 1990 (ibid.). Fresh, unprocessed products might however be able to reach higher profits in international markets if they are targeted to high-end markets.

#### *Agriculture – multiple challenges, but beginning diversification*

The contribution of crop farming and forestry to GDP has hovered between 1.9 and 3.1% since 2000, with livestock farming at 3.5% in 2008 (CBS 2009b, 22) – while the large majority of the population lives in rural areas, and more than one third of Namibian households depend on subsistence farming as their only source of income (IMF 2005, 24). Namibia is the driest country in Sub-Saharan Africa. Its only perennial rivers are at the northern, north-eastern and southern borders of the country; rainfalls fluctuate highly and soils are partly of poor quality. In turn, the sector is characterised by high risk and low crop yields.

A major constraint to risk-taking and investment in (crop farming) agriculture is the land tenure system in the northern parts of the country. In these communal areas people hold only user rights on the land, which is in turn allocated and administered by traditional authorities and land boards. Despite several reform attempts, land in the communal areas is not transferable and therefore is not recognized by banks as collateral against a loan. The government-owned Agribank is the only bank that provides loans to communal farmers, but is having problems in recovering its loans.<sup>6</sup> Lack of capital significantly reduces both the incentive and the means for investing in agricultural production in these areas. As the northern part of the country has the highest rainfall levels in Namibia, the loss in agricultural productivity is particularly high (Mendelsohn 2006, 25). Commercial agricultural activity is furthermore constrained by the lack of a supporting marketing infrastructure, inadequate field extension services (Int. C. Brock, Namibian Agronomic Board [NAB]; H. Marggraff, Namibian Agricultural Union [NAU]; B. Rothkegel, Ministry of Water, Agriculture and Forestry [MAWF]), and long distances between

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6 According to the Report of the Auditor General on the Financial Year 2007, the ratio between arrear loans and total loans increased from 6% to 14% (Auditor General 2008, 2).

farmers in sparsely populated areas. Furthermore, the Veterinary Cordon Fence – another colonial legacy that was erected to protect the foot-and-mouth disease free south from the non-controlled northern areas –, seriously restricts commercial-scale livestock farming and exporting in the communal areas.

Whether or not commercial land reform and redistribution, one of the main objectives of the Government of Namibia,<sup>7</sup> is mainly a political and social requirement or also conducive to diversification and value-addition in agriculture and increased agricultural productivity is not entirely clear. At the time of independence, some 44% of the land area was owned by only 4,200 white commercial farmers, who used it mainly for livestock farming. A main objective of the reform process is therefore to rectify historical injustices<sup>8</sup> and to encourage farmers with large numbers of livestock in the communal areas to move to commercial farmland, thereby freeing up land for smaller communal farmers. So far, the government's attempts at redistribution of land have not significantly changed land ownership patterns. In addition, it is not clear whether redistribution has led to an increase in agricultural output: Much land has been bought by urban 'hobby farmers' who use their farms mainly for recreational purposes or possibly less labour-intensive livestock farming, and resettled farmers often lack the means and skills to enter into productive farming.

A major change in agricultural output has been induced by the cultivation of horticultural products. The share of table grapes cultivated in southern Namibia since the mid-1990s has grown from 1.8% in 1995 to 6.4% in 2006 in terms of total agricultural production (Sherbourne 2009, 91). A number of large private farmers have invested in irrigation systems, and use common marketing channels for their produce. Fruit and vegetable production in general has sharply increased since the introduction of a horticultural support scheme in 2004, with tomatoes, cabbage, onions, potatoes and watermelons accounting for the greatest volumes. According to a study commissioned by the Namibian Agronomic Board, there is still much potential for increasing horticultural production (PWC 2008, 183).

Two other agricultural sub-sectors deserve to be mentioned, namely the game meat and natural products sectors. Namibian wildlife has experienced a remarkable recovery. In parts, wildlife numbers even exceed the carrying capacity of grazing land (RFS 2008, 14). The fact that Namibian game meat originates from free-range game farming and can therefore be considered organic, as well as its low fat content give it a competitive edge even in international markets. Until now, there is only one abattoir approved for game meat exports to the European Union (EU). According to estimates, the game meat sector could contribute as much as NAD 500 million per year (compared to a NAD 2,536 million contribution by livestock farming, as of 2008: CBS 2009b), including multipliers to the national economy (Rothauge 2008, 5).

Namibia's biodiversity also breeds strong and diverse potentials for the natural products sector. Natural products are derived from plants that occur naturally, are harvested wild or cultivated in situ, and are harvested sustainably. Since collection is commonly done by the poor and vulnerable, particularly women, production of natural products has

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7 OPM (2004, 40).

8 Republic of Namibia (2004, 22).



potentially strong pro-poor effects. The challenge lies in supply-management and preventing capture by lead firms of the value chain to the disadvantage of local producers. In general, demand on international markets for natural products is high, since they serve as ingredients for a growing range of modern products such as cosmetics and 'functional food'. Between 2000 and 2004, Namibian exports in essential oils, perfumes, cosmetics and toiletries grew by 91,5%, thereby making this one of Namibia's fastest growing export sectors (Kalaba 2006, 13 f.).

#### *Service sector - potentials in tourism and transport*

Apart from the non-traditional agricultural sector, the tourism sector offers strong competitive advantages due to Namibia's biodiversity, spectacular landscape and wildlife. Tourism has expanded greatly: The number of tourists rose by 11% in 2007 (AfDB / OECD 2009, 6), and according to the results from the first Tourism Satellite Account, tourism contributed 3.9 % (directly) or 14.2% (directly and indirectly) to GDP, and 20,588 (directly) or 74,911 (directly and indirectly) to employment (Sherbourne 2009, 245). Since the tourism sector has been – and largely still continues to be – strongly skewed towards white business, the level of government support to the industry has remained rather low.

Since the mid-1990s, however, there has been a strong growth in community-based tourism activities in Namibia, supported by legislation on community-based national resource management (CBNRM) as well as NGOs and donor activities. By the end of 2007, the 50 conservancies registered with Ministry of Environment and Tourism (MET) involved over 220,000 residents and generated income and benefits totalling over NAD 39 million – a marked increase from only NAD 1.2 million in 1998.<sup>9</sup> Despite this success, the transformation of the tourism sector in a way that would further benefit the upcoming non-white entrepreneurs and rural communities remains constrained by a number of factors. These factors are related to the insecurity of tenure in communal areas, which prevents investments, the non-availability of specialised financial products, and conflicting legislation and a lack of coordination between government entities involved in land use planning (Massyn 2004).

Another potential in the services sectors derives from Namibia's geographic location. In contrast to its land-locked neighbours, Namibia enjoys direct access to the sea. This allows Namibia not only to trade directly with overseas markets, but also to become a 'transport hub' for Southern Africa, channelling imports to and exports from its neighbours Angola, Botswana, Zimbabwe, Zambia and – due to the congestion in the ports of Cape Town and Durban – South Africa. After the port of Walvis Bay was handed over to Namibia in 1994, trade from and to Southern Africa via the port increased strongly. Over the past decade, the transportation and communication sectors have shown double-digit growth rates (AfDB / OECD 2009, 6).

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9 See: <http://www.nacso.org.na/index.php>, last access: 20 June 2009 (NASCO stands for 'Namibian Association of CBNRM-based support organisations', the author).

### 1.3 Framework conditions

These sectoral challenges and potentials are influenced by a number of other factors such as education and skill levels, labour market regulation and wage levels, quality of infrastructure, trade relations and trade preferences, the organization of the market and competition, the effectiveness of public administration, and the political system, amongst others. These will be briefly outlined in the following sections.

#### *Education, skills and labour market – much room for improvement*

The Global Competitiveness Report characterizes Namibia as an “*efficiency-driven economy*” (as opposed to factor-driven and innovation-driven economies) (WEF 2008, 252). As such, Namibia lags behind other efficiency-driven economies with regard to health, primary education, higher education, and training (WEF 2008, 252) – making the absence of an adequately trained workforce Namibia’s most problematic factor for doing business. The low level of education and the severe shortage of skills, especially in such areas as engineering, science, natural sciences, and mathematics (WEF 2008, 2) is a major reason for the low level of diversification in the manufacturing sector.

Although education receives the largest share of government spending (EIU 2008, 14), both the coverage and quality of education are extremely low and highly unequal (WEF 2008, 2). Every year only about 3% of grade 10 graduates gain entry to vocational training colleges. Those that do graduate from any kind of educational institution are almost certain to get employment, although firms still have to compensate for the low quality of education through on-the-job training. Unemployment, by contrast, is primarily concentrated among those without high school education (IMF 2006, 14). Tertiary education and training institutions have very little capacity for contributing to knowledge creation and innovation, and do not provide strategic guidance concerning the knowledge and innovation needs in key growth sectors. Independent research institutes, private consultants and think tanks tend to be involved mainly in policy research, not in production-oriented research – and even when the latter is the case, they lack support and coordination. This is reflected in low levels of Research and Development (R&D) activities by local firms (WEF 2008, 253).

The shortage of skilled labour on the local market is further compounded by high hurdles in receiving work permits for foreign workers (IMF 2006, 15). This leads to a vicious cycle, since a low level of skills tends to attract Foreign Direct Investments (FDIs) that require low-skills – thereby missing out on chances of skill transfer and technology diffusion.

Although labour market regulation in Namibia is less rigorous than in other SADC countries, it is ranked as the second most problematic factor for doing business by Namibian enterprises (World Bank 2008, 10). Amendments to the Labour Act in 2004 and 2008 have been widely criticized for unduly increasing the number of annual leave days (Lejonhud / Haimbodi, 2005), and labour-employer relationships are rather tense (WEF 2008, 253). More crucially, wage levels in Namibia are higher than in many other African middle-income countries, and, importantly, higher than in fast-growing lower middle-income countries. Combined with low productivity and the low levels of skills among workers this suggests that Namibia will find it difficult to compete with South-East Asian

countries in highly labour intensive sectors such as the garment industry, which creates employment for the large pool of unskilled unemployed (World Bank 2007, 5 f.).

### *Trade and Infrastructure – enabling environment*

Trade in Namibia's main export products (diamonds, fish, refined zinc and copper, beverages, live animals, and meat and animal products) is supported by its membership in regional and international trade blocks and organizations, namely the SACU, SADC, and World Trade Organization (WTO), as well as trade preferences with the European Union and the United States. Namibia was already an open trading economy at the time of independence, and has tried to play a full role in fostering regional economic integration since then. While maintaining an open economy, it has tried to guard itself against competition from fellow members such as South Africa through a range of tariff and non-tariff barriers. Trade has also been supported by an excellent transport infrastructure (WEF 2008, 252). Namibia's road network is generally perceived as well maintained, and its rail, harbour and air services as by and large efficiently operated (EIU 2008, 14).

To date, the impact of trade agreements on industrialisation has been somewhat marginal<sup>10</sup> – and where diversification has taken place, it is not necessarily as a result of trade negotiations. Moreover, non-tariff barriers such as cumbersome customs procedures and delays at border crossings still inhibit intra-SADC trade.<sup>11</sup> Since its formal accession to SACU in 1990/91, Namibia has been highly dependent on the SACU revenue pool, receiving between 25 and over 45% of its total revenues from it. Analysts predict that the 2004 change in the revenue sharing formula together with liberalised tariffs will lead to declining SACU-contributions to the government's revenue, thereby necessitating an expansion in the government's revenue base (EIU 2008, 20).

### *Political and market institutions*

Another competitive strength – especially when compared to other Sub-Saharan African countries – lies in the stability of Namibia's institutions. When Swapo, supported by the United Nations, finally succeeded in its three decade-long political and armed struggle against South Africa, Namibia adopted a western-style constitution, enshrining the principles of rule of law, separation of powers, and containing extensive civil liberties. Since independence, the political system has witnessed a high degree of stability. This has been supported by Swapo's historical support base among the Oshiwambo-speakers, the largest language group in the country, its policy of 'national reconciliation' and its efforts to achieve broad-based representation of all ethnic groups. However, the inclination of Swapo to identify with government has recently been challenged by a new opposition party. Some Swapo members have reacted by slandering alleged opposition members

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10 Namibia's 2006 export concentration index of 30 (with 0 being the lowest, 100 being the highest concentration) indicates a more diversified export composition than in an average Sub-Saharan African or lower-middle-income country, although Namibia exported a smaller variety of goods than it did in the early 2000s (WTO 2008, 2).

11 In 2008, Namibia ranked 144th on the World Bank Doing Business Indicators for 'Trading Across Borders' – the lowest score.

among the government's ranks, which has prompted the President to call for political tolerance and peaceful means of political contestation. In addition to political stability, some highly important assets for both domestic and foreign investors are strong protection of property rights, responsible macroeconomic management with low levels of government debt, a sound banking sector, and an independent judiciary.<sup>12</sup>

Despite general commitment to a free-market economy, the government has retained a strong role in the economy as a consumer of goods and services, a producer of goods and services, and as employer. At about 19%, government services contribute the largest share to GDP.<sup>13</sup> While several State-owned Enterprises (SOEs) were inherited with independence, their number has since increased to an estimated seventy, including commercial companies, financial institutions and special funds, regulatory bodies, educational establishments, boards and agencies (but excluding companies in which the government has an equity stake of 50% or less, as in the case of the De Beers partnership Namdeb). Some parastatals are both efficient and profitable, but many have regularly incurred losses (EIU 2008, 19), and the operations and performance of SOEs has remained largely outside the scrutiny of the public and parliament. Rather than fully privatising its SOEs, the government is currently implementing a reform to increase commercialisation and strengthen accountable management – but whether this will increase or decrease political influence on SOEs is still unclear. While the parastatals on the one hand have attracted many of the more skilled civil servants, as a consequence of which government ministries are increasingly unable to fill high-level positions with competent staff, this has also served to train a number of black Namibian managerial and business talents (Sherbourne 2009, 299 ff.).

The government in Namibia is the largest employer in the country, employing about 4% of the population (EIU 2008, 19). The reasons for this large civil service must be seen, *first*, in a pre-Independence settlement according to which no inherited civil servants would lose their jobs while new civil servants would be brought in to create a racially balanced public service. *Second*, public sector salaries and the resulting remittances to the broad network of family members constitute an important safety net for the large part of the Namibian population that depends wholly on subsistence farming. A *third*, probably welcome effect of including a large part of the population in government through posts might be the positive influence on their attitude towards government. Nonetheless, taking into account the general low levels of education and the scarcity of skilled labour, the resulting weakness and inefficiency of government bureaucracy has been rated the 4th most problematic factor for doing business in Namibia (WEF 2008, 252).<sup>14</sup>

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12 Ranked 25th, 32nd, 17th and 22nd respectively (WEF 2008, 253).

13 AfDB/OECD 2008, 479. Excluding health and education, public administration and defence accounted for 8.3% of GDP in 2008 (CBS 2008a, 3).

14 See also Bertelsmann Stiftung (2008, 23); Du Pisani / Lindeke (2009, 15).

## 2 Political background of industrial policymaking

### 2.1 Economic governance

Economic policy-making in Namibia is strongly shaped not only by the economic realities on the ground, but also by a set of norms as part of a ‘politico-economic culture’. These are grounded in the country’s history, and more specifically in the history of the ruling party, Swapo. In its fight against South African rule, Swapo was militarily and ideologically supported by the Soviet Union and the countries of the Eastern Bloc. As a result, it adopted a socialist rhetoric (Du Pisani / Lindeke 2009, 6). Socialist ideas were strengthened by the education that Swapo cadres received in the countries that supported it. Furthermore, some parts of the government of Namibia have ever since upheld an anti-imperialist rhetoric, claiming a certain degree of ‘independence’ from external dependency and outside – mainly ‘western’ – interference in what it regards as internal matters.

At the same time there were strong political forces that countervailed both the anti-western, isolationist and the socialist tendencies and that led the newly-elected Namibian government to opt for market economy principles along with a ‘mixed economy’ in its Constitution.<sup>15</sup>

*Firstly*, the breakdown of the eastern bloc as well as international supervision of the decolonisation process profoundly shaped the limits and content of the Namibian Constitution. In light of these developments, Swapo had already abandoned some of its socialist rhetoric before independence (Saunders 2003, 97) and in 1989 it accepted the constitutional principles proposed by the Western Contact Group, including the institution of strong private property rights. A provision for a ‘mixed economy’ was nevertheless integrated. By the time Namibia became independent, the socialist systems in Eastern Europe were collapsing. This made socialist policies not only ideologically unpopular, but also financially unattractive, as financial support from socialist countries dwindled.

*Secondly*, Swapo soon realized the need to reassure the (white) business community, on which, due to apartheid policies, the country’s economy heavily relied. Socialist policies would have easily resulted in an outflow of capital to South Africa. The government therefore upheld the principles of private property rights and a mixed economy, thereby sustaining a rather relaxed relationship between government and the business community. This pragmatic stance can also be witnessed with regard to the land question. In contrast to neighbouring Zimbabwe, Namibia has up to now not made much use of its legally granted right of expropriation with compensation, but has rather followed the principles of ‘*willing buyer, willing seller*’ (Sherbourne 2009, 328 f.).

Despite these factors that countervailed a socialist stance of the new Namibian government, there are once again other factors that – until today – serve to reinforce the tendency to exhibit and maintain a rather ‘strong hand’ of the government in the economy:

- Influenced by its long experience of military fight aimed at overcoming alien oppression and a highly centralistic internal organisation, there is still a certain desire

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15 See Article 98, Principles of Economic Order, Constitution of the Republic of Namibia.

among some Swapo cadres to maintain a certain degree of control of both the political as well as the economic sphere.

- Swapo tends to see itself as the only legitimate representative of the Namibian people. In order to claim such a position, there is a need to deliver tangible benefits to the people not only in terms of self-determination, but also on the socio-economic front (Swapo Party 2004, ii). This results in the perceived need to actively intervene in the economy in order to be able to attribute achievements directly to its own policies and projects.
- Maintaining a strong role of the government in the economy – as witnessed by the hesitant stance towards privatization of the numerous state-owned enterprises – creates an opportunity for integrating different segments of society into the broader state apparatus and thereby fends off criticism. As mentioned previously, this has also resulted in an effective welfare system extending to large parts of the Namibian population.

Economic policy-making is dominated by the executive branch and by party politics. The Namibian political system provides for a strong role of the President and his cabinet – which, ever since independence, has been occupied by Swapo. The party list system, which makes membership in parliament dependent not on a politician's popularity with his electorate, but on popularity within the party, increases pressures to endorse official party policies and top-level personalities. Within the executive branch, the power of the individual ministers to shape economic policy-making therefore depends strongly on their position within the Swapo hierarchy. In addition, however, some ministries have traditionally been more or less powerful due to their importance for the economy. For example, the Ministry of Mines and Energy (MME) can be regarded as more powerful than the Ministry of Trade and Industry (MTI), although the current Minister of Trade and Industry, Hage Geingob, is a highly influential figure within Swapo. This is because MME regulates one of the most important sectors of the Namibian economy, while MTI has never been able to assume the role of a coordinating ministry for all economic line ministries (Sherbourne 2009, 201; Int. Anonymous, 31 Mar. 2009).

Further important actors in economic policy-making in Namibia are the Swapo-affiliated trade unions on the one hand, and the large enterprises on the other – both private and state-owned. Informal communication channels to top government officials allow large businesses to influence policy-making. Apart from these exclusive and fragmented channels of communication and influence, there is no structured, inclusive, and transparent dialogue between the public and the private sector in Namibia (Hansohm 2004, 4). A Presidential Economic Advisory Council (PEAC), created in 1997 and revived in 2006, has never managed to play an important role. There are several reasons for the absence of a structured and unified public-private dialogue in Namibia, amongst them the following:

- Due to Namibia's small economy and strongly dualistic economic structure, there is only a small number of large businesses active in each economic sector. These businesses have an incentive to seek particularistic connections with the state, rather than to engage in open and broad-based dialogue (Bräutigam 2000, 15). Since the government strongly depends on these businesses that contribute the largest part to Namibia's GDP and export earning, the government is responsive to their interests. The interests of the large majority of small and medium sized businesses, in contrast,

are only weakly organized and represented, and therefore not capable of effecting a more open and inclusive public-private dialogue.

- The government and the private sector, with some exceptions like labour market policies, share similar views on economic policies – both in terms of objectives and strategies (Int. T. Shaanika, Namibian Chamber of Commerce and Industry [NCCI]; Int. H. Fourie, Namibian Manufacturers Association [NMA]). The government pursues sound macroeconomic policies, the corporate tax rate and the level of regulation are rather low,<sup>16</sup> and the membership in regional trade blocks allows for an open economy. The business community is furthermore consulted on an *ad hoc* basis on policies that are deemed to affect their interests. Therefore, the need to organize collectively and engage in dialogue with government in order to push for growth-oriented reforms and liberalization is rather low.

The role of civil society organisations in policy-making largely depends on their relationship to Swapo. Associations that are not linked to the ruling party rarely become politically involved, and those that are ardent critics of government and Swapo are accused of being fifth columns by government (Hopwood 2008, 182). Local authorities do not have much stake in industrial policy-making and development planning (for the following paragraph: Int. E Schleeberger, Southern African Initiatives for the Development of Enterprising Action and Strategies [SAideas]). Decentralisation in Namibia is not very far advanced. Local authorities and Regional Councils lack sufficient funds to significantly engage in industrial policy-making on a local level. Despite these difficulties, many local authorities have recently appointed Local Economic Development Officers. With the support of German technical cooperation, more and more local authorities are developing Local Economic Development Plans and trying to initiate local economic development processes with the limited resources they have at their disposal (Int. H. Richter, GTZ). The Cabinet has recently adopted a Local Economic Development White paper, on the basis of which it is currently establishing a Local Economic Development Agency. With the aid of a competition-based funding mechanism as well as technical assistance, this agency is to support local economic development efforts in the future (MRLGHRD 2008).

## 2.2 Government effectiveness, transparency and accountability

Both Swapo's history as a liberation movement fighting for political self-determination and social justice as well as the prevailing social and economic disparities result in a certain pressure on the government to demonstrate its efforts toward creating a more just society with lower levels of poverty and unemployment. According to the recent Afrobarometer survey, Namibians regard unemployment and poverty as the most important problems facing the country, and many of them believe that the government handles creating jobs and narrowing the gap between rich and poor badly (Afrobarometer 2009, 29, 32). Time and again, Swapo has publicly recognized this challenge, making

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16 At a rate of 35%, Namibia's total tax rate ranks 13th on the Global Competitiveness Index (WEF 2008, 253; PWC 2004, 134). The 'burden of government regulation' is ranked 52nd out of 134 (WEF 2008, 253).

“nation building, economic reconstruction and the elimination of the inherited social inequality” its main focus (Swapo Party 2004, ii). According to the European Commission, overall budget allocations have been fairly consistent with national development objectives in the last 15 years (DELEC 2008, 10). Looking at these objectives, a number of efforts and achievements deserve recognition:

- Since independence, the education sector has consistently received the highest share of budget allocations (Sherbourne 2009, 39).
- Namibia is one of very few countries in Sub-Saharan Africa that maintain a diversified social safety net for vulnerable groups. The system provides welfare grants to the elderly – amounting to NAD 450 per month in 2008 – , disabled, orphans and vulnerable children, and war veterans, amounting to NAD 8,200 per month (IPPR 2009, 8). Furthermore, the Social Security Act provides for maternity leave, sick leave, and medical benefits (IMF 2006, 25).
- Between 1993/4 and 2003/4, access to rural electrification, piped water and sanitation has improved (Schmidt 2009, 1).

Nonetheless, the challenges remain huge. While Namibia invests more in education and training than most other SADC middle-income countries, education coverage and quality is worse, with the exception only of Botswana (Marope 2005, xvii). Unemployment remains high and is on the increase, and despite a general adherence to development goals, according to an assessment by the European Commission there have been some deviations in budget allocations such as spending more than planned on finance administration, on parastatals and on defence, while proportionately less was spent on agriculture, water and rural development (DELEC 2008, 10).

One of the reasons for lagging behind objectives is the ineffectiveness of Namibia’s civil service (Bertelsmann Stiftung 2008, 22; DELEC 2008, 3). Its size, its lack of high-level education and expertise, along with insufficient public service training, a lack of management capacities at top level, and the strong centralisation of the government all contribute to the sluggish implementation of governmental reform programmes. Steps towards increased devolution and decentralisation of government will, in the short- to medium-term, not render services more effective, since capacities at decentralised levels can only be built up slowly (Bertelsmann Stiftung 2008, 23). In addition, a lack of consensus among key political actors and political infighting constitute yet another impediment to the implementation of reforms.

To date, there have been several efforts to introduce performance-based appraisal and management systems. Following a public service training needs assessment in 1998, the Office of the Prime Minister embarked on the introduction of a performance management system for the whole public service. According to the system, each Ministry was to draft Strategic Plans, to be translated into Management Plans and individual Balanced Scorecards, for each civil servant. On the basis of the Scorecards, civil servants were to agree on annual performance contracts with their supervisors. The programme was supported by the Prime Minister, the Cabinet Committee on the Public Service as well as several large donors. However, the process has come to halt as both capacities and political commitment seem to be lacking (DELEC 2008, 3). Some Ministries nonetheless are drafting Strategic Plans for their institutions, even though they are often of low quality and not sufficiently translated into Management Plans. Despite all criticism, it must be



said that the public sector in Namibia, more than the private sector, has stimulated the creation of a black middle class. Over time, many of the most skilled persons have left the public service for the more lucrative parastatals or the private sector. This is certainly a positive sign and also a form of stimulation of the private sector. Nonetheless, as there are still not enough highly-educated graduates, this means that the public sector is left with less-skilled people.

Another key obstacle to effectively delivering developmental progress is the entanglement of the public with the private sector and the lack of autonomy of politicians and key public office bearers from private sector interests. In Namibia, many public servants and politicians actively engage in the private sector (Bertelsmann Stiftung 2008, 10, 24). This involvement is largely non-transparent, since the disclosure of financial assets of parliamentarians is both voluntary and patchy (Hopwood 2008, 20) and may therefore lead to conflicts of interests. Conflict of interest legislation in Namibia is inadequate, and the Prime Minister and the Public Service Commission can grant permission for individual civil servants to hold positions in the private sector.<sup>17</sup>

Several structural and political factors support the tendency of self-enrichment by politicians and public servants. *For one*, the fact that the government in Namibia is the biggest purchaser of goods and services makes it rather easy for well-connected politicians and civil servants to benefit from lucrative government tenders (Amupadhi 2007).<sup>18</sup> This often goes unchallenged by those companies which lose such tenders, since they have no interest in jeopardising possible future contracts by causing trouble for a major client (Sherbourne 2009, 213; Du Pisani / Lindeke 2009, 15). *Secondly*, the tendency is supported by the long-term dominant role of the ruling party and the weakness of opposition parties. *Thirdly*, the increased drive towards Black Economic Empowerment (BEE) without clear guidelines easily lends itself to political abuse. Namibia has to date not enacted a comprehensive policy on BEE. Instead, sectoral, voluntary 'BEE Charters' and isolated BEE requirements prevail. When the term BEE became somewhat negatively connoted in South Africa, Namibian Prime Minister Nahas Angula emphasised what he called 'Broad-Based Economic Empowerment', and initiated a widely participatory process that resulted in a new Transformation Economic and Social Empowerment Framework (TESEF). The goals of TESEF include, amongst others, devising a system to prevent negative tendencies of cronyism, favouritism and patronage.<sup>19</sup> The final draft of the policy document submitted at the end of 2008 has not yet been adopted, since consensus and commitment seem to be lacking. This leaves BEE in practice outside any overall coherent, transparent and accountable policy framework (Sherbourne 2009, 359).

Since his inauguration in March 2005, President Pohamba has made fighting corruption, good governance and effective administration a priority and quickly brought the Anti-Corruption Commission (ACC) into operation (AfDB / OECD 2008, 488; Bertelsmann

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17 See: <http://www.business-anti-corruption.com/country-profiles/sub-saharan-africa/namibia/corruption-levels/public-procurement-and-contracting/> (accessed: 21 Aug. 2009).

18 See also: <http://www.business-anti-corruption.com/country-profiles/sub-saharan-africa/namibia/corruption-levels/public-procurement-and-contracting/> (accessed: 21 Aug. 2009).

19 See: <http://www.opm.gov.na/> (accessed: 13 Aug. 2009).

Stiftung 2008, 23-24).<sup>20</sup> From the very start, the ACC has, however, been accused of focusing only on the ‘small fish’ (Bertelsmann Stiftung 2008, 10; Amupadhi 2007). Other institutions serving as checks and balances in the political system exhibit differing degrees of effectiveness. Owing to the superiority of the governing party, some of the systemic checks and balances of a political system based on the separation of powers have partly lost their effectiveness over time (Bertelsmann Stiftung 2008, 11). The judiciary as well as the media – often regarded as the “fourth power” in a democracy – are highly effective in providing checks and balances on government authority. In addition, several laws and institutions are meant to guarantee transparency and accountability of government activities (Open Budget Initiative, 1; IPPR 2009, 2; IMF 2008, 33). The office of the Auditor General is responsible for the accounts of state-owned enterprises, and its reports are publicly available. However, due to limited capacity, there is regularly a large backlog of reports (ibid.) and they are often not followed up in a significant way.

### 3 Industrial development strategy

The main strategic goal of the Government of Namibia is laid down most prominently in its **Vision 2030**, as published in 2004: By the year 2030, Namibia is to become a “*prosperous and industrialised*” (OPM 2004, 15) nation. Increasing the share of manufacturing in the economy is seen as key to job creation and economic growth. This is to be achieved through both diversification of the export base into exporting of processed raw materials as well as through import substitution of manufactured goods. The goal of industrialisation and increasing the share of manufacturing in the economy dates back to long before Vision 2030, and high-level commitment to this goal has only recently been confirmed at the Cabinet Retreat in 2005 (Sherbourne 2009, 188). There seems to be virtually no actor in Namibia who openly questions the relevance of the objectives stated in Vision 2030. A brief review of Namibia’s most important policy documents in the area of industrial policy will illustrate this further.

As early as 1992, only two years after independence, the government adopted the **White Paper on Industrial Development**.<sup>21</sup> The main objective of the White Paper is increased value-addition in manufacturing by stimulating productivity and exports and, where efficient, import substitution; increased diversification through increased economic growth and inter-industrial linkages; employment generation especially for disadvantaged groups; and improved geographical distribution of industries (MTI 1998, 2).<sup>22</sup> According to a 1998 independent review commissioned by MTI, the White Paper however failed to start from a comprehensive assessment of the country’s potentials and constraints. Rather, it proposed a blueprint approach to industrial development, emphasizing the importance of manufacturing but without identifying specific sub-sectors or explaining links to other policy areas and policies (MTI 1998, 63).

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20 Petty corruption in Namibia is rather insignificant. According to the Transparency International Corruption Perception Index, Namibia is among the top six best-governed countries in Sub-Saharan Africa and more than 90% of Namibians have not paid a bribe in the past year (Afrobarometer 2008, 3).

21 Henceforth: „the White Paper“.

22 The original version of the White Paper is not to be availed at the Ministry anymore.

The main thrust of the White Paper has been amply repeated in several policy documents since then. The **First National Development Plan (NDP 1)**, published in 1995, stated that “*Namibia must reduce its dependence on mineral resources over the medium term and increase output in other areas such as manufacturing*” (Sherbourne 2009, 186).<sup>23</sup> It set the target of increasing the contribution of non-fish processing manufacturing to GDP to 6%, increasing non-fish processing manufacturing employment by 11,000 – an increase by about 50% of total manufacturing employment including fish processing - and increasing non-fish processing manufacturing exports to 4% of total exports, all by the year 2000 (ibid.).

In 1997, shortly before the mid-term review of NDP1, the Government published the **Policy and Programme on Small Business Development** (MTI 1997).<sup>24</sup> The Policy introduced several SME support programmes,<sup>25</sup> in addition to a number of regulatory reforms aimed at eliminating discriminatory apartheid practices. Despite limited implementation, the Policy and its programmes remain the government’s major framework for SMEs development up until now (Int. K. Mutilitha, P. Nakale, MTI).

The Policy aims to address both immediate social and more long-term economic concerns (MTI 1997, 20 f.) and identifies manufacturing as the most promising sector for small business activity (MTI 1997, iii). Whereas informal entrepreneurs<sup>26</sup> are envisaged to enter into manufacturing of simple goods, formal small businesses are to progress to technologically more advanced manufacturing such as plastic, rubber and electrical products, thereby contributing to an increased share of small business activity in the manufacturing sector (from 5% to 10% by 2004) as well as to import substitution (MTI 1997, 20 f.). A more detailed explanation of manufacturing sub-sectors with potential for informal and formal SMEs is not given.

Specific support to the SME sector is, first and foremost, justified on social grounds - more specifically, “as part of the government effort to empower the previously disadvantaged sections of the nation” (MTI 1997, 2). Secondly, the Policy pictures the SME sector as a potentially highly productive sector with the ability to spearhead job creation and growth. It aims to transform the SME sector into a “lead sector” of the economy, creating additional employment for 35,000 persons over the next three years, with a 10% increase in incomes in the sector (MTI 1997, i f.). Although the aspired growth rate in terms of employment seems to conform more or less to reality (Dahl 2002, 63; MTI 1997, 5), the objective of a 10% increase in incomes is quite ambitious given that almost 2/3 of the small business sector is employed in subsistence agriculture and

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23 See also: Government of the Republic of Namibia (1995, 30).

24 Henceforth: “the Policy”.

25 These are subsidized and partly government-run programmes aimed at increasing SME’s access to finance, markets, technology, input goods, industrial sites, and training. Most of these programmes are still in place to date and will be briefly described in Chapter 4.2.

26 The Policy gives no clear definition of “formal” and “informal” businesses. At times the term “informal” seems to refer broadly to the “subsistence” or “survivalist” activities, mainly in the rural areas, whereas “formal” enterprises seem to refer to larger businesses that employ staff, have higher incomes and engage in partly different activities. At the same time, the Policy also speaks of “the informal, unregistered sector” vis-à-vis “formally established businesses” (MTI 1997, 5 f.).

regularly seeks to supplement its income through informal trading (ibid.). This two-pronged approach to micro-, small and medium enterprises – with purely social objectives on the one hand, and economic objectives on the other -, however, does not translate into tailored policies and programmes for the two segments of the sector.

The 1998 **National Poverty Reduction Strategy (NPRS)**<sup>27</sup> similarly points to the potential for sustainable job creation within the more entrepreneurial, dynamic parts of the SME sector (NPC 1998, 15). In contrast to the 1997 Policy, however, the NPRS acknowledges that in the short-term, job creation in manufacturing is likely to be modest, due to the “fundamental obstacles to an acceleration of export-oriented manufacturing” posed by a lack of experience with factory-based production, a paucity of skilled workers, and weak support services, amongst others (NPC 1998, 8). It therefore suggests focusing on import substitution (‘localization’) of products that provide initial learning opportunities and in which Namibia might have latent comparative advantages (NPC 1998, 16). Despite this realistic analysis of the constraints to manufacturing in Namibia, the Strategy sets out the objective of transforming Namibia into a “transport and manufacturing hub” (NPC 1998, 7). Basing its assumptions on ‘international experience’, the manufacturing sector was to grow at 10% annually, creating an employment effect of 150,000 jobs within the next twenty years (NPC 1998, 9).

**NDP 2**, adopted in 2001, witnessed a continued commitment to the goal of increasing the share of manufacturing in the economy, but was less detailed in its targets. It stipulated that the SME sector should engage in industrial activities such as food processing, woodwork, textile and garment production, processing of agro-based products, and petrochemicals, among others (Government of the Republic of Namibia 2001, 314), and set the goal of increasing the share of employment in the manufacturing sector from 6.4% in 2000 to 20% in 2006. This goal was in fact under-achieved, since by 2004 the sector’s share in employment had fallen to 6.2% (Republic of Namibia 2008a, 5).

Ten years after the adoption of the White Paper this stark contrast between goals and reality probably led to a more cautious and differentiated approach in the following years. MTI commissioned a research institute with a comprehensive review of the 1997 Policy. The outcome was the draft policy document **Industrial Policy Beyond 2000** in 2003. This document introduced a number of important new aspects. It acknowledged, among other things, the changes in the international environment in terms of trade liberalization and their implications for policy-making; the need for an Industrial Policy to be complemented by other sector policies such as Education and Science; the need for cooperation between public and private sector and amongst ministries; the need for both effective and efficient public institutions and for ongoing monitoring and evaluation of them (MTI 2003, 4 ff.). Furthermore, it called on government to directly promote linkages between SMEs and larger enterprises (MTI 2003, 24). The lack of linkages between SMEs and larger enterprises had already been mentioned by the 1997 Policy as a constraint to SME growth, but fostering such linkages was not stipulated explicitly as an objective, and measures in that regard have not readily been implemented. Despite these new ideas, the document kept in line with past practice, defining “industrial policy” as industrialisation through beneficiation of raw materials (MTI 2003, 3, 10) – fully cognizant of the constraints to

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27 Henceforth: „the Strategy“.

manufacturing development in Namibia and the slack performance of the sector since independence, and without offering convincing arguments why this should change in the future (MTI 2003, 1 ff.). The document went one step further than the White Paper and the SME Policy in that it mentioned a number of sub-sectors which it believed to “offer promising business opportunities”, namely agro-processing including plant extracts; further meat and fish processing; beneficiation of diamonds, semi-precious stones and minerals; leather, clothing and textiles; and construction materials (MTI 2003, 10). A deeper analysis of the real competitive advantages in these sub-sectors was, however, neither presented nor called for.

For reasons one can only speculate on, the “Industrial Policy Beyond 2000” – the first attempt at overhauling and modernizing the 1992 White Paper – was never presented to Parliament or even formally adopted (Sherbourne 2009, 186). The document was soon to be overtaken by a more fundamental move: In 2006 MTI asked the German Technical Cooperation organization to support the drafting of an Industrial Policy, a Trade and Export Policy, and a new SME Policy, respectively. This resulted in a draft **Private Sector Development Policy (PSD Policy)**, which integrated all the aforementioned policy areas and put a premium on improving the general environment for private sector development and fostering linkages. The main thrust of the PSD Policy has been explicitly taken up by **NDP 3**, published in 2008. Despite this endorsement of the ideas of the draft PSD Policy by NDP 3, the draft Policy lacks consensus within MTI and therefore has not been adopted. Again, one can only speculate about the reasons. For one, the draft PSD Policy puts much more emphasis on generic reforms of the legal and regulatory business environment and investment climate than on support to specific industries. Furthermore, the document proposes a number of reforms that are politically sensitive and on which there is no full political consensus. Examples are: increasing the availability of land and land rights, reforming public sector pay and employment policies, reforming the labour law, and overhauling investment incentives. In the meantime, MTI has started the process of drafting an **Industrial Strategy**. Initial presentations by the South Korean consultant emphasize the need for selecting sectors with potential for creating linkages; the need for reforming the education system and the public sector; and the importance of implementing capacity and market-oriented incentives. While such an industrial strategy might prove highly useful if it is based on realistic assumptions, rigorous analysis and sufficient flexibility, it fulfils a wholly different function from the draft PSD Policy, and therefore the strategic orientation of the Ministry remains unclear. As a result of this prolonged process of drafting new industrial policies, the 1992 White Paper is formally still valid today. Even MTI, however, has only copies of the 1998 Review of the White Paper available. This illustrates the fact that there is a currently a ‘policy void’ in Namibia when it comes to policies and strategies for private sector development and industrial transformation.

Parallel to these efforts, other line Ministries such as the Ministry of Fisheries and Marine Resources, the MME and the Ministry of Agriculture, Water and Forestry (MAWRD) have come up with their own sectoral policies. Recurring policy goals within these policies are sustainable resource management, Namibianisation of the country's industry, empowerment of previously disadvantaged groups, and job creation through value-addition (MFMR 2004, i; MME 2003, 8 f.; MAWRD 1995, 6, 14, 42).

## 4 Main strategic elements of industrial policy

Although Namibia (currently) does not have an explicit industrial policy, it is nonetheless pursuing industrial policy in the sense that it tries to promote specific economic sub-sectors through selective policies. These policies are not laid out in an overarching industrial policy document, but rather in sector policy documents or even in specific laws. The following chapter looks more closely at some of Namibia's industrial policy instruments and their results in terms of costs and benefits. It will first look at two instruments that are part and parcel of the government's strategy to promote the Namibian economy, namely the Export Processing Zone regime and the Sites and Premises Programme. Secondly, it will look at an institutional mechanism for promoting a specific sector of the economy that also enjoys some level of government support, but which cannot be regarded as a main element of the government's strategy of industrial development for the country, namely the Indigenous Plant Task Team.

### 4.1 Promoting investment in export-oriented manufacturing – Export Processing Zones

Namibia's strategic approach to promoting investment is characterized by a general open-door policy, nationwide, non-discriminatory treatment of foreign investors, and promotion especially of the manufacturing sector, in line with its Vision 2030. The Foreign Investment Act of 1990 established the Namibian Investment Centre (NIC) in order to promote and facilitate foreign investment in Namibia. In doing so, the NIC focuses on promoting investment in the manufacturing sector (Int. M. Pakote, NIC). The benefits established by the Act are, however, no longer relevant due to the liberalization of currency controls in Namibia, and the NIC has to date not been able to offer relevant services to foreign investors (FIAS 2006, 58). For this reason the Foreign Investment Act is currently being overhauled with a view to strengthening the protection of investors while strengthening and explicitly regulating the mandate and governance of the NIC (Int. M. Pakote, NIC).

In addition, Namibia has an extensive incentives regime targeted at both domestic and foreign investors in the manufacturing sector. The regime includes substantial tax- and non-tax incentives for registered manufacturers, exporters of manufactured goods and for export processing zone enterprises. The following paragraphs will focus specifically on the Export Processing Zone (EPZ) regime.

#### *Objectives and core policies*

EPZ regimes in general combine the promotion of foreign direct investment (FDI) and the promotion of exports because of their respective potential benefits for a country: Production for export markets generates additional demand and thereby allows for economies of scale, increased specialisation and foreign exchange earnings. FDI can improve domestic productive capital and introduce technological and managerial innovations. If zones are geographically delimited, they may serve additional objectives, namely (1) to pioneer economic and regulatory reforms, using zones as experimental laboratories that might eventually support wider economic reform strategies; (2) to provide pressure valves for alleviating growing unemployment; (3) to constitute a regional

development tool in economically distressed areas; (4) to enhance local firms' competitiveness through agglomeration effects and enhanced supplier- and contractual relationships, supported by a more efficiently provided public infrastructure and services, and (5) TO more efficiently and effectively control EPZ enterprise activities through, e. g., environmental controls (Mandani 1999, 17; Engman et al. 2007, 35).

The Namibian EPZ regime was established by the Export Processing Zone Act in 1995. According to the Act, its objectives are

- to promote the export of manufactured goods,
- to create industrial employment,
- to create export earnings,
- to attract foreign investment, and
- to encourage technology transfer and the development of labour skills (Office of the President 1995, 6).

The focus is on employment creation, industrial development, and diversification from exports of raw material to manufacturing activities (ODC s. a.a, 2). Although the Act itself does not set clear targets to be achieved, the 1997 Policy and Programme on Small Business Development sets the goal for the regime to *“expand the number of large and medium enterprises in the formal sector and contribute an estimated 25,000 new jobs.”* (MTI 1997, ii).

In order to achieve these objectives, the regime entails a dual concept: First and foremost, the regime is based on the single factory concept, allowing enterprises to apply for EPZ status independent of their location in the country. All enterprises, whether foreign or domestic, that engage in manufacturing activities - with the exception of the already developed fish and meat processing industry but including warehousing and packaging activities - and which export a minimum of 70% of their produce outside of SACU (in the first year: 100%) are eligible for a wide range of indefinite incentives. These include an exemption from corporate tax, exemption from value-added tax, exemption from import duties, as well as incentives for training (NIC s. a.). In addition, according to the 1995 Act, EPZ companies were to be relieved from adherence to the Namibian Labour Act. Due to strong opposition from the National Union of Namibian Workers, NUNW, a compromise was reached by which EPZ companies had to adhere to the Labour Act, but strikes and lock-outs were outlawed for a period of 5 years. Since 2001 the Labour Act fully applies (Jauch 2006, 214).

At the same time, the EPZ Act provides for the establishment of specific industrial zones, called EPZ Industrial Parks. Again, there is a dual approach to these Parks: Parks may be developed and operated either by private EPZ Management Companies, or by the Offshore Development Company (ODC). ODC is a private company established by the EPZ Act which administers the EPZ regime and today has a 95% government shareholding, due to lack of private demand for shares in the company (Int. P. Namundjebo, ODC). ODC or the EPZ Management Company are to demarcate the zone, erect buildings for lease or sale to EPZ companies and to provide for basic infrastructure

and services such as water and electricity (Office of the President 1995, 13 [1]).<sup>28</sup> Whereas private parks are to be established in well-developed areas with strong market potentials, ODC focuses more on establishing parks in less developed areas, providing for a certain extent of employment and stimulation to local economies (Miller et al. 2006, 65). The decision on where these parks are located is usually made by the Cabinet. Lease periods within parks are initially three to five years but can be extended, and preference is given to manufacturing firms (Int. P. Namundjebo, ODC). The Parks are generally rather homogeneous in terms of the activities pursued, but the recently built Katwitwi Park follows a more flexible concept, allowing a wide range of activities within the park.

Looking at the objectives and provisions of the EPZ Act as well as the promoted activities – manufacturing of pharmaceuticals, of textiles and garments, cotton, leather, furniture, steel and cement, and the assembly and manufacture of electronics and automotive parts, amongst others (ODC s. a.a, 15)<sup>29</sup> – one may conclude that the Namibian EPZ regime is aimed mainly at the attraction of traditional labour-intensive, assembly-oriented activities. Moreover, the Industrial Park concept aims at stimulating both economically advanced and distressed areas through the provision of basic infrastructure and services, thereby creating agglomeration effects. It is targeted less at piloting regulatory reforms than at creating ‘competitiveness hubs’ through targeted services and government programs.

#### *Costs and benefits of the EPZ regime*

Looking at the *benefits* of the EPZ regime with regard to increasing the manufacturing base and generating industrial employment, performance has been rather unimpressive: Shortly after the inception of the EPZ regime, roughly 100 enterprises were registered as EPZ companies.<sup>30</sup> At the end of 2007, however, only 20 EPZ registered companies were still registered in Namibia, implying that 80 of the original companies had either de-registered or ceased operations. Out of the remaining 20 companies, only nine companies were active in general manufacturing, while ten companies were engaged in mineral processing, most of them in diamond cutting and polishing. Only a very few EPZ companies – such as the Namzinc zinc refinery or the Namibia Custom Smelter, which processes blister copper and arsenic trioxide - can be regarded as using innovative technologies or production methods. Together, these 20 companies employed 5,173 people, with the manufacturing companies contributing more than 2/3 of total employment created. This number is far from the goal of creating 25,000 jobs.

There is no indication of substantial benefits in terms of technology transfer and skill development. Technology transfer can be achieved through copying or imitation of products, through production imitation by workers leaving for another company, or

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28 Interestingly, the Act does not lay down any form of public-private partnership that would provide for public inputs or subsidies. It only stipulates that the ODC may “*enter into agreements with other companies or bodies corporate for the purpose of advancing the establishment and development of export processing zones and offshore activities in Namibia*” (Republic of Namibia 1995, 29a).

29 These activities are listed in the ODC Investor Guide by way of example; they do not enjoy any special treatment over other activities.

30 For the following data see: ODC (s. a.b).



through shares in the foreign company by a local company. None of this seems to have happened in the case of Namibian EPZ companies.

Other spillovers to domestic firms may be created through backward and forward linkages to local firms. Backward linkages allow for direct knowledge transfer to suppliers and for upgrading supplier production and managerial capacities, since the suppliers have to conform with the exporting firm's standards for product quality and timely delivery, or for increased economies of scale due to increased demand of products and services. In the case of Namibian EPZ companies, backward linkages remain limited to the purchase of uniforms, the packaging and cleaning of materials, the occasional servicing of machines, and utilisation of services such as transport, banking, security or construction (ODC s. a.b, 10; Int. P. Namundjebo, ODC). The establishment of EPZ companies in Namibia has, however, not led to a growth or upgrading of industries or services that were until then underdeveloped. The creation of forward linkages is furthermore inhibited by the ban on sales on the domestic market.

According to a study of the Labour Resource and Research Institute (LaRRI), almost all EPZ workers were unskilled at the time employed, and have received only some basic on-the-job-training since then. Since the government never made budgetary provisions for the 75% training refund that was to be given to EPZ companies, no company has been able to make use of it (LaRRI 2000, 9).

#### **Box 1: The experience of Ramatex**

In the history of Namibia's EPZ regime, there is only one case in which the regime – temporarily - achieved its stated objectives of attracting large-scale manufacturing activities targeted for export markets and creating significant employment in Namibia: The Malaysian clothing and textile company Ramatex and its subsidiaries started operations in 2001, importing cotton from West Africa and machinery from Asia for producing and exporting finished textiles to the US – by which Namibia had just been granted duty-free imports under the Africa Growth Opportunity Act (AGOA). By 2006, Ramatex and its subsidiaries employed 8,000 workers. Of these, 2,000 were migrant workers from Asia (Jauch 2006, 217).

It soon turned out that both the economic and welfare costs, as well as the social and environmental costs of the Ramatex investment outweighed any of its benefits: In addition to the EPZ benefits, the government and the City of Windhoek incurred further costs of an estimated NAD 120 million for subsidies and grants for land, road, electricity and water infrastructure, and for repairing environmental damage caused by the company (Jauch 2006, 216; Sherbourne 2009, 196). Furthermore, Ramatex provoked massive opposition from labour unions and workers against inhumane living and working conditions, mistreatment and disregard for health provisions (Jauch 2006, 219 f.; Sherbourne 2009, 196 f.). Nonetheless, benefits were limited as the Ramatex investment failed to lead to any substantial technology and skills spinoffs or growth in subsidiary industries. In 2005, the first Ramatex subsidiary closed its doors due to “lack of orders” (Sherbourne 2009, 196), and operations fully came to an end in 2008 due to stiff competition from China (AfDB / OECD 2009, 5). The Ramatex investment did not draw in any other investors in the sub-sector, and today, no large company in Namibia is engaged in the clothing and textile sub-sector.

Regarding the benefits of the Industrial Parks, the low number of existing industrial parks, especially of privately developed and operated parks, shows that the concept has not proven attractive to EPZ companies.

There are currently five EPZ Industrial Parks in Namibia, namely in Windhoek, Walvis Bay and in the northern towns of Helao Nafidi, Katima Mulilo and Katwitwi. Walvis Bay is the only Park that is administered by an EPZ Management Company, yet also there the Municipality of Walvis Bay is the major shareholder. In 2007, there were five EPZ companies located in the Walvis Bay Park. This makes Walvis Bay Park the most preferred Park amongst EPZ companies, with a quarter of all Namibian EPZ companies choosing to locate in it; nevertheless, the overall number of companies is extremely low.

The Parks developed and operated by ODC accommodate currently 40 businesses (Email R. Amaambo, ODC). None of these tenants is, however, registered as an EPZ company. Although the Parks were originally designed for EPZ companies, ODC had to extend access to the Parks to non-EPZ companies due to lack of demand by EPZ companies. The reason for this might lie in unsuitable locations: whereas the Parks are situated in the northern border towns whose main economic activity consists of trading with Angola, the decision of EPZ-enterprises on where to locate is dependent on other factors such as availability, reliability, quality of infrastructures, proximity to markets and raw materials.<sup>31</sup>

In general, the *costs* of EPZ regimes entail:

- foregone tax revenues from EPZ enterprises formerly operating in the domestic market or EPZ enterprises that would have settled in the domestic market even without incentives,
- personnel, administrative, and promotional costs,
- capital outlays for infrastructure development,
- cost of purchase of land,
- subsidised services,
- public liability in case of losses of publicly-owned management companies,
- social and environmental costs incurred due to malpractice by EPZ companies.

The costs of the Namibian EPZ regime are difficult to gauge, since no comprehensive cost-benefit-analysis has been conducted. Therefore, some indications must suffice. The fact that a large part of Namibian EPZ companies are diamond cutting and polishing companies implies that there is a substantial amount of foregone tax revenues. This is because in 2007 the Namibian government, in a move to promote local processing of diamonds, successfully forced Namdeb Diamond Corporation, its joint venture with De Beers Centenary AG, to sell a certain amount of its output to the newly created Namibia Diamond Trading Company (NDTC) rather than to the Diamond Trading Company in London, for local processing in Namibia only (Sherbourne 2009, 138 f.). Since then, a certain share of Namdeb's high-quality diamonds are available to domestic processors only. Diamond cutting and polishing enterprises therefore probably would have located in Namibia in any case because of the availability of rare raw materials – even without the EPZ's tax incentives.

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31 Apart from the five companies in Walvis Bay, nine companies are located in Windhoek, and the remaining ones in Windhoek, Walvis Bay, Rehoboth, Okahandja, Tsumeb, and Rosh Pinah (Winkel, 2009, 20; ODC s. a.b, 4 f.).

Personnel, administrative and promotional costs of ODC staff do not directly accrue, since ODC covers its operational costs through lease revenues. ODC has indicated, however, that its promotional activities are very limited (Int. P. Namundjebo, ODC) due to high operational costs and low revenues – the latter a result of subsidized lease rates.<sup>32</sup> Both the central government through ODC and the Municipality of Walvis Bay through the Walvis Bay EPZ Management Company invest in the development of Industrial Parks. According to information of LaRRI, the construction of the Park in Ondangwa involved costs of some NAD 20 million; for the Park in Katwitwi the government allocated some NAD 15 million (Jauch 2006, 49; Republic of Namibia 2008b, 1).

In addition to these costs, the Ramatex investment entailed substantial additional costs for subsidized land and services and for rehabilitating environmental damage. Moreover, ODC has lost some NAD 100 million in a dubious investment<sup>33</sup> for which the Namibian taxpayer will have to pay.

This overview of costs and benefits of the Namibian EPZ regime shows that the policy has not been able to achieve its stated objectives of attracting export-oriented, labour-intensive manufacturing investment to Namibia, thereby creating employment, export earnings, and technology transfer and skills development. Only few such companies have been attracted to Namibia, and those that came – such as Ramatex – did so at financial, social and environmental costs that were not acceptable to the Namibian society and did not create the expected longer-term developmental effects. It may be concluded that highly generous tax holidays as well as the mere availability of (subsidized) land and serviced factory shells are not a sufficient incentive for manufacturing companies to invest in Namibia.

There are a number of reasons for this. For one, similar incentives to the Namibian ones exist in many other countries, also in the SADC-area.<sup>34</sup> Since the incentives are very similar in all these countries, other factors are much more important in shaping investor decisions on where to locate. Amongst these are the availability of either a cheap – in the case of labour-intensive assembly activities – or a highly skilled labour force – in the case of more sophisticated operations. In Namibia, labour is neither cheap nor highly skilled.

Other decisive factors for locating in a certain country are the availability of local resources, the competitiveness of local suppliers, the availability of a transport infrastructure, and local/regional demand, amongst others. As has been shown in the first chapter, Namibia scores very badly in terms of competitiveness of local suppliers, and although the transport infrastructure is very good in Walvis Bay and in general better than in other Southern African countries, transport costs for exporting to overseas countries remain rather high. The availability of high-demand local/regional markets is stifled by the requirement to export at least 70% of production outside the SACU market. This prevents many companies from applying for EPZ status, since many investors want to use Namibia as a 'stepping stone' in their efforts to penetrate the SACU and Southern African market. This applies to certain exporters of processed raw materials such as the newly established

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32 Lease rates in Walvis Bay are about 80% of the market rate (Miller et al. 2006, 74).

33 See: <http://report.globalintegrity.org/Namibia/2007/notebook> (accessed: 09 Aug. 2009).

34 According to a report by the Development Policy Research Unit (DPRU), similar incentives are offered in Malawi, Mauritius, Mozambique, Tanzania and Zimbabwe, amongst others (DPRU 2001).

Ohorongo Cement Company, a subsidiary of the German Schwenk Gruppe, which will soon start to generate and process cement in northern Namibia for local supply and export to high-demand neighbouring countries such as Angola. Exporting to overseas markets, in contrast, is rather expensive and is economically rational only for a few products where Namibia has strong competitive advantages – this is the case for example for table grapes, which are highly demanded in European markets in certain seasons, or for diamonds and some other natural resources, which are of a superior quality in Namibia, but it is not the case for textiles and clothing. Therefore, for companies exporting within the region, the EPZ status is more of a burden than a benefit (LaRRI 2008, 48). In addition, some factors in the Namibian business environment negatively impact the choices of investors, such as the difficulty of obtaining work permits for foreigners and the high rate of Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome (HIV/AIDS).<sup>35</sup>

Looking at the results of the Namibian EPZ regime and the types of companies that operate under EPZ status, one can conclude that it is not the incentives themselves which are the determining factor for locating manufacturing activities in Namibia, but rather other factors. These include the (exclusive) availability of natural resources (such as diamonds). Other factors are the existence of economies of scale – such as in the case of Namibia Custom Smelter, which sources copper concentrate for its factory in Tsumeb from the Democratic Republic of Congo, Zimbabwe, South Africa and Zambia.

The experience of the Industrial Parks similarly shows that the mere availability of (subsidized) land and serviced factory shells as well as agglomeration effects of Industrial Parks are not able to attract manufacturing investors on a large scale, or to create spillover effects for the local economy. Other framework conditions – such as low labour costs, a well-developed transport infrastructure, availability of financial and other business as is the case in Walvis Bay – are important for attracting business. Moreover, backward linkages do not occur spontaneously, especially if the ‘competitiveness gap’ between sourcing and supplier firms is high. Firms producing for the export market have to adhere to highly strict quality and timing standards and therefore are more inclined to sourcing their inputs through imports. Lastly, especially the activities targeted by the Namibian EPZ regime - apparel, footwear, and electronics operations – have high import ratios of 60–85% and therefore make backward linkages less likely (FIAS 2008, 37 f.).

#### 4.2 SME Development – The Sites and Premises Programme

The promotion of SME development ranks high on the agenda of the Namibian government. As outlined in Chapter 3, SME development is seen as an instrument for poverty alleviation, reducing inequalities and empowering previously disadvantaged groups,<sup>36</sup> for diversifying the economy away from the export of raw materials,<sup>37</sup> and for

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35 For a similar analysis see also ODC (s. a.b, 4, 10 ff.).

36 NDP 2, cited in Republic of Namibia (2008a, 58, 65).

37 “SMEs need to take the centre stage in contributing to industrialisation, manufacturing, and value addition and consequently import substitution [...] to produce internal impacts but to penetrate external markets as well” (MTI 2006, 3).

promoting economic growth and employment (MTI 1997; Republic of Namibia 2008). The objective of Namibia's SME Policy is to promote the growth of the SME sector in order to increase employment, incomes, and its contribution to GDP. This is to be achieved by an increased rate of new business formations, a reduction of business failures and growth of businesses with capacities to employ others (MTI 2006, 4), all of which are to be engaged in manufacturing activities such as food processing, woodwork, textile and garment production, agro-based products processing, and petrochemicals, among others (Dahl 2002, 42).

Against this background, the 'Policy and Programmes on Small Business Development' of 1997 laid out a range of five SME support programmes. These consist of (1) the Small Business Credit Guarantee Trust, which is aimed at increasing SMEs' access to finance; (2) the Entrepreneurship Development Programme, providing subsidized access to feasibility studies, business plans and generic business training; (3) the Group Purchasing Scheme, aimed at reducing input costs for SMEs; (4) the Vendor Development Programme, aimed at linking SMEs with larger firms and retailers through the creation of a database; and (5) the Sites and Premises Programme, aimed at providing affordable industrial estates to the enterprises. Although these programmes were to constitute an integrated, comprehensive support package for SMEs, some of them – such as the Group Purchasing Scheme – never came into existence, others – such as the Vendor Development Programme – have ceased to exist after only a short period, and still others – such as the Entrepreneurship Programme – are highly non-transparent in terms of the outputs and results achieved, and it is unclear whether they are operational at all. The following paragraphs will focus on the Sites and Premises Programme, as it is the only one of the five programmes that has been in existence continuously since 1997 until today and has produced the most visible outputs.

### *Objectives and core policies*

The Sites and Premises Programme is run by an independent unit within the state-owned Namibian Development Corporation (NDC), namely the Offshore Development Corporation, ODC.<sup>38</sup> Its staff has been limited to currently 8 staff members who are responsible for planning and managing the properties, with some of them working directly on-site. The Programme plans and oversees the construction of SME Parks and Common Facility Centres<sup>39</sup> and sub-lets them to individual entrepreneurs at subsidized rates for an undetermined period. SME Parks consist of buildings serviced with electricity, water, sewage systems and access to roads. They do not focus on a specific sub-sector but explicitly welcome a wide range of activities so as to attract more customers (NDC s. a., 3). The purpose of Common Facility Centres, in turn, is to promote specific sub-sectors by providing industrial estates as well as the respective machines at subsidized rates. To date the Programme has built and serviced 32 properties, among them 11 Common Facility Centres in the areas of garments, woodwork, small mining, plastic technology, automotive manufacturing, and meat processing (ODC 2008).

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38 When the NDC was dismantled in 2005, the Programme moved to the ODC, only to return back to NDC in May 2009 after NDC's revival, Int. S. Losper, ODC S&P.

39 The centres have recently been renamed 'Appropriate Technology Centres', Int. K. van Staden, ODC S&P.

Both Parks and Common Facility Centres generally target entrepreneurs with a “*medium to high potential to operate a business on a sustainable basis*” who are not “*survivalist*” (NDC s. a., 3 f.). There are, however, some Common Facility Centres – such as the Automotive Engineering Centre and the Plastic Technology Centre, both in Ondangwa – that target unemployed people who are not yet entrepreneurs, but want to become so. In these cases, government not only provides the buildings and machines, but also contracts individual tenants as ‘employees’ and organises training for them at subsidized rates. Training is provided either by the company which has built and provided the machine, or by “*specialists in their field*” (Email van Staden, 21 Aug. 2009). Only at a later stage do the tenants become self-employed entrepreneurs who rent the factory space for their own profit and at their own risk.

As with ODC’s Industrial Parks, MTI covers all capital costs for assets produced by the Programme, whereas the Programme covers its operational costs through lease incomes. Originally, both Parks and Centres targeted SMEs only. Since the rents for SMEs are highly subsidized – by about 90% –, the Programme was unable to recover its operational costs and therefore extended access to the Parks to larger enterprises, charging them rates of about 50% of the market value (Int. K. van Staden, ODC Sites and Premises Programme [S&P]). Apart from cross-subsidization, an additional positive effect of this has been to attract more customers to the Parks. These larger firms are, however, usually not linked to the smaller enterprises by backward linkages, and there are no targeted attempts to promote such relationships between larger and smaller enterprises within the Parks. Furthermore, SME Parks as well as Common Facility Centres are not linked with other MTI programmes on business development services, for example with the Entrepreneurship Development Programme. For this reason, Sites and Premises staff members have by their own initiative brought donor organizations providing generic business services into the Parks for a limited period of time (Int. K. van Staden, ODC S&P).

There are two different decision-making processes for establishing a SME Park or a Common Facility Centre: There is, first, a bottom-up process by which communities send requests via the Regional Councils to the National Planning Commission, which compiles all requests for Cabinet approval. After approval, MTI orders the Programme via NDC to conduct a feasibility study and – if the outcome is positive – to ask for bids for the construction of the building. This process serves to equally balance economic development in the country, including in the poor northern regions. Second, if MTI wants to promote certain regions or sub-sectors, it proposes the building of the respective Centres or Parks to the Cabinet, and decisions are then made in a top-down manner. Decisions are guided by three main criteria, namely (a) the existence of trade and industry in the respective area or the potential for it, (b) the absence of the required business infrastructure in that area, and, above all, (c) the need for geographically balanced development and other “*political and social considerations*” (MTI 2009, 1 f.; Int. S. Losper, ODC S&P).

#### *Costs and benefits of the Sites and Premises Programme*

The costs and benefits of the Programme are difficult to estimate, since only scanty data is available. Looking at the benefits, the Programme currently provides industrial estate for about 800 tenants, thereby contributing to employment creation especially in the least developed regions of the country (Int. S. Losper, ODC S&P). It is unclear, however, how these tenants have performed over time. There is no data on the total number of tenants in

the establishments since the inception of the Programme in 1997 and on whether those that moved out ceased operations or were able to sustain their business. Therefore one can say little about the outreach of the Programme and its impact on the growth of small businesses. An indication to that effect is nonetheless given by a 2009 report of the Programme which states that many tenants default on rental payments due to “*lack of business acumen and business failure*” (MTI 2009, 5), but it is unclear whether this is the rule or the exception. Moreover, there is little indication that Common Facility Centres have been able to fuel certain economic activities on a larger scale, as neither garment-making nor automotive manufacturing are major economic activities in Namibia.

Furthermore, the fact that the utilization rate of the Parks and Common Facility Centres lies at only 82.4%, despite subsidization rates of up to 90%, raises doubts as to whether the Programme effectively targets the needs of small businesses. Originally it was intended that the Parks not only cover their operational costs, but also “*provide a reasonable return on funds invested*”, and that municipalities in partnership with the private sector invest in setting up such Parks in their towns (MTI 1997, 35). This was indeed never achieved – the Programme is barely able to cover its operational costs, and all Parks so far have been funded by Central government.

The reasons for limited benefits can be manifold and may relate to poor targeting and selection of tenants or poor choice and maintenance of locations. According to Dahl, „[m]any of the sites currently in existence lack needed basic services such as water and electricity and refuse removal. Often they are located in places where few potential customers pass by” (Dahl 2002, 73 f.). What is striking however is the total lack of support services offered within the parks and the complete absence of programmes to promote linkages between small and larger enterprises. Taking into account the low level of development of Micro-, Small and Medium Enterprises (MSMEs) in Namibia it is rather unlikely that they will be able to grow to sustainable levels without access to business development services. Moreover, the large gap between the small number of large, productive – mainly white – businesses in Namibia and the large number of small, low-productivity – mainly black – businesses will not close automatically, but will only narrow if there are adequate supplier programs in place, supporting small businesses over a longer period of time so that they become suppliers of larger enterprises. This fact has been duly criticized by Sites and Premises staff, but to no avail so far.

Aside from these significant shortcomings, the Parks and Centres have contributed to a certain level of development on a local level. The properties are built in some of Namibia’s least developed regions and provide some opportunities for people to get employment, adopt skills through on-the-job training, and earn their own means of living.

Since benefits cannot be measured, it is impossible to put the *costs* of the Programme in relation to its benefits. The total value of all properties of the Programme amounts to NAD 198 million (Int. K. van Staden, ODC S&P). In addition to these assets there are running costs for leasing or buying the land on which the properties are built, for machinery, and for programme operations. Despite the highly subsidized rents, the Programme runs at an operational cost recovery rate of 87.2% (MTI 2009, 2). Recovery rates would probably be much lower were not one third of all properties built on land that was donated to NDC or let to the Programme free of charge. Nonetheless, according to the Programme, the “*economical rentals pose a challenge to the Programme’s sustainability*” (MTI 2009, 5).

### 4.3 Value-chain development in agriculture – The Indigenous Plant Task Team (IPTT)

Namibia has a unique biodiversity, particularly with regard to plants. It hosts many unusual plants that have been used traditionally for a wide range of purposes such as food and medicine. In 1994, the Department of Women Affairs within the Office of the President conducted a participatory needs assessment among women in the north-central regions. Several women's groups prioritized support for the commercialization of Marula oil, and as a response received financial support from MTI, the Namdeb Social Fund, and the then Ministry of Agriculture, Water and Rural Development (today: Ministry of Agriculture, Water and Forestry – MAWF) (Int. DuPlessis, CRIAA SA-DC)<sup>40</sup>. With assistance of the NGO CRIAA SA-DC they formed the Eudafano Women's Cooperative and established a marketing channel with the international cosmetic company The Body Shop. After years of sub-contracting oil processing to the CRIAA SA-DC/Katutura Artisans Project in Windhoek, which was then bought up by The Body Shop via the French company Aldivia, the cooperative now extracts the oil at a factory in the northern town of Ondangwa and is currently the biggest supplier of marula oil to world markets (DuPlessis 2006, 6).

In 1999, the former Minister of Agriculture, Water and Rural Development provided several million Namibian dollars for research and promotion on indigenous plant products, half of which was earmarked for indigenous fruits. This allocation kick-started a workshop organized by the Directorate of Agricultural Research and Training within the Ministry, supported by CRIAA SA-DC and the Namibian Agronomic Board (NAB), which resulted in the formation of the Indigenous Fruit Task Team, later to be re-named and broadened to the Indigenous Plant Task Team (IPTT).

#### *Objectives and core policies*

The IPTT is a multi-stakeholder coordinating body, chaired by the Directorate of Agricultural Research and Training. It meets on a quarterly basis and is based on an open, multi-disciplinary membership of public and private stakeholders as well as NGOs and research institutes. On the public side, MAWF, Ministry of Education, Ministry of Environment and Tourism (MET) and MTI through the Directorate of Industrial Development, as well as the University of Namibia (UNAM) and the Polytechnic of Namibia regularly take part in the meetings. In general, the producers are represented through the Namibian National Farmers Union (NNFU), which in general represents the communal farmers in Namibia, but the Eudafano Women's Cooperative has recently applied for direct membership (IPTT 2008, 9). Recently, in recognition of a need to develop a similar multi-sectoral approach at a more grass roots level, the IPTT has supported the development of several so-called 'Eco-Regional Satellite Centres', which are to link the IPTT with the producers and processors in the Namibian region (Bennet 2006, 141).

The aim of the Task Team is that *“[s]table and sustainable production systems and long-term markets have been established for a range of indigenous fruits and/or indigenous fruit products, on terms advantageous to the livelihoods and food security of rural*

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40 Centre for Research Information Action in Africa, Southern African – Development and Consulting.



*harvesters and producers in Namibia*” (DuPlessis 2001, 3).<sup>41</sup> This applies not only to products that have been identified by IPTT as having market potential. Some products such as devil’s claw and hoodia have been harvested by locals for a long time and sold via a trader system to overseas countries. However, harvesting methods were highly unsustainable and the trader system allows for only very little benefits to the harvesters.

In order to achieve such benefits, the Task Team through its working groups pursues a two-pronged approach: On the one hand, it follows a holistic approach that tackles the entire value chain of natural products. Ideally, the process entails

- research on the availability and traditional/existing/potential uses of plants, their processing properties, production technologies, and market research,
- organizing trial commercialisations in order to assess socio-economic and ecological effects as well as harvesting and procurement logistics,
- organizing processing trials to test processing technologies,
- introducing samples of promising products to appropriate markets to assess response, potential demand and possible
- establishing links with commercial firms in order to facilitate access to markets and technology transfer,
- building the capacity of harvesting communities to organise themselves and to manage the sustainable use of their resources,
- combining the financial and technical data on raw materials, processing and markets into bankable business plans backed up by a marketing plan, adequate training and institutional support,
- encouraging farmers to grow selected improved varieties of indigenous fruits with commercial potential,
- adding value to the supply chain through certification & quality control, and
- using intellectual property rights to maximise benefits to producers (DuPlessis 2002, 2).<sup>42</sup>

On the other hand, the IPTT adheres to a market-led ‘pipeline approach’ in selecting the plants for promotion (Drews et al. 2008, 23). Although selecting the potential ‘winners’ worth of full-scale support among the available indigenous plants in Namibia as early as possible may appear to be saving much time and effort, such an approach is regarded by the Task Team as inadequate, since much of the necessary data relating to production, processing, product development and markets for selecting these winners is not yet available (DuPlessis 2001, 5). Therefore, IPTT follows the principle of ‘few eggs in multiple baskets’ (Drews et al. 2008, 24), with some plants prioritized at a certain stage, but others still in the pipeline – following an iterative ‘plan – monitor – re-plan’ process (DuPlessis 2001, 1). Some plants, such as baobab and manketti, have already been identified as non-competitive, since either the Namibian resource is too small in

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41 The aim was formulated when the Task Team was still concentrating on fruits only.

42 PhytoTrade Africa, an NGO Network of which IPTT was a founding member, and Aldivia has been granted a patent for a specific marula oil production technology. There are, however, currently problems with the repeatability of the process (IPTT 2008, 5).

comparison to that of its neighbours, or much cheaper alternatives for the end product that can be generated from them already exist. For each plant in the pipeline and on the market, IPTT seeks to diversify the range of products, partners, and markets, since the market is highly volatile, and competition from neighbouring countries is starting to rise.

### *Costs and benefits of the IPTT*

The IPTT receives yearly budget allocations by MAWF, amounting to NAD 50,000 in 2009 (Int. S. Carr, NBRI). Over the years, a large number of bilateral and multilateral donors - , amongst them the EU, USA, UK, and Germany - as well as NGOs have either contributed to the budget or are sponsoring individual projects that are overseen by the Task Team (MCA s. a. 210; Int. P. DuPlessis, CRIAA SA-DC). The biggest donor allocation will come from the US Millennium Challenge Account (MCA), which has decided to invest US\$ 7.4 million in the indigenous natural products sector over a course of five years and to channel these funds through the IPTT (MCA s. a., 211).

The economic benefits of indigenous plants seem to be vast, although reliable data is not yet available: A 2005 study calculated the annual GDP contribution of indigenous natural products at US\$ 16 million and estimated that within ten years this could grow to US\$ 67 million. This would put the Namibian indigenous natural products sector on par with the meat sector and make it the fourth largest contributor to GDP (Bennet 2006, 146). These estimates appear to be somewhat exaggerated (Int. S. Carr, NBRI), but they indicate that natural products may have a great potential to contribute to Namibia's developmental objectives.

Because the indigenous plants grow naturally in the dry areas of the country without further production inputs and are protected by Namibian Community-based Natural Resource Management (CBNRM) legislation, natural products have the potential to benefit rural, marginalised communities in Namibia, especially women - even if only as a complement to other income-generating or subsistence activities. The selection process of plants to be promoted by the IPTT tries to maximize the social, environmental and economic benefits of indigenous plants. Prioritization of plants is guided by criteria such as the number of potential beneficiaries, whether or not the plant is suitable for large-scale production (with a preference being given to those that are not suitable for large-scale production), sustainability of increased harvest, potential local and international markets, the potential for immediate development and marketing, and development costs (DuPlessis 2001, 5).

The impact of IPTT's activities has been substantial: To date, four products - marula oil, Kalahari melon seed oil, ximenia oil, and manketti oil - have been introduced to international cosmetic markets (Drews et al. 2008, 24).<sup>43</sup> Several other products such as marula food oil and marula fruit skin flavour are currently being developed, and contacts with private partners have been established (DuPlessis 2006; IPTT 2008, 5). From marula oil alone, some 5000 women - the members of the Eudafano Women's Cooperative - earn

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43 There are as yet no numbers as to the volumes produced, the number of people benefiting and the income levels generated. However, gathering such data will be one of the prime tasks of the new full-time staff to be seconded to IPTT and paid through the MCA, Int. S. Carr, NBRI.

an extra-income roughly equivalent to their normal monthly incomes within three months of part-time harvesting (Int. P. DuPlessis, CRIAA SA-DC). According to its own calculations, the contribution of the MCA will benefit over 40,000 rural households, through the promotion of hoodia, Kalahari melon seed, devil's claw, marula, ximemia, and manketti at various stages of the value chain.

There are increasing efforts to enhance value-addition in Namibia in order to increase the producer's share of the final profits. Amongst other things, the MCA is planning to establish new processing facilities and SME incubation centres with standardized mechanisms for quality control (on-site and through Public-Private Partnerships with commercial laboratories) in order to be able to guarantee compliance with quality standards and market-specific regulations such as the EU Novel Food Regulation. Rather than leaving quality control to the commercial partners, Namibia is to take over this responsibility itself and share profits through the yet to be established Primary Producers' Trust (MCA s. a., 197 ff.). The creation of this trust is a new initiative of the IPTT. Its aim is to increase returns to primary producers by securing a share in the downstream value of their resource. The Trust is to own 'generic equity' in various public-private partnership ventures on behalf of primary producers (Drews et al. 2008, 25). Discussions with the French Company Aldivia on technology transfer to a new factory in Namibia, of which both Aldivia and the Eudafano Cooperative would hold shares, are ongoing (Int. K. Probst, GTZ).

The government has acknowledged the progress made and the potential that the indigenous plants sector holds. As a result, promoting the "*utilisation and commercialisation of indigenous plant resources*" is one of NDP 3's goal strategies, and NDP 3 sets quantified targets for increased cultivation, utilization and commercialisation of devil's claw, hoodia, kalahari melon seed, ximemia, manketti and marula (Republic of Namibia 2008a, 109, 112).

These successes have been achieved mainly through the coordinating approach of the IPTT, which brings together all stakeholders with expertise, interest and authorities in the sector. This approach has, in turn, been possible because of the pro-active role taken by CRIAA SA-DC, which acts as service provider to the IPTT and is funded from the IPTT's budget, as well as the continuous support of the MAWF. Cooperation and coordination has, however, not always been optimal. In 2005, a Cabinet decision prohibiting the exportation of Namibian raw materials disrupted a newly established marketing channel for Kalahari Melon Seed oil to international companies. With much difficulty, the sector was able to switch from exporting crude material to the domestic extraction of oil. According to CRIAA SA-DC, this was a premature step and should have taken place only after full supply chain development (Int. P. DuPlessis, CRIAA SA-DC; Bennet 2006, 149).

Furthermore, MTI's involvement in the IPTT seems to be rather weak (Int. Anonymous). MTI representatives very seldom take part in the meetings of the IPTT, and if so, different junior staff with little knowledge of the topic and the policy of their ministry are sent, thus rendering effective cooperation impossible. This is especially a matter for concern since supporting emerging industries, fostering market linkages and issues such as trade regulations and intellectual property rights directly fall into the mandate of the ministry. Rather than supporting an incubation centre for natural product-based small and medium

enterprises, as proposed by a former Consultant to the Ministry (Schreckenber 2003, 45), MTI has in the past supported an individual SME engaged in Marula oil production, without linking this support to the broader activities of the IPTT (Int. Anonymous). With CRIAA SA-DC being the main driver of the process, the most active actors from the public side in the Task Team are MAWF, MET and UNAM. Both ministries, however, do not regard the promotion of indigenous natural products as falling within their core mandate. Although the production side of natural plants falls into the mandate of MAWF, the ministry is more concerned with food crops than with plants that are used for other purposes. MET's concern in the sector is confined to resource protection and management, and to issuing licenses according to international treaties to those that use them. UNAM, for its part, is beset by strong capacity constraints regarding both human resources and its facilities.

However, since the change of Permanent Secretaries in MTI in 2008 – the former Permanent Secretary of the Ministry of Environment and Tourism is now Permanent Secretary of MTI –, support for indigenous plants within MTI might grow. The Permanent Secretary is currently in the process of establishing an Expert Advisory Council and Trade and Environment, which would look into how current trade policies and regulations affect the potential for bio trade, amongst other things (Int. P. DuPlessis, CRIAA SA-DC).

## **5 Quality of industrial policy planning and implementation**

Whereas the preceding chapter has looked at the fiscal, social and environmental costs and benefits of selected industrial policy programs, the following part will take a more qualitative look at these programs and at industrial policy-making in Namibia in general. By doing so, it tries to discern whether the government has put the prerequisites in place that would allow it to design and implement effective, efficient and welfare-oriented programs without falling prone to the risks of government failure.

### **5.1 Checks and balances in implementing industrial policy programmes**

Checks and balances play a key role in any industrial policy programme. Checks and balances include defining measurable outcomes of policies *ex-ante*, independently monitoring them, and having response systems in place that kick-in when outcomes are not achieved. Moreover, there should be a separation of regulatory and funding tasks from implementing tasks – an important precondition for holding implementing agencies accountable for pre-defined objectives and for allowing implementing agencies to achieve their set goals without undue political interference.

Namibian performance with regard to these aspects is rather slack. The EPZ Act states only broad policy objectives, but does not quantify clear outcomes. Rather it states that such outcomes shall be defined by the ODC, in consultation with the Ministers of Trade and Industry, Finance, and Labour. Although this has not taken place, it is highly critical, since it would result in a pooling of regulatory and implementing functions within the same agency. In the case of the Sites and Premises Programme, quantified policy objectives are contained in the SME Policy of 1997. However, as the programme is part of a set of programmes under the same policy, outcomes are defined on an aggregate level only, not for the individual programmes. As most other programmes are not being

implemented, it is not possible to say whether the Sites and Premises Programme is delivering or not. In addition, there is to date no baseline of Namibian enterprises and their contribution to GDP and employment, so that changes on these levels cannot be measured.

In both cases, the implementing agency – ODC and the S&P Programme – prepare regular ‘monitoring reports’ for the Ministry. Apart from the fact that they have no clear benchmarks against which to measure results, these reports cover neither the dynamic and long-term effects of the programmes (such as spillovers, technology transfer, or the performance and development of businesses after leaving a business park), nor – in the case of the EPZ regime – the costs of the programme. Moreover, as they are compiled by the implementing agency itself rather than an independent and professional research institute, they do not give a comprehensive and neutral analysis as.

To date, there has been no comprehensive evaluation of the costs and benefits of the EPZ regime,<sup>44</sup> but in 2006 MTI commissioned a study on Namibia’s investment and export promotion legislation, incentives and institutions for providing recommendations for reform.<sup>45</sup> As a result of this study and even before that, the government announced its intention to reform the incentive regime (Kuugongelwa Amadhila 2008; Int. P. Namundjebo, ODC) but no actions have been taken as of yet. One can only speculate about the possible reasons for this. Looking at the low number of beneficiaries of the EPZ regime, it is rather unlikely that these companies are able to prevent reform by way of lobbying. Three other possible reasons stand out: *First*, there is a general lack of capacity within the MTI for initiating and conducting reform processes. The Ministry seems to be fully absorbed by the ongoing reform of the Investment Act, with limited capacities for further reform processes. And without a viable alternative in hand, the Ministry is unlikely to abandon one of its flagships. *Secondly*, although the programme is not effective, there is only limited pressure for reform, given the generally low reform pressure in the Namibian political system and the fact that no specific group of actors is influenced negatively by the regime. *Thirdly*, the institutional self-interest of ODC is likely to act as an effective barrier to reform.

In the case of the IPTT, checks and balances are integrated in the mechanism of choosing products for support. Market success forms part and parcel of its main objective, namely establishing stable and sustainable production systems and long-term markets for a range of indigenous fruits and/or indigenous fruit products on terms advantageous to the livelihoods and food security of rural harvesters and producers. While putting ‘few eggs in multiple baskets’ to test the market potential of several plants at a time, the IPTT follows an iterative ‘plan – monitor – re-plan’ process and discontinues support for those plants that have proven to be uncompetitive in the national, regional or international market. Funding, regulation and implementation are also separated through the institutional setup, by which the government, the MAWF, contributes core funding to the IPTT, and the Task Team then decides on the individual projects to be funded as well as the agencies to implement them.

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44 The Bank of Namibia’s Research Department has attempted to do so, but based on limited data and with inconsistent result (Kaakunga / Kdhikwa 2006).

45 FIAS (2006).

## 5.2 Market- and demand-orientation

Market- and demand-orientation is another important feature of effective and efficient industrial policy programmes. Where government supports service provision due to market failures, it should also support market-based providers in order to prevent inefficient use of funds, crowding out of private suppliers, as well as lack of accountability to users. It is important that programs take the financial sustainability of their support into account. In the case of public service providers, they should be obliged to measure the cost and income generated by each service, require some level of private co-funding of the service, and develop mechanisms for gathering and feeding back users' opinions of the services delivered. Performance results must be the basis of future funding. Moreover, in order to stimulate the development of markets, support programs should in general be limited in duration, with the possibility of extending a program after careful analysis.

In the case of the EPZ regime and the Sites and Premises Programme, competition among service providers for building and servicing of Industrial and SME Parks is provided for in the respective legislation and policies. Nonetheless, due to limited profit opportunities, such competition has not emerged and ODC and the Sites and Premises Programme are in effect the only providers, apart from the Walvis Bay EPZ Management Company.<sup>46</sup> As a consequence, both public providers are not forced to erect Parks only in regions where demand is highest, but can also respond to political objectives – such as the fuelling of economic development in less developed regions. There are only limited provisions for simulating a market situation in order to increase demand-orientation and accountability: Although co-funding of lease rates exists, the public providers have only insufficient mechanisms for eliciting feedback on their services and measuring impact. Most crucially, however, funding by central government is to no effect based on performance. In sum, lack of competition from private providers and insufficient regulations lead to a low market- and demand orientation of the regime. This limited market simulation is further compounded by the fact that both the support provided to the individual company – granting of EPZ status and incentives and subsidized lease rates – and the program as such are not time-bound.

## 6 Conclusions

Namibia faces multiple challenges for pro-poor, sustainable economic development. The legacies of apartheid policies, the abundance of natural resources, adverse climatic and geographical factors, distance from international markets but closeness and openness to a far more developed, dominant economy – these factors constitute a highly difficult starting point for broad-based, inclusive and sustainable development. These difficult framework conditions are further reinforced by a high HIV/AIDS prevalence rate, very low educational outcomes coupled with comparatively high labour costs on the side of the labour force, and limited innovative capabilities on the side of enterprises. Quite opposed to these adverse structural features of the economy, Namibia hosts some highly favourable

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46 As Management Company, ODC contracts the building of the Parks out to private companies bidding for the contract. Basic services such as electricity and sewerages are provided by the state-owned enterprises.

framework conditions in terms of institutions, infrastructure and macroeconomic stability which have, however, proven unable to alter the economic structure towards more equal participation in productive and profitable economic activities.

As a result of these factors, Namibia's industrial policy aims at diversifying the economic structure away from extraction of raw materials and at producing for export markets in order to overcome the problems of a limited domestic market. This strategy is fully appropriate in order to include more people in productive activities. Nonetheless, Namibia's current focus on increasing value-addition of Namibian raw materials – minerals, fish and agricultural products – and attracting low-cost manufacturing and assembly activities to Namibia should be thoroughly reviewed, based on rigorous analysis of Namibia's challenges and potentials and on open public-private dialogue. Value-addition to mineral raw materials often requires highly sophisticated technologies and highly skilled workers, which Namibia lacks. In agriculture, processing of fresh products requires large-scale, highly coordinated and standardised production, none of which the highly dispersed Namibian farmers are able to deliver in the short run. Manufacturing of mass consumer products such as textiles, shoes or automotive parts is geographically flexible, and searches for locations with low labour costs, as was the case with Ramatex, has so far shown negative results. In addition, Namibia faces strong competition in all of these product areas, not least from its direct neighbour South Africa, and it is highly unlikely that Namibia will be able to produce at lower costs or higher quality than its competitors.

Taking these factors into account, Namibian policy makers should, together with the private sector, search for innovative, high-quality products and services that are able to supply new niche markets, and build on Namibia's competitive advantages such as its unique biodiversity. The example of the IPTT – where government is not in the driver's seat – has shown that this is possible. Currently, however, government tends to select sectors and areas it deems as warranting support through a top-down, often politicized process. MTI's Directorate of Industrial Development has focussed on promoting manufacturing industries only, mostly through isolated activities such as building factory outlets rather than through a comprehensive value chain approach. This can be observed in the process of selecting locations for Industrial Parks, as well as the numerous documents singling out sectors such as garments, plastic technology, automotive manufacturing and manufacturing of electronics as promising industries in Namibia. Currently, MTI is not fully playing a coordinating role in the design of industrial policy. Policies and programmes to promote certain sectors or activities of the economy are designed and implemented by the respective line Ministries without the involvement of MTI. Line ministries, however, do not have the broader perspective of the whole economy.

Although social and equity concerns are ranking high in all policy papers, policies are not effectively targeted towards reducing spatial and social inequalities. Current SME policies and programmes suffer from a number of shortcomings: There is no integrated set of policies and programmes targeting SMEs – and the policies that do exist are not targeted and differentiated enough to help businesses overcome the specific constraints they are facing. Even more importantly, current SME programs do not promote linkages between smaller and larger enterprises, for example through supplier programs. Such linkages would allow for spillover effects in terms of skills and improved production technologies and eventually allow for an enhanced upward-mobility of small enterprises.

Another prerequisite for diversifying the Namibian economy and narrowing the socio-economic disparities are fundamental improvements in educational outcomes. Namibian policy-makers are fully cognizant of the need for increasing the number of skilled workers, as is evident by educational spending. Nonetheless, despite years of high budget allocations for education, outcomes have not improved in either quantity or quality. There is therefore a strong need to re-think the current strategy towards enhancing education. Moreover, more focus should be put on Vocational Training institutions, and the private sector should be involved much more closely in designing curricula, for example. The government should furthermore promote research and innovation capacities both in the private and public sector and actively foster cooperation between the private sector and research institutes.

The above-mentioned reforms are crucial if Namibia is to overcome its constraints to structural change. In order to design more appropriate policies for structural change and to implement them more effectively and efficiently, some procedural and administrative reforms are necessary as well. Much more attention must be given to analysis of estimated costs and benefits, based on available capacities and resources, expected improvements and existing market opportunities, as well as past experience. Rather than rolling out a highly resource-intensive policy based on limited analysis, the government should consider conducting pilot projects under different circumstances and compare and analyze their performance after a given time.

In addition, monitoring and evaluation (M&E) as well as the accountability of implementing agencies must be improved. A precondition for M&E is the setting of clear and measurable targets by the regulating institutions – something that is yet too often lacking in Namibian industrial policy programmes. M&E must be conducted not by the implementing agencies, but by independent institutions that are experts in the respective field. In general, programmes should have a sunset clause, so as to prevent recurring delay of policies, as has been the case with the EPZ regime in the past years. Moreover, there is a need for holding implementing agencies such as ODC, NDC, and the Sites and Premises Programme accountable. In order to do so, these agencies must be given fixed targets, based on the program targets, and funding must be clearly linked to performance in achieving these targets.

This topic is closely linked to another reform that should be given renewed attention, namely the reform of the public services towards a meritocratic system. Namibia's civil service is highly bloated, and civil servants are often badly trained, politically appointed and not remunerated based on their performance. Another impediment to reform is the overlap of business and political elites. Namibia's legislation in this regard is quite generous, and revision towards more restrictions on public office bearers and increased rules for disclosure of financial assets of politicians is highly recommended. This should go hand-in-hand with a greater political backing of the Anti-Corruption Commission and disclosure of files on corruption cases.



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## Annexes



<b>Annex I: Interview partners</b>			
<b>Name</b>	<b>Organisation</b>	<b>Position</b>	<b>Interview Date</b>
Amaambo, Ruben	Offshore Development Corporation (ODC)		08 May 2009 (email)
Brock, Christof	Namibian Agronomic Board (NAB)	CEO	27 Mar. 2009
Carr, Steve	National Botanical Research Institute (NBRI)	Senior Agricultural Researcher	23 June 2009
DuPlessis, Pierre	Centre for Research Information Action in Africa, Southern African – Development and Consulting (CRIAA SA – DC)	Senior Consultant	26 Mar. 2009
Ellmies, Rainer	Bundesanstalt fuer Geowissenschaft und Rohstoffe (BGR), Ministry of Mines and Energy (MME)	Project Manager	24 Mar. 2009
Fourie, Hennie	Namibia Manufacturers Association (NMA)	CEO	18 Aug. 2009
Gräfen, Christian	Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH	Sector Coordinator, Natural Resource Management	20 July 2009
Hopwood, Graham	Institute for Public Policy Research (IPPR)	Director	27 Mar. 2009
Losper, Sarel	Offshore Development Corporation (ODC), Sites and Premises Programme	Project Manager	06 Apr. 2009
Marggraff, Harald	Namibia Agricultural Union (NAU)	Manager: Commodities	28 Apr. 2009
Mutilitha, Kamati	Ministry of Trade and Industry (MTI)	Deputy Director Industrial Development	07 Apr. 2009
Nakale, Petrina	Ministry of Trade and Industry (MTI)	Deputy Director Industrial Development	07 Apr. 2009
Namundjebo, Philip	Offshore Development Corporation (ODC)	Acting CEO	28 Apr. 2009

<b>Interview partners (cont.)</b>			
<b>Name</b>	<b>Organisation</b>	<b>Position</b>	<b>Interview Date</b>
Pakote, Moses	Namibia Investment Center (NIC)	Deputy Director Investor Services	30 Apr. 2009
Probst, Kirsten	Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH	Team Leader, Biodiversity and Sustainable Land Management	29 May 2009
Richter, Harald	Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH	Technical Advisor, Partnership for Economic Growth	23 Aug. 2009
Rothkegel, Bernd	Ministry of Water, Agriculture and Forestry (MAWF)	Director of Planning	28 Apr. 2009
Schleeberger, Eckhard	SAIdeas	Consultant	06 Apr. 2009
Shaanika, Tarah N.	Namibian Chamber of Commerce and Industry (NCCI)	CEO	16 Aug. 2009
Van Staden, Koos	Offshore Development Corporation (ODC), Sites and Premises Programme	Manager Industry	28 Apr. 2009



<b>Annex II: Case studies on industrial policy</b>
Altenburg, Tilman (2010): Industrial Policy in Ethiopia, Bonn: Deutsches Institut für Entwicklungspolitik (Discussion Paper 2/2010)
Altenburg, Tilman (forthcoming): Industrial Policy for Low- and Lower-middle-income countries, Bonn: Deutsches Institut für Entwicklungspolitik (Discussion Paper )
Altenburg, Tilman (forthcoming): Industrial Policy in Vietnam, Bonn: Deutsches Institut für Entwicklungspolitik (Discussion Paper)
Chahoud, Tatjana (2009): Industrial Policy in Syria: Report to GTZ, Bonn: Deutsches Institut für Entwicklungspolitik, mimeo
Erdle, Steffen (forthcoming): Industrial Policy in Tunisia, Bonn: Deutsches Institut für Entwicklungspolitik (Discussion Paper)
Krause, Matthias / Friedrich Kaufmann (forthcoming): Industrial Policy in Mozambique, Bonn: Deutsches Institut für Entwicklungspolitik (Discussion Paper)
Loewe, Markus (forthcoming): Industrial Policy in Egypt, Bonn: Deutsches Institut für Entwicklungspolitik (Discussion Paper)
Rosendahl, Christina (2010): Industrial Policy in Namibia, Bonn: Deutsches Institut für Entwicklungspolitik (Discussion Paper 5/2010)



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- Neubert, Susanne / Waltina Scheumann / Annette van Edig, / Walter Huppert* (eds.): *Integriertes Wasserressourcen-Management (IWRM): Ein Konzept in die Praxis überführen*, 314 p., Nomos, Baden-Baden 2004, ISBN 3-8329-1111-1
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- Schlumberger, Oliver*: *Autoritarismus in der arabischen Welt: Ursachen, Trends und internationale Demokratieförderung*, 225 p., Nomos, Baden-Baden 2008, ISBN 978-3-8329-3114-8 (Entwicklungstheorie und Entwicklungspolitik 2)
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