

*The Meaningful Role
Of Agricultural Economists
to the future discourse of
Black Economic Empowerment in Namibia*

Presented at the

- BREAKFAST MEETING

**Organised by the
Agricultural Economic Association of Namibia
(AGRECONA)**

29 April 2005

By

MIHE GAOMAB II

**President of the Namibia Economic Society
<http://www.nes.com.na>**

Eminent Farmers, Agribusiness Leaders and Professionals
Distinguished Guests
Ladies and Gentlemen

I have been requested to give you an agricultural food for thought on the role of an agricultural economist to the future discourse of Black Economic Empowerment (BEE) in Namibia.

Before I do eventually that, allow me to thank firstly *AGRECONA* for organizing this opportune and timely event. I am saying, opportune because there is a need for more of this kind of events to create greater economic awareness on the importance of Black Economic Empowerment and its role it can play in terms of ensuring economic transformation and development in the country.

As *AGRECONA* has rightfully indicated in its terms of reference of having this auspicious event, the time is now to involve as much as possible a majority of the people in the economic mainstream to ensure not only peace and stability, but increased economic growth, poverty alleviation and employment creation.

Mr. Moderator
Ladies and Gentlemen

When I say, *involve as much as possible more people*, it means exactly that. We still have people who are without employment, now estimated at 35% of the total population. If we include those that are under-employed, this official figure would still be higher around 65%. We still have people who needs minimum money to ensure bare basic livelihood of survival, even when we have others who have a lot, and as reflected in the highest *Gini Coefficient* of 0.7 and in addition, the latest official statistic

showing that the richest Namibians comprising of 10 percent receives 65 percent of income.

We are also a rich nation with an income of N\$14 000 per head in Namibia, but at the same time, we are poor, representing close to 60 percent of the households in Namibia. 50% of the poor Namibians consume what 1% of the rich people are consuming. There are those (white and black alike) who have average annual per capita income of N\$100 000 whilst there are many others who receives between N\$500 to N\$4 500.

Mr. Moderator, these statistics is not merely there to indicate the skewed ness in terms of resource endowment, entitlement and access in Namibia, but also reflects the exclusion of the majority of the population in Namibia at a macro level from assets, capital, positions, and resources, be it tangible or intangible. Within the agricultural sector where close to 70% of the Namibians are indirectly or indirectly dependent upon, one key strategic resource that reflects such inequality and exclusion process is the land.

Adjusting for desert and arid regions, more than 80% of arable land (about 30 Million hectares) as well as 44% of total land surface remains in the hands of 4 000 white farmers. Communal land constitutes only about 41 percent of the total land surface area and supports only about close to 1 million people. These skewed distribution patterns reflects the racial inequality that stems from our historical past. Hitherto, the majority, which are the black people in Namibia, remain largely landless, and hence this makes it difficult for them to partake towards the economic transformation and developmental process of Namibia.

Hence, the challenge is, how does one ensure that we bring more people onboard. In other words, how do we get those people, the blacks that were excluded from the economic mainstream, from the developmental pillars and the resource allocation processes so that they can escape abject poverty and become economic agents worthy of change in the macro economy, particularly in the agricultural and agribusiness sector.

One essential vehicle to ensure this is through Black Economic Empowerment.

What is BEE in Namibia?

Mr. Moderator

Black Economic Empowerment (or *Swart Ekonomiese Bemagtiging*) is in essence just what the words encompass. It means economic empowerment of those people previously disadvantaged. BEE can thus be termed a vital and essential tool to encourage the process of wealth and employment creation through balanced opportunities for all Namibians to partake into a broad based economic transformation and development.

The definition of "black" refers to the previously disadvantaged communities and individuals that were subjected most to exclusion in the historical past, including women and people with disabilities.

As there is as yet no formalized Black Economic Empowerment Policy and Law for Namibia, but is still been drafted, I may not concretely affirm the official uniform and written definition of BEE in Namibia. But from empirical experiences, the strategic policy thrust of BEE would be centered around six key pillars: *(a) direct ownership, management, control of enterprises and productive assets (b), SME enterprise development (c) human resource and skill development, (d) achieving employment equity, (e) preferential procurement or balanced tendering, and (f) corporate social investment in HIV/Aids prevention programmes and community development initiatives.*

Some of these key areas are already being addressed by government and the private sector alike, but is not as yet concretely approached as a coherent and deliberate strategy from a BEE point of view.

The Role of Agricultural Economists in BEE

Mr Moderator
Ladies and Gentlemen,

The topic that I am mandated to deliver to you is the role that agricultural economists (AE) need to play meaningfully towards the future discourse of BEE. This is especially important since the agricultural/agribusiness sector would increasingly be faced with the challenge of having to engage in BEE, giving the stark reality we still faces as a nation as indicated earlier on.

My approach would be to relate the role of AE within the six pillars I have identified earlier on. But before I do that, let me first focus at a more macro policy level of BEE and the role that an agricultural economist can play in that regard.

We all know that the basic informal strategy of BEE is that it should be broad based, inclusive and contribute to economic growth underpin by good corporate governance.

The referenced sectors for my speech today for BEE strategic transformation are the agricultural and agribusiness sectors. These sectors are interlink since not only are they farming activity oriented at the farm level, but includes all the forward and backward secondary and tertiary industries that provide inputs to the farmer, as well as services such as financing and training. The industries that process and market agricultural products, as well as game farming and trophy hunting, and lodged accommodations also form part of these sectors.

Allow me to mention further that these sectors are one of the most important sectors in the Namibian economy. Not only does it provide the basic products and resources to feed, clothe shelter, and service the population, it contributes also about 7% direct and 13% indirect to the Gross Domestic Product of

Namibia. It also provides employment close to 40 000 people on a commercial basis and a communal livelihood for about 1.3 million people.

What then would be the role of an Agricultural Economist in these sectors taking into account the strategic discourse of BEE? Given that the sectors do play a crucial and invaluable role in the economy, it also can be said that the agricultural economist can play a vital role in this respect.

For a start, the AE's would know that you do get confronted on a daily basis with many varied yet multiple roles, both at the micro- or the macro-level.

At a macro level, AE's should design a **strategic policy framework** in which BEE should be applied in the agricultural/agribusiness sectors. This policy framework should outline an enabling environment for the promotion of BEE in these sectors, of course within the ambit of the overall BEE law and policy currently been drafted by the government.

This policy framework can be drafted proactively and should outline mechanisms such as aspects that relates to BEE on tendering, regulation, financing, and institutional support within those sectors. Since these sectors do have backward and forward linkages as indicated earlier on, it is of utmost importance that AE's can assist in developing a policy thrust that outline the relationship between the agricultural/agribusiness sectors with that of the broader private sector as well as with the government and labour unions

To practicalise or implement the policy framework, AE's need to draft proactively a comprehensive **empowerment charter** for the agricultural/agribusiness sector. Their role should be to assist in determining a balanced scorecard that should act as a barometer to measure progress made in achieving BEE policy targets as it relates to the agricultural/agribusiness sector.

Care should be exercised that the policy framework should be distinct from the charter since the former should sketch your *vision* of the BEE in agricultural/agribusiness sector transformation whilst the charter outlines the balanced *scorecard methodology* that sets specific BEE targets, and concrete plans to achieve those targets.

But the next question begs, how should the AE's developed a BEE balanced scorecard for the agricultural/agribusiness sector. The aim in this case would be to contextualise the roles of the AE's within the six pillars identified earlier on

Its worth to note that in order to make the role of AE more effective, that their functions should be specific to each pillar and therefore it is important to categorised the pillars accordingly, starting with what constitutes the core (primary) and the periphery (secondary) components of BEE.

The core component may further be subdivided into direct empowerment and indirect empowerment categories whilst the periphery entails an independently focussed determinant that the sectors can decide for themselves to do in the context of BEE. The periphery according to SA BEE law is called the residual category.

Empirical experience has proven that the reason for using this BEE structured approach in terms of scorecard methodology is that it ensures firstly, balance, secondly standardisation, and lastly flexibility.

The balance effect allows AE to distinguish between the pillars of what is controllable by the sectors. In other words, what can the sectors do that is within their control to move the BEE forward? The pillars that are identified in this context refer to the deliberate attempt to increase **equity ownership** and ensure genuine participation in decision making in terms of **management** in the agricultural/agribusiness sector. As to the role of AE in this regard, there is a need for AE's expertise to identify and

categorise enterprises within these sectors that is poised for BEE transformation as well as to propose structured financing.

In order for emerging BEE farmers or agri-business to take effective ownership of assets in the sector, it is also essential to note the opportunities, problems and challenges that a new BEE economic agent can face in the sector. AE's can serve as advice centers in that regard. It is also increasingly clear for farmers, agri-businesses and agricultural financiers alike that to achieve increased output production is to think global and not local. Hence AE's can ideally analyze and inform the stakeholders on domestic, regional and international agricultural trends. This is especially important since local prices, production and cultivation patterns are going to be determined in the future largely by international trends and hence, there would be a need to stay competitive, given the globalised trends as well as trade configurations that are increasingly tied to the local economy.

Producer organisations, co-operatives, and agri-businesses are depending more and more on their agricultural economists to ensure that they are favourably placed with regards to the changing domestic, regional and international trends. There are exciting developments in an international agricultural world with its complex trading systems. One exciting development is the futures market, where commodity futures are traded. These contracts can be bought and sold in a manner similar to trading shares on the Stock Exchange. Farmers, processors, importers and exporters can hedge themselves against any unfavourable changes in prices and exchange rates. Other forms of market development have given rise to similar opportunities and challenges. An increasing number of agricultural economists are becoming involved in these kinds of activities around the world and Namibia no doubt would soon join effectively the global bandwagon in that regard.

It is also important to note that BEE entrepreneurs would be faced with interpretation and analyzing financial aspects as it relates to industry or enterprise profitability, share holder issues and votes attached to it. AE's can ensure workshop training through exposure and education and making new BEE owners aware that the success does not lie only in terms of ownership, but monitoring and evaluation of the productivity, efficiency and corporate governance of those businesses.

Land reform entails changing ownership of land and its associated assets and this is one crucial area where an AE can also play a role. As you know, one of the traditional tasks of the agricultural economist is to provide farmers with economic and financial advice. Furthermore, agricultural economists' guide the farmer as to which would be the most advantageous combination of the different production factors in his operation, so as to be able to produce at the lowest possible costs. This will and should always be one of the most important tasks of agricultural economists. They must also be aware of which product might hold the best advantages, and where and how it should be marketed.

The expertise of the agricultural economist will become more and more important to assist emerging farmers to become successful, given the large number of new entrants into the commercial agricultural sector as a result of the land reform processes. They will play an important role in feasibility studies of projects and programmes of developing farmers, and this area poses great challenges to the agricultural economist. Equally, AE's may also assist in developing farming practices in the communal areas, since this sector would increasingly also become important in terms of resettlement of a majority of BEE farmers.

At a managerial level, it is important to understand that AE's can assist in ever changing labour relations between farmer and workers since the BEE farmer or agribusiness owner would be increasingly exposed to critical key decision making in terms of management affecting the plight of its workers. In the farming

sector as well as the industries related to farming, the arrangements and conditions between employers and workers are changing rapidly. Production and management methods will have to be adjusted accordingly, within this new framework. Once again the agricultural economist plays an important role under these circumstances, as his/her advice and management knowledge can assist both parties throughout this transition.

Another direct empowerment category as a core component involves the **skills and human resource development**. Since efficiency and productivity will be of utmost importance to the success of the BEE farmer or agribusiness owner, the agricultural economist must therefore train people in the most economical use of production factors.

The multidisciplinary nature of agricultural economists' ensures that they can be used as a strategic training resource to ensure that they are able to impart skills to the BEE farmer or agribusiness owner even with on the job training or specialised training. This will make agricultural economists indispensable in driving the skills formation agenda of the previously disadvantaged in these sectors.

The indirect empowerment processes involves **SME enterprise development and preferential procurement**. A major challenge confronting the agricultural community is how to integrate previously disadvantaged farmers as well as their small businesses from a rural area for example within commercial agriculture and agribusiness development. Agricultural economists are well-placed to meet these challenges and to work with governments to develop agricultural policies to promote income, employment and output growth in rural agricultural areas.

The Ministry of Agriculture is an important employer of agricultural economists, who can serve as a useful institutional house to develop strategies designed to assist farmers who may previously have received little assistance from services such as research and extension. Work on developing such strategies has

many elements from promotion and market development through to pricing policies and agricultural finance.

In addition, much of the research effort on the part of agricultural economists should thus be focused on identifying the needs of the new enterprises and of new emerging group of BEE farmers, and assist in developing support programmes for credit, production inputs and marketing processes for these farmers. There is also an urgent need to ensure entrepreneurial culture in these sectors as well as sustained agribusiness growth output.

Agricultural economists also have an important strategic role to play in the private sector. At a macro-level, given that the trade agenda rules the world, agricultural economists from Namibia can be employed by multinational food companies and export organisations to analyse the factors that influence the trade of agricultural products. Agricultural economists' knowledge of the macro-economic variables such as, inflation, exchange rates, interest rates, puts them in a position to identify the effects of various macro-economic policies on the agricultural and agribusiness sector, and eventually on the segment of the BEE farmers.

In the future, prices and marketing decisions of agricultural output will become more important and hence it will be left to the BEE farmer, producer organisations and co-operatives initiative and entrepreneurship to carry out this task. As a result there is a much greater demand for agricultural economists to take part in the marketing and pricing decisions of the farmers' products. Decisions must be made as to what products to produce, where to produce them, when to produce them, how and in what form should they be produced, through whom to market them and at what price they should be marketed.

The importance of the agricultural economist's expertise is not only becoming apparent to farmers but numerous businesses that process agricultural products and do their own marketing for their products, have also discovered the value of agricultural

economists in managing the purchase of agricultural products, and promoting the marketing and pricing of their own processed products.

Mr Moderator, allow me to touch on the remaining component which is the periphery or the **residual category**. As I have mentioned, the form that this category places itself as part of the scorecard methodology is flexible, independent and varied.

Here the forms it can take can range from corporate social investment in HIV/Aids prevention programmes and community development initiatives to investments in the social wage of employees such as housing, transport and welfare. Agricultural Economists should be conscientised on the socio economic issues that confronts the BEE farmer or business owner and advice on adhering to policies and sensitivities surrounding such issues.

Another important issue that is worth the attention is the technology support. The AE's of the world, including those working in Namibia, are constantly opening the doors to new opportunities. There are new crop varieties that are higher yielding, but perhaps taste slightly different. Some are more stable than others. There are new options in processing, new methods, and different end results. Trade methods are constantly changing; electronic trading is becoming more popular.

No farming operation, processor or trader can simply ignore such developments, nor can they rush in and take chances in implementing new, unproved formulas. The applicability of breakthroughs must be tested under the relevant circumstances, and sometimes the new technology needs adaptation. One has to consider the costs, the financing and the effects on income. The determination of the expected economic returns of new technology, and its feasibility within the specific operation, is an interesting and challenging task for agricultural economists.

Lastly, the agricultural economist is traditionally concerned with the economic application of our scarce resources such as land

and water. With the stronger emphasis on sustainable development and the determination of development projects effects on the environment, there is a reliance on the expertise of the agricultural economist. The study field of agricultural economics has developed to include relevant courses on resource and environmental economics, given the need for specialized knowledge about the impact of economic aspects on the environment

Mr Moderator, all this issues requires weights and depending on which one the sectors deemed appropriate can be given a higher weight. The outcome of the balance scorecard of a sector will depend on the weights assigned on the direct and indirect components as well as on the residual category but the important note to remember here is that all this needs to be guided by the policy strategic framework that identifies from a policy perspective where the most urgent need will lie for bringing on board *more people* within the economic mainstream, using BEE of course as a viable and indispensable instrument.

Conclusion

As you can sense throughout the presentation, I am challenging you today to put in place a proactive design of a BEE policy framework and empowerment charter for the agricultural/agribusiness sector in Namibia. The charter should also design balanced scorecard for the sectors and proactively rank the six pillars in terms of their importance to advance the practical implementation of BEE.

We all know that food, shelter and clothes will remain one of mankind's primary needs, and this means that any person that is trained in, or studies agriculture economics will always be guaranteed of certain job opportunities in Namibia as I have outline above.

Therefore, may I end here and conclude that since my presentation was on the role of the agricultural economist, I sincerely hope that the roles and functions I have outlined can play a crucial input in terms of ensuring that the BEE farmer or agribusiness owner becomes worthy of an economic agent of change and that it satisfies *pareto optimality* which is making the black farmer better off without making the white farmer worse off and complemented by effective and efficient re-distributive process of wealth to aid in balanced economic empowerment that is fair, just and equitable.

I thank you

Mihe Gaomab II is the President of the Namibia Economic Society (NES)