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A NEPRU VIEWPOINT

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NAMIBIA CHAMBER OF COMMERCE AND INDUSTRY

BUSINESS CLIMATE SURVEY 2001 Number 2

This viewpoint highlights some experiences, opinions and perceptions of business people concerning the business climate in Namibia, based upon two Business Climate Surveys conducted by NEPRU and the Namibia Chamber of Commerce & Industry (NCCI) in September/October 2001.

THE FORMAL BUSINESS SECTOR

For the 5th Business Climate Survey (BCS), 600 businesses were sampled of which 183 responded; i.e. about 30%. Similar to the previous survey, just over half (52%) of the total responses were from businesses mostly involved in wholesale and retail trade activities (27%) and other services (25%). Tourism and agriculture accounted for 13% and 11% respectively, while the other notable sectors were manufacturing and construction (both 7%) and transport (5%).

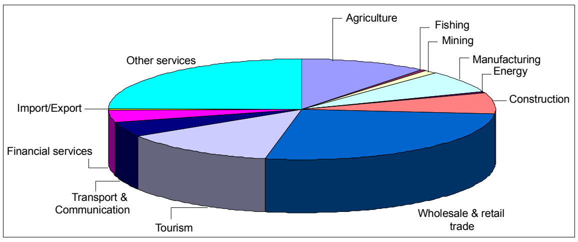

Figure 1: Response by business sector (N=162)

Destination of sales

The proportion of those that sell all their products on the Namibian market decreased to 70% from the previous survey (77%).

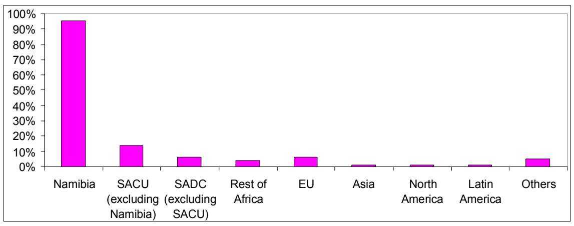

Figure 2: Destination of sales

There are also more businesses that sell to SACU (excluding Namibia) than those that sell to the EU, which was not the case in the previous surveys.

Business conditions improved

About 41% of business owners expressed a neutral opinion with regard to the existing business climate. The proportion of businesses that find it favourable was 12 percentage points higher than in the previous survey, which is encouraging.

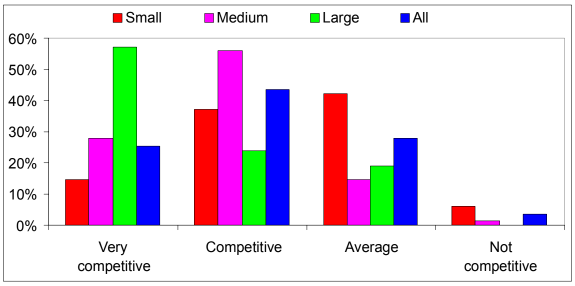

Figure 3: Competitiveness by size of business (%) (N=177)

Fewer employment opportunities

Very few employment opportunities were created over the past six months, with most (68%) companies electing to keep employment levels unchanged. Also, there was little difference (two percentage points) between the firms that employed more people and those that didn't.

Slightly fewer businesses grew

About 39% of the responding businesses indicated that they had experienced some growth, thus two percentage points lower than that expected in the previous survey, and this comes amid better business conditions experienced over the past six months.

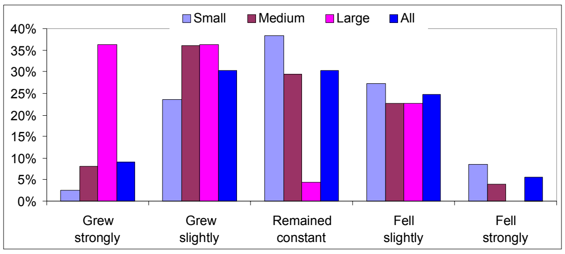

Figure 4 Performance by size of business (%) (N=178)

Access to skilled labour major obstacle

Scarcity of skilled labour, crime and theft top the list of factors that are perceived to have had a negative impact on the operations of most businesses. Skills in the areas of accountancy and business management were the most sought after, along with technicians, engineers and mechanics. On the other hand, regional instability, VAT, low demand, limited access to credit and other factors were rated by over 20% of the business owners to have had an impact on their operations.

Capital investment in the past six months

Overall, almost a third (32%) of the responding businesses had invested over the past six months. Only about 27% of small enterprises were able to invest, compared to 43% and 65% of medium and large sized enterprises respectively, which does not come as a surprise given the relatively poor performance of the small businesses.

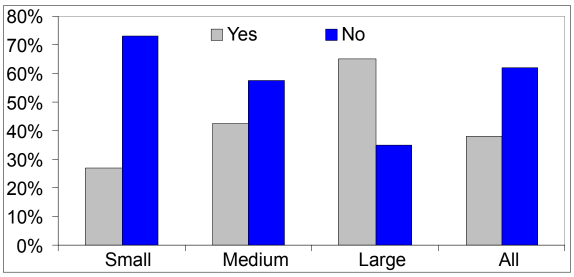

Figure 5: Significant capital investments by size of business (%) (N=176)

Slightly fewer employers offered training

Slightly fewer (52%) businesses were able to provide training to their employees than the 57% who had planned to do so in the past survey. Apart from in-service training, the most frequently-offered training was in the areas of customer service/sales, computer skills/literacy and technical courses.

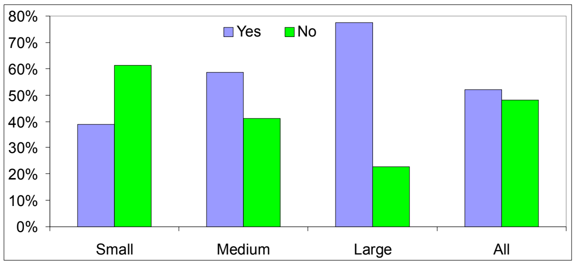

Figure 6: Training offered by size of business (%) (N=179)

No significant change in growth expected

The expected business performance of most responding businesses is likely to remain the same as was the case during the past six months. At least 40% expect some growth in the next six months; thus, not significantly different to the past six months' figure of 39%. Similarly, 42% expect no changes in their operations.

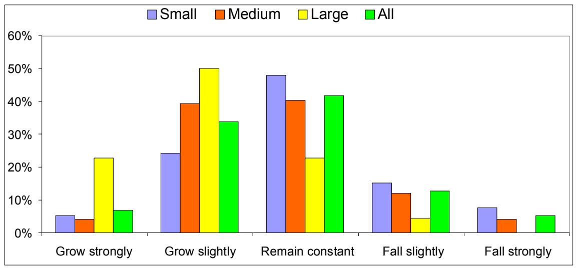

Figure 7: Expected business performance by size of business (%) (N=175)

Slightly better employment opportunities

Despite the fact that 40% of the responding businesses expect some growth as shown above, only 16% indicated that they plan to increase their employment levels. Since the same proportion plan to decrease their employment levels, little change is to be expected.

Expected business climate

Almost half (49%) of the businesses expect the current business climate to persist in the coming six months. Meanwhile, at least 28% expect a better one, as opposed to 23% who anticipate otherwise.

Nearly 32% of the responding businesses expect to make some significant capital investment in the next six months. This represents a decline of about 6% in the number of businesses who invested in the past six months, possibly due to a decline of about 15 percentage points in the number of medium sized enterprises that plan to invest, compared to six months ago.

Conclusion and recommendations

The experiences of the business community do not appear to differ significantly from the findings of the previous survey. Small businesses continued to perform poorly and are more pessimistic than are medium and large enterprises. Crime and theft as well as scarcity of skilled labour continued to affect operations of many businesses. The only notable changes during the past six months under review were the switch from the EU to SACU as the major export destination, and relatively better business conditions. The following recommendations emerge as a result of the findings of the formal business sector:

- ✓ A growing market in SACU for Namibian products should be seen in positive terms and promoted.
- ✓ Security needs to be re-enforced to curb current persistent obstacles such as criminal activities.
- ✓ The private sector's willingness to be involved in regional trade negotiations should be welcomed and positively exploited.

THE INFORMAL BUSINESS SECTOR

The sample of informal businesses is built up around five urban areas: Swakopmund/Walvis Bay, Ondangwa/Oshakati, Windhoek, Rundu and Katima Mulilo. 183 businesses were surveyed by means of face-to-face interviews.

Informal business operators' profile

About 63% of the respondents interviewed had at least secondary education, while 10% of them had tertiary education.

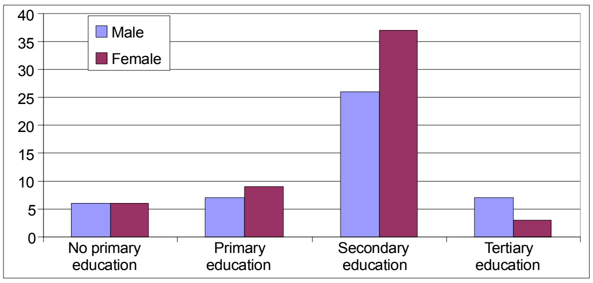

Figure 8: Educational level by gender (%) (N=181)

In general the informal sector is represented by small and numerous businesses, predominantly in retail trading. About 36% of the businesses employ only one person, and only 21% of the companies employ four persons or more.

Many new businesses

About 56% of the businesses have been in operation for less than five years. Although this indicates that many businesses have been established recently, a small but significant number of businesses - 15% - have been in operation for more than 10 years.

Past six month business performance

The Oshana and Erongo regions showed a relatively improved growth over the past six months, where about 50% and 54% of the businesses respectively indicated that their businesses grew slightly or strongly, compared to 43% of Khomas region, which performed below the average of 48%.

Main factors that impacts the businesses

Government and/or municipality regulations, limited access to credit, and problems with infrastructure were the three main problems affecting the performance of businesses over the past six months. These factors were also predominant in the previous study.

More than 50% of the businesses are affected by limited access to credit. This raises the question of whether there are institutions in place ready to assist - or that are assisting - businesses in the informal sector. The data indicates that it is the businesses in the northern regions: Kavango, Caprivi, and Oshana that mostly experience problems with credit. About 92% and 86% of the businesses in Kavango and Caprivi regions respectively, highlighted this issue.

The second most important factor that appears to be limiting growth in the informal sector is the poor condition (or even total lack) of infrastructure. At least 49% of the businesses interviewed indicated this factor. Infrastructure constraints are very common in the northern regions, particularly in Kavango and Caprivi.

Government and/or municipality regulations were considered as the main threat to informal businesses located in Erongo and Kavango region. 65%, and 85% respectively indicated that it is affecting their businesses much or very much.

Investments during the last six months

Roughly 56% of businesses in the Oshana region made significant investments during the time under review, which is high compared with businesses in Khomas and Erongo for instance, with 41% and 38% respectively.

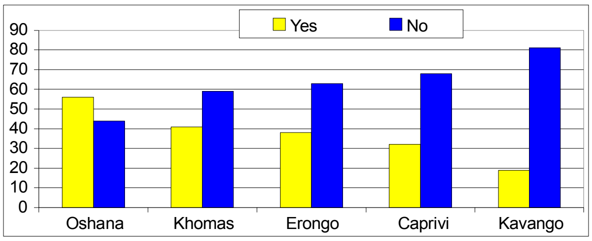

Figure 9: Investment made in the past six months by region (%) (N=182)

Training in the past six months

Only 27% of the businesses indicated that their staff had undergone some training during the first part of the year. Businesses from the Erongo region had an exceptional performance nonetheless, where up to 50% of the businesses in the region indicated that their staff had received training during the period under review.

Performance during the next six months

At least 70% of businesses in Oshana, Caprivi, and Erongo regions expect to grow in the coming six months. Even in the Khomas and Kavango regions many businesses anticipate some growth, albeit less pronounced - 56% and 50% respectively.

Employment in the next six months

On average, only 19% of the businesses plan to employ more people in the coming six months despite the fact that at least 68% of the businesses are expecting their businesses to grow, and that the overall performance of the businesses in the past six months has been improved.

Expected business climate

About 61% of the businesses expect the general business climate to improve over the next six months, and only 10% expect it to deteriorate.

Planned significant capital investment

Around 60% of the businesses indicated that they plan to undertake significant investment during the next six months. This is not surprising since on average businesses are expecting a better business performance, as well as a good business climate in general. An average of 68% of the businesses expect their businesses to grow in terms of income on sales and services, which is promising.

Conclusion and recommendation

Unemployment appears to be the main factor that pushes people into business ventures in the informal business sector. Limited access to credit, poor or non-existent infrastructure, and government and/or municipal regulations are the core factors that affect the performance of the businesses negatively. The performance of informal businesses during the first half of the year was positive but not particularly impressive. The perceived performance of the businesses as well as the general business climate is expected to improve during the next six months. The following recommendations emerge as a result of the findings from the survey in the informal business sector:

- ✓ Promotion of activities other than those currently being pursued by the informal business sector could enhance the sector's growth, which currently has a strong bias towards the growth of retail trading.
- ✓ Much needs to be done in the northern regions to support and level the ground for the expansion of activities in the informal business sector.
- ✓ An awareness of credit institutions among informal businesses in areas outside Windhoek and Walvis Bay/Swakopmund needs to be improved.

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