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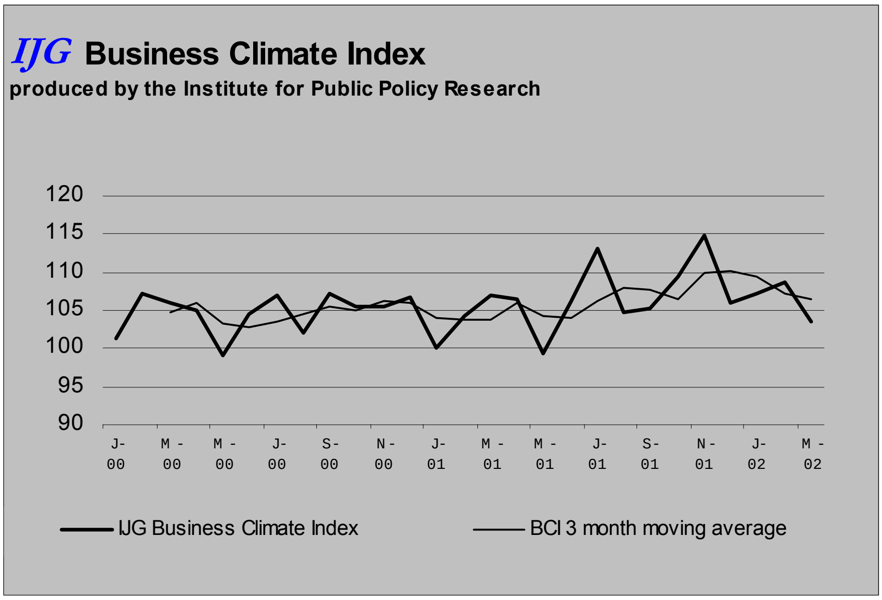
The *IJG* Business Climate Monitor for March 2002

produced by the Institute for Public Policy Research

- **The Business Climate Index fell between February and March, mainly due to higher interest rates and international oil prices.**
- **All other sub-indices fell with the exception of the Export sub-index which rose as a result of higher metal prices and an improvement in the outlook for OECD economies.**
- **Most businesses continue to view prevailing business conditions as positive, expecting revenues and workforces to either stay the same or increase, while the majority expect to invest in new plant and equipment.**
- **The response rate from the Association of Namibian Manufacturers was poor but suggests that manufacturing firms are facing more difficult business conditions than other firms.**
- **Growth estimates for the Namibian economy for 2002 vary between 3% and 4%.**

March 2002 Business Climate Index



The ***Business Climate Index*** fell five points from 108.7 in February to 103.7 in March suggesting that the overall business climate has deteriorated in the past month. This decline can be put down to the second increase in the prime lending rate this year as well as higher international oil prices. These negative changes were accompanied by a fall in passenger vehicle sales, and fewer registrations of companies and defensive names. On a more positive note, the OECD leading indicators registered further improvements for the US, the EU-15 and Japan as well as the OECD as a whole while commercial vehicle sales and registrations of CCs both increased. All sub-indices fell this month with the exception of the Export Index which was boosted by improvements in the outlook for OECD economies and firmer metal prices.

		Mar	Feb
Business Climate Index	▼	103.7	108.7
Investment Index	▼	110.7	118.1
Consumption Index	▼	89.5	96.3
Export Index	▲	115.4	114.7
Leading Indicator	▼	108.6	133.3
Coincident Indicator	▼	99.6	102.7

March 2002 Business Climate Survey

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 Association of Namibian Manufacturers (ANM) are also included in the survey. The ANM currently has 25 members, five of which were already included in our survey. Our survey received 31 responses from our usual sample and 11 responses from the ANM. 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?

Most businesses expect revenues to stay the same or increase but manufacturers are less optimistic.

Firms were given a choice of three responses to the question on revenues: revenues could decrease, stay the same or increase. Out of 42 responses, only 3 companies expected revenues to fall while 23 expected revenues to increase. The remaining 16 expected revenues to stay the same. Of the 15 manufacturers that responded, 2 expected revenues to fall, 8 expected revenues to stay the same, and only 5 expected revenues to increase. These results are slightly less optimistic than last month.

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

The majority of businesses expect their workforces to remain the same but those taking on labour outweigh those shedding 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 only 5 firms expected to shed labour while 24 expected their workforces to stay the same and 13 expected to take on labour. Only 1 out of the 7 firms expecting to shed labour were manufacturers.

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

As in February, most non-manufacturing firms expect to invest in new plant and equipment while most manufacturing firms do not.

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 42 respondents, 27 replied that they intended to invest in new plant and equipment while 15 replied that they would not. Of the latter which did not expect to invest, 10 were manufacturers. Manufacturers that did not intend to invest outnumbered those that did by two to one.

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

The vast majority of all firms 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 42 responses, 13 viewed prevailing business conditions as negative while the remaining 29 viewed business conditions as either positive or very positive. Eight out of the 13 that viewed business conditions as negative were manufacturers. None viewed conditions as very negative.

This month's results confirm the findings of last month's survey that manufacturers give more negative responses to our four questions than the sample as a whole. Manufacturers have become more negative about prevailing business conditions since last month. Firms seem to have a slightly less positive perception of prevailing business conditions this month than last month.

Commentary for March

More than three months into the year, the Bank of Namibia presented its ***growth forecast*** for 2002 during the launch of its annual report. The Bank estimates growth in Gross Domestic Product at 3%, well above the latest estimate for 2001 of 1.6%. The table below presents the GDP forecasts for 2002 from a variety of institutions.

Institution	***GDP growth forecast for 2002***
Bank of Namibia/Ministry of Finance	3.0%
Institute for Public Policy Research	4.0%
Economist Intelligence Unit	3.5%
Organisation for Economic Cooperation and Development	4.0%
Irwin Jacobs Greene stockbrokers	3.1%

The past year has seen much attention focussed on the parastatals, companies owned by government that operate outside the confines of the public service bureaucracy. March was no exception with the announcement by Vekuii Rukoro that ailing ***Air Namibia*** in its current form will cease to exist on 30 June 2002. From 1 July, a new Air Namibia will come into being. Government will have a 25% stake in the new company. The remaining shareholders will be South African Airlink (40%), Comav (15%), Labour Investment Holdings (10%) and Air Namibia employees (10%). Government has apparently agreed to take over all the debts of the existing company, some N$1.4 billion according to press reports. The new Air Namibia will continue to operate domestic, regional and international routes while the Boeing 747-400 Combi is to be hired out to another airline. An important question for the new company is whether Government will continue to guarantee loans. It is hard to believe that even now Government would allow the national carrier to go bust and thus the issue of ***moral hazard*** remains ominously present. Moral hazard occurs when a company avoids taking the hard commercial decisions necessary to survive because it believes it will be baled out. Moral hazard is often present in the situation of companies that are fully or partially owned by governments because governments are likely to come under political pressure from a range of interest groups to prevent bankruptcy taking place.

Table 1: Actual transfers to commercial parastatals (N$ million)*

Parastatal	***91/92***	***92/93***	***93/94***	***94/95***	***95/96***	***96/97***	***97/98***	***98/99***	***99/00***	***00/01***	***01/02***	***02/03***
Subsidies												
Namcor			1.8									
DBC				18.7	9.1			21.2				5.0
Namwater						40.0	30.0	20.0	15.0	10.0	10.0	
NTB							9.4	11.4	14.9	11.8	12.4	12.6
DFN								22.0	20.0	3.5	40.0	11.0
NDC								15.0	5.0	5.0	5.0	5.0
Agribank									1.9	5.0	1.5	
NBC	45.5	49.4	44.2	35.3	40.4	45.5	54.0	58.4	70.0	62.2	67.5	72.2
NAMPA		3.6	3.5	4.0	4.6	5.0	5.0	5.7	5.4	8.4	7.1	6.6
New Era		2.5	2.5	3.0	3.6	4.0	4.0	4.7	8.5	8.6	6.3	5.8
Capital												
Nampower	N/a	N/a	16.8									
DBC			15.0									
Equity												
NamibRe									11.0	9.0		
Kalahari E										5.0		
Air Namibia									9.5	20.0	296.0	250.0
TransNamib										43.0	43.0	43.0
NWR											10.0	
DBN												125.0

*2001/02 and 2002/03 are budged estimates not actuals

The IPPR has investigated the issue of payments from the central government budget to the expanding parastatal sector. Table 1 includes all actual budgetary transfers from central government to parastatals since 1991/92. Our sample includes only those parastatals we consider to be commercial service providers which should at least be able to cover their costs without requiring transfers from Government. The numbers are actual expenditures taken from main budget documents. Historically budget documents have included actual expenditure outturns for the financial year two years prior to the financial year to which the document refers. Payments to parastatals are detailed in the footnotes included within each Main Division. We have taken actual expenditures rather than budgeted expenditures since we are more interested in what has actually happened and actual expenditures can differ significantly from budgeted expenditures.

Expenditures fall into three categories: *Subsidies and Other Current Transfers* (which represents a pure subsidy), *Capital Transfers* (which represents central government support for capital expenditure by the parastatal and for which central government is not expected to earn a direct financial return) and *Lending and Equity Participation* (which represents central government lending or capitalisation on which central government expects a direct financial return).

Media-related parastatals have been the most regular recipients of *Subsidies and Other Current Transfers* reflecting their inability to become commercially viable entities. There are important economic arguments which suggest the NBC, as a public good, may not and should not become commercially viable. This may also apply to NAMPA but is more debatable for the New Era newspaper. The Agribank subsidies relate to the Affirmative Action subsidised loan scheme where Government took the decision that Agribank as a commercial entity should not be expected to bear the cost of Government's policy of targeted subsidies. The subsidy to Namwater was an integral part of the process of commercialising bulk water supply. Central Government agreed to provide the subsidy necessary to cover the costs of supply during an initial phasing-in period during which Namwater would gradually raise its tariffs to cost-recovery levels. These subsidies can be justified on economic grounds. The remaining subsidies to the Development Brigade Corporation, the Namibian Tourist Board, the Development Fund of Namibia, and the Namibia Development Corporation are more questionable.

Government has occasionally provided financial support to the capital programmes of parastatals, usually on the grounds that certain infrastructure projects, while socially desirable, are not commercially viable. Again, commercial parastatals should not therefore be expected to bear the cost. The most important example of this is Nampower's rural electrification scheme. Government has channelled public and donor funds through the budget to support such this and other similar initiatives.

The final group of parastatals are those benefiting from Government lending or equity participation. Government often decides to fund the start-up capital of a new parastatal or lend to an existing one. The expectation here is that once capitalised, parastatals will generally be able to generate income from their own revenue stream without resorting to further Government subsidies. This does not appear to have taken place for Air Namibia and TransNamib, which now receive money on a regular basis under the category of *Lending and Equity Participation*.

Overall payments made to parastatals from the central government budget appear to have increased over time, partly due to the need to capitalise new parastatals and partly due to the poor performance of existing ones. While there is a clear economic justification for central government support to certain parastatals under certain circumstances, clearly significant payments have been made with little to show at the end of the day. However, although parastatal subsidies generally remain low by the standards of many other countries, it should be remembered that financial payments from the central government budget is just one way in which support is provided to the parastatal sector. Others include the provision of guarantees by government on loans to parastatals, which effectively reduces the cost of borrowing by the parastatal and transfers the risk of loan default to the taxpayer, as well as the creation of a regulatory environment which allows parastatals to charge prices which are above those that would prevail in a competitive environment.