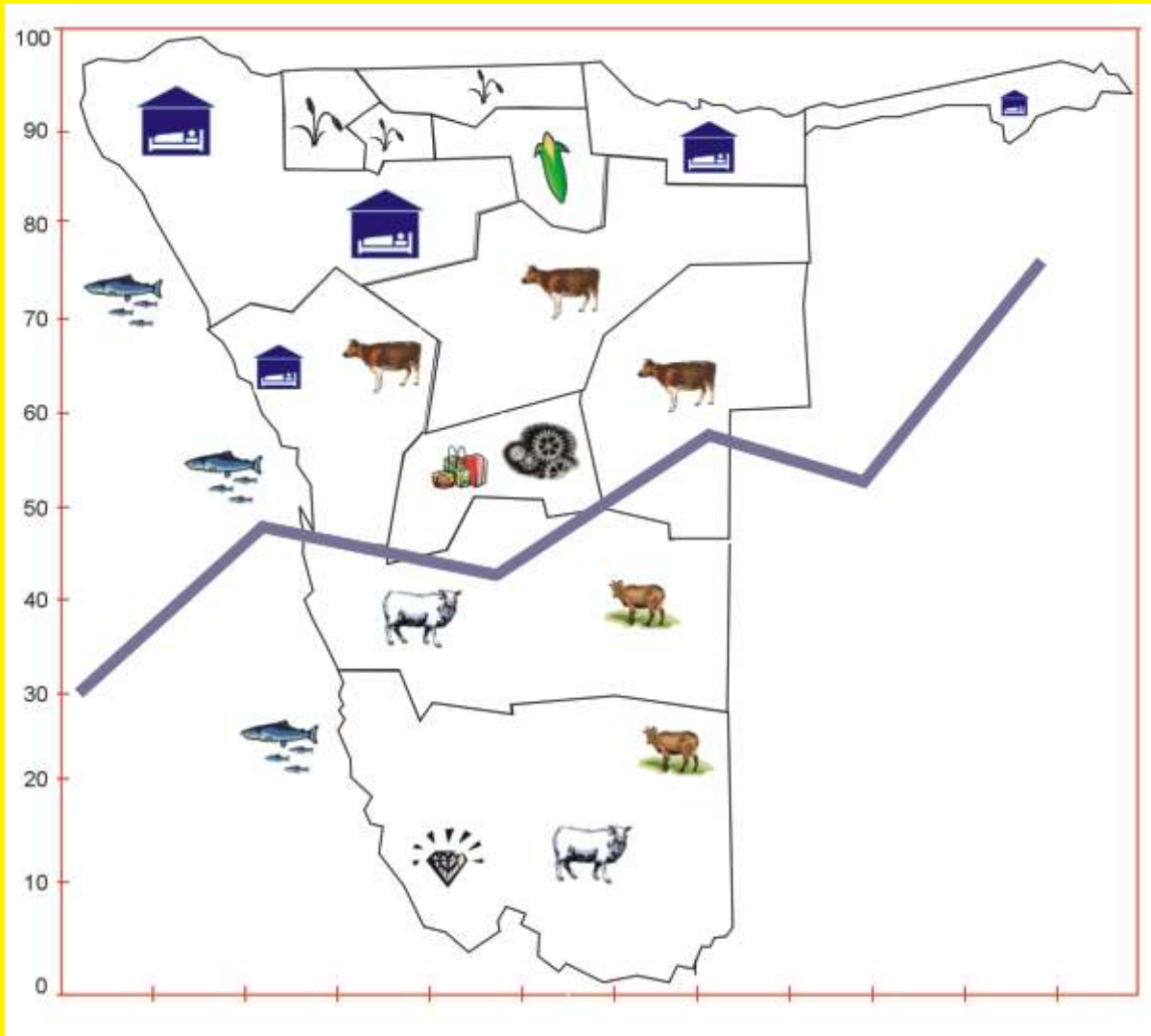


NAMIBIA BUSINESS CLIMATE SURVEY

2002

Volume 2 Issue 2



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Disclaimer

Although every attempt has been made to verify the information in this report, NEPRU does not accept responsibility for any loss arising from reliance on such information.

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List of Acronyms & Abbreviations

BCI	Business Climate Index
BCS	Business Climate Survey
BoN	Bank of Namibia
CBS	Central Bureau of Statistics
CPI	Consumption Price Index
ICT	Information & Communication Technology
IJG	Irwin, Jacobs & Greene
IPRR	Institute for Public Policy Research
MME	Ministry of Mines & Energy
NCCI	Namibian Chamber of Commerce & Industry
NEPRU	Namibian Economic Policy Research Unit
OECD	Organisation for Economic Co-operation and Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARB	South African Reserve Bank
VAT	Value Added Tax

1. INTRODUCTION

NEPRU and NCCI have conducted biannual Business Climate Surveys in both the formal and informal sectors of Namibia since early 2001. The methodology applied in the surveys has been carefully developed with a view to ensuring stability and reliability. The current survey covers all the administrative regions of Namibia, and the number of respondents involved is higher than previously experienced. We are therefore confident that the survey has evolved into an appropriate form, and that a large sample of business operators will be featured in subsequent surveys in order to ensure statistically reliable results.

This is the second report in which we use a business climate index based on the four surveys carried out since the beginning of March 2001. The BCI is intended to provide a simple way to track minor changes and trends that emerge from comparisons between various surveys. The purpose of the BCI is not only to highlight the overall national perspective, but also to enable an evaluation of the business climate in relation to different business sectors, and the size and geographical location of businesses.

2. MACRO-ECONOMIC SETTING

An overview of the macroeconomics setting provides a context within which the Namibian business sector operates. Therefore in the sections below we use recent developments in the US economy as a barometer for global economic developments. The size of the US economy and its impact are significant in global terms, and thus have a bearing on the Namibian economy. At the regional level the South African economy is of major importance, and due to the level of economic integration between SA and Namibia, it has a major and direct impact on the Namibian economy, and therefore on perceptions about business at any given time. After all, SA's economic activity constitutes about 75% of total SADC economic

activity, and Namibia sources some 90% of its imports from RSA. At the national level, recent macroeconomic indicators are highlighted to set national economic parameters within which the business community operates.

2.1. The Global Economy

The US economy makes a weak recovery....

The global downturn would appear to have come to an end, and all indications point in the direction of a recovery, albeit weak. Monetary policy has been eased after the recession in the US economy in 2001 and an expansionary fiscal policy has been implemented to try and sustain recovery. Global inflationary pressures have generally eased, particularly in the USA, the reason being low and stable oil prices. It is expected that inflation will remain low, though in Europe the risk of inflation may not be as low on account of rigid labour markets in existence. Growth is as sluggish in the USA as it is in Europe, though the situation is more worrying in Japan. Threats of a war between the USA and Iraq have seen oil prices fluctuating, as there are fears that such a conflict could lead to a reduction in the supply of oil thereby forcing higher prices.

... but investor confidence remains weak

Developments in the financial markets have made investors cautious, particularly following a series of bankruptcies and high profile unscrupulous auditing practices in the USA. Stock market prices have generally taken a nosedive, which jeopardises the capacity of companies to raise funds for investment. If this trend is not arrested at some stage it is believed that this could reverse the current trend in economic recovery. South American countries for the period under review have largely been fighting financial crises. Brazil received a massive financial bailout, but international bankers and investors remain cautious about their ability to repay. Argentina's debt defaulting in January hasn't helped in terms of

their confidence either. In an effort to ameliorate the situation, the IMF allowed debt-ridden countries to reschedule their payment plans to suit their circumstances, but this has not convinced investors and international bankers to stop pulling out of both Brazil and Argentina. This has severely affected the prospects of trade and investment in Latin America.

2.2 Regional Economic Developments

The RSA economy shows a robust performance in all sectors...

The lower trading value of the Rand seems to have spearheaded the strong performance of the economy, particularly the export-oriented sector. The lower value of the Rand has meant that South African exports are more price-competitive, since they are cheaper than those of their competitors on the world market. This has not happened because of any depreciation in the Rand for the period under review, but is a response to the depreciation of the Rand in 2001. On an annualised basis, growth in the real GDP of RSA improved from 2% in the first quarter to 3% in the period under review. The strong demand for products has made investment very strong as companies expect an even greater future demand. Despite the improvements in the economy, unemployment remains largely unchanged. Large investment inflows were recorded in this period but they remain basically portfolio inflows, which are the government's borrowing from international capital markets and non-residents' holdings of domestic debt. These developments aided the Rand's recovery though it was short-lived. As from June, the downward pressure on the Rand resumed chiefly because of problems from emerging markets, especially Zimbabwe. In addition to this, details contained in a draft mining charter proposing increased black participation in the industry did not help to boost investor confidence, and actually led to some panic.

... but there is still considerable tightening on the monetary policy front in order to curb inflationary pressures

The extensive decline of the Rand in 2001 left the monetary authorities with a considerable challenge to tame inflation and bring it down to somewhere within the elusive target range of 3 - 6%. Apart from the weaker currency, higher food prices and higher international oil prices actively contributed to higher inflation. On June 14, the SARB announced an increase in the Repo rate of 100 basis points, and further increased it by another 100 basis points in September - it currently stands at 13.5%. In the first half of 2002 alone, the monetary authorities increased the Repo rate by a total of 300 points. Money market rates followed suit by increasing. However, the recent Rand recovery coupled with surplus production capacity and fiscal discipline should dampen the inflationary pressures in RSA, though this does not mean that the monetary authorities can bring inflation to within the targeted range of 3-6%. The major problems they have to contend with are the high salaries and wage increases, an unstable oil market and the instability of the Rand itself.

Severe Regional Drought still looming

The Southern African region is facing a very severe drought with an estimated 14,4 million people facing starvation. The situation seems to be most acute in Zimbabwe, where an already weak economy and a questionable land redistribution program have compounded it. Maize stocks in the region are critically low and prices are expected to increase considerably. To save the threatened population, an estimated 1,05 million tonnes of maize are needed for Zimbabwe, Lesotho, Mozambique, Swaziland and Zambia. A considerable threat of famine also exists in Angola and the DRC. The former UNITA rebels gathering in camps as part of the demilitarisation process makes the situation even worse.

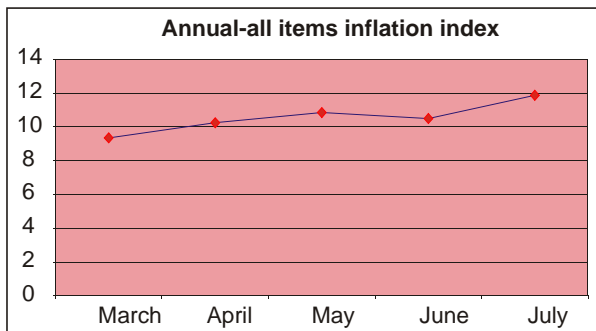
2.3 Namibian Economic Developments

The inflation, interest and exchange rates are key indicators of the prevailing business climate, and as such have a bearing on perceptions about the existing business climate. Therefore, the most recent developments around these indicators are highlighted in the section below.

2.3.1 Inflation

The annual all items index indicates that the inflation rate has been steadily increasing over the period under review.

Figure 1 Annual all items inflation index



Source: Central Bureau of Statistics

The major factors contributing to this rise are food items, especially cereal and cereal products, fruit and vegetables, dairy products, and transport and communications. Windhoek Municipality service charges were increased as from July 1. Water rates increased by 13%, electricity by 10.8%, refuse removal and sewage by 10%, while municipal bus tickets also went up by some 11.1% (from N\$4.50 to N\$5.00). This kept inflationary pressures firm on the local market.

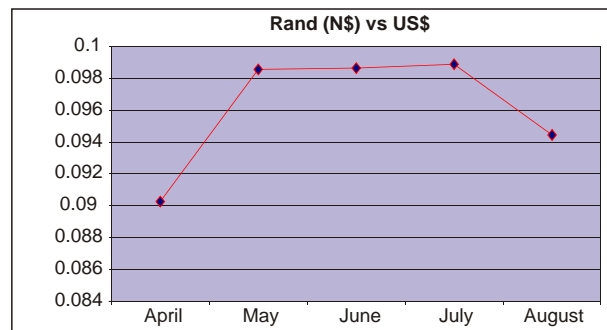
The VAT Amendment Act came into effect on 1 October. This abolishes the 30% tax on luxury goods including cars valued at more than N\$221,500, satellite TV dishes, alcoholic beverages and cigarettes.

2.3.2 Exchange Rate

The Namibian dollar for the quarter under review has traded generally at a stable rate against the US\$, though it is still subject to variations. As shown below, it was appreciating until August when it depreciated quite suddenly.

These developments are largely because of the trading position of the Rand to which the Namibian dollar is linked at par. If the Rand/N\$ weakens further this will result in further inflationary pressure, and it is possible that interest rates might be increased even further in the last quarter of the year. A weaker Rand/N\$ is an opportunity for export-oriented sectors of the economy as it makes the price of exports more competitive internationally. However the major determinant is the performance of the Rand itself against major trading currencies.

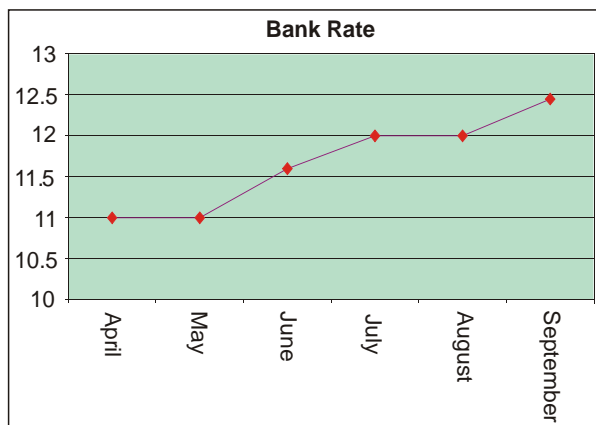
Figure 2 Exchange rate Rand versus US\$



Source: SARB

2.3.3 Interest Rates

The Bank of Namibia's bank rate changes closely mirror developments in SARB changes of the Repo rate. As a member of the Common Monetary Area they are obliged to make necessary changes to their bank rate to keep it in line with South African developments, in order to keep monetary policies synchronised.

Figure 3 Bank rate %

Source: Bank of Namibia

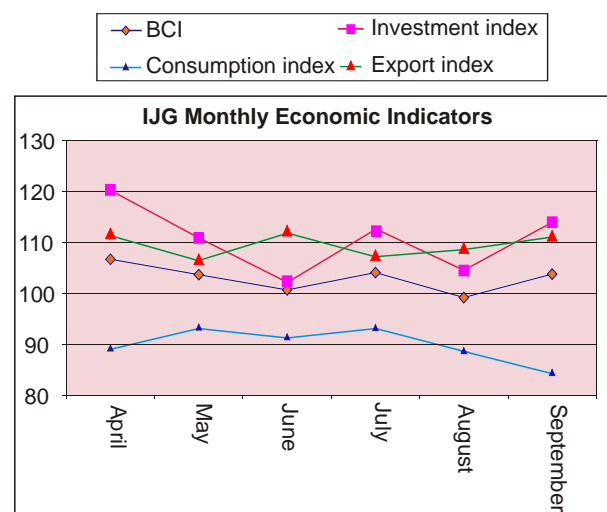
The graph above clearly indicates the changes that were made for the period in question. Increases were made in May, June and August. Though the BoN increased its bank rate it still lags behind by about 75 basis points. The reason is to avoid further hurting the already declining credit offerings to the Namibian public. Higher interest rates generally reduce borrowing by the public, as it is a cost.

2.3.4 Findings from IPPR (IJG) Monthly Surveys

Amongst the major economic sub-indices that the IJG use there is no clear trend in any direction up or down, though fluctuations are evident. The investment index fell for two successive months from April until June when it was at its lowest. For the month of May, the IJG found a deteriorating business climate when the overall BCI fell as all the other sub indices tumbled. For June the BCI fell while prime rates rose. During the same period, IJG found that the investment and consumption outlook was poor owing to rising interest rates. However, they found the export outlook to be good.

During the month of July the BCI rose, and the IJG points to higher vehicle sales, corporate registrations and the granting of more credit to individuals as some of the reasons for this increase. In August, the export index rose

Considerably, helped by the firm meat and fish prices as the IJG point out. For September the consumption index fell and this was attributed to higher interest rates. The investment index rose considerably spurred by higher beef, monk, copper and zinc prices. They also find the lagged effect of building plans passed in June to have played a significant role in these developments.

Figure 4 IJG Monthly Economic Indicators

Source: IJG Business Climate Monitor

3. THE FORMAL BUSINESS SECTOR

3.1 Methodology

As with the previous survey, the methodology for this survey was based on field-work by enumerators from 14 commercial centres of the 13 administrative regions of Namibia¹. For this survey, we targeted 450 formal businesses, and managed to receive 420 questionnaires back.

¹ These centres are Lüderitz, Keetmanshoop, Mariental, Windhoek, Walvis Bay, Opuwo, Tsumeb, Oshakati, Oshikango, Outapi, Rundu, Rundu, Katima Mulilo and Gobabis.

As for the selection of respondents for this survey, a serious attempt was made to survey the same businesses as those of the last survey. In effect, the sample has become stratified. The underlying reason for this was to ensure comparability between the results of this survey with the last one, of March 2002. It must however be said that it was not possible to have exactly the same businesses as surveyed during the exercise in all cases. In addition, to ensure more representativeness, the survey covers small, medium and large enterprises in all 13 regions of the country. In terms of sectoral coverage, agriculture, manufacturing, construction, retail and wholesale, tourism, transport and communication, finance, and other services have been included.

As a way of ensuring a higher response rate, only those potential respondents who indicated an interest in the exercise were given questionnaires. After distributing questionnaires to selected businesses, the enumerators collected the completed questionnaires a few days later. Katima Mulilo and Lüderitz were excluded from our analysis, as enumerators for these two towns did not manage to submit their questionnaires on time.

When compared to the previous survey, an additional 60 businesses were added to the current survey from Outapi and Oshikango that had not been included in the previous issue since the survey questionnaires were not submitted in time to be included in the final report.

3.2 Note on the presentation

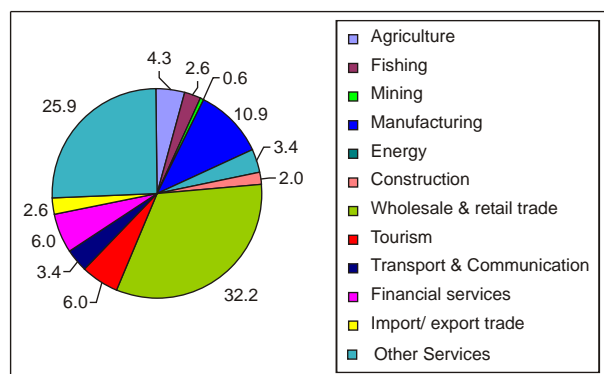
The findings of the formal business sector survey are presented in the five main sections. The first section is an overview of the data collected in the survey, while the second section deals with the business climate index. The third section highlights business performance, employment and investment, which collectively constitute the foundation of

BCI. The fourth section focuses on the use of information and communication technology in business, who uses it, to what extent and for what purposes. The final section is an analysis of the results of the current survey of the formal sector.

3.3 Sample

The majority (32%) of the businesses that responded are in the wholesale and retail sector, while a significant proportion - about 26% - are involved in the provision of other services. On the other hand, manufacturing (11%), financial services (6%), and tourism (6%) also had noteworthy responses. Although wholesale and retail remains the largest sector, responses from this sector actually decreased. In the previous survey this sector constituted about 40% of responses. The number of responses from this sector was deliberately reduced in order to ensure fair representation for other sectors. The manufacturing sector's representation increased in responses from 7% to 11%, which in this sector is quite significant. The responses from the agricultural sector decreased significantly during this period, by more than half, due to difficulties experienced in distributing and collecting questionnaires from farmers.

Figure 5 Business sector's representation in the sample (%) (N= 348)

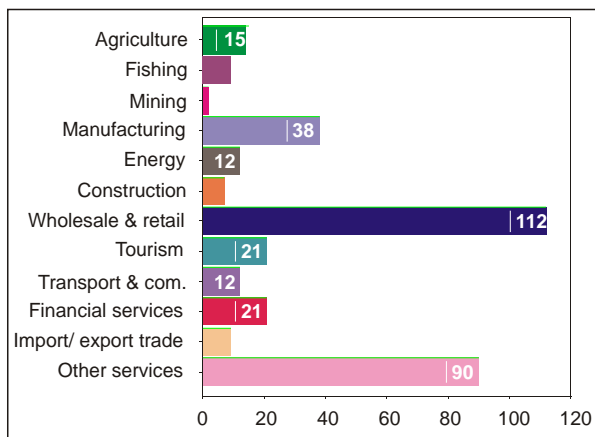


Although still not very representative, there was a good improvement in the response from the fishing sector, moving up from only 0.5% in

the previous survey to 3% in this survey. The same could not be said for the mining sector, where less than 1% of the respondents were from this sector. These two sectors (mining, and fishing) are particularly important to this survey, given their importance in the national economy. Since a few operators dominate the two sectors it has not been possible to obtain sufficiently representative data from them. In addition, questionnaires from Lüderitz could also not be submitted. Although not quite so significant, improvement in all other sectors - energy, construction, transport and communication, and import/export trade - during the course of this survey is very encouraging.

In absolute counts, the responses from various sectors still vary by large margins. Although this could be improved, the situation is a good reflection of the sectoral composition of the businesses in the country.

Figure 6 Absolute frequencies of respondents (N=348)

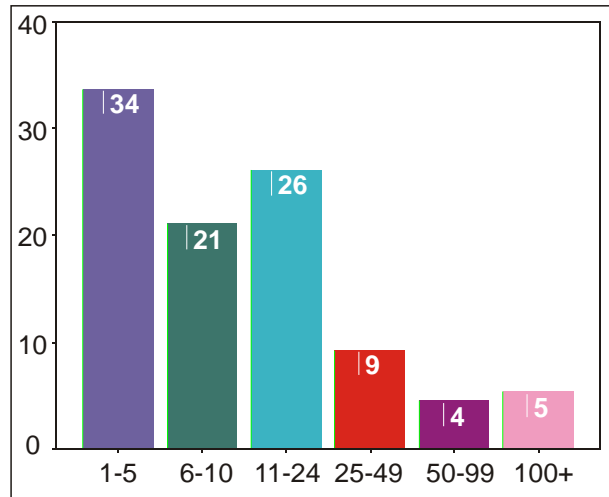


3.3.1 Number of employees

Using the number of employees as an indicator of the size of the business, the survey data indicates that most of the businesses in the formal sector are small-scale enterprises. The data also indicates that about 34% of businesses have only up to five employees. Companies with between 6 and 10 employees, and those with 11 - 24 employees account for 21% and 26% respectively. Altogether

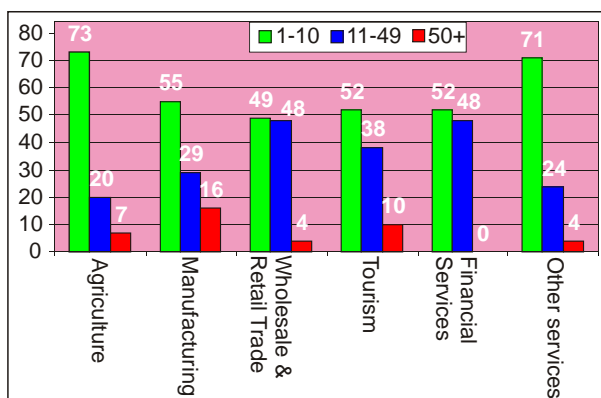
companies with more than 25 employees make up less than 20% of all companies in the sector.

Figure 7 Number of employees in the surveyed business (%) (N=356)



When compared to the last survey's results, there was an increase in the number of medium sized enterprises, as the number of businesses with 25 - 49 and 50 - 99 employees increased from 21% to 26%, and 8% - 9% respectively. Only 34% of businesses as compared to 37% in the previous survey indicated that they had 1 - 5 employees, and those businesses with 6 - 10 employees dropped from 25% to 21%. There was no change in the number of responses from companies with 100 or more employees. Fishing, mining, and manufacturing constituted the largest share of large business enterprises. The figures for the fishing and mining sectors were however excluded in figure 4, as it only shows sectors with relatively large samples. About half of the retail and wholesale sector is made up of enterprises with 1 - 10 employees, and the other half is made up largely of businesses with between 11 and 49 employees. On the other hand, up to 71% of businesses involved in the provision of other services employ 1 - 10 people. Since these two sectors (retail and wholesale, and manufacturing) constitute 58% of the businesses, this is yet another confirmation of the dominance of small-scale enterprises.

Figure 8 Employees per business sector (%) (N=296)



3.4 Business climate index

3.4.1 Methodology

In the BCI we have looked at changes in the perceptions of the business climate on the part of business people over the period March 2002 to September 2002. The overall index is a function of the answers to six questions put to businesses:

1. How do you rate the general business condition for your business during the past six (6) months? Better / the same / worse.
2. How did your business perform during the past six (6) months (in terms of turnover - income from sales and services)? Grow / remain constant / fell.
3. How do you expect the business condition to be in the next six (6) months? Better / the same / worse.
4. How do you think your business will perform in the next six (6) months (in terms of turnover - income from sales and services)? Grow / remain constant / fall.
5. Compared to the past six (6) months, you will employ: more / same number / less?
6. Do you plan to make any significant investments during the coming six (6) months? Yes/No.

The percentage shares of the positive and negative responses to the six questions asked in the survey are established by disregarding all 'neutral' answers (same, constant, etc.) and by subtracting the negative answers from the positive answers. An arithmetic percentage mean is formed from the balances from each question. The six means are added to each other and divided by six. The series of balances are linked to the base value (March 2001), which is set as an index value of 100.

Legend: ▲ = positive trend ▼ = negative trend.

The business climate index for the formal business sector is based on 352 observations.

3.4.2 All businesses

The overall index shows a negative trend. This is a significant change from the 11.8 points' increase during the last survey. This negative perception could be ascribed to recent developments regarding the increase in inflationary pressures, increase in petrol prices and increase in bank rate.

Table 1 Business climate index for all businesses

SECTOR	Index			Change Points	Trend
	2001:2	2002:1	2002:2		
All business sectors	104.6	125.9	124.2	-1.7	▼

3.4.3 Business sectors

All but two business sector indices have shown positive trends. The index for agriculture increased by 2.8 points compared to the increase of 45.8 percentage points during the last survey. A possible drought and issues related to the land question, which are becoming topical among the general public, are some of the relevant factors, which could have led to a reduced level of positive perception in this vital sector of the economy. For manufacturing the index increased by 14.1 points, compared to 12.6 in the last survey.

This sector is by and large export oriented, and with the depreciation of the Namibia Dollar against major currencies such as the US\$ and the Euro, the changes for the manufacturing sector has been an increase that could in part explain the positive index.

The index for the construction industry increased by 39.1 points, compared to -0.3 during the last survey. This is a major increase, and it is difficult to explain logically how this sector, which really depends on overall growth prospects, could have this level of positive perception regarding the business climate of the past six months.

The retail and wholesalers index increased by 9.5 points compared to 4.1 in the last survey. It is similarly hard to explain this increase, in the light of negative developments regarding inflation, interest and petrol prices.

The tourism index decreased by 18.7 points, compared to 42.1 increase in the last survey. Recent attacks by criminals on tourists, and the topical issue of land to which tourism is tied, could be seen as influencing perceptions in this sector.

The transport and communication index decreased quite significantly by 34.2 points compared to an increase of 63.9 in the last survey. This difference is significant and warrants some explanation.

The index for finance increased by 14.6 points, compared to a 21.3 decrease in the last survey. Other service indexes decreased by 17.0 points compared to a 34.5 point decrease during the last survey. Although the underlying trend is positive, it has nevertheless increased at a lower pace compared to the last survey, which means the business climate in the eyes of those surveyed has weakened compared to the last survey.

Table 2 Business climate index by businesses sector

SECTOR	Index			Change Points	Trend
	2001:2	2002:1	2002:2		
Agriculture	99.1	144.9	147.7	+ 2.8	▲
Manufacturing	114.5	127.1	141.2	+ 14.1	▲
Construction	68.4	68.1	107.1	+ 39.0	▲
Retail & whole sale	129.4	133.5	143.0	+ 9.5	▲
Tourism	102.9	145.0	126.3	- 18.7	▼
Transport & communication	69.5	133.4	99.2	- 34.2	▼
Finances	115.1	97.9	112.5	+ 14.6	▲
Other services	91.0	126.0	124.6	- 17.0	▼

3.4.4 Business size

The survey results indicate that medium-size enterprises appear to have undergone the greatest change in their index, with an 11.1 point increase compared to 15.5 of the last survey, thus maintaining roughly the same perception of the business climate in the country. The perception of the business climate by small size enterprises has also increased by 2.1 points, compared to 30.9 in the last survey 2002:1. The only negative trend was within large scale enterprises, where the index decreased by 12.2 points compared to an increase of 10.8 in the 2002:1 survey. This could be ascribed to the persistent increase in inflation and interest rates during the last as well as the current survey. In addition, much weaker signs of recovery in the global economy could have contributed towards a negative perception of Namibia's business climate.

Table 3 Business climate index by size of business

The fact that small and medium enterprises

SECTOR	Index			Change Points	Trend
	2001:2	2002:1	2002:2		
Small	108.3	139.2	141.4	+2.2	▲
Medium	102.6	118.0	129.1	+11.1	▲
Large	91	101.8	89.6	-12.2	▼

remain positive about the overall business climate of the country could be said to indicate that the efforts of the government to develop and strengthen small enterprises are having an effect.

3.4.5 Business region

Looking at the table below, perceptions of the business climate exhibit negative trends in 3 of the 10 regions from where information was obtained, using the methodology as set out in this report. Khomas and Hardap regions showed the greatest increase, of 28.7 and 18.2 points increase respectively. Kunene region, which had shown a significantly higher increase of 54.8 points in the last survey, now shows a negative trend of 28.4. This level of variation between the two surveys is not easy to explain.

Table 4 Business climate index by administrative region

Indicators	Index			Change	Trend
	2001:2	2002:1	2002:2	Points	
Caprivi	139.7	130.1	-	-	-
Erongo	104.4	133.5	133.8	0.3	▼
Hardap	95.8	92.6	111.0	+18.2	▲
Karas	100.1	131.3	123.4	- 7.7	▼
Kavango	117.5	130.7	138.6	+ 7.9	▲
Khomas	67	82.2	110.9	+ 28.7	▲
Kunene	113	167.8	137.7	- 30.1	▼
Ohangwena		127.7	134.0	+ 6.3	▲
Omaheke	91.7	130.6	143.4	+ 12.8	▲
Omusati		137.7	142.5	+ 4.8	▲
Oshana	137.7	133.1	124.5	- 8.6	▼
Oshikoto	89.4		126.7		-
Otjozondjupa	135.4		143.2		

In terms of ranking by administrative regions, Oshana ranks the highest followed by Kavango, Omusati, Khomas and Ohangwena. Oshikoto, Erongo and Hardap rank the lowest with 10, 11 and 12 respectively. The optimism of these four northern regions is warranted, as there are numerous developments ongoing such as the construction of the northern railway line. This trend is not significantly different from the results of the last survey. One noticeable change is that the ranking for Windhoek, which is by far the most important commercial centre, moved to 6 in the current survey from 9 in the last. As was argued in the last survey (2002:1), the dramatically improved chance of doing

business with Angola appears to have generated a positive perception of business in the regions bordering Angola, especially Kavango, Ohangwena and Omusati.

Table 5 Ranking of perceived business climate by administrative region

Region	Rank				Mean
	2001:1	2001:2	2002:1	2002:2	
Oshana	1	1	1	1	1.00
Kavango	3	3	3	2	2.75
Omusati	-	-	5	3	4.00
Caprivi	5	2	6	-	4.33
Ohangwena	-	-	4	5	4.50
Karas	4	5	5	8	5.50
Khomas	2	8	9	4	5.75
Otjozondjupa	8	4	-	6	6.00
Kunene	9	6	2	9	6.50
Hardap	6	7	10	12	8.75
Oshikoto	7	10	-	10	9.00
Omaheke	10	11	9	7	9.25
Erongo	11	9	7	11	9.50

3.4.6 Index variables

Compared to the last survey, 2 of the 6 index variables show negative trends. As had been the case in the last survey, 54% of businesses surveyed indicated that they are planning to have some significant investment in the next six months, though only 26% of those surveyed indicated that they are planning to increase employment. The difference between the businesses surveyed in terms of their perception of employment creation and investment in their enterprises might be ascribed to a prevailing tendency to increase investment in labour-replacing production processes. It is difficult to see how planned increases in both employment and investments are positive but the expected business performance is negative. What is noteworthy is the perception that business performance during the next six months is expected to be negative. It is hoped that this trend could be reversed soon.

Table 6 Business climate index by variable

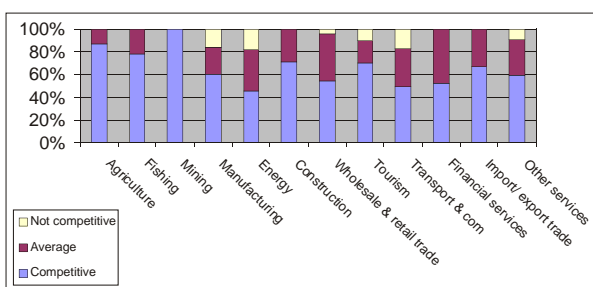
SECTOR	Index			Change	Trend
	2001:2	2002:1	2002:2	Points	
Recent business condition	130.9	135.8	147.3	+ 11.5	▲
Recent business performance	96.9	119.5	117	- 2.5	▼
Expected business condition	110.7	142.1	149.1	+ 7	▲
Expected business performance	83.5	121.3	103.4	- 17.9	▼
Planned increase in employees	86.5	95.2	103.5	+ 8.3	▲
Planned increase in investments	84.9	119.9	132.6	+ 12.7	▲

3.5 Business competitiveness

Most of the businesses in the formal sector - 60% - appear to be competitive. This is however relatively unenthusiastic compared to the previous surveys. On the other hand this cannot be seen as a surprise, given the fact that the business performance in the previous survey was better.

On a sectoral basis, up to 87% of businesses in the agricultural sector indicated that their businesses were competitive, and none of businesses in the sector complained that they were not. This was very optimistic given that the agricultural sector had the largest percentages of businesses that were not competitive in the previous survey. It is only the tourism sector that maintained the same competitiveness as in the previous survey. All other sectors' competitiveness declined during this period. All respondents in the mining sector indicated that they were competitive, although the small sample in this sector limits further analysis.

Figure 9 Competitiveness rating by business sector (%) (N=342)

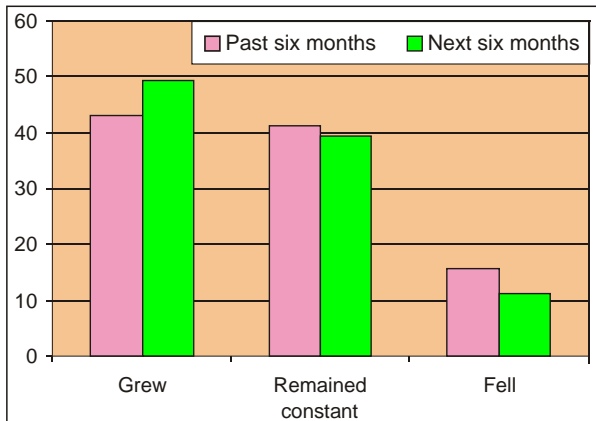


3.6 Performance

About 43% of businesses indicated that they experienced growth in terms of turnover income from sales of goods and services - during the period under review. This is however relatively low, when compared to the performance during the previous survey where about half of the businesses grew. At least 60% of businesses expected to grow during the current period. About 41% of businesses also indicated that business performance was not different from that of the past six months. Only 16% of businesses suffered a fall in their turnover during this period.

This relatively poor performance is reflected by a decline in sectoral performance, where only 60% of businesses in the better-performing sector agriculture - indicated that they grew, which is less compared to the best performing sector (73%) in the previous survey, which also happened to be agriculture. Except for Kavango region that kept its performance similar to that of the previous survey, there was no relationship between this survey's regional performance and the previous one. Oshana region for instance had the best performance during the previous survey in terms of turnover, though in this period it took fifth place in ranking, after Otjondjupa (55%) recorded the best performance in terms of growth. The poor performance is further indicated by the low performance of Hardap (27%) and Omusati (24%). Although growth seems to be low this time, it is moderately high compared to the same period during 2001. The business performance expectations for the next six months are distinctly positive. Although only less than a half (49%) of businesses indicated that they expect to grow in the next six months, this is not as optimistic as the results of the previous survey (2002:1).

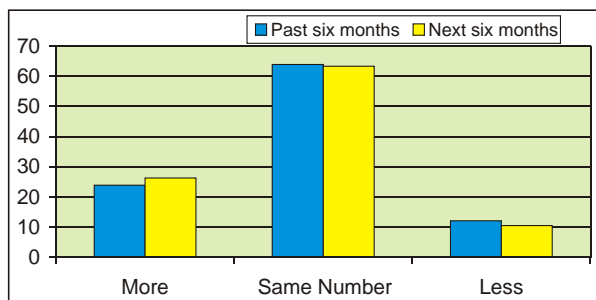
Figure 10 Business performance, past and next six months (%) (N=356 & 355)



3.7 Employment

About a quarter of businesses indicated that they had employed more people over the past six months. This represents an increase compared to the 20% that was forecast for this period. During the previous survey, only 19% of the businesses increased the number of employees. More businesses decided to keep the same number of employees during the period under review, while about 12% cut the number of employees for their businesses. Businesses are more optimistic when it comes to employment in the next six months, where 26% of the businesses indicated that they are planning to employ more people.

Figure 11 New employments, past and six months (%) (N=355 & 354)

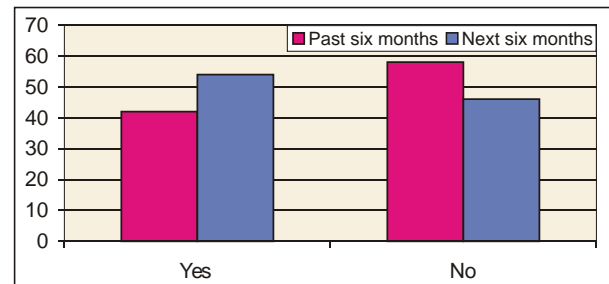


3.8 Investment

In the past surveys the investment trend has been negative, and this proceeded into this survey, with more businesses (58%) indicating that they did not make any significant investment during the past 6 months. Only 42% of businesses made some significant

investment during this period, which is exactly the same as that of the previous survey. This indicated that significant capital investment in the formal sector has been stagnant for a while now. The high crime and theft rate, which was considered to be negatively affecting the growth of businesses, may have an impact on investment decisions. In most cases investment is financed with borrowed capital, and as the cost of borrowing has been on the increase during both current and previous surveys (2001:1, 2001:2 and 2002:1), this might have had an impact on investment. Despite the fact that there is currently no sign of an interest rates reduction, up to 54% of businesses are planning to make some significant investment in the next six months.

Figure 12 Significant capital investments, past and next six months (%) (N=346)

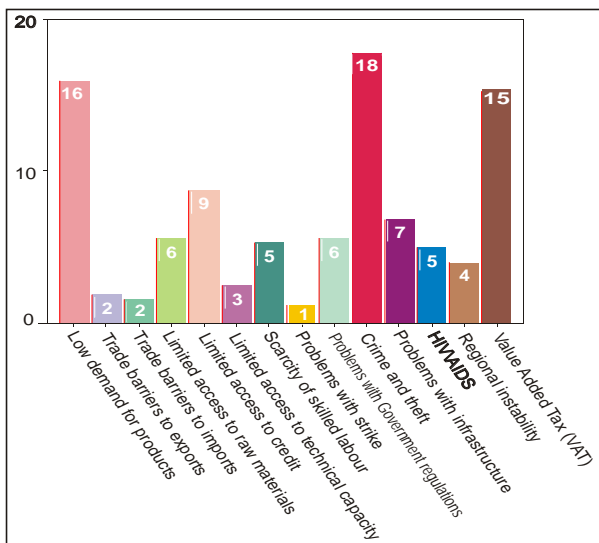


3.9 Factors hampering businesses

Crime and theft (18%), low demand for products/services (16%) and VAT (15%) remain the three strongest factors that negatively impact business performance. Except for low demand of products/services, the rate at which these factors crime, theft and VAT - impact on business operation has even increased compared with the previous survey, both increasing by two points. The increase in crime and theft is a threat, and measures have to be put in place to make sure that this is curbed before it gets out of hand. However, with the implementation of the VAT amendment, it is expected that the demand for luxury goods will increase, thus improving business and impacting positively on the business climate for the next six months.

Access to credit, which is also another major concern to businesses, did not improve during the period under review. It was however interesting to note how HIV/AIDS has grown as a threat to business operation, with at least 5% of businesses indicating that it is affecting their business operation negatively, compared to a mere 1% in the previous survey.

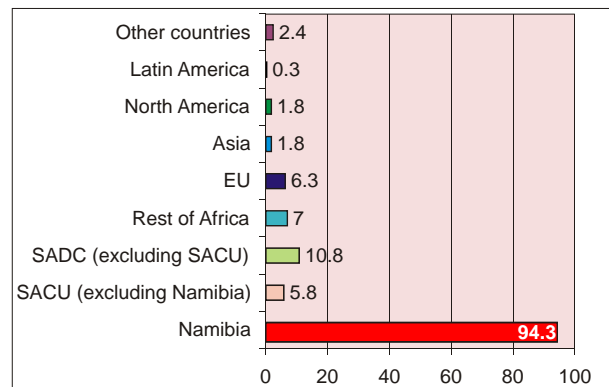
Figure 13 Factors with the most negative impact on businesses (%) (N=320)



3.10 Destination of sales

There was an obvious increase in businesses exporting over the past six months, with export destination also diversifying. Although the value of the Rand had appreciated during the previous survey, up to 98.7% of businesses indicated that their outputs were only sold locally. During this survey this changed, with 94.3% businesses indicating that they were not exporting their output. Previously, a significant share of export was destined to SACU, but this however changed over the period under consideration, which saw SADC (excluding SACU), the rest of Africa, the EU and Asia as export destinations for more businesses in Namibia. This shows that Namibia might be making headway in diversifying its export destinations.

Figure 14 Destinations of sales (%) (N=335)



3.11 Businesses and Information Technology

Companies were asked about the number of computers they possess, how many of these computers are connected to the Internet, and whether they buy or sell goods and services via the Internet. The aggregate responses to these four questions are used as indicators for IT and Internet usage of Namibian businesses. An IT-Usage Index (ITU Index) has been introduced with this edition of the Business Climate Survey. It is constructed as an average of the percentage changes of the four above-mentioned indicators. The business Climate Survey 2002 Volume 2, Issue 2 will be used as the base year with 100 index points.

Table 7 IT-usage index (ITU index)

	2002:1	2002:2	Change	Trend
ITU Index	100	102.55	2.55	▲
Average Number of Computers per Company	11.15	11.66	4.57	▲
Average Number of Computers with Internet Access	3	3.12	4.00	▲
Does company use the Internet to buy goods and/or services?	15.79%	15.54%	- 0.25	▼
Does company use the Internet to sell goods and/or services?	10.26%	12.15%	1.88	▲

Table 7 presents the summary results for the previous business climate survey and the current one. The average number of computers Per company has increased by 4.57% in the last six months. The average number of

Computers with Internet access per company also increased from 3 to 3.12, an increase of 4%.

The number of companies in the survey that use the Internet to buy goods or services via the Internet decreased slightly (-0.25%), while the number of companies that use the Internet to sell goods and services increased by nearly 2%.

The average percentage change for the four ICT indicators was 2.55% over the last six months. The ICT index thus increased by 2.55 points to 102.55.

That both the number of computers per company and the number of computers with Internet access per company increased at a higher rate than the expected real GDP growth for that period is very encouraging. However, much higher growth rates in IT and Internet usage would be required to close the gap to the OECD countries.

3.12 Analysis of the business climate in the formal sector

When analysing the survey, the underlying trend exhibits a rather cautious perception about the overall business climate in Namibia on the part of the formal sector.

Although heavily integrated into the world economy, Namibia's economy remains largely disintegrated locally, with each key sector operating pretty much on its own, spurred by external technological, economic and political developments.

Despite this shortcoming at the broader economic level, the business climate index reveals certain interesting trends, such as the positive perception of the formal business sector, particularly small and medium size enterprises. One can perhaps in part attribute this to Government's

Policy drive to focus on the strengthening of the SME sector.

What is also of interest is the fact that the northern regions are generally positive about the business climate in the country. Once again, this could be explained in part by current levels of economic activity in those regions, and by peace in Angola.

It is disappointing to note that indices such as employment creation and investment reflect a weaker trend, with only about ¼ of respondents indicating that they have employed more people during the last six months. This attitude is further reinforced by the overall negative trend in investment where more than 58% of respondents indicated that they had not made any significant investments over the last six months.

It would therefore be feasible to conclude that it would be highly unlikely to see any significant employment creation in the existing formal businesses. Attracting new investments is therefore crucial in reducing unemployment. The survey has also revealed that a strong perception exists that Namibia's formal sector remains fairly competitive, and that diversification of exports destinations, mainly away from SACU to other SADC and African countries, is taking place.

Looking at both the last and the current survey, one witnesses signs of an increased use of information and communication technology in the formal business sector. This reflects, among other things, the level of integration of the Namibian economy within the global economic system, which is moving in the direction of e-commerce, and the increasing sophistication of Namibia's formal sector. The use of information and communication technology should assist with increased productivity and competitiveness. Namibia needs to encourage the use of IT in the business sector. One would actually hope that the amendment of the VAT Act should

Encourage businesses to increase their participation in information technology.

4. THE INFORMAL BUSINESS SECTOR

4.1 Methodology

The survey of the informal business sector, like that of the formal business sector, has in the current survey been expanded to cover all administrative regions of the country. Enumerators surveyed the informal business sector by applying the stratified sampling of the businesses surveyed during the last survey. The aim was to target 420 businesses. However, only 361 questionnaires were received. Katima Mulilo and Lüderitz were excluded in the final tabulation as too few observations were submitted for the former, and nothing for the latter.

4.2 Note on the presentation

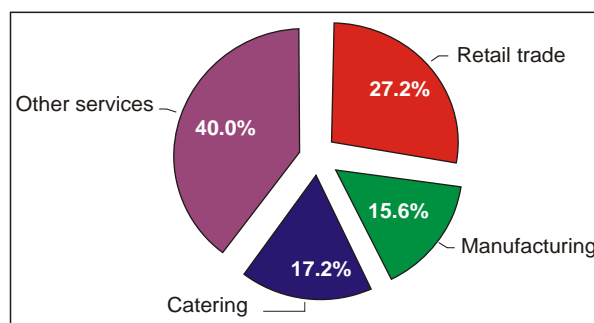
The presentation of the results of the BCS of the informal business sector is divided into five main parts. The first part will outline the sample that has been surveyed for this report. In the second part of the informal sector we present BCI of the informal sector. The third part deals with the overall measures obtained in the survey, revealing competitiveness, performance, investment, hampering factors, etc. The fourth part answers the questions put to business operators concerning the viability of their enterprises, and the sectors in which they operate are presented. Finally, there is an overall analysis of the results obtained from the survey of the informal business sector.

4.3 Sample

For sectors whose activities have been indicated specifically, the clear majority are in the retailing trade (27.2%), followed by catering (17.2%), and lastly manufacturing (15.6%). Other unspecified activities account for 40.0%.

The proportion of retailing declined from the previous figure of 34.5% to 27.2%. This could be attributed to a change in the focus, which was communicated to enumerators, that they choose respondents from other sectors and reduce the coverage of retailing respondents to a given level. Catering was also introduced as a new category, which could another reason, as previously respondents in this sector were indicating that they belong to the open category 'other activities'.

Figure 15 Share of business sectors in the sample (%) (N=361)



4.4 Business climate index

4.4.1 Methodology

For the methodology see section 3.4.1 above.

The business climate index for the informal business sector is based on responses from 361 business operators.

4.4.2 All businesses

The index trend for the informal business sector was reversed from the negative trend of 2.4 points to a positive trend of 1.8 points for the current survey. Although positive, the trend is weak, and thus confirms the overall weakness in the perception of the informal businesses in the country.

Table 8 Business climate index for all businesses

SECTOR	Index			Change Points	Trend
	2001:2	2002:1	2002:2		
All Business sectors	102.9	99.5	101.3	+ 1.8	▲

4.4.3 Business sector

The index trend for the retail business decreased by 1.9 points compared to a positive trend of 5.3 in the last business climate survey. Manufacturing shows a negative trend. This could in part be explained by the increase in petrol prices and in the bank rate. Other service sectors have shown positive changes in their indices. The fact that the retail business shows a negative trend is rather disappointing, especially in the light of its dominant role in the informal sector.

Table 9 Business climate index by businesses sector

SECTOR	Index			Change Points	Trend
	2001:2	2002:1	2002:2		
Retail trading	103.6	108.9	107.0	- 1.9	▼
Manufacturing	106.3	97.6	94.4	- 3.2	▼
Other services	99.7	88.4	95.8	+ 7.4	▲

4.4.4 Business region

Of the regions whose questionnaires were received for both the last as well as the current survey, two have negative trends in their indices: Erongo and Karas. It is difficult to explain the significantly higher level of positive perception in Khomas and Hardap.

Table 10 Business climate index by administrative region

Indicators	Index		Change Points	Trend
	2001.1	2002:2		
Erongo	100	78.8	- 21.2	▼
Hardap	100	154.0	+ 54.0	▲
Karas	100	94.2	- 5.8	▼
Kavango	100	110.8	+ 10.8	▲
Khomas	100	145.3	+ 45.3	▲
Kunene	100	115.0	+ 15.0	▲
Omusati	100	107.8	+ 7.8	▲
Oshana	100	110.4	+ 10.4	▲

As for the absolute ranking, Oshana, Khomas and Karas did well. It is surprising that Karas could do so well as to outrank other more

densely populated regions, with more informal businesses. However, for the last year or so, the Karas region actually experienced significant investment and therefore economic activity in the formal sector, and this could have helped the performance of the informal sector in the region.

Table 11 Ranking of perceived business climate by administrative region

Region	Rank		Mean
	2002:1	2002:2	
Oshana	1	1	1.0
Karas	2	3	2.5
Khomas	6	2	4.0
Kunene	4	4	4.0
Caprivi	5	-	5.0
Erongo	3	7	5.0
Omaheke	-	10	5.0
Omusati	-	5	5.0
Ohangwena	-	11	5.5
Oshikoto	-	6	6.0
Kavango	7	8	7.5
Hardap	8	9	8.5
Otjozondjupa	-	12	12.0

4.4.5 Index variables

Index variables for recent business conditions, expected business conditions and planned increase in investment remained positive. At the same time, expected business conditions have also shown a positive trend of 1.3 points. On the other hand, recent business performance, expected business performance and planned increase in employment show negative trends of 9.0, 1.5 and 3.0 points. It is once again shown that informal business people expect an increase in planned investment over the next six months, but are nevertheless pessimistic about any

increase in planned employment. This means that there is a firm conviction that increases in investment need not be accompanied by an increase in employment.

Table 12 Business climate index-by-index variable

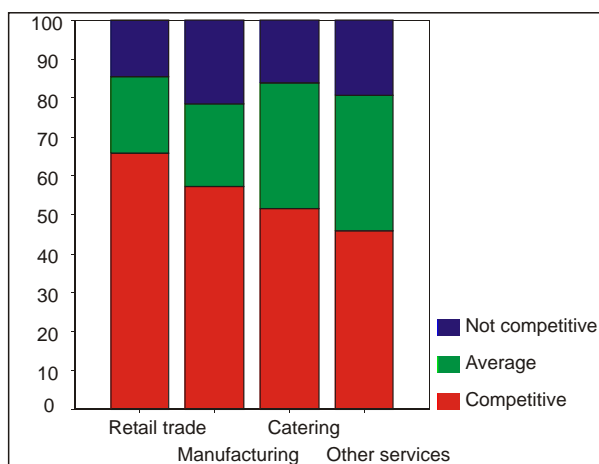
SECTOR	Index			Change	Trend
	2001:2	2002:1	2002:2		
Recent business condition	100	79.3	87.9	+ 8.6	▲
Recent business performance	89.1	93	84.0	- 9.0	▼
Expected business condition	114.3	108.5	109.8	+ 1.3	▲
Expected business performance	115.9	103.7	102.2	- 1.5	▼
Planned increase in employees	102.1	105.8	102.8	- 3.0	▲
Planned increase in investments	98	99.5	108.6	+ 9.1	▼

4.5 Competitiveness

Generally, all business sector respondents indicate that their business operations are competitive. No more than 22% of the respondents across all sectors rated their operations as being not competitive. The majority of the businesses perceive their operations as either competitive or averagely competitive, with the lowest rating being 78% in the manufacturing sector. The highest recorded perception of competitiveness was in the retailing sector with 86%. The situation in the manufacturing sector is not new, as previous surveys have confirmed this.

Figure 16 Perceived competitiveness rating by business sector (%) (N=359)

Though the perceived competitiveness rating



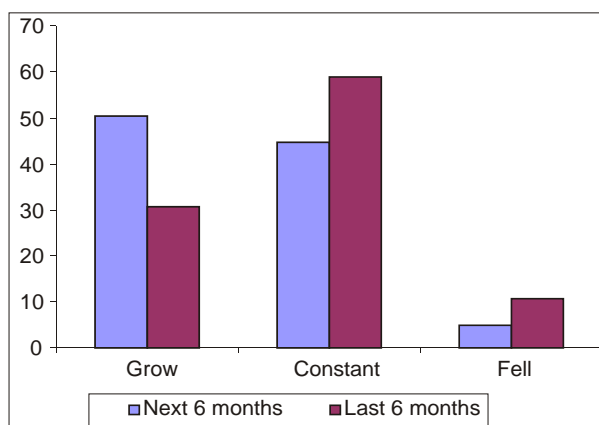
In the manufacturing sector is high, in relative terms it is the lowest among the sectors catered for in this survey. It appears that the reason behind is that, within the informal sector, the manufacturing establishments have not developed well enough to become competitive entities on the same footing as their formal counterparts. To establish operations requires investment in capital and equipment which many operators might not have. Access to credit for informal operators is very limited, as they most likely would not have collateral. In the retail sector we found the highest perception (over 60%) of competitiveness rating. It is not clear why this level of competitiveness is perceived to exist, when this sector actually caters for the less privileged. A considerable proportion of Namibia's population is economically ²underprivileged. Establishing operations in the field for informal operators are not normally regulated.

4.6 Business performance

Business growth in the last six months was relatively weaker than in the previous survey period. About 32% of the respondents indicated that their businesses grew, as compared to 50% in the previous survey. An overwhelming majority (60%) said their operations were not changed in any way, while 10% recorded reductions in operations. It appears that the main reason for stagnating growth in the informal sector is weakening consumption. For the period of the survey interest rates and inflation rates went up, but wages and salaries - especially of civil servants were not increased. This has the potential to reduce consumption of most services.

²Namibia has a Gini coefficient of 0.7 and an unemployment rate of 34.8%, according to the NLFS, 1997

Figure 17 Business Performance past and next six months (%) (N=365 & 365)



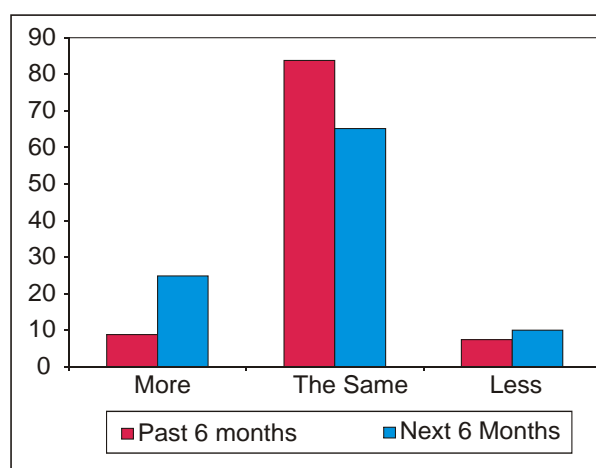
A clear majority (50%), expect their operations to increase over the next six months, about 45% expect their businesses to remain the same, and only 5% are pessimistic. It is not clear why there is this mood of optimism within the informal sector as regards business growth, but it could as well be that as business operators, they are generally optimistic about their prospects. This mood of optimism exists in spite of a very real possibility of interest rate increases, as the SARB battles inflation. Currently it stands above 13% and it is likely that interest rates might be increased within the next six months to curb these pressures. Petrol and diesel prices have already been increased and if developments in the Middle East continue to deteriorate and a war breaks out between USA and Iraq, it is likely that prices of petroleum products will be increased again.

4.7 Employment

Respondents are somewhat cautious when it comes to increasing the number of their employees for the next six months. Whilst they expect their operations to improve, a clear majority (65%) expect to have the same number of employees in the next six months. About 26% indicate they will employ more, and only 10% expect to employ less. These figures do not differ greatly from the previous survey's findings; however, the decision of the majority of the businesses to employ the same number of workers may be put down to their weak

potential to expand and employ more. As informal operators, their access to capital for investment purposes is limited, thus their potential to expand is weak. It is not surprising therefore that they would expect to employ the same number of workers.

Figure 18 New Employment past and next six months (%) (N=364)



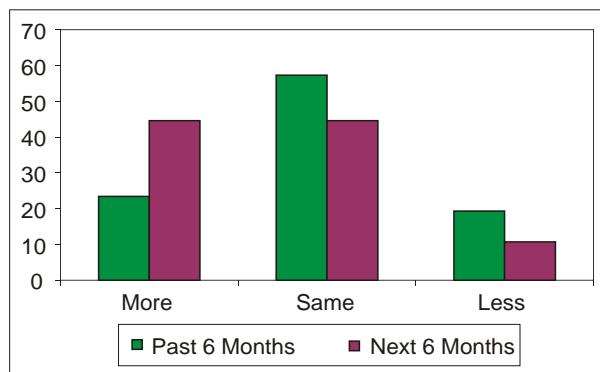
Over the last six months covered by the survey, only about 8% employed more and 86% did not change the number of their workers. 7% reduced the size of workforce. As established in the previous survey, 60% of the operators have a monthly turnover of about N\$1,000. It is therefore unlikely that these operators have the potential to change their employment noticeably in response to any sudden developments in the economy. It's a small wonder then that a clear trend towards stable employment is observable in the informal sector of Namibia. The entrance of new operators into the sector is a more likely mode to influence employment potential of the sector.

4.8 Investment

For the period under review, the informal sector investment has not changed that much. About 23% of the operators invested more and 21% did not invest in their operations. Roughly 56% did not change their investments. The previous survey establishes that most informal

operators have investments that range from about N\$499-2000, and a clear majority (60%) have monthly turnovers of about N\$1,000. It is doubtful that the incomes they get from their operations are adequate to influence further investment in their businesses.

Figure 19 Significant investments past and next six months (%) (N=363)



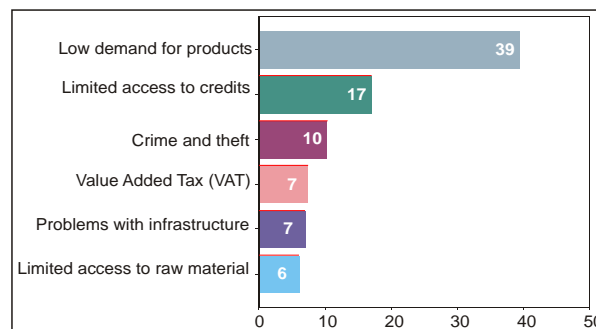
Over the next six months, about 45% intend to increase investment, and an equal proportion will not change their investments. Only 10% intend to reduce their investments. This mood of optimism may be spurred by the fact that about 32% of the respondents indicated growth of some form over the last six months. However as indicated before, it is unclear why operators in the informal sector are generally optimistic, when economic fundamentals are indicating unfavourable developments. Detailed analysis of the decision to invest in the retailing sector shows that there are more businesses intending to increase their investments than those who wish not to undertake additional investments in their operations. In the manufacturing, a majority would invest more. Catering is the only sector where there are more operators not intending to invest than those intending to increase investments.

4.9 Factors hampering businesses

Factors hampering business operations are many, but a majority (39%) of the respondents in this survey point out that low demand for products is the main one, followed by

limited access to credit (17%), and crime and theft. Low demand for products may be a result of firming inflation over the last six months covered by the survey.

Figure 20 Factors hampering business (%) (N=348)



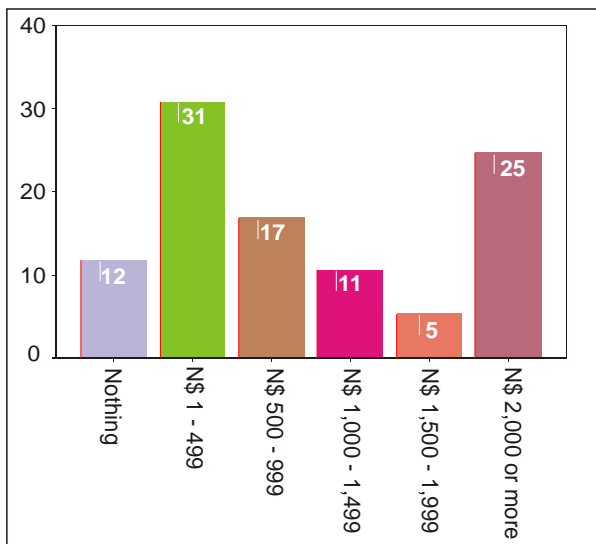
Value Added Tax (VAT), infrastructure and limited access to raw materials are rated as having less impact on the operations of informal businesses. The reduction of the VAT on luxury items is not expected to have any positive effect on businesses soon. After all, most informal businesses do not trade in luxury goods. An exception however is the case of liquor and cigarettes that are widely traded in the informal sector. Being items with addictive properties their demand is highly inelastic, and thus price changes due to VAT levy removal may not change their consumption much. A closer analysis of cross tabulation of factors against informal business sector reveals that low demand is cited as the biggest problem by operators in the catering and manufacturing, but lowest in retailing sector. The retailing sector also indicates that limited access to credit is the most acute problem confronting their operations, whilst the manufacturing sector considers access to raw materials as their biggest problem.

4.10 Business economy

The pattern emerging as regards capital used to establish operations are that the majority (31%) of the entrepreneurs use between N\$1 - N\$499, 17% used between N\$500 - N\$999, 11%

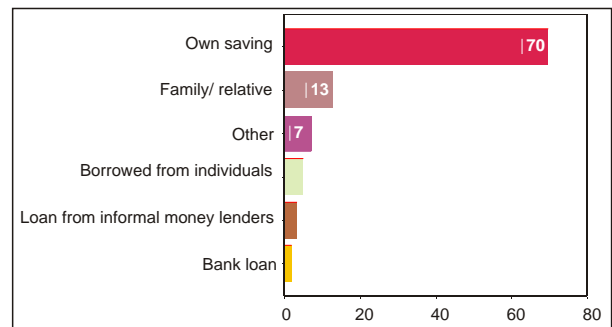
used N\$1,000 N\$1,499 and 5% used N\$1,500 N\$1,999. In this range from N\$1-N\$1,999 there is a negative relationship between the volume of capital used and the number of enterprises. The larger the amount of capital involved, the smaller the number of businesses. However, a considerable number of operators indicate having used N\$ 2,000 or more to set up operations. There is nothing unique about this category except the fact that it is a broad category covering many operators.

Figure 21 Capital used to start up operations (%) (N=357)



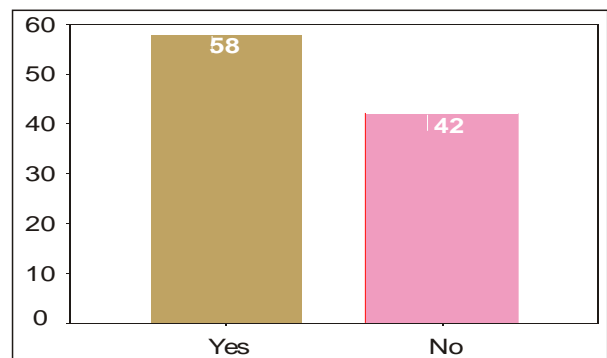
An overwhelming majority of informal sector operators (70%) indicate that they made use of their own savings to start their operations; 13% got money from relatives, and 5% borrowed from other individuals. A negligible proportion indicates that they made use of bank loans and micro lenders. Bank loans and informal lenders may not be a popular source of financing on account of the fact that they have requirements which operators in the informal sector may not be able to comply with. In the case of banks the major stumbling block is the need for collateral security, which the majority of these operators do not have. Micro lenders normally demand that all borrowers have payslips and be in full-time employment for a period not less than 3 months. These requirements exclude many of the informal operators who are not employed.

Figure 22 Source of capital to start operations (%) (N=354)



The proportion of respondents that indicate an intention to borrow in order to expand operations has declined from 79% in the last survey to 58% in the current survey. Those who do not intend to invest more increased from 20% to 42% in the current survey. This seems to suggest that businesses are now less optimistic about opportunities in their field of operations than they were six months ago.

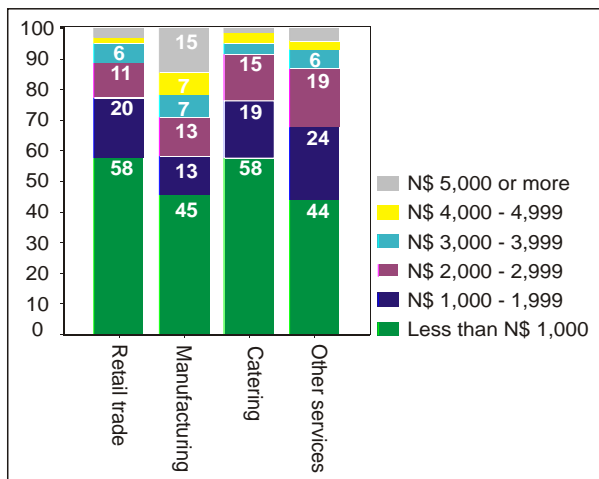
Figure 23 Business owners considering borrowing money to expand operations (%) (N=356)



A clear majority of respondents in all the sectors are businesses with an average monthly turnover of less than N\$1,000. Retailing and catering have the highest proportions of businesses in this category with about 58% each. The manufacturing sector is the one sector with the highest number (15%) of operators who have an average monthly turnover of N\$5,000 or more. The general trend however is that, as the volume of capital involved increases, the number of operators in subsequent categories decreases.

A breakdown according to region shows that businesses with a turnover of below N\$2,000 are mostly in Ohangwena, Oshana, Omaheke, Oshikoto, and Otjozondjupa. They are least prevalent in Kavango, Khomas and Omusati. Those with a monthly turnover of N\$5,000 and more are mostly in Kavango and Oshana.

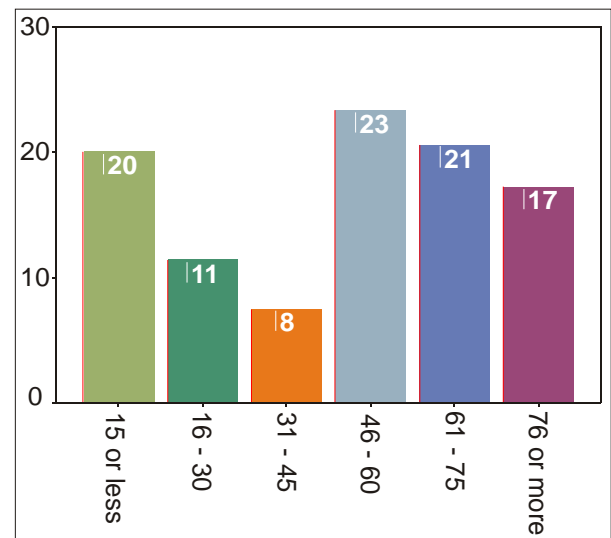
Figure 24 Monthly turnovers by business sector (%) (N=354)



4.11 Work in the informal sector

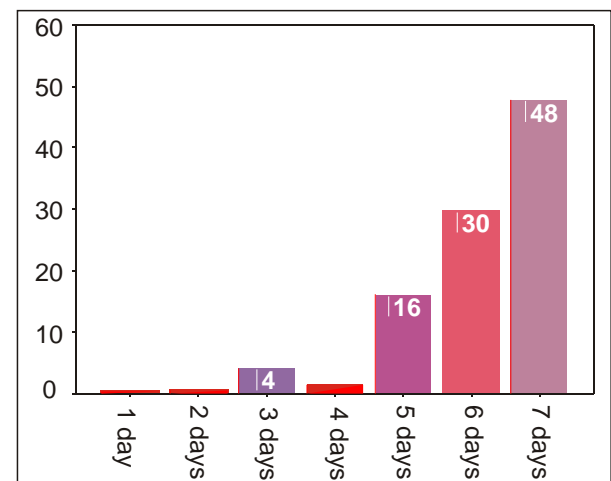
Businesses in the informal sector have operations that are largely unregulated. Thus there is no clear pattern on their hours of operation. 20% work for less than 16 hours a day, 11% for anything between 16-30 hours and 8% work for 31-45 hours a week. The largest number of respondents indicates that they work for anything between 46 and 60 hours per week. 21% work between 61-75 hours per week and 17% work 76 or more hours per week. This indicates that about 39% are more likely to work less than an average 8 hours a day. This is more likely to be as a result of the informal nature of their operations where employment is sometimes not guided by formal contracts.

Figure 25 Hours of work per week (%) (N=360)



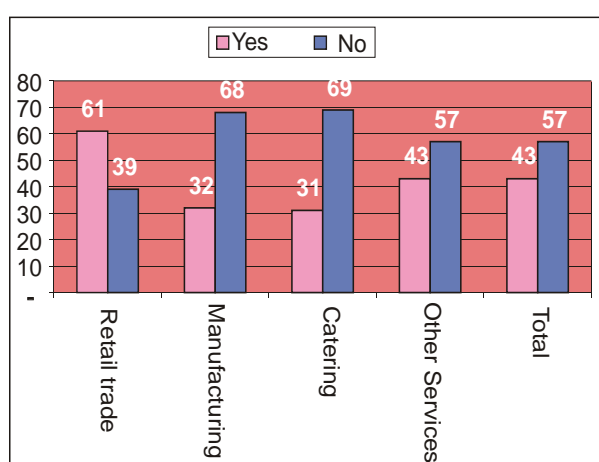
With regard to the number of days that operators are in business, 48% of the respondents indicate they work for 7 days a week, and 30% work for six days. The majority of these operators are informal operators, and for this reason they are not bound by legislation. Some of the ventures are sole proprietorships where the owner or part of his family runs the operations. Given this setting it is hardly surprising that these are the majority. A negligible proportion work for 1 or two days a week and 4% work for 3 days a week. 16% work for 5 days a week.

Figure 26 Days of work per week on the business (%) (N=360)



More business respondents (48%) do not employ workers other than members of their family to run their operations. This is possibly an indication of the fact that most operations are either sole proprietorships or family-based enterprises. Though informal operations do provide employment, it seems from this information they give most opportunities to their own family members or for themselves as sole proprietors. As enterprises with small turnovers, it is hardly likely that they could create much employment opportunities to see the employment of many people on individual enterprises.

Figure 27 Employment of non-relatives in the business (%) (N=287)



4.12 Analysis of the business climate in the informal sector

The negative perceptions of the previous survey have been reversed during the current survey, but it is too weak to be assumed to be sustainable, say for the next six months. The informal sector is by its nature labour intensive, and requires investment capital in smaller amounts and does not depend on bank credit. But the informal sector is vulnerable to any increases in the cost of living. Therefore the recent increase in the inflation rate and the price of petrol could have a negative impact of the perception of the informal sector about the economic prospects of the country.

It is certainly a cause for concern to see that the indices of recent business conditions and expected business performance are negative. This is a further indication that informal business operators remain largely pessimistic about the future business climate. This is discouraging in the light of Government's efforts to strengthen informal and micro enterprises through various support schemes. With the informal sector still remaining weak both in its perception of the business climate and in terms of its scope of business, it would be a tall order to alleviate poverty and increase employment through facilitating the development of informal and micro enterprises.

5. CONCLUSIONS

The results of this survey have clearly confirmed the close association between global economic growth prospects, key economic indicators such as the inflation rate, exchange rate, bank rate crime and theft on the one hand and how businesses perceive their business environment. Clearly the factors influencing perceptions about the business climate in the case of Namibia are weighing against positive perceptions.

The perception of small and medium size enterprises in the formal sector are positive in part as a result of Government's policy, promoting SMEs to reduce absolute and relative poverty levels in the country.

The survey has also revealed that the issue of HIV/AIDS and its impact on business performance is beginning to come to the fore for many businesses.