Reflections on a Foreign Exchange Management and Allocation System for Independent Namibia

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Introduction

As against countries like Mozambique, Angola and Zimbabwe which had before independence (some semblances of) Central Banks, colonized Namibia has no Central Bank and relies on the Reserve Bank of South Africa. Namibian independence should allow the establishment of a Central Bank in independent Namibia and the pursuance of monetary policies independent of Pretoria and responsive to the needs of the Namibian economy. Such a Namibian Central Bank should spearhead the generation and judicious use of foreign exchange. This relates to the modes operandi of its allocation to various bidders.

Independent Namibia could fix the exchange rate and allocate foreign exchange administratively. Alternatively she could, as is the case under the various foreign exchange auctioning systems adopted by a number of African countries, tie up such allocation with the setting of an exchange rate for the home currency. A third option of continued membership of the Pretoria-dominated Rand Monetary Area would seem to be politically or otherwise unsustainable.

This paper examines these options and recommends a particular administrative mechanism for the allocation of foreign exchange. This is done in the context of the mineral economy of Namibia and the development strategies articulated by the liberation movement - the South West Africa Peoples Organization (SWAPO).

The Economy of Namibia

Namibia has a dual economy comprising an impoverished African subsistence sector and a white-owned and manned modern sector. The latter

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is dominated by mining, agricultural and fishing activities. Modern sector exploitation of migrant labour[1] under the notorious contract labour system, is perhaps the only thread bringing together these sectors. The mining sector as Table 1 shows, contributes nearly 30 percent of GDP.

Namibia with a GDP of over R1,600-million in 1983 at current prices and 1.6 million people has one of the highest per capita incomes in Africa[2]. However Namibia perfectly illustrates growth without development. Up to 40 percent of GDP is leaked overseas as profits, dividends, royalties, debt servicing, individual remittances and the surpluses of South African public corporations, e.g. the South African Transport Services (SATS). The GDP-GNP differential is one of the highest in the world. At least until 1980 when financial inflows to expand the economy particularly the mining sector was on, this gap was narrowing. Namibia has one of the world's most skewly distributed incomes. Black-white income ratios vary between 1:25 and 1:12 for rural and urban areas respectively. There is 6:1 income differential between the black "elite"[3] and the poverty-striken toiling masses. The average annual incomes for these groups are R20,000, R6,000 and R1,000 respectively[4]. Deepening poverty engulfs about 60% of Namibian households.

The economy is foreign trade oriented. In 1983 exports totalled R1,060 million of which minerals (uranium, diamonds, copper etc.) contributed R800 million (80%). Imports (of oil, mining equipment, machinery, food, etc.) totalled R1,170 million. Table 2 depicts Namibia's balance of payments position. Namibia exports are dominated by minerals, agricultural products and fish.

Namibia has often, thanks to mineral exports, registered token surpluses in the balance of current account (Table 2). However, Namibia exhibits an overall balance of payments deficit due to imbalances in the Capital Account arising from huge outflows of capital to meet huge import costs of food, military equipment, etc. The limited range of exports (outside the mineral component) and their sensitivity to instability in world market prices, market channels, politics, etc. is a limiting factor.

This has implications on Government revenue and expenditure, which comes from taxes, public corporation receipts and new loans. The latter-R120 million or 33% of the total in 1981/1982 came from abroad, especially South Africa. The rest consists of direct transfers from Pretoria, including R250 million customs and excise duties from the Southern African

1 Number about 100,000 of which 70,000 or so, are from Northern Namibia. Roughly the same total is in exile mostly in Angola and Zambia.

2 Namibia's 1984 GNP per capita income of US$1,955 compared very favourably against Zambia's (US$470), Botswana (US$960), oil-rich Nigeria (US$730),Keyna (US$310), Tanzania (US$210), Zaïre (US$140).

3 To build up a buffer between the white privileged group and the masses, and provide a pool of rich Africans from where future moderate leaders can be drawn, attempts are being made to create a black "elite" as a counter to SWAPO's more progressive thrust.

4 United Nations Institutes for Namibia (UNIN), Namibia: Perspectives for National Reconstruction and Development, London, Hutchinson, 1986.

Table 1: Gross Domestic Product by Sector, at current Prices, 1975-83a (R million)

	1975	1979	1980	1981b	1982b	1983b
Agricult. & Fishing	120.0	113.2	132.0	169.1	187.8	142.6
Mining & quarrying	174.2	584.3	630.0	454.4	465.1	473.3
Manufacturing	32.6	53.9	56.2	67.2	82.7	93.5
Electricity & Water	7.8	21.3	26.3	36.4	43.3	61.4
Construction (contractors)	33.4	48.9	50.6	67.3	69.6	64.5
Wholesale & retail	101.2	149.1	166.3	204.9	228.4	234.9
trade, catering & accomodation						
Transport & communications	38.0	71.8	76.7	78.3	83.8	97.3
Finance, insurance, real estate &business services	55.6	79.6	77.0	88.2	111.3	125.3
Community, social and personal services	10.1	16.5	18.6	24.1	29.7	34.5
General government	58.1	103.2	138.8	219.2	295.3 ±	339.8
Others	20.8	32.8	37.1	40.9	47.4	53.2
GDP at factor cost	644.7	1274.6	1409.9	1450.0	1644.4	1720.3

(a): Exclusive of Walvis Bay. (b): Provisional.

Source: Statistical/Economic Review, Department of Finance, Windhoek, 1984.

Table 2:Current Account of the Balance of Payments, 1975-83 (R million)

	1975	1977	1979	1981	1983
Merchandise exports	372.1	715.7	993.9	906.6	925.3
Merchandise imports	418.9	540.3	616.1	1019.5	76.6
Trade Balance	-46.8	175.4	377.8	-113.0	-15.3
Net payments for non-factor services	-56.1	-94.4	-114.4	-162.4	-185.2
Net exports of goods & non-factor services	-102.9	-81.0	263.4	-275.4	-236.5
Net factor payments	-63.6	-132.7	-193.6	-135.0	-108.9
Net transfer receipts	38.2	54.4	51.5	342.6	538.1
Current Account balance	-128.3	2.7	121.3	-67.8	182.7

Source: South West Africa/Namibia, Department of Finance, Statistical/Economic Review, SWA/Namibia, 1984 (Windhoek, SWA/Namibia Information Service, 1984), p.24.

Customs Union (SACU), of which Namibia is a member. Membership of SACU entails abolition of trade barriers within the Customs Union and the imposition of a common external tariff. Namibia is also a member of the Rand Monetary Area (RMA). It is therefore administered as an integral part of South Africa for purposes of tariffs, trade and exchange control regulations.

A Customs Union is by conventional theory beneficial if it is on balance "trade creating" and harmful, if it is "trade diverting". In SACU, trade creation benefits the exporters, primarily South Africa; trade diversion lowers welfare for Namibia and the other junior partners who are diverted from the more competitive world market to expensive substitutes from less efficient Custom Union partners[1].

Namibia provides an accessible, lucrative, "captive" market to South Africa, especially for capital goods and processed foodstuffs. Namibian producers face unequal competition and "dumping". Indeed the Administrator General in his 1981/1982 Budget contemplated taking "counter measures against the possibility of a form of dumping by South African concerns"[2].

An alternative trade and exchange disengagement strategy likely under a SWAPO-led Namibia which could either be "inward-looking" implying restructuring the economy to reduce dependency on the outside world and

1 A recent UNDP study which is yet to be made public, but whose main points have appeared in press reports concludes that for a sizeable number of SADCC countries' imports, South Africa is not the cheapest source.

2 SWA/Namibia, "Public Finances and the Business World in SWA/Namibia", The Department of Finance and SWA/Namibia Information Service, Windhoek, Mimeo.

boost local initiative and utilization of home-based resources and/or more equitable regional cooperation schemes such as the SADCC strategy or other South-South "collective self-reliance" initiatives, would have far-reaching consequences on foreign exchange generation, utilization and management[1]. With her strong mineral-based export potential and therefore a potential surplus in foreign exchange reserves, independent Namibia will be in a better position to disengage from SACU and RMA and the excessive financial, trade, technological and entrepreneurial dependence on South Africa.

The SWAPO Development Strategy

As outlined in its Political Programme[2], SWAPO is committed to building in a free, democratic and united Namibia a classless, non-exploitative society fostering progress and social justice. This entails:

(1) Public ownership and control of the "commanding heights" of the economy;

(ii) General social equality aimed at inter-personal, inter-regional and rural-urban equity.

iii) an integrated national economy with a proper balance between agriculture and industry;

(iv) priority for agrarian transformation and rural development with special emphasis on peasants' cooperatives and state farms; and

(v) a policy of self-reliance.

A detailed elaboration of these policies has appeared in a major UNIN study[3], whose general thrust is within the broad confines of SWAPO thinking, and approximates the experiences of progressive African states.

The Management of Foreign Exchange Resources of Namibia

The availability of foreign exchange resources especially for economies excessively dependent on the world market and international finance capital like Namibia affects the pattern of economic activity. Scarcity of foreign exchange usually rationalizes import cuts. The ensuing "suppressed" or unsatisfied demand represents a marginal cost and an apparent welfare loss. Since foreign goods are bought by spending foreign currency, one could conveniently regard foreign currency, rather than the goods purchased, as inputs to a project. Conversely projects may produce exportables or import substitutes. In both cases the project can be regarded as a producer of

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1 Independent Namibia could join the SADCC and/or the Preferential Trade Area (PTA) of Eastern and Southern African States; and particularly the PTA Clearing House which offers some economies in the use of foreign exchange.

2 SWAPO, Political Programme, Lusaka, 1976

3 UNIN... op. cit.

foreign exhange. Thus a demand curve can be regarded as a demand curve both for imports and for foreign exchange. The demand for foreign exchange does not show simply the marginal value of foreign exchange to its immediate users; it also shows, as Sugden and Williams have noted, the marginal social value of foreign exchange[1]. Its allocation to those uses where its social value is greatest is of the utmost importance.

Judicious preservation and use of foreign exchange should not wait until extreme scarcity of foreign exchange has ensued, otherwise undue outside pressure to adopt devastating austerity programmes will be irresistable.

Significantly the UNIN study perceives a continued role for the private sector. Reckless nationalization of everything, big and small, as Pretoria has propagated is not envisaged. However to transit to economic independence and ensure "bread and butter" for all, the study advocates a sharp increase in State intervention in the economy. This could include extended state ownership and control of the "commanding heights" of the economy or such concerns as is commensurate to making all key decisions affecting the national economy, such as major financial and import-export institutions. Significant regulation of the private sector including its investment decisions and effective workers control in all economic sectors is recommended. And so too is decentralization initiatives to ensure effective peoples participation in decision-making.

Partly due to the historical land theft, the report advocates expropriation of some land, especially the unused land to meet the land hunger of the indigenous population. Due to labour exploitation and the gross racially-based income inequalities, it is argued, priority be accorded to equity issues. The report advocates economic restructuring and diversification measures to reduce the excessive reliance on minerals. It calls for regional cooperation initiatives particularly in the context of the SADCC. With the Zimbabwean experience, particularly the constitutional limitations imposed on the new Government by the independence package agreed at the 1979 Lancaster House Constitutional Conference in the background, the study warns against the dangers of constitutional limitations that could be imposed on the new Government in any negotiated settlement[2].

These economic development strategies will influence the kind of foreign exchange generation, management and allocation options adopted at independence.

For an economy so dependent on non-renewable mineral resources, such foreign exchange economization measures amidst economic diversification involving in particular agricultural and industrial development should be a

1 Sugden R. and A. Williams, The Principles of Practical Cost-Benefit Analysis, London, Oxford University Press, 1978, p.101.

2 See, Saul, John, "Zimbabwe: The Next Round", Monthly Review New York, Vol. 32, N4, Septembre 1980, p.9.

major policy objective. Non-adherence to such a policy goal in the immediate post-independence era in much of Africa is one reason for Africa's present economic malaise. For example most African Central banks set a statutory minimum target level of "a reserve of external assets at an aggregate amount of not less than the value of four months'imports..."[1]. But now the foreign exchange reserves of many an African country can meet the import needs of only a few weeks, if not a few days only! In many cases not only did colonial patterns of imports, etc. continue, but lavish spending on "white elephant" projects ensued. Consumption of such invisible imports as unnecessary foreign travels, education allowances for overseas training in fields offered at home, is only now rather belatedly being shelved or abolished. Namibia as the "last colony" should by-pass some of these pitfalls.

Securing and Preserving the Foreign Exchange Resources of Namibia

An overall review of Namibia's financial situation to isolate South African capital inflow and investment in Namibia could be useful for the economic, financial and monetary adjustment programmes at independence. This could include a reappraisal of the reported subsidization of certain services[2], by the colonial authorities from the finances derived from territorial revenues or otherwise.

Until lately the South African corporate bodies operating in Namibia did not have separate accounts for the Namibian capital expenditure and their contribution to the gross earnings of the Corporations. Under normal circumstances the headquarters of a corporation would call for funds from whichever source had it and allocate it to whichever Region (i.e. territory) was in demand/need. This would have ensured a certain element of inter-regional (cross) subsidization absorbable into the entire system. But Namibia and South Africa are two separate territorial entities. Hence the need for separate accounts to show the actual and potential earnings of the corporations eg.SATS in each country both in local and foreign currency.

The distribution of assets and liabilities at independence will be difficult. Available data is unlikely to indicate the full foreign exchange burden to Namibia and South Africa. As the East African experience shows[3] usually such data exclude invisibles and locally purchased importables. To determine earning capacity it will be necessary to establish the value of all assets, their location, serviceability and optimum utilization levels. In this regard book-value of assets is misleading because assets were at different stages of

1 See, King J. R., Stabilization Policy in an African Setting. Kenya 1963-1973. London, Heinemann, 1979, p.63.

2 Heavy subsidization of the ranches has been reported. See for example, Moorson Richard, Transforming a Wasted Land. A future for Namibia, Series No.2, CIIR, London, 1982.

3 Mwase, Ngila "Regional Economic Integration and the Unequal Sharing of Benefits: Background to the Disintegration and Collapse of the East Africa Community" Africa Development. Dakar, CODESRIA, Nos.1 & 2, 1979, pp.1-28.

depreciation. Earning capacity would also need to be related to demand by users of the services offered by the corporations.

In particular the organization and operation of the airways, especially in the past, will present a problem vis-a-vis the determination of how foreign exchange costs incurred by the Airways should be shared, since all foreign traffic which can generate foreign currency can and did originate or terminate in any of the two countries. Finding acceptable formulae for sharing the costs (and benefits) of the headquarters of these South African-based bodies will not be easy and "rules of thumb" may have to be employed. However, attempts at assets valuation and location, to at least determine "earning capacities" could be concurrently done with the envisaged review of Namibia's SACU position.

The Determination and Management of the Exchange Rate in Independent Namibia

There are essentially two exchange rate regimes: fixed and flexible/floating exchange rates. Auctioning is a variant of the latter. The options available to independent Namibia include:

(a) continuing with the SACU and RMA arrangements. For various economic, political, strategic etc. reasons this is not a viable option. For one, the new nation would effectively forfeit control of fiscal and monetary policy especially over indirect taxation. The SACU and RMA policies are dictated by Pretoria's socio-economic objectives which are opposed to SWAPO philosophy[1];

(b) "Floating" a Namibian currency, thereby allowing it to find its own level vis-a-vis other currencies. Conversely the available foreign exchange is sold freely on the money market with supply and demand determining the foreign exhange rates. Such market price allocation is seen by the IMF, etc. as a more efficient and fair allocative mechanism than administrative options;

(c) Using administrative, essentially Central Bank propelled allocation mechanism. This entails setting an official exchange rate whereby the local currency is fixed against the SDR and (therefore) with other hard currencies; and through the latter against most inconvertible currencies.

Given recent experiences with the floating option, especially the auctioning system variant, option (c) seems to be the least inappropriate for independent Namibia; followed by a non-auctioning, floating system.

Parallel Exchange Rates and the Auctioning of Foreign Exchange

In a number of African countries some devaluation was/is warranted with or without IMF conditions. Although there is a tendency for the parralel (or

1 Under the RMA framework, Lesotho and Swaziland have their own currencies which are wholly backed up by the Rand which also circulates in these two countries. See, Collings, F.D. "The Rand and the Monetary Systems of Botswana, Lesotho and Swaziland", Journal of Modern African Studies, Cambridge, 1978, N16, pp. 97-121.

black) market rate for foreign exchange to be given undue weight in assessing the ever-valuation of currencies and therefore the rationale for devaluation, the wide differences between the official exchange rate and the parallel market rate would call for some devaluation. Table 3 depicts these differentials.

As shown in Table 3, there are huge percentage differences between the official and parallel exchange rates (15% to over 4,000%). Such differences

Table 3: Official and Parallel Currency Exchange Rates for Selected African Countries to US $, 19 September 1986

Country	Official	Parallel	% difference
Nigeria naira	1.33	5.00	276
Sierra Leone leone	29.00	40.00	38
Somalia shilling	36.00	160.00	344
South Africa rand	2.39	2.76	15
Sudan pound	2.45	4.10	67
Tanzania shilling	43.30	120.00	177
Uganda shilling	1,388.80	7,000.00	405
Zambia kwacha	6.89	10.00	45
Ghana cedi	90.00	214.00	138

Source: Adopted from Africa Analysis, London, 19 September 1986, p.12.

are used especially by the IMF to rationalize massive currency devaluations.

Countries like Lesotho which depend on remittances from emigrant workers for about 50% of their foreign exchange earnings have no or virtually no currency black markets[1].

The auctioning of scarce foreign exchange in a number of African countries depreciated the home currency exchange rate to alarming artificial

Table 4: Average Exchange Rates Between a Number of Selected African Currencies and the US $1

	1982	1983	1984	1985	1986	1987a
Somali shilling	-	15.788	20.019	39.487	84.00b	120.20
Malagasy francs	349.71	430.45	576.60	666.48	945.627	792.43
Ghanaian cedis	2.75	3.45	35.34	54.05	90.00	156.00
Uganda shillings	94.05	153.86	359.70	672.02	1,470.00	1,382.4

Source: Adopted from, Africa South of the Sahara, London, (various years).
Note: (a) As of April 1987; (b) January 1986.

1 In 1985 there were a total of 110,000 Lesotho mine workers in South Africa.

rates (Table 4). This raised prices especially of imports, but also locally produced goods, by astronomical rates. When, as in Uganda in January 1985, the IMF funds had been exhausted, the resultant suspension of foreign exchange auctions led to acute shortages of commodities, amidst hyperinflation[1]. The same effect was witnessed in Zambia when as a result of dwindling foreign exchange inflows from Zambia's creditors, successful auction bids could not be effected promptly; or indeed when the auction system was temporarily suspended to await protracted negotiations on the handling of the auctioning system. Serious and perpetual scarcity of foreign exchange makes an auctioning system virtually inapplicable.

In the case of Zambia the Kwacha (K) depreciated from a rate of K2.02 per US $1 when the auctioning system was introduced in October 1985 to K21.01 per US $1 struck at last but one auction in April 1987[2]. Sierra Leone and Nigeria have also witnessed substantial depreciation of their currencies especially after the introduction of the auction system. In Sierra Leone a massive devaluation of the leone in February 1985 adjusted the exchange rate from Le 2.50 per US $1 to Le 6.00 per US $1. When this failed to, amongst others, contain the "black market" the currency was, with IMF insistence, floated in 1986. By April 1987, US $1 was worth Le 52.115. In Nigeria US$1 = 0.9996 naira in February 1986, it had by April 1987 fallen to US$1 = $3.738 naira following the introduction of foreign exchange auctioning system. So the foreign exchange auctioning system has exacerbated to alarming levels, the continued decline in the value of local currencies vis-a-vis the hard currencies.

Table 3 shows this depreciation for the Ghanaian cedi, Somali and Uganda shillings[3] which have been auctioned and for Malagasy francs which have been devalued extensively. Both Somalia and Uganda have on some occasions upheld a two-tier exchange rate system.

Independent Namibia: Devaluation with or without Auctioning

The foreign exchange auctoning system introduced in Zambia[4] and other African countries was/is aimed at:

(a) introducing some degree of devaluation of local currency through the "back door";

(b) through (a) above, to encourage exports and discourage imports;

1 In 1985 Uganda witnessed an annual inflation rate of about 200 percent.

2 8In 1982 the Kwacha was a little bit stronger than the US$. It was then fixed at a rate of K1 = US$1.0773.

3 In the case of Uganda a low priority rate of US$1 = Shs. 1,400 for basic consumer imports and a higher market rate at US$1 = Shs5,000 for all other imports was introduced in May 1986.

4 For an extensive critique of the auctioning system see, Republic of Zambia, Report of the Tariff Commission of Inquiry, Lusaka Government Printer, September 1986, Vols. I and II and Kaunda, Kenneth, New Economic Recovery Programme Lusaka, Government Printer, May 1, 1987.

(c) to encourage the use of both locally produced goods and raw materials with high value added;

(d) to discourage sophisticated foreign technology and encourage the expansion of local technological capacity; and

(e) to end the corruption and inefficiency associated with the administrative mechanism - especially the rigid and cumbersome import licensing procedures and strict foreign exchange controls.

We comment on the above objectives with particular reference to independent Namibia.

On objective (a) we could note that devaluation weakens the credibility of Government and its handling of the economy. Foreign exchange auctioning reduces the embarassment governments feel of devaluing their currencies by large proportions in one go. Furthermore although foreign exchange auctioning in the final analysis results in greater depreciation of the local currency than would otherwise have been the case[1], it at least in theory implies that the local currency could appreciate.

Resistance to IMF "conditionality" has been more pronounced vis-a-vis the politically sensitive issues of subsidies, if any; but also levels of devaluation. Huge devaluations in agricultural economies could, assuming that the ensuing increased payments in local currency were passed on to producers, imply increased agricultural producer prices; and therefore increased benefits to the majority of rural dwellers.

Such a strategy could however lead to undesirable inter-and intra-sectoral income redistribution, especially for Namibia which has a relatively large non-agricultural labour force. Subsidies particularly food ones are rejected by the IMF. For mineral-rich Namibia-type economies an undervalued local currency can boost the revenues (in local currency) of a mining parastatal necessary to sustain the mineral sector and earn a surplus for the Treasury. The needs of Zambia's mining conglomerate - ZCCM for example, have often guided exchange rate fixation in Zambia.

Short of whole or partial state acquisition of mining companies in Namibia or high taxation of profits, huge devaluations associated with foreign exchange auctioning would undully benefit the mining and other export companies and therefore expediate repatriation of profits, dividends, royalties, etc. This would particularly be the case where they have access to foreign exchange outside the auction floor, e.g. through foreign exchange retention schemes, or where they can purchase foreign exchange through a more favourable "window", if any.

In practice objective (b) is not always attainable. The elasticities of demand and supply for both imports and exports; the importance of the

1 Zambia rejected a 100 per cent IMF proposed devaluation of the Kwacha, only to witness a Kwacha depreciation of 950 percent over 19 months effective October 4, 1985 under the auction system.

market to competitors and prospects of retaliation, mere cost-push inflation including the possibility of local price increases through wage inflation, etc. may have negative effects. Certain production, rigidities may also limit prospects for meeting the increased demand for exports upon devaluation. However short of devaluation of an overvalued currency the ensuing "cheap money" may increase demand for imports, which, unless blocked by other commercial policy options including non-tariff barriers, may be effected. This could lead to a worsening of the Balance of payment deficit on the Current Account. Presently the overvaluation of the Rand is not of that magnitude; although things are changing as Namibia and South Africa's economy slides further into recession. Namibia has virtually no infant import substitution industries threatened by cheaper imports which could be protected by massive devaluation; but according to SWAPO[1] and UNIN[2] the situation could change dramatically after independence.

Namibia's mineral extraction/processing is extremely capital-intensive. The cheaping of imported capital goods through an over-valued currency would further promote inappropriate production techniques. However without a capital goods sector, reorienting the Namibian economy from such imports will not be easy.

Most LDCs floating their currencies, e.g. Uganda and Zambia have waved price levels[3]. In a depressed economy with acute shortage of commodities, depressed and "purchasable" tax and police officials, it has been argued[4], any policy of administered prices was bound to benefit not the government or the "infant" local manufacturer, but dishonest officials, smugglers, speculative hoarders and above all, the untaxable black market, - all this at the expense of the poor. On the other hand the "invisible hand of the market" associated with the auctioning system, concentrates wealth in the hands of the few through inflated prices. As shown in Table 4 foreign exchange auctioning, leads to excessive albeit artificial depreciation of local currency.

There was a tendency for the parallel (or black) market rate for foreign exchange to be given undue weight in assessing the over-valuation of local currency. It will not be possible to devalue a Namibian currency by a margin

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1 SWAPO... op. cit.
2 UNIN... op. cit.
3 Usually guaranteed minimum prices for principle export crops have been offered. Governments have also set prices for petroleum products and public utilities, e.g. transport, electricity, water, posts and telecommunication services, periodically adjusting them to reflect changes in provision costs.
4 Obote, Milton, First Step to Recovery, Budget Speech, Kampala, June 1, 1981, p.4.

large enough to make all prospective purchasers of foreign exchange abandon the black market and go through official channels because of the nature of Namibian society. If the African experience is anything to go by, alien-oriented "ethnic" trading "castes" - some Indians in East Africa, some Lebanese in West Africa, etc., but also a few rich indigenous citizens have found "safe heavens" for their wealth in Europe and North America[1]. Like-minded groups in independent Namibia might likewise illegally transfer part of their wealth to South Africa and the Metropoles. Already this is being done by conservative emigrant whites before they leave South Africa and Namibia for new homes in Australia, UK, etc.[2]. In the immediate pre- and post-independence era Namibia will witness much black marketering and currency trafficking. Foreign currency and drug (e.g. mandrax) trafficking is lucrative and in ascendancy in, and around Namibia. The capital flight objective which is a primary function of such illegal dealings, could take precedence over price considerations. In such situations the black market rate for foreign exchange is not a very good barometer to gauge the degree of currency over-valuation.

In determining an appropriate exchange rate, the Central Bank should use a basket of currencies reminiscent of those used by the IMF to strike the SDR value. These should be the currencies of Namibia's major trading partners[3]. The currencies of its neighbours should be in the basket of currencies. This should minimize exchange rate fluctuations particularly with her neighbours. The latter can be a market for Namibia's exports and a source of competition to infant Namibian industries. Currency realignments between neighbours should reduce incidences of currency trafficking and smuggling of commodities across national frontiers. If it is felt that the exchange rate should be adjusted periodically at frequent intervals, e.g. each time major foreign exchange allocations are made (could range from one to six months), it should not fluctuate by more than a stipulated margin below or above its previous value; unless there was a major devaluation (or revaluation).

Foreign Exchange Allocation System for Independent Namibia

As discussed above, the foreign exchange auctioning system is not a viable option for independent Namibia. Nor is the present excessively liberal system with its biased distribution of foreign exchange as an appropriate option. The bidding for foreign exchange could take the following format:

1 Idi Amin's expulsion of virtually all 80,000 Asians including 20,000 citizens in 1972/73 weakened such minority groups' confidence about their future in the new nations. And so too have incidents such as the recent disturbances in Madagascar.

2 In the absence of an outgoing Ian Smith-type white leadership remaining in Namibia at Independence to instil confidence on the "doubting Thomases", white emigration is at least initially likely to be proportionally larger than was the case in Zimbabwe.

3 Currently these include USA, UK, France, W. Germany, Japan and South Africa.

(a) Foreign exchange bidders, essentially importers would submit their applications for foreign exchange to their commercial banks. In the case of parastatals a holding corporation should consolidate the data from its subsidiaries before submission to commercial banks. Likewise for commodities consigned to particular concerns individual importers may be asked to channel their applications through such consignees. The latter would then study the applications and recommend accordingly. To avoid long procedures Holding Corporations and the consignees may by-pass the commercial banks and forward these submissions directly to the Central Bank. Such applications would be accompanied by:

(i) an import licence;

(ii) detailed information on the production capacity, the foreign exchange generation or saving potential of those imports, etc.

(iii) information on the appropriateness of the imports for economic diversification and restructuring effort;

(iv) data on previous foreign exchange allocations and future requirements; and

(v) tax payment receipts.

The data in (v) above, could verify the authenticity of much of the information in (i) - (iv) above[1]. Falsification of such information should be punishable administratively or through heavy deterrent fine and/or prison terms.

(b) commercial banks would scrutinize and comment on such submissions and then forward them to the Central Bank.

(c) Given this information, and perhaps aided by a computer, the Central Bank would be able to identify the critical, essential and non-essential imports. Critical imports should be those most effective in the sustenance, diversification and restructuring of the Namibia economy. These would include oil, fertilizer,inputs for infrastructural facilities, eg. railway equipment, etc.

(d) the Central Bank after setting aside foreign exchange to meet Government commitments, debt servicing obligations, IATA bills, etc. would allocate the rest of the foreign exchange. Preference should be accorded to critical imports.

(e) the Central Bank would then inform successful bidders essentially through their respective commercial banks.

Given the scarcity of foreign exchange it may not be easy for consignees, commercial banks or even the Central Bank to be a honest broker in this

[1] An Inspectorate Unit or team comprising foreign exchange control, licencing, tax officials, etc. could perform this task.

regard. Hence the need for a committee or sub-committee approach to check favouritism[1].

Concluding Remarks

Whichever exchange rate regime is adopted, but particularly if it's "floating", should be part of a package encompassing the value of the local currency, domestic prices, Government finances and Budget deficit, incentives especially to producers of wealth, money and credit, balance of payments and the management of these and other socio-economic variables. A strict foreign exchange control system is advisable. Given the envisaged income redistribution in independent Namibia boosting up the purchasing power of large sections of the population, lack of controls may result in excessive luxurious consummer goods imports at the expense of capital and intermediate inputs with adverse long-term growth prospects. Foreign exchange rationing could be used by the Government to indirectly restructure and diversify the economy by restricting investments in particular sectors and sub-sectors. Ideological opposition to some activities and/or low priorities to them, etc. underline such foreign exchange allocation and therefore import curbs[2].

There is a need to adhere to agreed priorities in the allocation of foreign exchange. This could include easy factor payment remittances to encourage foreign investment; prevent the diversion of priority sector funds to direct consumption, low priority production or worse still (secret) bank accounts[3] etc. The priority setting exercise should be guided by economic (production impact) analysis, supplemented by general guidelines on imports licensing, regulations governing travel, education, medical and payments for other invisible services, etc.

Such priorities should help formulate a foreign exchange plan which like a credit plan, would be part of the Annual Plan. It should be a comprehensive annual foreign exchange budget comprising of visible exports and imports, current account invisibles and transfer payments and capital

1 Zambia is currently allocating foreign exchange through a Foreign Exchange Management Committee comprised of officials from the Central Bank, the central economic Ministries, e.g. the Treasury, Ministry of Commerce and Industries, and the Prime Minister's Office.

2 For a discussion of such intervention with respect to the roads sub-sector in Tanzania, see Mwase, Ngila, "The Supply of Road Vehicles in Tanzania: the Problem of Suppressed Demand", Journal of Transport Economics and Policy, London, January 1983, Vol.XVII, N7, p.78.

3 To minimize such risks some countries have banned its nationals from operating bank accounts abroad (e.g. Nigeria) or allowing it subject to Central Bank blessing (e.g. Tanzania) and/or encouraging the opening of foreign exchange bank accounts at the Central Bank (Tanzania).

account items. Such a foreign exchange plan should be adhered too. Non-adherence to such plans underline divergences between the Government Budget estimates (Treasury) and actual foreign exchange allocations (Central Bank) experienced in Tanzania and elsewhere.

Despite the notoriety of the IMF's structural adjustment programmes, independent Namibia might still find it necessary to be an IMF member[1]. She might benefit from some of the IMF's economic growth-oriented programmes. Moreover increasingly IMF/World Bank loans or their "zeal of approval" is a pre-requisite for securing funding from other creditors especially private commercial banks. Nevertheless independent Namibia must see the IMF for what it is - a front for (Western) international finance capital and a stumbling block for non-capitalist development paths as advocated by SWAPO.

Namibia should sharpen its technical capabilities particularly its negotiating abilities with international financial institutions such as the Bretton Woods institutions. Coming to terms on a sound footing with the external environment will depend on success in the mastery of the internal development dynamics. The African experience has lessons to offer in this regard, especially to Namibia - Africa's really "last colony".

1 After some hesitation Marxist Mozambique has joined the IMF, likewise Marxist Angola has expressed its intention to do so. A number of COMECON countries are increasingly dealing with the Bretton Woods and other western-dominated financial and economic multilateral institutions.

Résume

Dans le contexte de l'économie namibienne, et à la lumière de l'expérience africaine et de la stratégie de développement formulée par la SWAPO, l'article analyse les modalités de définition d'un taux de change, de répartition de devises étrangères et de leur gestion en Namibie indépendante.

Pour une économie aussi tributaire des ressources minières non renouvelables, la prise d'un train de mesures de réserve de devises étrangères et de diversification économique, en particulier dans le sens du développement agricole et industriel, devrait constituer un objectif politique prioritaire. Le malaise économique ressenti actuellement en Afrique provient en partie du fait que la plupart des pays africains n'ont pas privilégié la réalisation de cet objectif dans la période qui a suivi immédiatement l'indépendance.

L'auteur déconseille trop se fier aux taux de change parallèles pour apprécier le niveau de surévaluation de la monnaie dans des économies apparentées à celle de la Namibie. Faisant la part d'un taux de change flottant et particulièrement déterminé par les ventes aux enchères, l'étude recommande un mécanisme essentiellement administratif indépendant des accords actuels de la SACU et de la zone monétaire du Rand.

Il ne faut pas attendre d'arriver à une situation d'extrême pénurie de devises pour appliquer une politique judicieuse de réserve et de gestion de devises, autrement il devient impossible de résister à des pressions extérieures exagérées dont l'objet est l'adoption de programmes d'austérité dévastateurs.