Institute for Public Policy Research

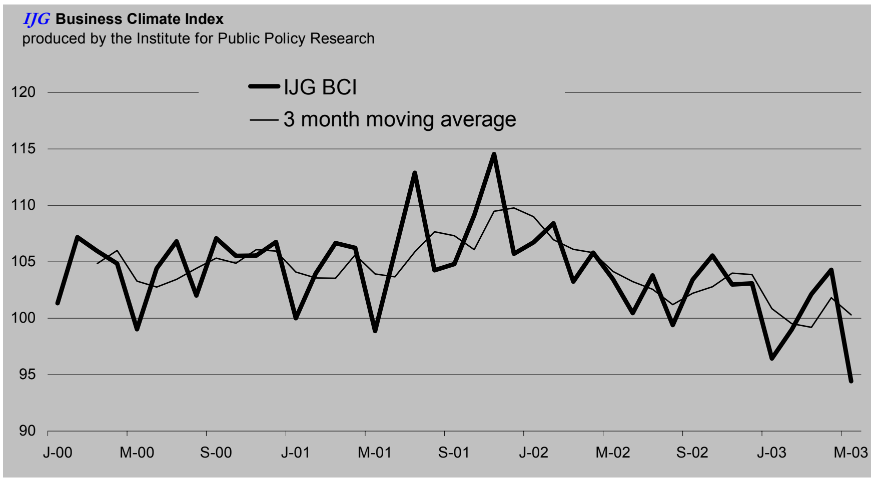
152 Robert Mugabe Avenue PO Box 86058 Eros Windhoek Namibia Tel: +264 61 240514/5 Fax: +264 61 240516 ippr@iway.na www.ippr.org.na

The *IJG* Business Climate Monitor for May 2003

produced by the Institute for Public Policy Research

- **The *IJG* Business Climate Index recorded its largest ever one-month fall in May plunging to 94.4 from 104.3 in April.**
- **The *IJG* Business Climate Survey suggests businesses view the prevailing business climate more negatively than ever before.**
- **The comprehensive tax review initiated by government contains a large number of mostly incremental improvements to Namibia's tax system.**
- **The preliminary national accounts show Namibia's GDP grew by 2.3% in 2002.**
- **A new international study puts the Netherlands at the top of a list of 21 rich countries ranked according to which do most to help poor countries.**

The *IJG* Business Climate Index for May 2003



		May	April
Business Climate Index	▼	94.4	104.3
Investment Index	▼	91.8	113.4
Consumption Index	▼	98.6	105.3
Export Index	▲	98.1	91.3
Leading Indicator	▼	105.3	110.2
Coincident Indicator	▼	94.1	94.8

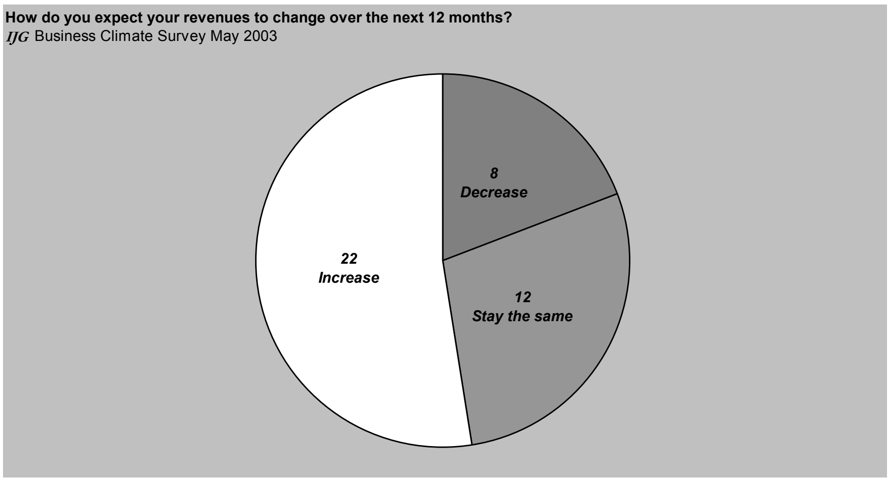
After staging a modest recovery over the past three months, the ***IJG* Business Climate Index** plunged by almost 10 points in May, its largest one-month fall since January 2000. The BCI now stands at 94.4 compared to 104.3 in April. Whilst there were some modest gains in export prices and the NSX Local Index, most other components of the Index changed for the worse. We suspect that the prevailing high interest rate environment is largely responsible for the dismal state of business investment, including building plans, commercial vehicle sales and company registrations. The outlook for OECD economies, upon which diamond and other export prices depend, has worsened again. This month the composite leading indicators for the three major regions, the US, the EU and Japan, as well as the OECD as a whole have all fallen. The local economy is clearly desperate for a cut in interest rates and eagerly awaiting news of a positive decision from the South African Reserve Bank this month.

The *IJG* Business Climate Survey for May 2003

The *IJG* Business Climate Survey asks 50 top businesses in Namibia across all major sectors of the economy 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 42 responses. As usual, we report the results of our survey for the whole sample and for all manufacturers.

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

Just over a half of responding businesses expect revenues to increase.

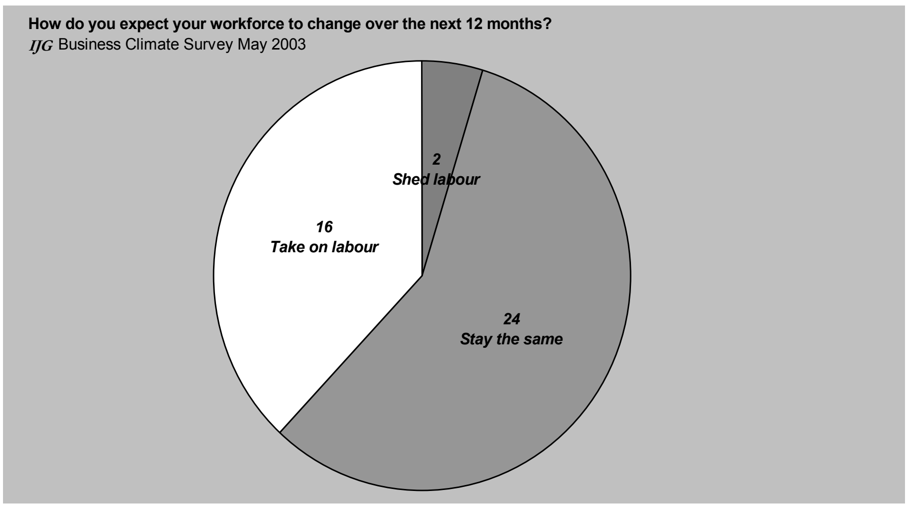


Firms were given a choice of three responses to the question on revenues: revenues could decrease, stay the same or increase.

This month's responses were the same as last month's. Out of 42 responses, 22 expect revenues to increase while 12 expect revenues to stay the same and only 8 expect revenues to fall. Manufacturers were marginally more positive.

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

The proportion of firms expecting to take on labour has risen slightly.

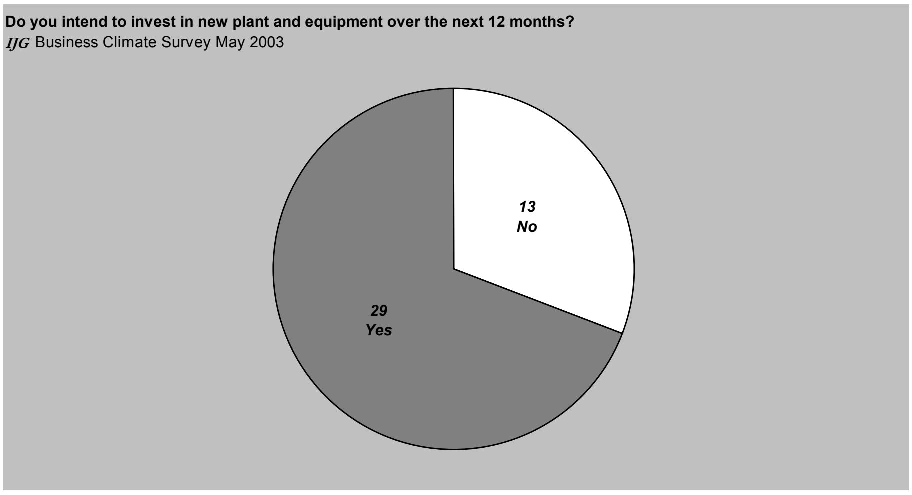


Firms were given a choice of three responses to the question on employment: either they expected to shed labour, or their workforces were expected to remain the same, or they expected to take on labour.

This month 16 out of 42 firms expect to take on labour. Only 2 expect to shed labour while 24 expect their workforces to remain the same. Manufacturers had virtually identical expectations.

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

Investment expectations have risen slightly but remain negative.



Firms could respond either that they intended to invest in new plant and equipment or that they did not intend to invest.

More than two-thirds of respondents intend to invest in new plant and equipment. A majority of manufacturers, however, do not intend to invest.

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

Almost half of all firms perceive prevailing business conditions as negative.

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, only 22 perceive prevailing business conditions as positive. No respondents were very positive. Surprisingly, manufacturers again gave a slightly more up-beat response.

May's survey suggests the local economy is really struggling under present economic conditions. Perceptions of the prevailing business climate are more negative now than at any time since our survey began in November 2001 although, interestingly, our Top 50 were more positive than last month suggesting the present climate may not be perceived in the same way by large and small businesses.

IPPR commentary for May 2003

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

The IPPR has finally obtained the ***Namibian Tax Consortium Report on Taxation in Namibia*** and placed it on the database page of its website www.ippr.org.na. The Namtax Consortium was contracted to undertake a tax review in November 2001 funded jointly by the Swedish International Development Authority (SIDA) and the Government of Namibia. The report makes a number of mostly incremental recommendations, some of which were already announced in this year's budget. It recommends retaining the present source-based system of taxation. Capital gains tax should not be a priority since it is likely to yield little in the way of revenue. Instead, an estate duty and a donations tax should be introduced. The report does not recommend lowering the corporate tax rate but suggests there is scope for aligning the maximum marginal rate with the nominal corporate rate of 35% and for readjusting tax scales. Important changes are recommended on the taxation of salaried individuals (the schedular form of taxation) which would eliminate the need for them to submit a final tax return and allow the Inland Revenue to concentrate its resources elsewhere. Because the evidence suggests that many taxpayers are not disclosing interest income, a withholding tax of 10% on interest paid by any financial institution and the abolition of the interest exemption of N$500 are recommended. The report says that taxes are presently to a large extent reliant on voluntary compliance with little enforcement. Transfer pricing legislation is also recommended. Disappointingly, the idea of creating an Independent Revenue Authority (IRA) appears to be seen only as a longer-term option. The report assumes that "government may not wish to proceed with an IRA immediately". Perhaps the most radical recommendation is that of introducing a universal grant to all Namibians over the age of 6 funded by an increase in VAT. The IPPR will shortly be publishing more on this issue.

The Central Bureau of Statistics released its ***preliminary national accounts*** for 2002. The publication shows that GDP grew by only 1.9% in 2001 (revised down from the 2.4% contained in the 2001 national accounts) and 2.3% in 2002. These compare to the IPPR's initial rather more optimistic forecasts of 3% and 4% respectively and the government's own original forecasts of 4.8% for 2001 (contained in the 2001/02 budget speech) and 3.0% (contained in the 2002/03 budget speech).

A new study by the Centre for Global Development (CGD) and *Foreign Policy* magazine is highlighted by *The Economist* in its May 3rd – 9th 2003 edition. The CGD study makes interesting reading for donor countries. The study attempts to look at which of the 21 rich countries included in the report do most to help poor countries by constructing a ***"Commitment to Development Index"*** for each country. The results are shown in Table 1 below. The really interesting thing is that the study looks at six areas of policy rather than just the amount of aid these countries give: aid, trade, the environment, migration, investment and peacekeeping. Aid is adjusted to take account of quality by reducing a country's score for loans (rather than grants), "tied aid" and aid to countries that are poorly governed. However, aid from private foundations is excluded. Trade combines information on tariffs, non-tariff barriers and domestic subsidies and how much is actually imported from poor countries. Environment captures how much rich countries deplete natural resources and their contributions to the development of clean technology and commitment to international treaties. Migration is mostly a measure of the number of legal migrants from developing countries. Investment depends primarily on direct investment from rich countries to the developing world. Peacekeeping is based on contributions to multilateral peacekeeping efforts relative to GDP. According to the CGD, the Netherlands comes top scoring well on all counts apart from peacekeeping. Despite coming top in trade the United States comes second to last overall. Japan comes last and does poorly in all areas apart from environment. For more details go to www.cgdev.org. The IPPR is funded partly out of Dutch development assistance.

Table 1: Commitment to Development Index scores (minimum = 0, maximum = 9)

	Aid	*Trade*	*Environment*	*Investment*	*Migration*	*Peacekeeping*	*Average*
Netherlands	6.9	7.0	5.7	6.1	4.5	3.5	5.6
Denmark	**9.0**	6.8	5.0	1.0	4.4	7.1	5.5
Portugal	2.2	6.9	5.1	**9.0**	1.0	6.8	5.2
New Zealand	1.7	7.2	3.4	2.3	**9.0**	6.9	5.1
Switzerland	3.3	4.0	**7.2**	6.3	**9.0**	0.1	5.0
Germany	2.1	6.8	6.0	1.4	8.1	3.8	4.7
Spain	2.4	6.8	6.0	8.2	1.8	2.9	4.7
Sweden	7.0	6.9	6.1	1.8	3.9	1.3	4.5
Austria	2.8	6.8	5.4	2.6	6.5	2.6	4.4
Norway	6.6	1.0	2.8	3.5	4.6	7.4	4.3
Britain	3.0	6.9	5.0	3.4	3.1	3.6	4.2
Belgium	3.5	6.7	4.5	1.4	4.5	3.5	4.0
Greece	1.5	6.7	4.6	0.0	1.6	**9.0**	3.9
France	3.1	6.8	4.9	1.7	0.8	5.2	3.8
Ireland	2.6	6.6	1.6	2.3	4.5	3.7	3.6
Italy	1.4	7.0	5.3	1.5	1.1	5.3	3.6
Finland	3.0	6.8	5.4	1.7	1.3	2.9	3.5
Canada	1.7	6.6	1.7	2.1	6.1	2.4	3.4
Australia	1.7	7.2	1.8	1.6	3.7	2.8	3.2
United States	0.8	**7.7**	1.0	2.0	2.3	1.5	2.6
Japan	1.2	4.6	4.0	2.8	1.5	0.5	2.4

Source: Centre for Global Development, reproduced from The Economist