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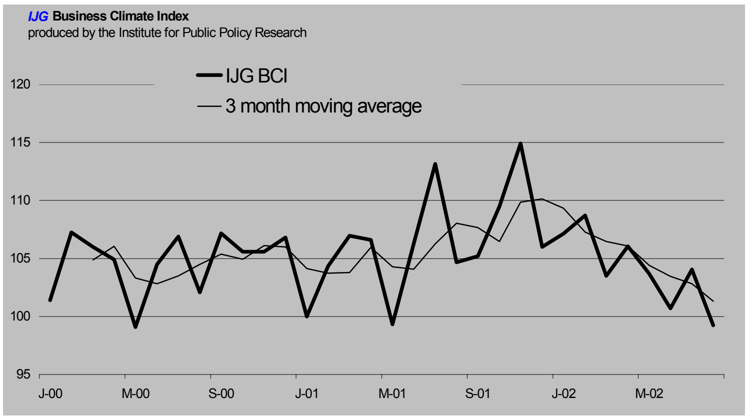
The *IJG* Business Climate Monitor for August 2002

produced by the Institute for Public Policy Research

- **The *IJG* Business Climate Index fell five points to its lowest value since May 2001 suggesting that the business climate in Namibia has deteriorated sharply.**
- **By contrast, the results of the *IJG* Business Climate Survey were similar to last month. Most businesses view prevailing business conditions as positive but investment spending appears to have further weakened.**
- **The August Cabinet reshuffle does not appear to signal fundamental changes to Namibia's economic policies.**
- **Comprehensive statistics on commercial land ownership by race do not exist. The available evidence suggests land redistribution is proceeding very slowly.**
- **Namibia has been ranked 28th out of 102 countries in Transparency International's latest Corruption Perceptions Index. However, Namibia's score is subject to the greatest uncertainties out of all the countries surveyed.**

The *IJG* Business Climate Index for August 2002



The *IJG* ***Business Climate Index*** in August fell a massive 5 points to 99.3, its lowest value since May 2001. The 3-month moving average recorded its lowest value since the *IJG* Business Climate Index began. Slightly firmer overall meat and fish prices helped to boost the ***Export Index*** but all other sub-indices fell. Commercial vehicle sales and credit to businesses grew, despite the current unfavourable interest rate environment.

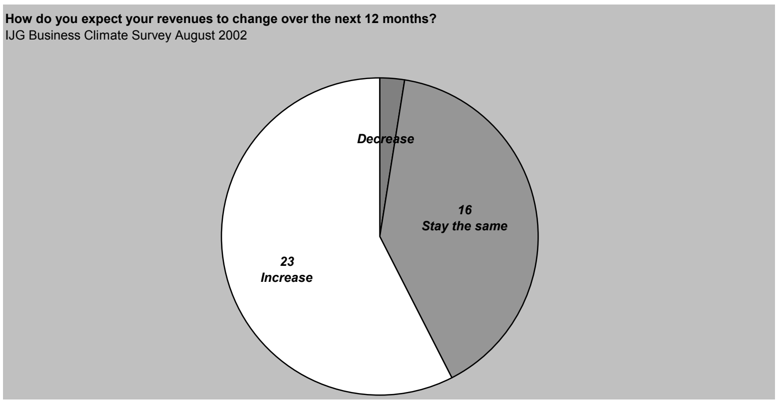
		August	July
Business Climate Index	▼	99.2	104.1
Investment Index	▼	104.5	112.7
Consumption Index	▼	88.7	93.3
Export Index	▲	108.9	107.5
Leading Indicator	▼	102.3	103.2
Coincident Indicator	▼	94.9	96.6

The *IJG* Business Climate Survey for August 2002

The *IJG* Business Climate Survey asks 50 top businesses in Namibia to reply to four questions on revenues, employment, investment and prevailing business conditions. In addition to this sample, members of the Namibian Manufacturers Association (NMA) are also included in the survey. This month we received 40 responses in total of which 12 were from manufacturers. This rather low turnout was partly a result of technical problems at the IPPR. Results here are reported for the whole sample and for all manufacturers.

Q1: How do you expect your revenues to change over the next 12 months?

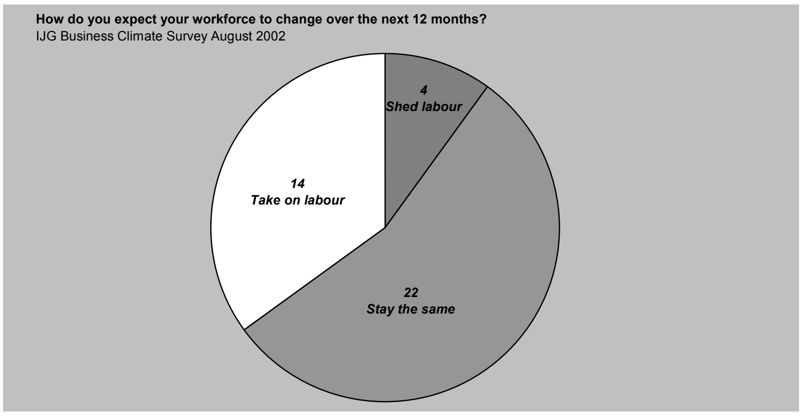
More than half of responding businesses expect revenues to increase.



Firms were given a choice of three responses to the question on revenues: revenues could decrease, stay the same or increase. Out of 40 responses, 23 expected revenues to increase while 16 expected revenues to stay the same and only 1 expected revenues to fall. Manufacturers gave a similar response, with 7 stating that their revenues were likely to stay the same and 5 stating that they would increase.

Q2: How do you expect your workforce to change over the next 12 months?

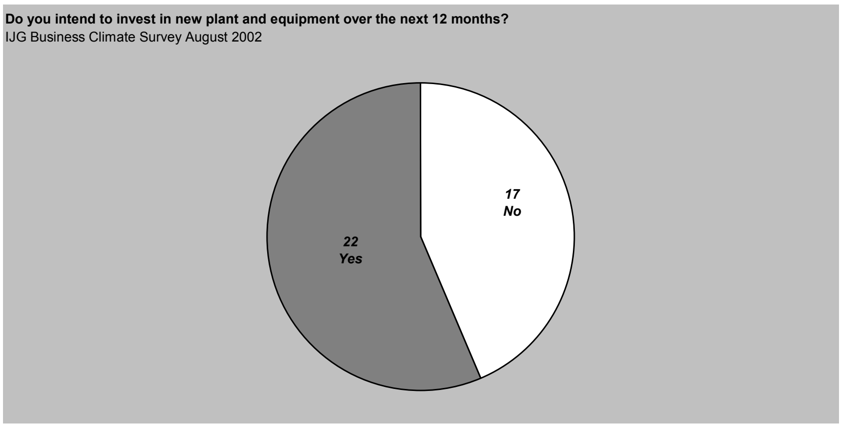
Over half the respondents expect their labour forces to stay the same.



Firms were given a choice of three responses to the question on employment: either they expected to shed labour, or their workforces were expected to remain the same, or they expected to take on labour. This month 4 firms stated they expected to shed labour while 22 expected their workforces to stay the same and 14 expected to take on labour. These results are similar to last month's responses. While 2 manufacturers expected to shed labour, 8 expected their workforces to stay the same and 2 expected to take on labour.

Q3: Do you intend to invest in new plant and equipment (not inventories) over the next 12 months?

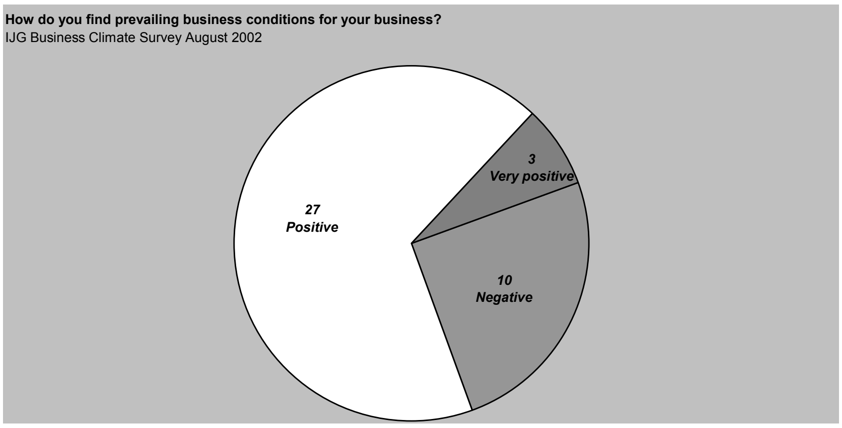
The proportion of respondents intending to invest in new plant and equipment fell again. A significant majority of manufacturers do not intend to invest.



Firms could respond either that they intended to invest in new plant and equipment or that they did not intend to invest. Out of the 39 respondents who replied to this question, 22 stated that they intended to invest in new plant and equipment while 17 replied that they would not. A total of 8 out of 11 manufacturers did not intend to invest.

Q4: How do you find prevailing business conditions for your business?

Three quarters of responding firms continue to view prevailing business conditions as either positive or very positive.



Firms were given a choice of four responses to the question on prevailing business conditions: very negative, negative, positive or very positive. Out of 40 responses, 27 viewed prevailing business conditions as positive and 3 as very positive. A total of 10 viewed them as negative. Manufacturers remained slightly less positive.

The results of this month's *IJG* Business Climate Survey are not significantly different to July's. The balance between firms that intend to invest and those that do not has tilted further towards the latter confirming last month's conclusion that higher interest rates were hitting investment. The Survey was carried out before last month's Cabinet reshuffle.

IPPR commentary for August

IPPR commentary presents the views of the IPPR alone and not the sponsor.

On 27 August President Sam Nujoma took the country and seemingly his own party by surprise announcing arguably the most important ***Cabinet reshuffle*** since Independence. Hage Geingob, Prime Minister for the last 12 years, was replaced by Foreign Affairs Minister Theo-Ben Gurirab and offered the portfolio of Regional and Local Government and Housing, an offer which he quickly rejected preferring instead to tender his resignation. Five other ministers were reshuffled as shown in Table 1. The President also announced that the Ministry of Foreign Affairs, Information and Broadcasting would be split and that he would take over the portfolio of Information and Broadcasting "for the time being". Information and Broadcasting used to be a separate portfolio until it was merged with Foreign Affairs in 2000/01. He justified this move stating that the problems at the Namibian Broadcasting Corporation (NBC) needed “urgent action and resolution”. Cabinet recently approved a N$100 million bail-out for the NBC.

Table 1: Cabinet reshuffle August 2002

	Previous portfolio	***New portfolio***
Hage Geingob	Prime Minister	resigned
Theo-Ben Gurirab	Foreign Affairs, Information and Broadcasting	Prime Minister
Hidipo Hamutenya	Trade and Industry	Foreign Affairs
Jesaya Nyamu	Mines and Energy	Trade and Industry
Dr Nickey Iyambo	Regional and Local Government and Housing	Mines and Energy
Andimba Toivo ya Toivo	Labour	Prisons and Correctional Services
Marco Hausiku	Prisons and Correctional Services	Labour

Cabinet reshuffles are a common feature of democratic government. They serve to remind ministers that no one is indispensable and generally keep them on their toes. In theory good performers can be rewarded and poor performance penalised. The recent Cabinet reshuffle it is hard to interpret in this way and it appears that the reshuffle had more to do with internal party politics than performance. It was certainly a very stark display of the presidential prerogative provided for in the Constitution and keeps the question of succession unclear. The President gave away little of his thinking in his press announcement. ***Theo-Ben Gurirab*** and ***Hidipo Hamutenya*** have clearly been promoted in terms of the government pecking order. Both have overcome earlier setbacks to notch up high profile successes in recent years, the former at the United Nations and the latter through the recent investment by Malaysian clothing manufacturer Ramatex and the development of trade relations with the East.

However, the reshuffle represented a humiliating demotion for ***Hage Geingob***, tipped by some to be a future presidential candidate. Few would argue that he deserved such a ruthless demotion if judged on his record as Prime Minister. Outsiders can only speculate that he either pushed himself too fast (thus helping to create “disunity” within the party) or that he crossed swords with the President and has never been forgiven. Ironically he had earlier in the month come 9th in the elections for the 57 positions on SWAPO’s Central Committee. From the public policy perspective he helped push through a large number of positive reforms in Namibia’s public service such as rebalancing the racial composition of the public service, commercialisation, the public service charter, the performance and effectiveness management programme, and the anti-corruption bill not to mention his role in writing Namibia’s Constitution and his other pre-Independence achievements. In his public pronouncements he was clearly a man who understood the modern world, an independent, pragmatic and clear thinker, pro-business and a unifier. It is hard to believe that Geingob, who is clearly a politician down to his finger-tips, will content himself in future purely as a private farmer.

Twelve years, however, is a long time for any one person to effectively maintain a political post. As human beings, politicians start taking things for granted and losing their freshness, their enthusiasm and their openness to new ideas. ***Theo-Ben Gurirab*** is another Damara speaker and very much a diplomat. We do not know whether his vision for the public service differs to any significant extent from that of his predecessor. The job of foreign minister and prime minister are very different, especially since the President basically calls the shots in foreign affairs which is not the case in running the public service.

The taking over of the ***Information and Broadcasting*** portfolio by the President clearly signals the importance he attaches to sorting out the mess at the NBC. His statement indicating that this is only "for the time being" suggests this is a temporary move. It could be interpreted as a sign that the ministers in charge were not making sufficient progress despite the strong words of the former minister in charge Theo-Ben Gurirab. Some suspect a more sinister attempt to further limit freedom of expression and the diversity of views aired on the national broadcaster. If this is the case the financial position of the NBC is likely to worsen as higher-income better-educated Namibians with choice tune into alternative media.

The reshuffle was a significant show of strength by the President. The balance between Oshiwambo and Damara speakers at the top has changed slightly. It is too early to say whether it will make much of a difference to ***economic policy***. So far the signs have been that it will not. Incoming trade and industry minister Jesaya Nyamu went out of his way to stress that he will continue to pursue the policies of his predecessor. In terms of economic policy, both Theo-Ben Gurirab and Hidipo Hamutenya have consistently been rock solid on the basic ingredients of successful modern economies. We suspect that both will spend much of their time calming the fears of the business and international community stoked by the firebrand speeches of others. Every successful government needs a constructive internal debate about the choices that have to be made to take a country forward. If the recent changes lead to a weakening of internal discussions over policy and a more pliable team of ministers we believe the country is likely to suffer in the longer term.

President Sam Nujoma's sharp public rebuke of ***British Prime Minister Tony Blair*** at the World Summit on Sustainable Development in Johannesburg and his subsequent interview with the BBC came hard on the heels of the Cabinet reshuffle. Ironically the President's remarks came shortly after Namibia's new foreign minister had stated his intention to vigorously pursue economic diplomacy and were directed at the one Western politician who has really made an effort to put Africa on the international agenda. The President's speech can leave no one in any doubt about the depth of his feelings towards the government of Robert Mugabe and what is happening in Zimbabwe. How often does one international leader go out of his way to verbally attack another in public in defence of a third? Many Namibians and other Southern Africans will view the President's actions as a brave breath of fresh air, finally someone saying what many feel in their hearts. We believe Tony Blair would be mistaken to dismiss this view as minority opinion. The Afrobarometer Survey, which forms an important component of the IPPR's work programme, suggests that a belief in democracy and good governance are not all that deeply rooted in the 12 participating countries and far from being "the only game in town". In both Namibia and South Africa significant shares of the population are willing to entertain non-democratic forms of government.

Whilst emotional outbursts such as this, however brave, may lead to a "feel good" factor for some, the reality of the modern world is that for countries to prosper they need the rest of the world. This is true even for the mighty US as President George W Bush is finding out in his war on terror. President Nujoma's remarks will not prove helpful to progressive forces in the UK and elsewhere trying to persuade western taxpayers to pay for more ***development assistance***. If his remarks lead to a more discerning approach to aid on the part of Namibia they may actually bring about some positive change. The bottom line is, however, that provided Namibia pursues the right economic policies and continues to be better governed than a great many developing countries, the country's long-term prospects and relations with the UK will not be seriously damaged.

Among the resolutions passed at the recent ***SWAPO congress***, two in particular made headlines. The first was the resolution to expropriate 192 farms owned by absentee landlords and the second was to increase the funds for land purchases from N$20 million to N$100 million a year. Government reacted to the first by stating it would expropriate the 192 farms covering an area of

1,268,911 hectares in accordance with the law. Among the 24 resolutions of the Land Reform Conference of 1991 were resolutions on the issues of foreign-ownership of farmland, underutilised land and absentee landlords. The Conference resolved that foreigners should not be allowed to own farmland, that abandoned and underutilised commercial land be reallocated, and that land owned by absentees should be expropriated (Office of the Prime Minister, 1991). We find it hard to understand why it has taken 12 years to carry out this resolution if land really is such a pressing issue.

Since 1996/97 the government has allocated N$20 million a year for the purchase of commercial land for resettlement purposes in accordance with the 1994 election manifesto (SWAPO, 1994). Figures presented in the main budget document suggest that, during the period 1996/97 to 2000/01, only two-thirds of the budgeted amount has actually been spent. The Ministry of Lands Resettlement and Rehabilitation (MLRR) estimates it has purchased 118 farms covering a total area of 709,568 hectares at a cost of N$105.4 million up to August 2002 (MLRR, 2002). Spending N$100 million a year will be difficult in the light of the targets for expenditure and the budget deficit (30% and 3.2% of GDP respectively) government has adopted and expenditure commitments such as the additional N$1 billion to agriculture (18th Cabinet Meeting 6 August 2002), the N$100 million to NBC and commitments to other loss-making parastatals.

Table 2: Budgeted and actual expenditure on land purchases (N$ million)

	96/97	***97/98***	***98/99***	***99/00***	***00/01***	***01/02***	***02/03***
Budgeted	18.95	20.00	20.00	20.00	20.00	20.00	20.00
Actual	18.71	12.36	11.41	3.88	19.76	N/a	N/a

Source: Budget documents 1996/97 – 2002/02

The SWAPO congress also noted ***the slow pace of land redistribution*** "which has the potential to cause civil strife". We believe the potential for strife depends to a large extent upon the way the country's leaders deal with the issue. However, there is evidence that the pace of land redistribution is indeed slow and this is cause for concern. Table 3 shows estimates of land ownership at the time of the Land Conference in 1991.

Table 3: Commercial land ownership in Namibia in 1991 (*plots not counted as farms)

Owner	***Number of farms***	***Hectares***	***Per cent***
The State	64	466,913	1.29
Experimental farms	20	169,216	0.47
Other agricultural land	44	297,697	0.82
Municipalities and peri-urban boards	28	349,998	0.97
Churches	22	222,365	0.61
Individuals			
Plots around towns*	681	33,958	0.09
Company farms	55	728,882	2.02
Individuals	6,123	34,362,764	95.02
Black individuals (excl. Rehoboth)	181	n/a	n/a
Foreigners	382	2,965,520	8.20
Total	6,292	36,164,880	100.00

Source: Ministry of Agriculture, Water and Rural Development

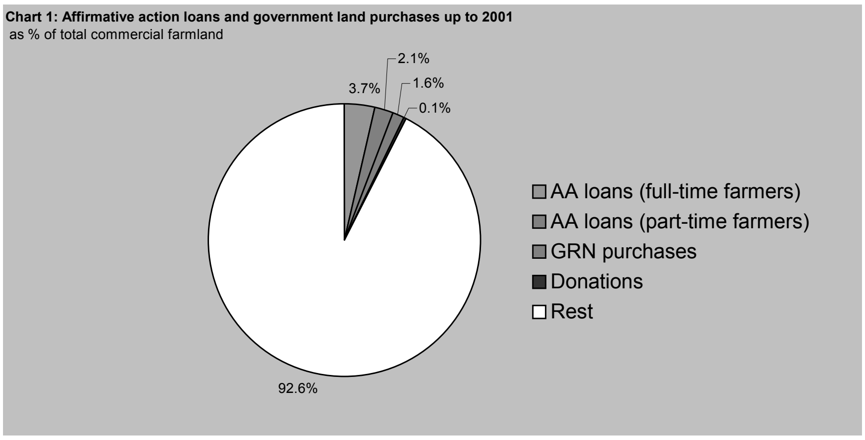


Chart 1 shows the progress that has been made in redistributing commercial land through the government's two main programmes: commercial land purchases for resettlement and the affirmative action loan scheme implemented by Agribank. According to NEPRU (Werner, 2002) between 1990 and 2001 the government purchased 567,041 hectares of land while loans granted by Agribank in terms of the Affirmative Action Loan Scheme purchased 1,330,771 hectares for full-time farmers and 758,219 hectares for part-time farmers. A further 22,605 hectares were donated to government in 1998. According to estimates made for the Land Conference in 1991 (Office of the Prime Minister, 1991) there are 36,164,880 hectares of commercial farmland in Namibia. Government's land reform policies have therefore led to the transfer of some 7.4% of commercial farmland since 1990. At this rate of change it will take another 60 years to bring 50% of commercial farmland into the hands of previously disadvantaged Namibians. Spending five times more every year would speed up the process but we do not believe this would be sufficient to reach a politically acceptable distribution by the year 2030. As far as we are aware no end point has never been defined for the process of land redistribution. Nor is it clear what the balance between black commercial farm ownership and government resettlement schemes on commercial land should be.

The present pattern of land ownership is, however, more complicated than described above because a significant number of private purchases have been made outside any government scheme. However, as far as the IPPR is aware, no database in Namibia currently exists which gives a breakdown of farm ownership by race. The only way to monitor progress is by going to the Deeds Office and going through each and every title deed and contacting the owner of each title to determine their race. This is a time consuming process because the Deeds Office is not computerised and a N$5 handling charge has to be paid on each title deed taken out. Since farms are also registered in the name of close corporations and Pty (Ltd) one would also have to investigate the ownership of these companies.

Table 4: Commercial land ownership in 2000

Category	*Number of title deeds*	*Hectares*
Individuals (black)	482	2,004,996
Individuals (black – other)	599	1,261,042
Individuals (white)	4,367	18,822,048
Close Corporations	560	2,613,120
Pty (Ltd)	814	3,987,097

Source: Ministry of Agriculture, Water and Rural Development

The Ministry of Agriculture has made a first attempt in such an undertaking for the period up to the beginning of 2000. However, the primary purpose of putting together the ***database*** was not to investigate commercial land ownership. Table 2 presents a selection of some of the data it contains. The “Individuals (black – other)” classification applies to farms in the Rehoboth area. The so-called Odendaal farms, which are registered in the name of the government but occupied by black farmers from various ethnic groups, have been excluded. This data suggests non-white individuals own approximately 9% of total commercial land. There are, however, significant shortcomings with the database. Much of the data is simply missing. Racial classifications have been allocated on the basis of someone’s name, which is likely to underestimate ownership by previously-disadvantaged Namibians. No attempt was made to investigate corporate ownership. It has not been regularly updated and is therefore now a couple of years out of date. A further issue relates to the question of what constitutes a farm. The database covers 10,919 title deeds outside municipality areas. If portions of land below a certain size were to be excluded from the sample, the results above would be different. Areas above 3,000 hectares make up 55% of the number of title deeds but 95% of the total area of freehold land. Deriving accurate results from the database will clearly require further research.

The MLRR records the number of waivers granted to sellers of commercial farmland, that is to say the number of offers it has turned down by those wishing to sell commercial farms because they are in some way unsuitable for resettlement purposes. Table 5 below shows the number of farms waived and the number purchased since 1999. The number of farms actually purchased is generally only a small proportion of those offered to government.

Table 5: Farms waived and bought by MLRR

	1999	***2000***	***2001***	***2002***
Farms waived	142	125	99	83
Farms bought	6	15	24	7
Farms bought as % of farms offered	4%	12%	24%	8%

Source: MLRR

The ***willing buyer-willing seller*** approach to land reform is undoubtedly rather cumbersome. The whole process of making an offer, deciding on the suitability of land for resettlement, valuing the land, deciding on a price and finally purchasing the land can be a lengthy process. Government is under pressure to force the pace of change of land ownership and does not want to be seen as the impediment to progress. Speeches targeting “arrogant white farmers” may help deflect attention from bureaucratic constraints. This may explain the observation that while political rhetoric may at times be aggressive, the commercial farming community as a whole remains rather unperturbed.

Namibia has been ranked 28th out of 102 countries in Transparency International’s (TI) ***Corruptions Perceptions Index*** (CPI) for 2002 suggesting it is the second least corrupt country in Africa (www.transparency.org). The CPI is a measure of the degree of corruption in a country as seen by business people and risk analysts, and ranges from 10 (highly clean) to 0 (highly corrupt). Yet again Namibia comes below Botswana (24th) but above South Africa (36th). More interestingly, however, Namibia’s score is based on only five surveys out of a total of 15 used by TI from 9 independent institutions (3 is the minimum requirement) and has the highest standard deviation of all the countries surveyed. This means it is subject to the greatest uncertainty. Namibia’s score ranged from 3.6 (which would have placed it 57th) to 8.9 (which would have placed it 10th). Earlier in the year TI released its ***Bribe Payers Index*** which showed very high levels of corruption in developing countries by corporations from Russia, China, Taiwan and South Korea. It also showed corporations from leading industrial nations were involved in corruption even though these countries now have laws making corrupt payments to foreign officials a crime. The construction and arms sectors were the sectors of heaviest bribery.

Namibia has been chosen as the location of the new ***Southern African Customs Union*** (SACU) headquarters. While this is an undoubted boost to Namibia's prestige, the real test will be whether the new democratised SACU arrangement goes any way towards meeting the concerns of Namibian businesses who have long complained of unfair competition from South African firms. Namibia still lacks a competition policy and appears to be turning more and more towards infant industry protection tariffs to develop domestic industries in the face of South African competition. The danger exists that a democratised SACU could also mean more delays in trade negotiations and disputes as well as more special pleading by industry.

The IPPR's rather upbeat 4% ***GDP forecast*** at the beginning of the year is starting to look a little optimistic despite the fact that many of the predictions contained outlined in our Economic Outlook 2002 are turning out to be accurate. Production at Ramatex and developments at Skorpion appear to be back on track after damaging work stoppages at both enterprises. Business perceptions in Namibia remain generally positive (see ***IJG*** Business Climate Survey above). However, the international environment is proving far more fragile than we anticipated. We pointed out last month that the OECD composite leading indicators – a measure of future growth in the world's leading industrialised economies – had fallen for the first time since November 2001. They fell again in July, the latest month for which there are figures (www.oecd.org). Local interest rates have moved towards the higher end of the consensus forecasts of the beginning of the year although the exchange rate remains rather firmer than expected.

The International Monetary Fund's latest edition of Finance and Development (www.imf.org/fandd) contains an interesting article on ***external debt and growth*** based on the latest IMF research. The article presents evidence that debt appears to have an inverted-U relationship with growth. When countries open up to foreign capital and start borrowing the impact on growth is likely to be positive. However, as debt ratios increase beyond a certain point additional debt slows growth down. The study does not succeed in pinning down at what point the marginal impact of debt turns negative but the overall contribution of debt to growth appears to become negative at about 35-40% of GDP in net present value terms. The results also indicate that the growth differential between countries with low indebtedness (less than 25% of GDP) and those with the highest indebtedness (more than 95% of GDP) is on average in excess of 2% a year. These results are relevant to a forthcoming IPPR Briefing Paper on Namibian government debt and fiscal sustainability.

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