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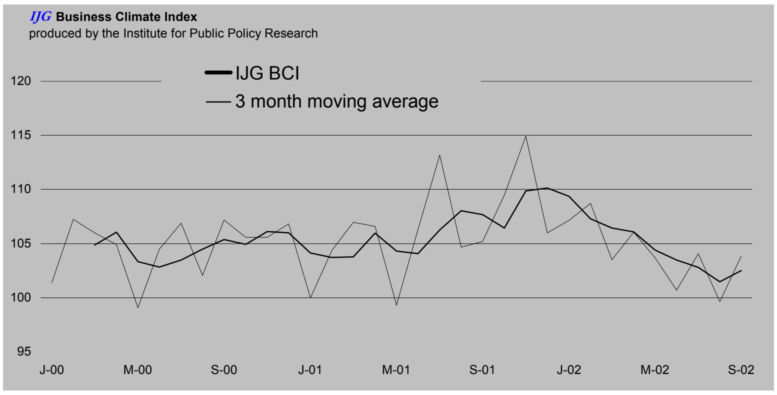
The *IJG* Business Climate Monitor for September 2002

produced by the Institute for Public Policy Research

- **The *IJG* Business Climate Index rose from 99.6 points in August to 103.8 points in September suggesting that the business climate has improved somewhat over last month's deterioration.**
- **For the first time the *IJG* Business Climate Survey included members of the Namibia Chamber of Commerce and Industry (NCCI). Although the overall response showed that businesses do not expect revenues, employment or investment to rise, prevailing business conditions are still viewed as generally positive.**
- **The new Competition Bill requires further scrutiny and some far-reaching changes.**
- **New statistics confirm the slow pace of commercial land reform.**
- **The proposed minimum wage in agriculture may be more of a gesture rather than make a tangible difference to farmworkers' wages.**

The *IJG* Business Climate Index for September 2002



Following the sharp decline in August, the ***IJG Business Climate Index*** rose more than four points in September to 103.8 points. The 3-month moving average rose for the first time since December 2001. Higher beef, monk , copper and zinc prices combined with stronger figures for company registrations helped outweigh the negative impact of the fourth interest rate rise this year, higher oil prices and an uncertain outlook for OECD economies. The lagged effect of building plans passed in June helped push the **Investment Index** up despite the rise in interest rates which led to a fall in the **Consumption Index**.

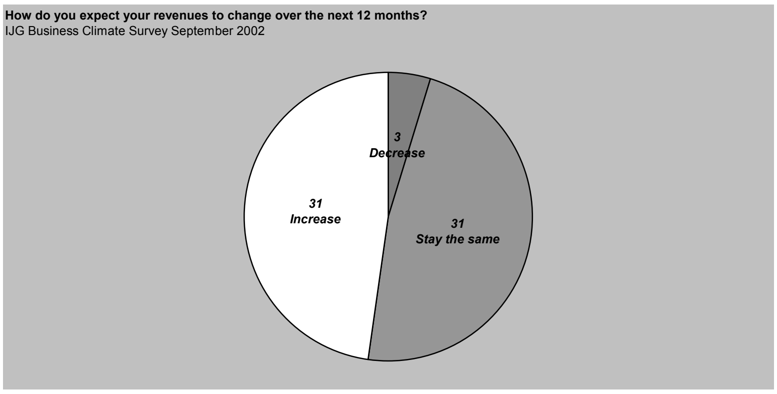
		September	August
Business Climate Index	▲	103.8	99.6
Investment Index	▲	114.0	105.6
Consumption Index	▼	84.5	88.7
Export Index	▲	111.3	108.9
Leading Indicator	▲	114.5	107.2
Coincident Indicator	▲	97.0	94.9

The *IJG* Business Climate Survey for September 2002

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. For the first time members of the Namibia Chamber of Commerce and Industry (NCCI) participated in the survey. This month we received a total of 65 responses of which 21 were from manufacturers and 17 from the NCCI. 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?

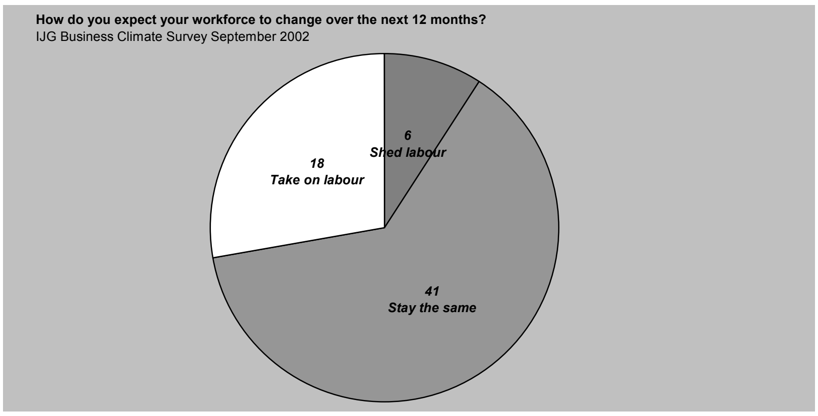
Less than half of responding businesses expect revenues to increase.



Firms were given a choice of three responses to the question on revenues: revenues could decrease, stay the same or increase. This month's responses were more negative than last month. Out of 65 responses, 31 expected revenues to increase and 31 expected revenues to stay the same while only 3 expected revenues to fall. Manufacturers were less positive with 2 stating revenues were likely to decrease, 13 stating that their revenues were likely to stay the same and only 5 stating that they would increase.

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

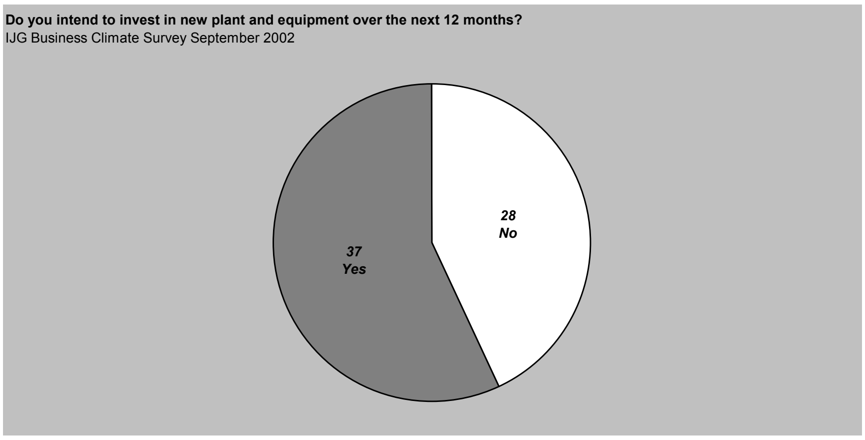
Over half the respondents expect their labour forces to stay the same.



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 6 firms stated they expected to shed labour while 41 expected their workforces to stay the same and 18 expected to take on labour. These results are not very different to last month's responses. While only 1 manufacturer expected to shed labour, 17 expected their workforces to stay the same and only 3 expected to take on labour.

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

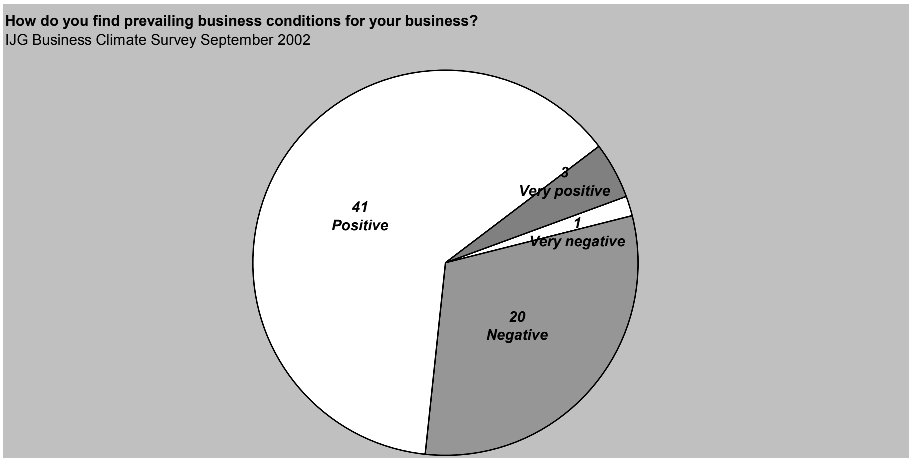
A majority of businesses still intend to invest in new plant and equipment. However, a significant majority of manufacturers do not intend to invest.



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 65 respondents, 37 stated that they intended to invest in new plant and equipment while 28 replied that they would not. For manufacturers the proportions are exactly the opposite with 12 stating they did not intend to invest and 9 stating they would.

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

Over two thirds 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 65 responses, 41 viewed prevailing business conditions as positive and 3 as very positive. A total of 20 viewed them as negative. A much larger proportion of manufacturers gave negative responses.

The results of this month's *IJG* Business Climate Survey are not significantly different to August's despite the further increase in interest rates. Yet again, manufacturers continue to give more negative responses to survey questions than other companies. Manufacturing investment appears to be performing particularly poorly. Interestingly, NCCI members appear to take a more optimistic view of business conditions than the rest of the sample.

IPPR commentary for September

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

The long-awaited ***Competition Bill*** was introduced in the National Assembly by the new Minister of Trade and Industry, Jesaya Nyamu. If enacted the Bill will provide a framework for a new Namibian Competition Commission (NCC) empowered to investigate and act on competition issues in Namibia. In theory economists believe competition improves economic well-being by increasing the efficiency of producers and reducing prices to consumers. In practice the proposed legislation suffers from a number of shortcomings which are likely to blunt its effectiveness as a means to foster competition in the Namibian economy. We believe it would have been better to approach the issue of competition on a SACU-wide basis rather than as individual countries. This is because, in practice, SACU is a single trading area and a large number of competition issues are likely to relate to the operations of South African firms in the Namibian market. In addition, there are likely to be cost savings associated with one SACU-wide competition body rather than five separate bodies and also less scope for special pleading by domestic champions. An effective competition body needs to be adequately resourced. This could have been financed from the SACU revenue pool. With the new SACU agreement to be signed shortly designed to increase democratic control and development, there will be ample scope for such an initiative in future.

As proposed the Minister of Trade and Industry appoints between 2 and 4 members of the NCC. No consultation is required. It is unclear whether these members would be full-time or part-time employees. Given the lumpy nature of the likely workload, the Bill very sensibly makes provision for outsourcing of work to consultants. Whether these specialised people exist in Namibia is uncertain. They are likely to be very expensive. A proposed ***budget for the NCC*** has not yet been presented to the public.

While the Bill explicitly deals with restrictive practices and mergers, it makes no attempt to define “dumping” or “unfair competition”. Such definitions will be required if the NCC is to make fair and consistent decisions. They should be in line with Namibia’s obligations to the World Trade Organisation (WTO). More importantly perhaps, the Bill ignores the issue of ***state subsidies*** and guarantees, state aid and other state involvement in the economy which form a major element of the work of competition bodies in other countries. What happens if a private sector operator is obliged to compete with a subsidised state-owned enterprise? What happens if a mining licence available and the state owns shares in one of the companies bidding for the licence? The Bill does not address these issues.

A further critical concern in Namibia is that of ***administered prices***. A range of important prices in the economy are set, not according to competitive markets, but administratively. These include electricity, water, and municipal charges and those of other public monopolies. In the absence of real competition, these need to be scrutinised by an independent body with regulatory teeth to make sure consumers are not abused. The Bill ignores this issue completely and goes no way towards supporting an active consumer rights organisation.

Competition policy is an enormously complex area requiring significant economic, financial and legal ***expertise***. In the past few years a whole raft of new regulatory public bodies have been created by government, including the Namibia Financial Institutions Supervisory Authority, the Employment Equity Commission, the Central Governance Agency for State-Owned Enterprises, the Electricity Control Board, Namibia Communications Authority, not to mention new economic institutions such as the Development Bank of Namibia and a new SACU. All these require both finance and skilled personnel. The NCC is likely to have to deal with some thorny issues with political interests at stake including possibly the battle between South African Breweries and Namibia Breweries, banking competition, unfair competition from South African producers and the consequences for competition of infant industry protection. We do not envisage that the NCC will investigate competition in the diamond industry, dominated as it is by De Beers.

A ***minimum wage*** for farmworkers is currently under discussion. Early press reports have stated that the proposed minimum wage would be N$429 a month (N$5,148 a year) in cash to be paid by both commercial and communal farmers. There is no official poverty line in Namibia with which to compare this figure. A household is considered poor if 80% of its consumption is on food. Minimum wages in Namibia have already been implemented in both the mining and construction sectors. As far as we are aware, no analysis has been undertaken on how effective these measures have been in raising wages of low-paid workers or reducing poverty. There is a large economics literature on minimum wages focussing mainly on the experiences of high-income countries. The debate in Namibia appears to have drawn more heavily on two papers, one by the International Labour Organisation on the international experience of minimum wages in selected countries (Saget, 2001) and the other by the Legal Assistance Centre (Chimana and Hengari, 1997). Economists generally ask three questions about minimum wages: will they lead to unemployment, will they reduce poverty, and are they administratively feasible?

The concern about ***employment*** is particularly important in a situation where, on a broad definition, unemployment is estimated to have increased from 32.7% to 34.5% between 1993/94 and 1997, the date of the last Namibian Labour Force Survey. Simple economic theory assumes that, in a labour market without wage regulations, the price of labour will adjust to equalise the supply and demand for labour. If a minimum wage is introduced below this market clearing price it will have no effect on the market and there is little point introducing the regulation. If a minimum wage is set higher than the market clearing price it will generally reduce demand for labour and increase the number of people willing and able to work at that wage. The divergence between supply and demand creates unemployment. There is therefore a tradeoff between higher wages for those who remain in work and greater unemployment. Government can oblige employers to pay a certain wage but they cannot oblige them to take on more workers in the future.

Are there circumstances in which this theory does not apply? Economists put forward several situations in which minimum wages may not increase unemployment. Paying wages above the market clearing rate – ***efficiency wages*** – may improve workers' health and productivity. It may also help to reduce worker turnover and the costs associated with finding good replacements. It may improve worker effort since workers are more eager to keep their jobs. It may help to attract better quality workers. Henry Ford's radical US$5 a day wage in 1914 was about twice the going wage rate and led to falls in job turnover and absenteeism while productivity rose. Raising the wage of the main breadwinner in a ***household*** may reduce the incentive for other members of the household to seek work and therefore reduce unemployment. Where employers have ***market power***, for example where one employer dominates the hiring of workers in one geographical area, minimum wages may not create unemployment. In the absence of a union or minimum wage, the employer can use its market power to pay lower wages and offer worse working conditions than would prevail if it had to compete with other employers for the same workers. We suspect these arguments may be important in the Namibian situation but this requires further research.

The second question is whether minimum wages will help to reduce ***poverty***. Many studies in high-income countries have found that minimum wages are an inefficient way to reduce poverty since many low-wage earners belong to high-income households. This is not the case in Namibia since agricultural workers are the main breadwinners in their households and household income is low. The 1993/94 Household Income and Expenditure Survey estimated that average household income of 32,613 farmworkers was N$8,173 a year and that average household size was 4.7 people.

The third is whether it is ***administratively feasible*** to implement a minimum wage in agriculture and how much this is likely to cost. Enforcing minimum wages is generally easiest in urban industrialised environments. Namibia's agricultural sector is characterised by small groups of poorly organised workers separated by large distances. Furthermore, most farmworkers receive payment in kind as well as cash. This will undoubtedly complicate the task of setting and monitoring the minimum wage. If the price of items in kind increases that could lead to a reduction in the cash component of the wage. There is also the danger that setting a minimum wage could encourage those employers already paying more to reduce their wages.

Realistically, it may be more effective to take ***other measures*** such as raising the state pension. That would immediately help the estimated 5% of farmworker households in 1993/94 whose main source of income was the pension. The most effective approach is to raise demand for unskilled labour in the economy as a whole through encouraging economic growth in sectors that use unskilled labour. Lastly, in adopting a sectoral rather than a national approach to minimum wages there is a danger that minimum wages in one sector will have consequences for other sectors too. Raising wages in agriculture may tempt workers from other sectors. The introduction of a minimum wage may be an important political gesture but we are sceptical it can be made to work in practice.

Last month the *IJG* Business Climate Monitor reported on the slow pace of ***commercial land redistribution*** to previously disadvantaged Namibians. Since then, the Land Programme at the University of Namibia has completed a census of commercial farmland transactions since 1990, the details of which will shortly be published in a forthcoming research report (Fuller and Eiseb, 2002). Data on all land transactions involving commercial farmland were collected by hand from the Deeds Office. This data shows that on average 286 commercial farmland transactions a year have taken place from 1990 through 2000 representing on average 1.4 million hectares a year. Table 1 below summarises all transactions as well as those involving previously disadvantaged Namibians. These include all purchases by buyers identified as previously disadvantaged based on names and surnames plus purchases made by the Ministry of Lands Resettlement and Rehabilitation for land resettlement. These statistics represent the most comprehensive picture of commercial land ownership patterns by race.

Table 1: Commercial farmland transactions 1990-2000

Year	*Total transactions*	*Hectares*	*Transactions involving previously disadvantaged Namibians*	*Hectares*
1990	239	1,177,807	16	74,394
1991	158	765,047	26	114,256
1992	181	644,145	22	90,015
1993	289	1,384,634	43	211,834
1994	233	1,018,533	20	67,956
1995	476	2,491,626	32	148,729
1996	329	1,685,514	30	163,438
1997	267	1,223,428	28	332,250
1998	289	1,456,922	51	395,590
1999	304	1,468,583	46	212,620
2000	381	1,705,608	57	349,697
Total	3,146	15,021,847	371	2,160,779

Source: Fuller & Eiseb forthcoming

In the eleven years under review, an average of 34 transactions a year have taken place representing 196,434 hectares a year. A total of 2.2 million hectares was transferred to previously disadvantaged Namibians representing some 6% of commercial farmland of approximately 36 million hectares. This translates into about half a percent a year, similar to the estimate presented last month.

Namibia's ***Second National Development Plan*** has been approved by Cabinet and published. The NDP2 document is the most comprehensive overview available of government's policies, programmes and projects for the period 2001/02 to 2005/06. The plan projects average GDP growth of 4.3% a year between 2001 and 2006. According to the President's Vision 2030 Namibia aims to be a high-income country by the year 2030. The World Bank (World Bank, 2002) estimated Namibia's Gross National Income (GNI) per capita was US$2,030 in 2000 placing it in the lower-middle income category of countries (ie. those with GNI per capita of between US$756 to US$2,995). High-income countries are those with a GNI per capita above US$9,266. Reaching high-income status will require average per capita income growth of over 5% a year. During the past decade average per capita income growth has been 0.5% a year. The targets for land reform are equally modest. Under NDP2 36 families a year will be resettled and an additional 360,000 hectares of land acquired. The four-volume NDP2 can be purchased from the National Planning Commission for N$320.

The Central Bureau of Statistics in the National Planning Commission announced that it planned to introduce a new measure of ***inflation*** early next year. Instead of the existing Interim Consumer Price Index for Windhoek there will be a new Namibian Consumer Price Index (NCPI) calculated using prices measured nationally in eight localities and using updated weights to determine the importance of the different items in the consumption basket chosen. It is proposed that the NCPI will be published for Namibia as a whole and for three zones representing the north, centre and south of the country.

Recent IPPR Publications

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Delimiting Regional and Constituency Boundaries: Considering the Impact of Malapportionment, Population Size, Population Density, and Area Size, IPPR Briefing Paper No. 12 by Christiaan Keulder & Deon van Zyl, September 2002

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Fuller, B. and Eiseb G. (2002) "The Commercial Farm Market in Namibia: Evidence from the First Eleven Years", forthcoming

Saget, C. (2001) “Is Minimum Wage an Effective Tool to Promote Decent Work and Reduce Poverty? The Experience of Selected Developing Countries”, Employment Paper 2001/13, ILO, Geneva

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