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NAMIBIAN BUSINESS AND INVESTMENT CLIMATE SURVEY

2014

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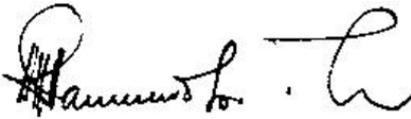
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Foreword

This marks the 5th year that the Namibia Chamber of Commerce and Industry (NCCI) and the Namibia Manufacturing Association (NMA) with the support of the GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit working on behalf of the German Government have conducted an annual Business Investment Climate Survey. The investment climate is an important determinant of a country's success in raising investment levels and consequently its growth rate. However, it is a confluence of a number of factors, which determine the private sector's decision to invest. In Namibia we enjoy a stable macro-economic environment. Both fiscal and monetary policies are consistent and predictable. We salute the Government's efforts to manage budget deficits, reduce inflation, ensure exchange rate stability and maintain sustainable levels of domestic debt. Also characteristic of our climate is the absence of war with and in neighbouring countries and the absence of civil unrest at home.

The 2014 survey is based upon responses from 597 businesses, including those who are neither members of the NCCI nor the NMA. The survey offers a valuable snapshot of Namibian businesses' concerns on Namibia's regulatory and policy environment, illustrating long-term improvements in the business climate as well as areas of difficulty. As such, the survey plays an essential role in helping determine the NCCI and NMA's advocacy priorities. We would like to thank all our members and other respondents who took the time to participate in the survey. Your input is greatly valued.



Martha Namundjebo-Tilahun
President NCCI



Brian Black
Chairman NMA



SURVEY PROFILE

The questionnaire contained mostly closed-ended questions with two open ended questions. In total 597 interviews (200 face-to-face and 397 telephonic interviews) were conducted. The survey was conducted in November and December of 2013. Face-to-face interviews were conducted between the 24th October and 25th November 2013 while the telephonic interviews were done between the 24th

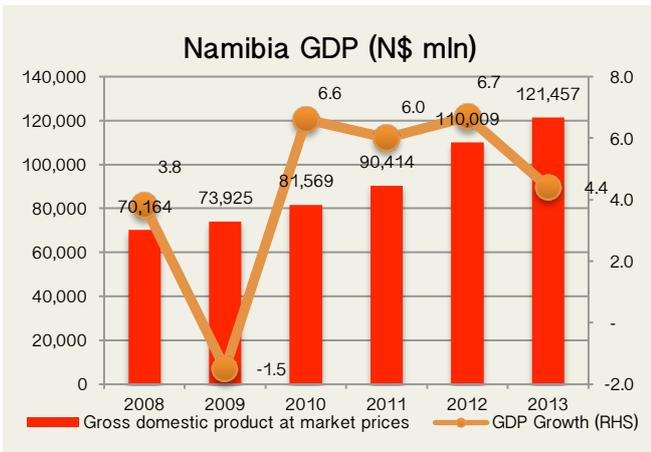
October and 6th December 2013. Face- to face- interviews were done in four towns, Rundu, Oshakati, Windhoek and Walvis Bay.

63 percent of those interviewed were the owners; 19.3 percent were managers and 25 percent held other positions in the businesses. The table below provides a regional and sectoral picture of the respondents.

	//Karas	Erongo	Hardap	Kavango East	Kavango West	Khomas	Kunene	Ohanjwena	Omahaheke	Omusati	Oshana	Oshikoto	Otjozondjupa	Zambezi	Total
Accommodation and Restaurant	1	5	4	9		13	4	3	5	3	3	1	5	1	57
Agriculture		1	1	12											14
Construction	1	4		5		5				3	1	4	3	1	27
Financial services	3	2	1	2		10	1	3		5		1			28
Fishing	1	1		1											3
Manufacturing/Processing	4	11	2	19		30		1			9	4	7		87
Mining	2	2				4									8
Other economic activities	3	10		8		19	1	3	1	3	16	3		1	68
Real Estate/Renting/Business Services	1	1		4	1	13	1	3	2	2	3	2	1	2	36
Transport/Communication	1	4		3		5	2	2	4		1	2	1		25
Water/Electricity						3									3
Wholesale/Retail trade/Repair Services	12	35	10	31	1	27	6	32	4	25	33	10	8	7	241
Total	29	76	18	94	2	129	15	47	16	41	66	27	25	12	597

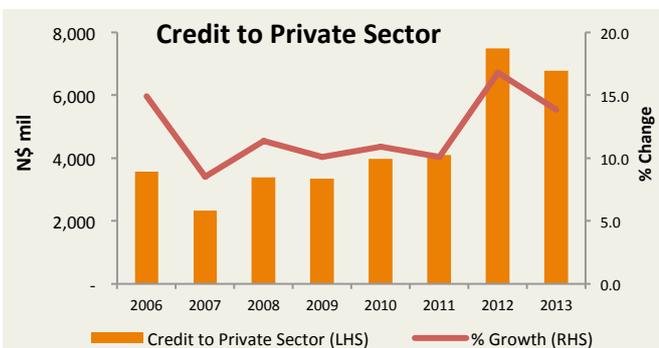
MACROECONOMIC BACKDROP

The Namibian economy has grown above trend for the past four years albeit at a marginally declining rate. In contrast with conditions in other emerging economies, credit growth has been fairly strong, government spending increasing at a pace in excess of 25 percent for 3 consecutive years. Trade balance has also surged in line with both private and public consumption spending. Gross fixed capital formation has been steady at around 25% of GDP for the past five years, largely on account of strong growth in infrastructure spending from the Government side.

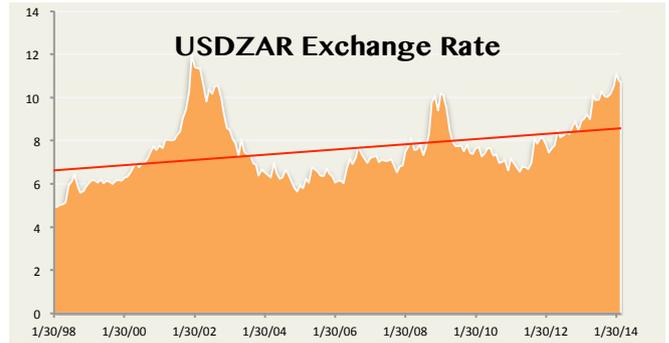


Source: NSA, NCCI Research

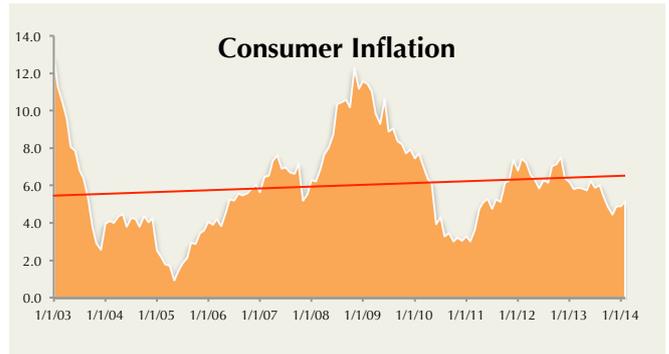
Stepping forward in terms of growth is not the same as solving the macroeconomic problems. In theory hundreds of millions of people are being lifted from poverty into the middle class, creating a brighter future for their next generations. While activity and business confidence is robust, unemployment is unacceptable at 29.1 percent and inequality unacceptable with a gini coefficient at 0.597. Nonetheless, Namibia is not at the end of very hard choices!



Source: Bank of Namibia, NCCI Research



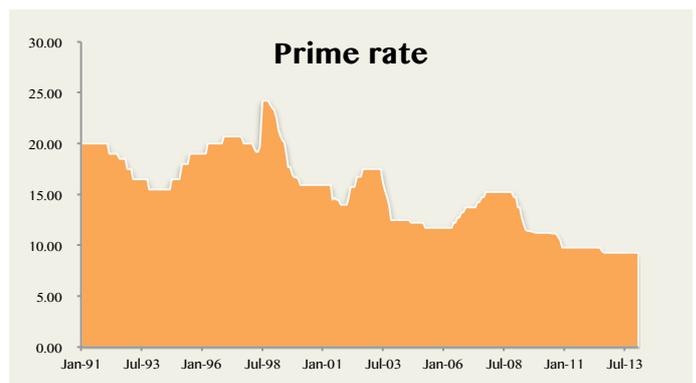
Source: Bloomberg, NCCI Research



Source: NSA, NCCI Research

Interest rate

Despite inflation hovering around the upper band of the 3-6 percent target band, interest rates have been on hold since the end of the financial crisis. However, the South African Reserve Bank began raising the policy interest rate in January 2014.



Source: Bank of Namibia, NCCI Research

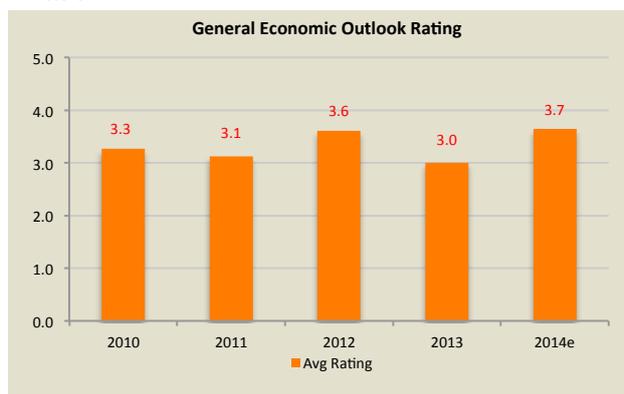
The Namibian Government follows a market-oriented and open economic policy, based on acknowledgement of the fact that the problems of unemployment, poverty and inequality can only be overcome in the context of economic growth. Evidence of this is the high expenditures on education, health, a universal pension system, and other social services.

EXECUTIVE SUMMARY

1. The Namibia Business and Investment Climate Survey 2014 (namBIC) results indicate that businesses' ratings of the investment climate in 2014 improved in most areas except for the access to land compared to 2013.



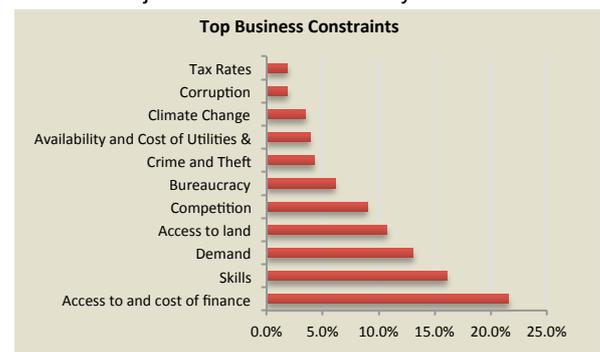
2. Businesses are upbeat about the general economic environment with a majority (84 percent) intending to invest and hire more people in 2014 albeit at a measured pace compared to the prior year. 70 percent of the respondents are operating at or above full capacity and hence in theory need to invest or hire more people, ceteris paribus. The upbeat outlook held by many is broadly in accord with Namibia's macroeconomic environment with an expansionary fiscal and accommodative monetary policy stance, low interest rates and inflation.



3. Compared with the results in 2013 namBIC we find a similar contradiction that although the majority of businesses in the sample share an optimistic economic outlook, that optimism is not reflected in their investment plans. In each of the three different aspects of investments in the questionnaire (expansions, replacements or

research and development), there is only a minority of 30-40 percent planning to invest more than average – 'average' being a general subjective interpretation of what is happening in the markets. Vice versa two third up to three quarters of the businesses estimate their own investment plans to be below average.

4. As Namibia enters a new period geared towards a global market (surging imports), our companies are not adjusting to the increasing international trade. Competition is considered as great a business risk as an economic slowdown! And worries over the effects of climate change have not faded either as devastations of floods and drought seems to still linger in the minds of some respondents.
5. Against a backdrop of increasing competition and rising costs, businesses are paying close attention to the potential impact of government policies. In this year's survey, the percentage of respondents who say government procurement policy favours foreign businesses has increased. So have complaints about corruption and bureaucracy.
6. Specifically, survey respondents voiced continued concerns over difficulties in obtaining government tenders, inadequate access to capital, and inadequate protection from foreign competitors. Meanwhile, a steadily majority of the respondents still rate labour relations, corruption, crime and justice as satisfactory.



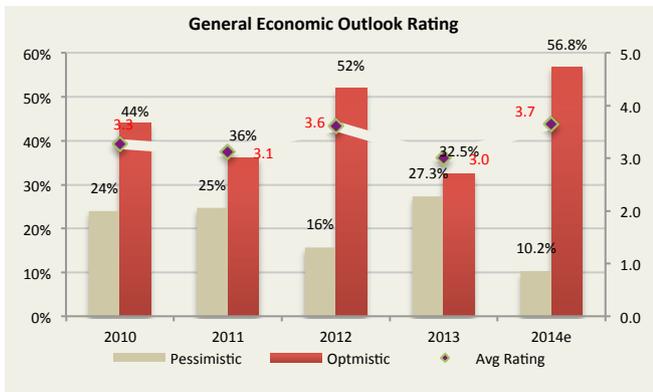
7. Taking heed of the changing realities outlined above, private sector representative bodies should continue to advocate for policies that promote more competitive and open markets, with the goal of helping the business sector succeed and building a business climate that benefits all companies, domestic and foreign, in Namibia.

RESULTS OF THE 2014 SURVEY

BUSINESS AND INVESTMENT CONFIDENCE

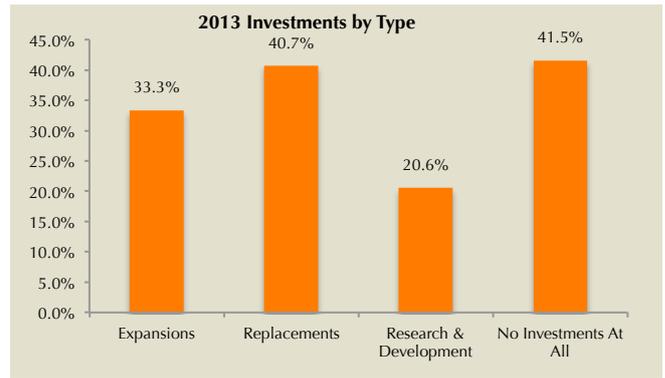
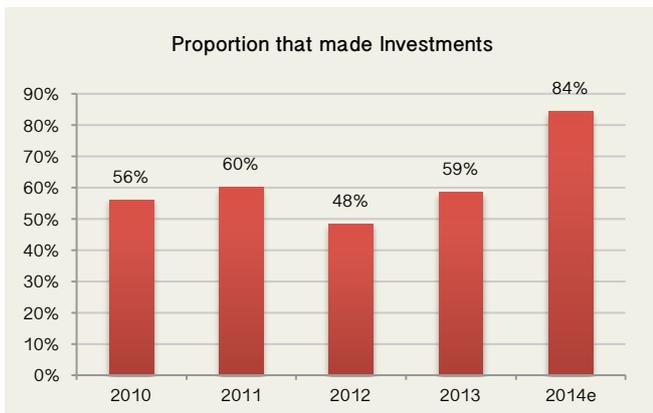
General Economic Conditions

The continued favourable macroeconomic environment in which Namibian businesses operate is mirrored in the sustained optimism shown by survey respondents. This year respondents were slightly more optimistic in their one-year business outlook though. Over 56 percent of respondents reported having an “optimistic” or “more than optimistic” outlook. On a 1-5 scale, with 5 being the most optimistic rating, respondents rated the one year economic outlook 3.7, the highest over the past five years.

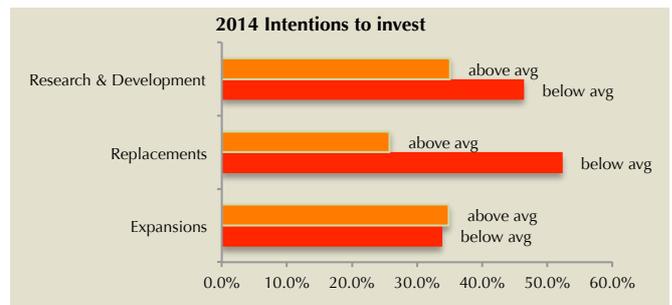


Investments

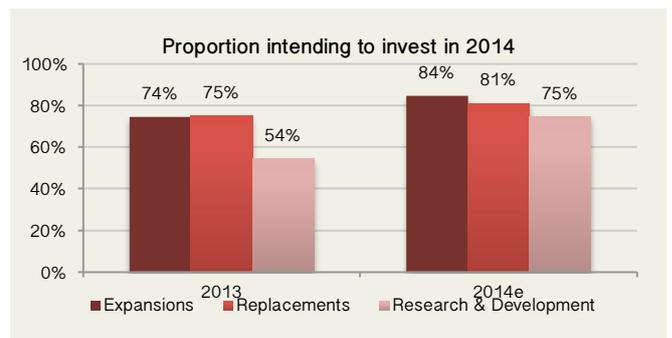
Businesses have continued to invest overall. 59 percent reported having made investments of some sort in 2013 and this is consistent with prior years.



As for their intentions to invest in 2014, 84% percent of the respondents reported to have planned investments of some sort. However, the percent of those who plan to increase investment in the range “average” has steadily risen over the same period. Meanwhile, the percent of respondents with ambitious goals to hike investment by “more than average” range is lower than those investing below average.

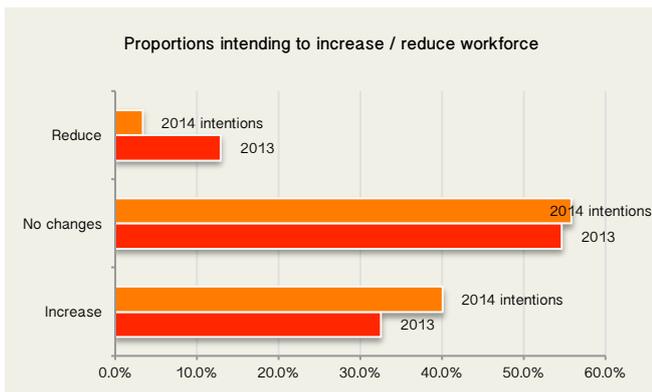
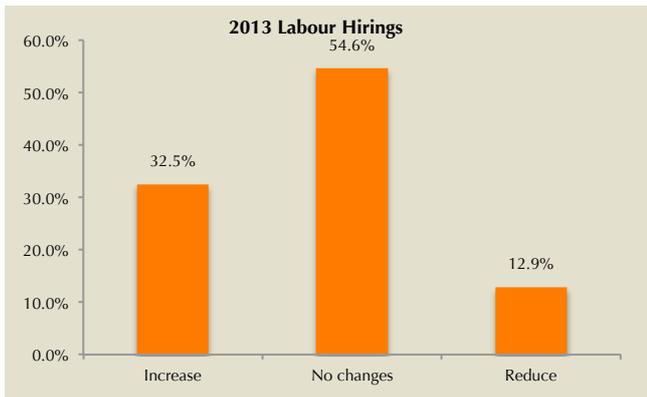


Considering that about 70 percent of the companies said they operate at full capacity or even above, one third planning to invest in expansions is not a spectacular number. In addition, 60 percent not replacing their plant and equipment at above average pace may signal decreasing ability to react to customer demand and or decreasing competitiveness of a big part of the businesses in the sample. Nonetheless, this is consistent with complaints about low demand. Judging by the gap between intentions to invest in the prior and the proportion reporting having made investments in the subsequent survey suggests that the 84 percent of the members signaling intentions to invest in 2014 is likely to be higher than the actual.

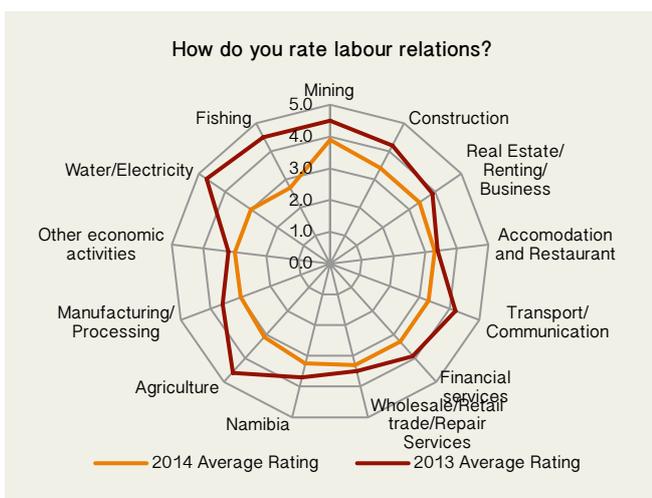


Labour Hire

The measured pace of investment in plant and equipment or innovation is further augmented by the anticipated changes in the workforce. More businesses intend to increase their workforce in 2014 than those intending to reduce, consistent with 2013. This is also in accord with the more optimistic view on the general economic conditions held by most respondents.



Labour Relations



By unanimous vote, almost all sectors in the sample expect labour relations to be less conducive compared to the prior year. Nonetheless, the overall rating is above 3 or "average" on a scale of 1-5, with

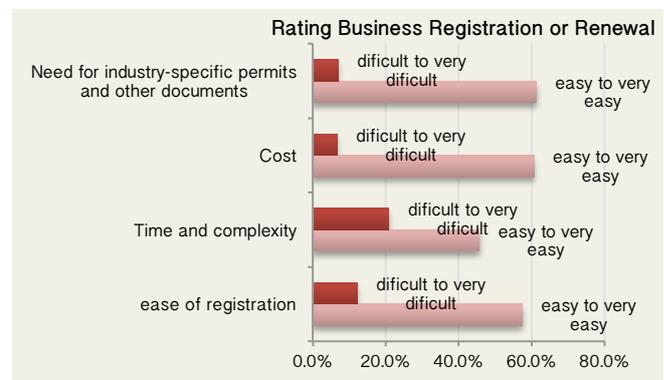
5 being very conducive. Somewhat consistent with this rating, respondents on average expect 2014 wage settlements to be higher than those experienced in 2013.

REGULATORY AND ADMINISTRATIVE ENVIRONMENT

Ease of Getting Industry Permits, Business Registration and or Renewal

One kind of market access barrier which businesses may encounter is the difficulty of obtaining industry permits. However, the 2014 survey results suggest it is not seen as a problem (over 60 percent of respondents). In addition, about 60 percent of the respondents with registered businesses say business registration or renewal process is at least not difficult.

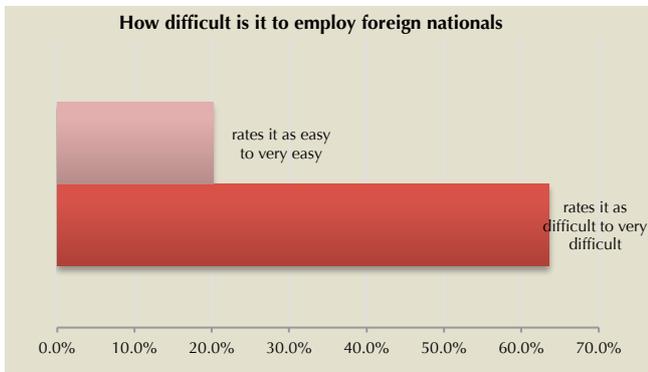
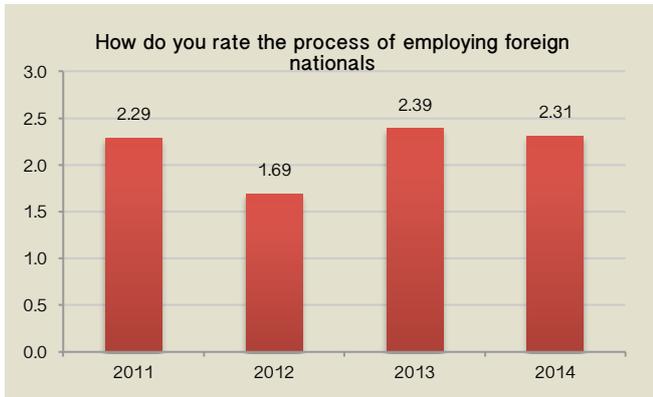
According to the respondents, the ease of business registrations or renewals, the cost of registrations or renewals, the time it takes and the complexity of the forms and processes including obtaining industry permits and other documents is rated above average. Compared to prior years, the 2014 is also marginally better across the above stated issues.



Work permits

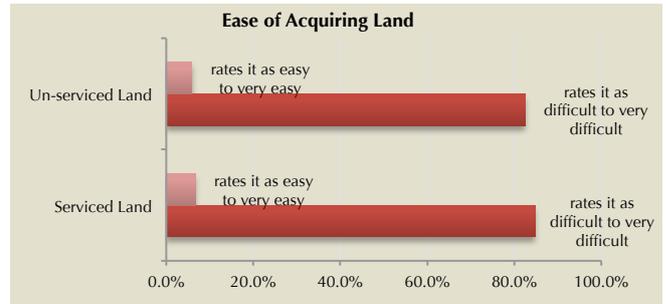
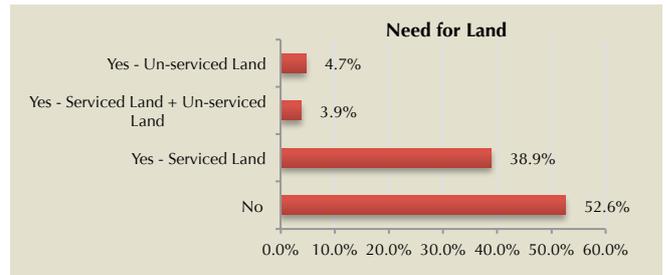
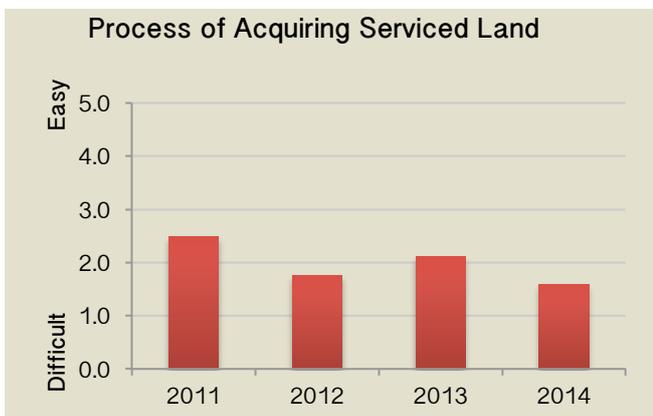
This is one area rated very low by the respondents. 64 percent of those who employ foreign nationals rate the process of obtaining work permits at least difficult. However, only 21.6 percent of the

respondents reported that they employ foreign nationals. The 2014 average rating is consistent with results prior years but marginally lower than the 2013 rating.



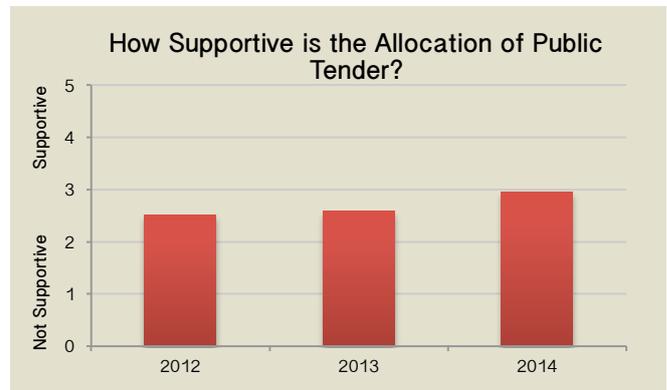
Land

Land remains a significant obstacle to business expansions and the lowest rated area by the respondents. 47.5 percent of the respondents indicate they require additional land for their operations. However, even more significant is that over 80 percent of the respondents who say they require additional land rate it is very difficult to acquire. Availability of land is perceived as the top obstacle with 38 percent of the respondents citing it, followed by bureaucratic processes and cost at 31 and 27 percent respectively.

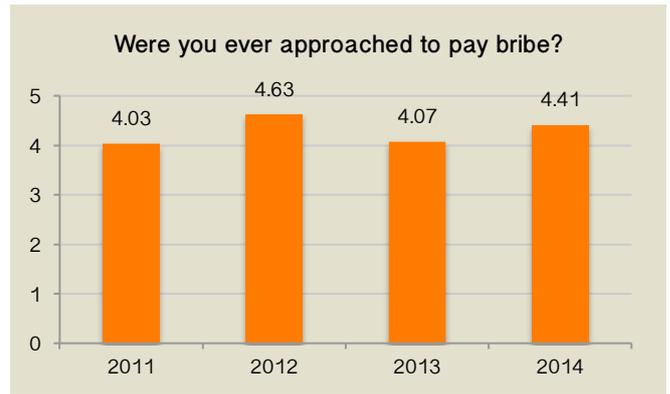
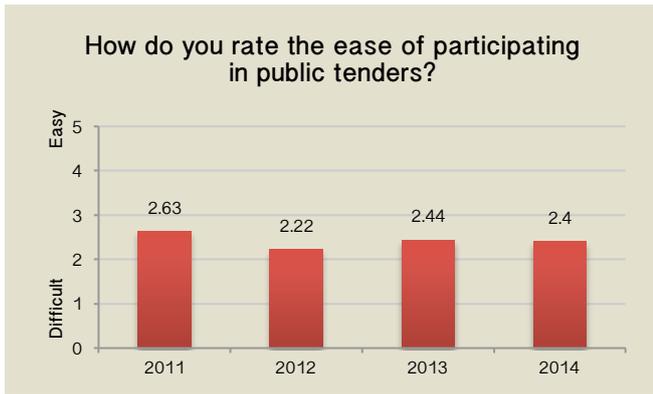


Public Tenders

Although respondents' views on whether the allocation of public tenders is supportive of the development of businesses are somewhat divided, slightly over half of them rate the ease of participating in public tender at least difficult. On a positive side, this rating has been improving somewhat.

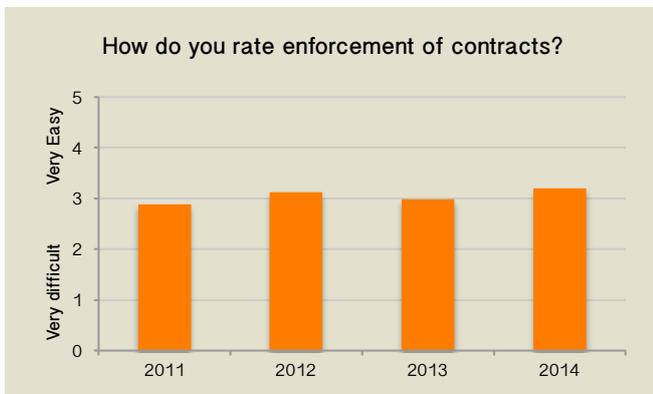


Despite the improvement in the rating of the supportive function of tenders for business development, respondents rate the process of participating in tenders at least difficult and marginally worsening.



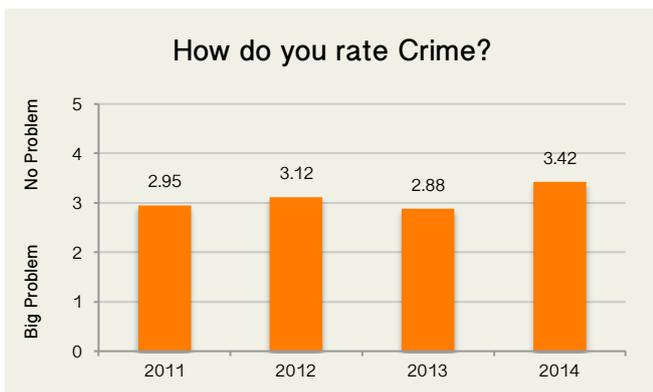
Enforcement of Contracts

Respondents continue rating the enforcement of contracts just about average, neither easy nor difficult.



Crime

The 2014 survey respondents rate crime marginally not problematic, consistent with prior year's ratings but marginally better.

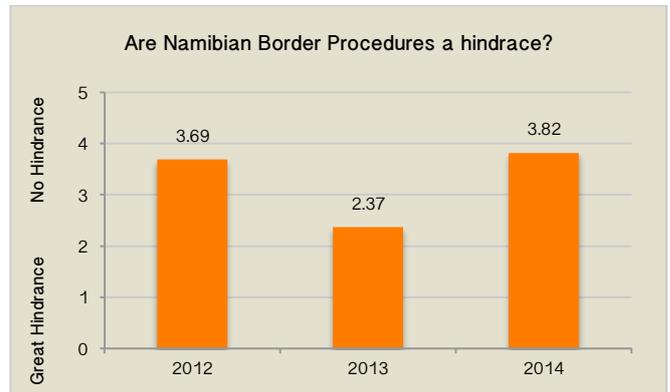


Bribery

Bribery remains the least problem in Namibia's business climate judged by the average rating by the survey respondents.

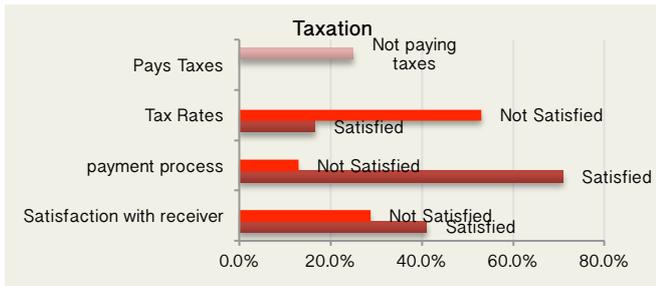
Border procedures

Respondents involved in either importation or exportation of goods rate procedures at the Namibian side of border posts as easy, 46.0 percent compared to only 9.7 percent who rate it at least difficult. Neither are the foreign side procedures seen as difficult (10.4 percent). Nonetheless, the top 5 perceived obstacles are: completion of paper work and documentation (39.6 percent); lack of adequate information pertaining to requirements (16.0 percent), lack of transparency concerning charges (16 percent) and operating hours (5.2 percent). Most of these challenges are experienced at the South African, Angolan and Botswana borders.



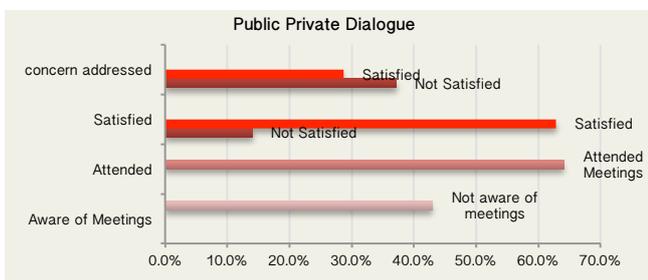
Taxation

A quarter of those surveyed do not pay taxes, 54 percent of them self-employed and another 40 percent micro and small businesses with 1-5 employees only). Those who pay taxes are generally satisfied with the Receiver of Revenue and rate the payment process at least easy (70.9 percent). On an interesting note, although 53.1 percent of the respondents paying taxes rate tax rates as very high, at least 16.6% rate it low to very low.



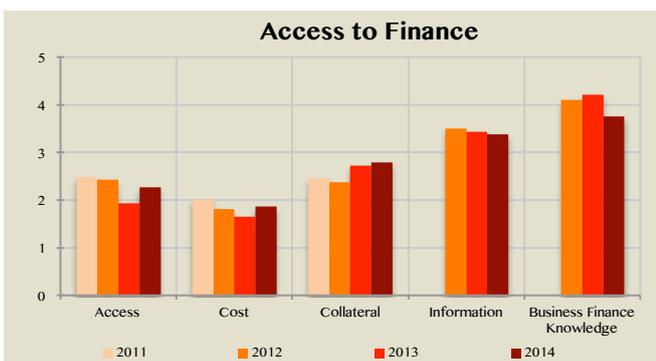
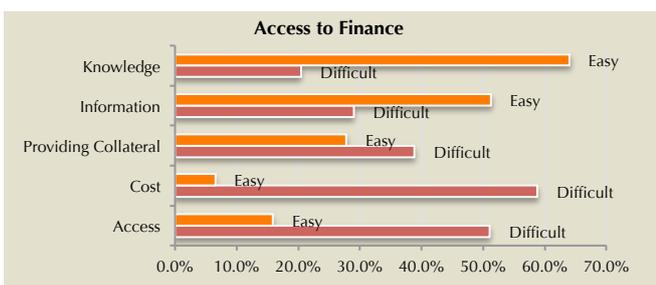
Public Private Dialogue

Respondents who attend meetings are generally satisfied with the discussions at the meetings. However, over 40 percent of the respondents were not aware of them. In addition, only 28 percent of the respondents feel the concerns raised were addressed.



Access to Finance

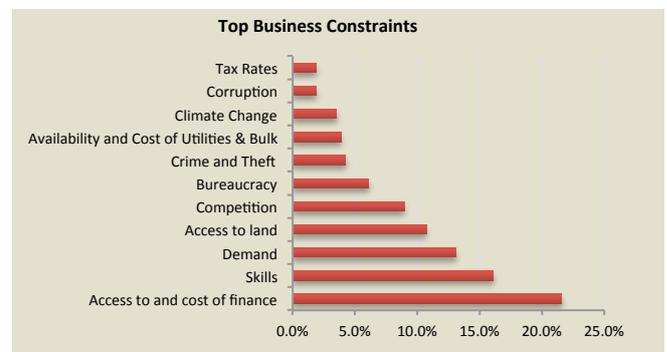
Against the backdrop of accommodative monetary policy (relative to history), more feel the cost of finance is a big issue than access to finance, albeit marginally so. In addition, provision of collateral is also somewhat a problem to a third of the respondents. Although only about a third of the respondents applied for a loan from financial institutions, for the fifth consecutive year, businesses continue to rate access and cost of finance a major obstacle to growth.



MAIN CHALLENGES

Major Constraints

Responses to this question reflect the varied backgrounds of the respondents but all are consistent with results from the previous surveys, namely: access and cost of finance, skills and demand for goods and services. Access and cost of land, and competition make up the top five. Missing in the top five is the cost of utilities, which only makes it in the top 10. The skills constraints comes in many flavours but significant is perhaps the fact that most responses reflect managerial challenges as opposed to skills constraints, hence they have been summed up here under skills. Except perhaps for tax rates, none of the top issues can be resolved immediately, reducing the opportunity for quick fixes. Nevertheless they can be addressed as a matter of urgency.



CONCLUSIONS AND RECOMMENDATIONS

The results of the 2014 namBIC Survey reiterate the advocacy issues already identified from the previous surveys. Taking heed of the changing realities outlined above, private sector representative bodies should continue to advocate for policies that promote more competitive and open markets, with the goal of helping their members succeed and building a business climate that benefits all companies, domestic and foreign, in Namibia.

Bureaucracy

Investments must also not be undermined by bureaucratic red tape or excessive tax burdens. It is important that private sector representative bodies adopt as key positions in their advocacy efforts, the embodiment of the principles of transparency and accountability, to minimise corruption, protect property rights, improve governance and provide access to justice. Also important are improvements to the business laws, bankruptcy regulations and commercial justice systems.

Skills

The availability of human capital - both general education and specific skills is not only an important determinant of where investment will take place, but it is also crucial for ensuring that there will be technological spill-over effects. As such, human capital is important in ensuring that the benefits of investment spread beyond individual companies and industries. It is thus recommended that private sector representative associations advocate for a skills development strategy and sector skills plans.

Infrastructure and Technology Transfer

The state of a country's physical and technological infrastructure is a significant determinant of transaction costs and of a country's suitability as an export base for competing in world markets. Improvements to infrastructure are also important to ensure that small businesses in informal markets and rural areas can participate in markets and access new business opportunities. It is thus recommended that private sector representative associations advocate for the development of infrastructures.

Enterprise Development Efforts

A good investment climate will benefit both domestic and foreign investors, but it needs to be complemented by effective systems to support business creation and growth, build entrepreneurial skills and facilitate business linkages. Moreover, there must be appropriate mechanisms to facilitate dialogue on private sector development between governments, the private sector and civil society. In this respect, it is recommended that the public private dialogues be stepped up across the country but more importantly that efforts for these dialogues are coordinated not duplicated where possible.

Access to finance

Finance is more problematic for small and micro businesses. Although known a priori, it appears to be compounded by skills deficiencies especially managerial challenges, stiff and sometimes even unfair competition and low demand for goods and services. This picture suggests that a three pronged approach at improving skills, promoting innovation and discovery of "blue oceans" and improving the geographical presence of development finance institutions might make a dent on the problem than solitary efforts to improve access. Finance is not only a supply issue but often times there are serious weaknesses as well from those that demand funding. While it is essential that entrepreneurs and companies must also be able to rely on an efficient financial system to fund investments. The availability of credit is important, but so is the ability to store wealth or retained earnings for future investments.

This is a particular concern for small local companies unable to access capital markets.

Land

Land rights systems are intimately linked with the history of a country on the one hand and with the actual political and economical framework on the other hand. The same is true for Namibia. There were forms of regulated land use before the Europeans arrived in Namibia. The later implemented their system of freehold title foremost in the areas where they used to live, but foremost in the cities. Apartheid added another structure of ownership to the other two so that at Independence there were basically three different systems of landownership. The government decided to keep two of them abolishing the apartheid system and have lately begun transforming the traditional system into a leasehold system. Needless to mention the processes and challenges of acquiring land are different in the respective systems. Thus, it might be helpful to tackle land delivery challenges in the freehold system differently, from the not yet monetized leasehold system.

Competition

The voices of the private sector still call for micro-economic policies to ensure that our markets are dynamic, competitive and well regulated. Competition policy and sectoral regulations have a key role to play in preventing monopolies and curbing anti-competitive practices. Competition is a desired characteristic of the market. The respondents' views range from characterizing it as unfair to calling for infant industry protection. Both may be valid under certain circumstances. However, inability to compete often relates to weak or non-existent competitive strategy. In every industry there is a distribution of profits. Whatever the industry average profits are, there are some companies that outperform the average and there are some that underperform it. For any business to outperform the industry it has to have a sustainable competitive advantage, which comes in two flavours and only two. One is lower cost and the other is differentiation. Differentiation is the ability to have some unique skills or resources that allows a business to command a premium price. Thus while levelling the playing field is an imperative, it is recommended that private sector representative bodies should not only consider and advocate for protection but also consider developing coaching and mentorship programs to assist their members.

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**Institute for Public Policy
Research
(IPPR)**

PO Box 6566
14 Nachtigal Street
Ausspannplatz, Windhoek
Namibia
T +264 (61) 240514
F +264 (61) 240516
E info@ippr.org.na
I www.ippr.org.na

**Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ)
Partnership for Economic Growth
(PEG)**

P.O. Box 8016
Bachbrecht, Windhoek
Namibia
T +264 (61) 222 447
F +264 (61) 307 518
E daniel.bagwitz@giz.de
I www.giz.de

**Namibian Chamber of
Commerce and Industry
(NCCI)**

P. O. Box 9355
2 Jenner Street
Windhoek-West
Namibia
T +264 (61) 228 809
F +264 (61) 228 009
E nccinfo@ncci.org.na
I www.ncci.org.na

**Namibia Manufacturers
Association
(NMA)**

P.O. Box 3325
Bridgeview Building
4, Dr Kwame Nkrumah
Street
Windhoek, Namibia
T +264 (61) 308 053
F +264 (88) 621 079
E nma@nmanamibia.com
I www.nmanamibia.com