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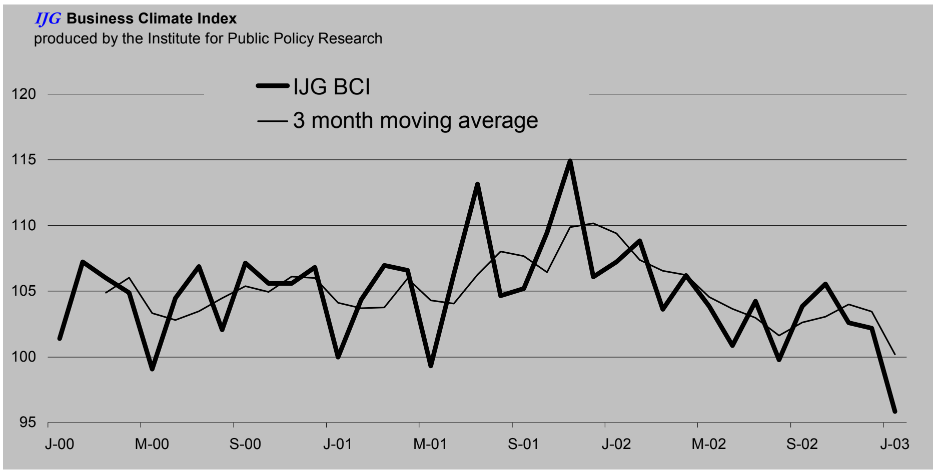
The *IJG* Business Climate Monitor for January 2003

produced by the Institute for Public Policy Research

- **The *IJG* Business Climate Index plunged to 95.8 in January, its lowest level in three years. Uncertainty surrounding the world economy, high oil prices, and sustained high interest rates have combined to cloud the economic outlook.**
- **The *IJG* Business Climate Survey suffered from a poor response rate this month. Although the majority of respondents continue to see prevailing business conditions as positive, it appears that businesses are not optimistic about revenue growth over the coming 12 months.**
- **Data on patents collected by the IPPR suggest Namibia has a very low level of economic innovation.**

The *IJG* Business Climate Index for January 2003



		January	December
Business Climate Index	▼	95.8	102.2
Investment Index	▼	99.8	111.3
Consumption Index	▼	92.2	94.4
Export Index	▲	99.5	99.0
Leading Indicator	▼	109.0	115.9
Coincident Indicator	▼	93.6	96.7

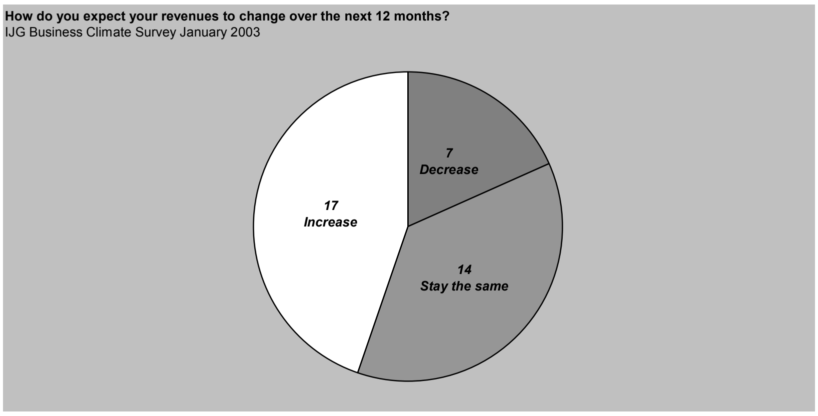
The *IJG* ***Business Climate Index*** plunged from 102.2 in December 2002 to 95.8 in January 2003, its lowest level since the BCI began in January 2000. Part of this can be explained by a high degree of seasonality in a number of the BCI's components – vehicle sales, building plans passed, and corporate registrations – which has been evident in January in past years. There are two other explanations for this recent fall. The first and most important is the uncertainty surrounding the world economy. Oil prices ended the month at over US$31 a barrel, the highest month-end price since November 2000. The OECD composite leading indicators for November suggest a modest improvement for the US economy but the outlook for both the EU and Japan are poorer than in October. The second is that the IPPR is still awaiting new price data for the key exports of meat and fish.

The *IJG* Business Climate Survey for January 2003

The *IJG* Business Climate Survey asks 50 top businesses in Namibia across all major sectors 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 surveyed. Since September 2002 members of the Namibia Chamber of Commerce and Industry (NCCI) have taken part in the survey. This month we received a total of 38 responses. This poor response is not unusual for January. However, no responses at all were received from the NCCI. Results of our survey are, as usual, reported for the whole sample and for all manufacturers.

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

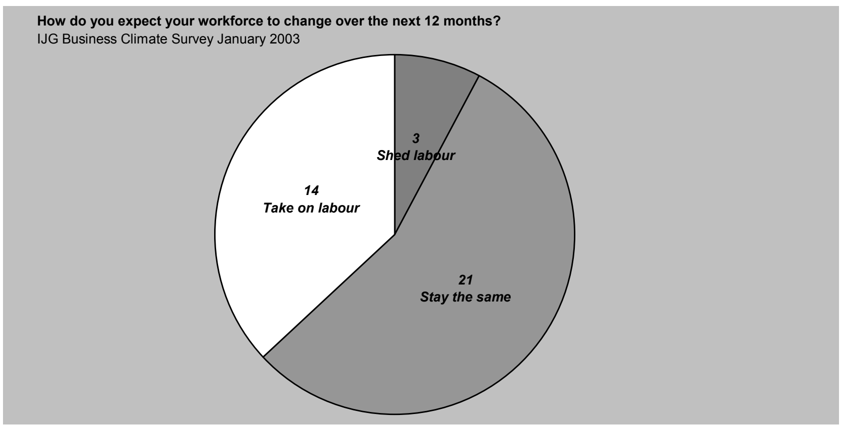
Less than half of responding businesses expect revenues to increase.



As usual, firms were given a choice of three responses to the question on revenues: revenues could decrease, stay the same or increase. This month's responses were more negative than last month's. Out of 38 responses, only 17 expected revenues to increase while 14 expected revenues to stay the same and 7 expected revenues to fall. Manufacturers gave a similarly negative response.

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

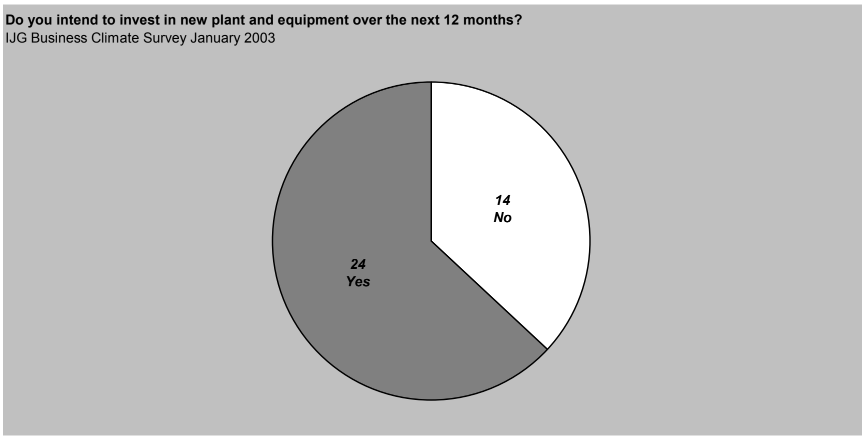
However, more than one third of respondents expect to take on labour.



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 14 firms stated they expected to take on labour while the majority expected their workforces to stay the same (21) or to shed labour (3). Again, manufacturers gave a similar response.

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

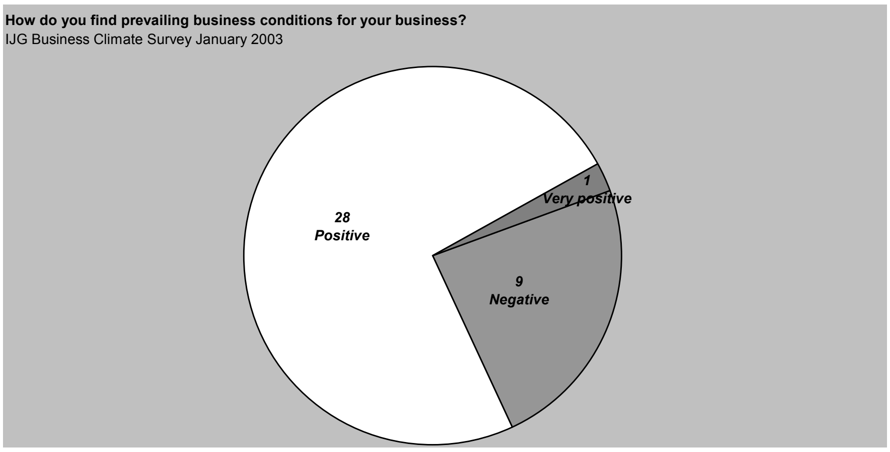
Almost two-thirds of all responding businesses intend to invest.



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 38 respondents, 24 stated that they intended to invest in new plant and equipment while 14 replied that they would not. Manufacturers were evenly split, the same as last month.

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

More than 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. A total of 29 viewed prevailing business conditions as positive (28) or very positive (1) while 9 viewed them as negative. Manufacturers gave virtually the same response.

This month's survey suffered from a poor response rate and the absence of participation by the NCCI. The most significant change over the previous survey appears to be the unusually high proportion of businesses that expect revenues to decline over the next 12 months. These negative expectations are in line with the results of the BCI and the fall in the Leading Indicator.

IPPR commentary for January 2003

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

For some time now the IPPR has argued that government's fiscal position is complicated by the existence of ***contingent liabilities***, that is to say debts that arise only under certain circumstances as opposed to debt that will certainly have to be repaid because of borrowing. One important element of contingent liabilities is government guaranteed loans. State-owned enterprises and institutions as well as private individuals and businesses may approach government for such guarantees which allow them to borrow money from financial institutions, often at lower rates of interest than they would otherwise be offered. If these borrowers default, government (the taxpayer) is obliged to pay the money back.

Table 1: Government loan guarantees

	95/96	***96/97***	***97/98***	***98/99***	***99/00***	***00/01***	***01/02***	***02/03***
Domestic	121.0	125.7	242.8	331.1	548.0	778.2	828.9	867.0
% of GDP	1.3%	0.8%	1.4%	1.7%	2.5%	3.1%	3.0%*	2.7%*
Foreign	0.0	139.3	145.7	504.1	1811.7	1974.2	2481.0	2670.0
% of GDP	0.0%	0.9%	0.8%	2.6%	8.4%	8.0%	8.9%*	8.3%*
Total	121.0	265.0	388.5	835.2	2359.8	2752.3	3309.9	3537.0
% of GDP	1.3%	1.7%	2.3%	4.3%	11.0%	11.1%	11.8%*	11.0%*

*using Bank of Namibia estimates for GDP
Source: Bank of Namibia Quarterly Bulletin December 2002

In a welcome move, government finally released up-to-date information on loan guarantees in the Bank of Namibia's Quarterly Bulletin for December 2002 (p23 Table 5.2). Table 1 above shows that the value of government loan guarantees has grown significantly since 1995/96. The Bank of Namibia estimates that the value of guarantees to domestic and foreign institutions together is now 11% of estimated GDP. The Bank estimates public debt at the end of September 2002 at some 25% of GDP. The largest single increase in guarantees to foreign institutions was N$1,307.6 million between 1998/99 and 1999/00. This was related to the purchase of the Boeing 747 by Air Namibia. In a communication with the IPPR dated 20 December 2002, the Ministry of Finance stated that total guaranteed domestic debt amounted to N$842 million and foreign debt N$3,192 million. The latter differs from the Bank's estimate of N$2,670 million by some N$522 million. Using the Bank's estimate of 2002/03 GDP, this puts total loan guarantees at 12.5% of GDP. The Ministry of Finance has not released a more detailed breakdown of which institutions these guarantees were made to making it impossible for the IPPR to assess the level of risk associated with them.

At the end of January the Ministry of Higher Education organised a rather grandly titled "National Forum on Human Capital Development and Knowledge Management". The aim of the forum was to launch a major study with the help of the World Bank on improving Namibia's education system and placing the country on the path to the ***"knowledge economy"***. One important indicator of future economic growth and whether a country is becoming a "knowledge economy" is the extent to which its citizens and firms come up with new inventions and ways of doing things and turn these into commercially successful ventures. The number of patents a country registers can be taken as a good measure of the degree to which this is taking place.

The IPPR has gone to the patent registration section of the Directorate of Internal Trade in the Ministry of Trade and Industry and collected data on Namibian patent applications and patents granted from the files there. Table 2 below shows the outcome of this work. The table is divided into patent applications and patents granted. These are further divided into whether the applicant is a Namibian resident or a non-resident, an individual or a company. Where these characteristics are unclear, we have placed it in the category "unknown". From the table it appears that Namibian residents have been successful in registering between 1 and 5 patents a year since 1990. We do not yet know how many of these Namibian patents have been turned into commercially viable businesses nor whether those registering patents even try to commercialise their ideas.

Table 2: Patent applications and patents granted in Namibia

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*
Patents applied for:													
Residents (individual)	2	5	5	9	4	6	3	7	13	7	11	19	7
Residents (companies)	1	2	0	0	5	1	1	4	4	0	1	1	0
Non-residents (individual)	19	28	22	31	24	17	22	6	8	11	13	2	23
Non-residents (companies)	26	99	85	79	60	59	66	68	77	54	37	36	27
Unknown (individuals)	3	4	2	10	2	2	7	8	6	2	9	1	0
Unknown (companies)	0	1	3	2	1	1	1	2	2	4	2	3	0
Patents granted:													18
Residents (individual)	2	2	1	3	3	0	1	2	1	2	0	1	N/a
Residents (companies)	0	0	0	1	2	0	1	1	2	1	1	0	N/a
Non-residents (individual)	3	7	23	18	15	16	7	9	4	5	5	5	N/a
Non-residents (companies)	7	47	81	76	58	42	41	52	49	61	24	7	N/a
Unknown (individuals)	0	0	0	0	4	2	2	6	2	2	1	0	N/a
Unknown (companies)	0	0	0	0	1	1	0	1	0	0	1	1	N/a
Totals applied for:	51	139	117	131	96	86	100	95	110	78	73	62	57
Of which:													
Residents	3	7	5	9	9	7	4	11	17	7	12	20	7
Non-residents	45	127	107	110	84	76	88	74	85	65	50	38	50
Unknown	3	5	5	12	3	3	8	10	8	6	11	4	0
Totals granted:	12	56	105	98	83	61	52	71	58	71	32	14	18
Of which:													
Residents	2	2	1	4	5	0	2	3	3	3	1	1	N/a
Non-residents	10	54	104	94	73	58	48	61	53	66	29	12	N/a
Unknown	0	0	0	0	5	3	2	7	2	2	2	1	N/a

To put this in context, Table 3 shows how many patents are granted to residents in a selection of other countries around the world. Among the countries chosen are those that received attention at the National Forum mentioned above. South Korea, a country of some 46 million people (approximately the same as South Africa), appears to have an exceptionally high level of patent applications and patents granted. Patents are, however, only part of the story. Although the level of innovation in Ireland, for example, is far lower than that of South Korea, Ireland has an income per capita that is almost twice as high as that of South Korea. The table also confirms that the United States is far and away the world leader in innovation. Clearly, there is a long way to go before Namibia succeeds in reaching these levels of innovation.

Table 3: Applications for patents by and patents granted to residents in selected countries in 2000

Country	*Number of patents filed*	*Number of patents granted*
China	25,592	6,475
South Korea	73,378	22,943
Ireland	278	34
Sweden	10,287	2,082
Netherlands	7,528	2,820
South Africa	190	N/a
United States	175,582	85,071
African Regional Industrial Property Organisation (ARIPO)	8	3
European Patent Office	61,637	17,877
Namibia	12	1

Source: World Intellectual Property Organisation (WIPO) www.wipo.org

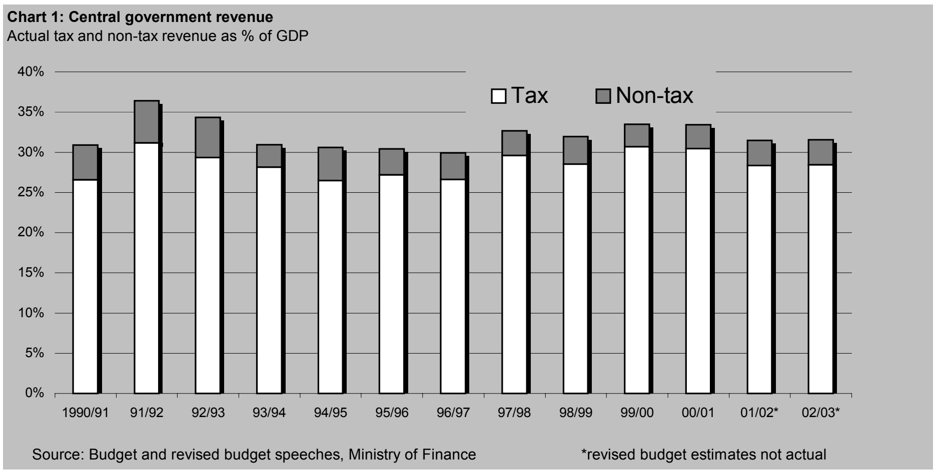
In December Cabinet mandated the Ministry of Finance to establish a fund to assist orphans and vulnerable children and to introduce a levy to sustain the fund. The IPPR understands this decision is subject to technical review but its mere existence highlights the fact that recent years have seen a proliferation of special funds established by government in addition to general taxation raised by the Receiver of Revenue.

Table 4: Obligatory levies and charges introduced by government

Levy/charge	*Purpose*
NAMFISA levy	To pay for the regulation of the non-banking financial services industry
Social Security contributions	To pay for disability, sickness, maternity and death benefits for low-income workers
Sea Fisheries Research levy	To fund sea fisheries research
Horticulture levy	To encourage greater domestic production of fruit and vegetables
Road user charges	To fund the Road Fund Administration
Water user charges	To help maintain rural water resources
Vocational Training Levy*	To encourage industry to increase the level of vocational training
Tourism levy*	To fund the Namibia Tourism Board
Land tax*	To discourage individuals from owning “too much land” and to raise funds for land redistribution
National Pension contributions*	To fund a national Pay-As-You-Go pension system
Orphans and Vulnerable Children levy**	To provide financial assistance to orphans and vulnerable children

*not yet operational
**subject to technical approval

The IPPR has tried to put together a list of all such special levies and charges introduced by central government which are not paid into the State Revenue Fund but go into separately administered funds. These are shown in Table 4. Because they are not classified as government tax or non-tax revenue, they are excluded from budgetary calculations and analysis. These are in addition to a range of administrative fees and charges (including hotel fees, charges for health services and water services) that are not counted as taxes but are paid directly into state coffers under the revenue item “administrative fees and charges” and other “voluntary” private contributions towards public services which do not enter the State Revenue Fund at all such as contributions to school development funds.



The existence of such special levies and funds raises a number of issues for economists. First, is there a good economic rationale to introduce specific levies on particular industries or individuals rather than raise general taxation and expenditure? Why should research in fisheries be funded by a levy but not, say, in manufacturing? Why should the financial services industry pay for its own regulation through a special levy but not, say, the mining industry? Second, it is not always clear if they represent the most cost effective way of raising and spending additional funds. Is it cheaper to set up a new fund to collect and distribute money with the accompanying administrative costs rather than raise general taxation and increase government spending? Third, because they are obligatory levies, individuals and firms cannot choose not to pay them. It could therefore be argued that they are equivalent to taxes and therefore add to the tax burden and the costs of doing business. Chart 1 shows how government revenues (divided into tax and non-tax revenues but excluding grants and borrowing) have changed since 1990/91. It could be argued that Namibia’s tax burden has already risen since the mid-1990s. The question is, should it rise any further? The economic reality is that there is a limit to the amount of tax revenue government can squeeze out of the economy. Fourth, is there sufficient public transparency and accountability with such extra-budgetary funds earmarked for public policy purposes? Parliament scrutinises central government’s budget but may not do so for special funds. Special funds are generally subject to detailed audits but public scrutiny is mostly lacking.

Clearly, government’s reaction to a policy need should not first be to establish new funds and levies until it can be shown that there are good reasons not to pursue the policy objective through the national budget. In reality the use of earmarked levies and funds is common practice internationally, mostly because of shortcomings in the budgeting system. It is often politically easier to introduce a targeted levy than either raise taxation or cut expenditure. Furthermore, this affords income streams for certain activities a greater degree of protection from cuts in the general budget round. It will be interesting to find out whether the government’s comprehensive tax review promised last September makes any recommendations on this issue.

Last month's ***IJG*** ***Business Climate Monitor*** stated that even with the recent sharp appreciation, the ***Rand*** remains heavily undervalued in purchasing power parity terms. *The Economist* magazine's Big Mac Index (The Economist January 18th – 24th 2003) suggests that, at R8.8 to the US dollar, the Rand was still about 40% undervalued on 15 January 2003 in purchasing power parity terms.