

An Assessment of the Investment Climate in Namibia

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Volume I: Main Report



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Abbreviations

CMA	Common Monetary Area
GDP	Gross Domestic Product
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immunodeficiency Syndrome
ICA	Investment Climate Assessment
IMF	International Monetary Fund
LAD	Least Absolute Deviation
LLC	Limited Liability Company
MBA	Master of Business Administration
MW	Megawatt
NDP	National Development Plan
OLS	Ordinary Least Squares
SACU	Southern African Customs Union
SADC	Southern African Development Community
SMLEs	Small, Medium and Large Enterprises
TFP	Total Factor Productivity
VAT	Value-Added Tax
VIP	Very Important Person

Foreword

The Investment Climate Assessment consists of two volumes. The first discusses and summarizes the main results. The second presents the more detailed analysis that underlies the results presented in the first volume. This includes detailed econometric analysis of several issues, more detail on many remaining issues and a discussion of some areas of the investment climate that do not appear to be a particular concern in Namibia. The goal of the second volume is to provide more detail to interested readers and to explain the statistical and econometric analysis that underlies the results described in the main volume.

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EXECUTIVE SUMMARY

The objective of the Investment Climate Assessment (ICA) for Namibia is to evaluate the investment climate in Namibia in all its operational dimensions. The investment climate is made up of location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand. These factors include macroeconomic and regulatory policies; the security of property rights and the rule of law; and the quality of supporting institutions such as physical and financial infrastructure.

The main sources of information for the ICA are two firm-level surveys. The first survey covered small, medium, and large enterprises (SMLEs) with five or more employees in retail trade, manufacturing, and other services. The second covered microenterprise with fewer than 5 employees in the same sectors. Information from the surveys is supplemented with information from other sources, including the *Doing Business* Report; analytical reports by the World Bank, the International Monetary Fund, other international organizations and the Government of Namibia; and academic papers and reports.

One of the advantages that the World Bank's Enterprise Surveys have over other firm-level surveys is that similar surveys have been conducted in a wide range of countries. It is therefore possible to benchmark Namibia against other countries with respect to both firm performance and measures of the investment climate. Throughout the report, firm performance and the investment climate in Namibia is benchmarked against the other SACU economies and four high performing middle income economies: Argentina, Chile, Malaysia, and Mauritius.

Firm Performance

Compared to manufacturing SMLEs in other countries in Sub-Saharan Africa, firms in Namibia are very productive. Of the 31 countries in Sub-Saharan Africa where World Bank Enterprise Surveys have been completed, both labor and total factor productivity are higher for in Namibia than in all but one country—South Africa.

Namibia also compares favorably with the middle-income comparator countries. The median manufacturing SMLE is about as productive as the median SMLE in Malaysia and is considerably more productive than the median SMLEs in Botswana, Swaziland, or Mauritius. Productivity is also higher than in the fast growing lower middle income countries of China and Thailand. Although productivity is lower than in Chile or Argentina, this might not be surprising given that per capita GDP is also higher in these countries.

Although productivity is an important element of competitiveness, it is not the only factor that affects it. Wage levels are just as important—firms that are productive can become uncompetitive if wages are too high and unproductive firms can remain competitive if wages are low.

The median monthly wage for full-time permanent production workers in Namibia is close to \$300. This is considerably higher than in most low-income countries in Sub-Saharan Africa, is higher than in many of the less productive middle income comparator countries such as

Botswana and Swaziland and it also higher than in fast growing lower middle-income countries such as China and Thailand. This suggests that Namibian firms will find it difficult to compete in highly labor intensive sectors such as garments.

The Investment Climate

In addition to asking questions about firm performance the Enterprise Survey also asks questions about the investment climate. For the most part, the investment climate appears relatively favorable in Namibia, especially for SMLEs. In particular, as in other countries in Southern Africa, for the most part, firms have few complaints about infrastructure and most aspects of regulation. Objective indicators of the investment climate are also relatively favorable in these areas.

In other areas, although firms are concerned, objective indicators suggest that the investment climate is comparable to the investment climate in other middle-income countries. For example, although SMLE managers are concerned about tax rates, objective measures suggest that tax rates are broadly inline with rates in other middle-income economies—although higher than in the countries with the most favorable tax regimes such as Botswana. Similarly, although managers are concerned about corruption, it does not appear to be significantly higher than in other middle-income countries. Finally, although access to finance appears more difficult for SMLEs than in middle-income countries in other regions, access appears easier for SMLEs—although not microenterprises—than in Swaziland or Botswana.

Some problems, however, remain. Objective evidence from the Enterprises Survey suggest that the direct costs associated with crime are high. The median firm reports that the combined cost of crime and security is about \$132 per worker per year or 0.6 percent of sales (see Figure 12). This is higher in dollar terms than in any of the comparator countries except South Africa and Argentina. In addition to being higher in dollar terms, the cost is also higher as a percentage of sales than it is in most of the comparator countries, especially those outside of SACU.

SMLE managers, especially in the manufacturing sector, are also concerned about worker skills and education. Consistent with this, both educational attainment and the quality of education appear low in Namibia. Although firms can compensate for this by providing training, in practice relatively few do.

Finally, it currently takes a long time to register a business in Namibia. Although computerization of the company registrar should reduce this problem, it is unlikely to eliminate it completely. Business licensing and registration appear to be particularly problematic for microenterprises.

Microenterprises

Although manufacturing SMLEs are relatively productive in Namibia, microenterprises in the manufacturing sector are considerably less so. In fact, they are less productive than microenterprises in Botswana and Swaziland—countries where SMLEs are considerably less productive than in Namibia. Moreover, although labor productivity for SMLEs is between four and sixteen times higher in Namibia than in most low-income countries in Sub-Saharan Africa,

microenterprises are only about as productive as microenterprises in low-income African economies.

Consistent with low productivity, education levels are also very low among microenterprise managers, even compared to low income countries in Sub-Saharan Africa. Microenterprise managers in Namibia are less likely to a university education than in any of the ten countries in Sub-Saharan Africa with comparable data.

The gap between microenterprises and SMLEs appears to be large in Namibia in other ways as well. For example, whereas access to finance is better for SMLEs in Namibia than for SMLEs in other SACU economies, access is worse for microenterprises. In addition, microenterprises are less likely to be registered in Namibia than in Botswana, are more likely to evade taxes, are less likely to have infrastructure connections, and are less likely to be located in a fixed structure.

Microenterprises managers also have very different perceptions about the investment climate in Namibia. In addition to having different concerns, microenterprise managers are also more say that investment climate problems are serious. For example, for the top constraint for microenterprises, access to finance, close to half of microenterprise managers said it was a serious constraint. In comparison, for the top constraint for SMLE managers, only one-quarter said it was a serious constraint.

This emphasizes that the gulf between SMLEs and microenterprises is particularly large in Namibia. Whereas SMLEs in the highly productive modern sector are competitive with firms in other high performing middle-income economies, microenterprises look like microenterprises in low income countries in Sub-Saharan Africa. Although this is also true in South Africa, it is not the case in Botswana or Swaziland.

AN ASSESSMENT OF THE INVESTMENT CLIMATE IN NAMIBIA

1. Introduction ¹

Namibia is a small (in terms of population), resource-rich, upper middle income country. Namibia's economy has performed reasonably well in recent years. Between 2000 and 2005, GDP grew at an average rate of 4.2 percent, higher than the target rate of 4 percent and faster than average growth in the mid-late 1990s. Per capita growth has also been positive, if modest, averaging 2.6 percent per year since 2000—considerably faster than in the previous half decade.

Although mining is important in terms of its contribution to GDP, accounting for about 11 percent in 2004, it is relatively less important than it is in Botswana, where mining accounts for 33 percent of GDP.² Diamonds are the most important export good, accounting for about 45 percent of total exports in 2004, compared to over three-quarters of exports in Botswana (International Monetary Fund, 2006b). Other minerals accounted for an additional 13 percent of exports.

Manufacturing accounted about 13 percent of GDP in 2004 and about 23 percent of exports.³ This is considerably higher than in Botswana.⁴ The most important sub-sector of manufacturing is food processing, which accounts for over half of total manufacturing production.⁵ Under Vision 2030 Key Results Area 4 (and 7), the Government of Namibia envisages transforming Namibia into an industrialized and globally competitive economy

Despite Namibia's good macroeconomic performance, some concerns remain. One significant problem is that unemployment remains high, with estimates from the 2002 Labor Force Survey suggested that about 20 percent of the economically active population is unemployed.⁶ The fact that unemployment has been persistently high, despite economic growth, emphasizes that it is not high only due to short-run business cycle fluctuations.⁷ Under these circumstances, it is not surprising that many people consider unemployment to be the most important problem facing the country, with close to 70 percent of respondents identifying it among the top 3 problems that the government should address.⁸

Another issue is that although the peg to the Rand has helped to regulate inflation, exchange rate instability remains high—the Rand has been unstable against other major currencies over the past decade—especially the U.S. dollar. In a 2004 survey, 44 percent of South African enterprises that exported reported that macroeconomic instability was a serious problem for their enterprises operations.⁹ The Rand—and therefore the Namibian dollar—has been more stable in the years following 2004 than in the four years before 2004, suggesting that it might not be such a significant problem currently.

2. The Investment Climate Assessment ¹⁰

The main sources of information for the Investment Climate Assessment are two enterprise level surveys that were conducted in June 2006. Information from the surveys is supplemented with information from other sources including the *Doing Business* Report;

analytical reports by the World Bank, the International Monetary Fund, other international organizations and the Government of Namibia; and academic papers and reports.

Firm Survey

The survey was conducted in two locations, Windhoek and Walvis Bay, and covered retail trade, manufacturing and other services. Two samples were drawn, one for small, medium, and large enterprises (SMLEs) with 5 employees or more and one for microenterprises with less than 5 employees. The microenterprise survey included informal firms. Because different sampling methodologies were used to ensure that informal firms were covered in the microenterprise survey, data from the two surveys cannot be merged.¹¹

Table 1 presents unweighted sample sizes by sector. The sample contains 329 SMLEs and 100 microenterprises. For microenterprises, weights are not needed and so the weighted sample would look like the unweighted sample in terms of the distribution of firms. This is not the case for SMLEs. Although manufacturing firms make up about one-third of the unweighted sample of SMLEs, they account for only 6 percent of the weighted sample—reflecting the greater importance of retail trade and other services in the economy. Most of the firms in the sample are small—close to half have fewer than 10 employees and over 90 percent have fewer than 50 employees. The manufacturing firms in the sample are larger than the retail and service enterprises—close to 25 percent have more than 50 employees.

Table 1: Unweighted Sample Size, by Sector

	SMLE	Microenterprises
Total	329	100
Manufacturing	106	34
Retail	110	44
Other Services	113	22

Source: World Bank Enterprise Survey.

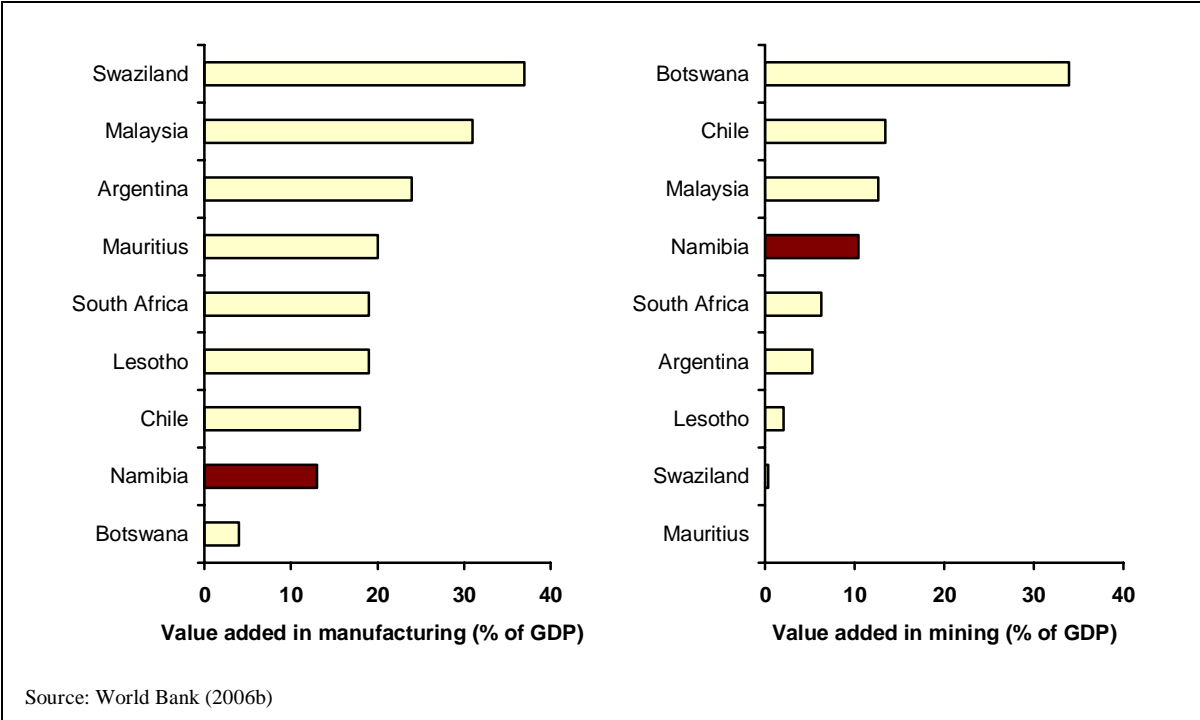
Comparator Countries

One of the advantages that World Bank Enterprise Surveys have over other firm-level surveys is that because similar surveys have been conducted in a wide range of other countries, it is possible to benchmark Namibia against other countries with respect to both firm productivity and measures of the investment climate. A natural set of comparator countries for Namibia is the other countries in SACU (Botswana, Lesotho, South Africa and Swaziland). Because of their geographical proximity to Namibia and because of three of the four are middle-income, they provide a natural set of comparators. Surveys were completed in Lesotho and South Africa in 2004 and in Botswana and Swaziland in 2006.

Outside of the Southern African Customs Union (SACU), it is difficult to find relevant comparators within Sub-Saharan Africa—most African countries where World Bank Enterprise Surveys have been completed are considerably poorer than Namibia. As a result, other countries from outside of the region are used as comparators.

An additional middle-income African country that might be an attractive comparator is Mauritius. Although manufacturing is more important in Mauritius than Namibia, its success in this sector make it an interesting comparator (see Figure 1). Similarly, Malaysia—another strong performing middle income country with a strong manufacturing base—might also make an interesting comparator. Malaysia is also interesting because it is a large mineral producer (mostly oil and gas) that has successfully diversified its economy. Finally, two upper middle-income economies in Latin America are used as comparators—Chile and Argentina. Chile is particularly interesting given the importance of mining in its economy and its successful diversification into manufacturing. As noted earlier, under *Vision 2030*, the Government of Namibia intends to transform Namibia into an industrialized economy.

Figure 1: Mining is slightly less important in Namibia than in some of the comparator countries such as Malaysia, Chile and Botswana.



Although per capita GDP is slightly lower in Namibia than in the comparator countries and manufacturing is slightly less important in terms of its contribution to GDP, most of the comparator countries have relatively strong investment climates making them interesting comparators in terms of potential areas for improvement.

The following potential comparator countries are therefore used:

1. **Southern African Customs Union** : Botswana, South Africa and Swaziland
2. **Middle Income Countries**: Argentina, Chile, Mauritius and Malaysia

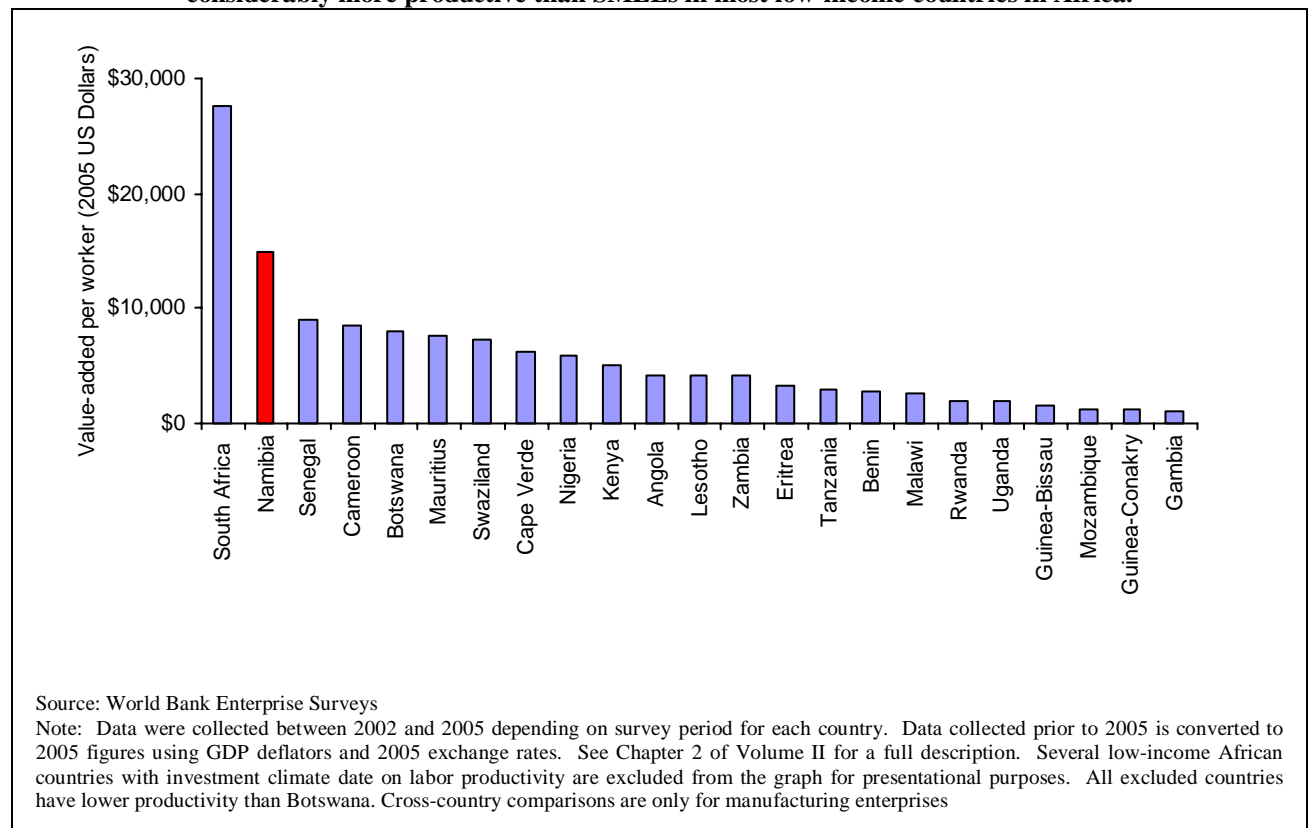
3. Firm Performance and Competitiveness ¹²

Before looking at the investment climate, it is interesting to compare the performance of firms in Namibia with the performance of firms in other countries. Comparing firm performance gives some idea of how competitive firms are and provides perspective on later results with respect to the investment climate. Because the measures of firm performance are better defined for manufacturing firms, this section focuses on these SMLEs in this sector.

*Firm Productivity*¹³

Compared to manufacturing SMLEs in other countries in Sub-Saharan Africa, firms in Namibia are very productive. Of the 31 countries in Sub-Saharan Africa where World Bank Enterprise Surveys have been completed, labor productivity, the amount of output that the firm produces per worker, is higher for the median firm in Namibia than for similar firms in all but one countries—South Africa (see Figure 2).¹⁴ Although the difference between Namibia and South Africa is relatively large, the median SMLE in Namibia is far more productive than the median firm in the next most productive countries, Cameroon and Senegal. Labor productivity is also far higher than in most of the low income countries in Sub-Saharan Africa—about US\$15,000 per worker in Namibia compared to between \$1,000 and \$4,000 per worker in most low income countries.

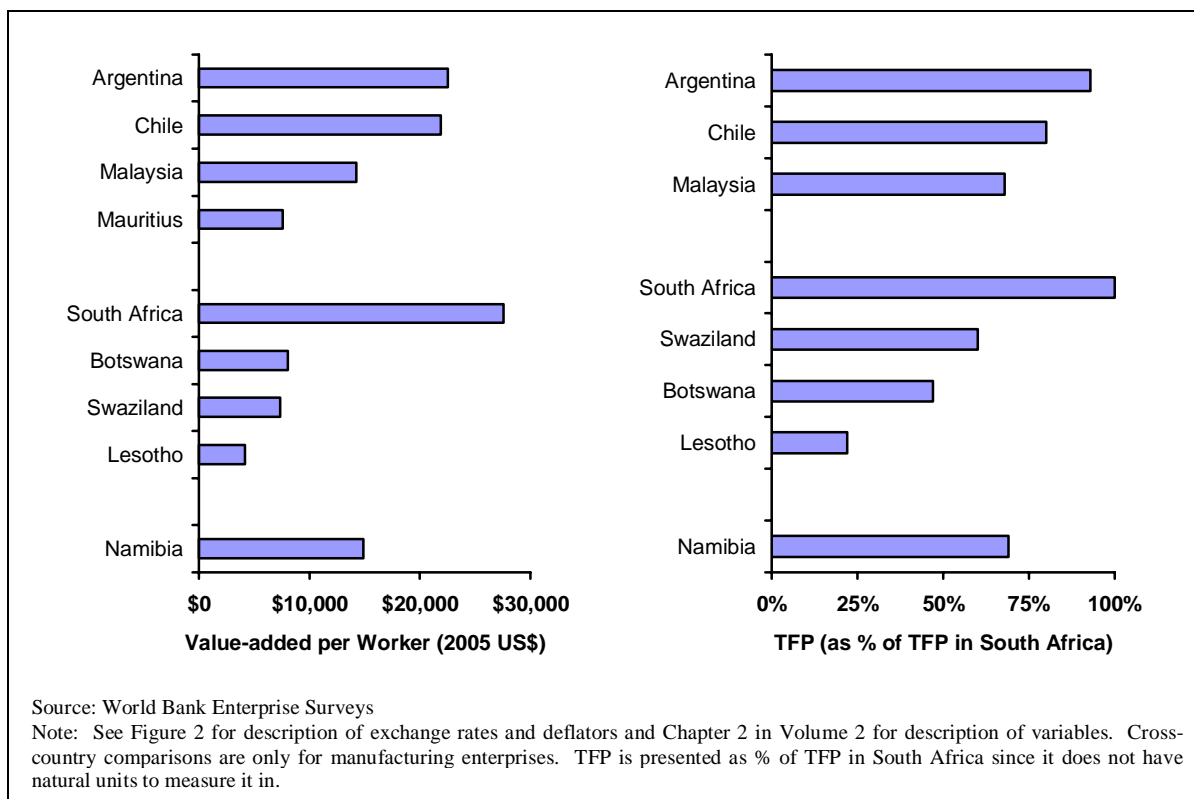
Figure 2: Manufacturing SMLEs in Namibia—and the other middle income countries in SACU—are considerably more productive than SMLEs in most low-income countries in Africa.



Results are similar looking at a broader measure of productivity, total factor productivity (TFP), which takes into account how much machinery and equipment the firm has.¹⁵ Out of the 24 countries in Sub-Saharan Africa for which data are available from the World Bank Enterprise Surveys, TFP is higher in Namibia in only South Africa.

Namibia also compares favorably with the middle-income comparator countries. The median manufacturing SMLE is about as productive as the median SMLE in Malaysia and is considerably more productive than median SMLEs in Botswana, Swaziland, or Mauritius (see Figure 3). Labor productivity is also higher than in the fast growing lower middle income countries of China and Thailand. Although labor productivity is lower than in the two Latin American comparator countries, this might not be surprising however given that per capita GDP is also higher in these countries.

Figure 3: Labor productivity and Total Factor Productivity are higher in Namibia than in most of the comparator countries.



Namibia also compares favorably with both other countries in Sub-Saharan Africa and with the middle-income comparator countries with respect to Total Factor Productivity. As with labor productivity, TFP is higher in Namibia than in any of the countries in Sub-Saharan Africa where Investment Climate Assessments have been completed. TFP in Namibia is also higher than in Botswana, Swaziland, Lesotho, and Thailand. As with labor productivity, TFP is lower than in Chile and Argentina and very close to TFP in Malaysia (see Figure 3).

The difference between Namibia and other countries in Sub-Saharan Africa is not as large with respect to TFP as it is with labor productivity. TFP is between about two and four

times higher in Namibia than in most low-income countries in Sub-Saharan Africa, while labor productivity is between about four and fifteen times higher. That is, labor productivity is higher in Namibia than elsewhere in Sub-Saharan Africa partly because firms in Namibia are more capital intensive than in most countries in Sub-Saharan Africa other than South Africa.

The difference between Namibia and the middle income comparator countries is also smaller for TFP than it is for labor productivity. This is because on average firms in Namibia are more capital intensive than firms in the countries where firms are less productive (e.g., Botswana and Swaziland) and less capital intensive than firms in the countries where firms are more productive (e.g., South Africa and Chile). Although this makes differences between the countries smaller, it does not generally change orderings. For example, Namibia remains more productive than Botswana or Swaziland and less productive than South Africa.

TFP is also different for different types of firms within Namibia (see Table 2). Exporters, foreign-owned firms, firms that use the internet, firms that have bank credit, firms that have technology licensed from a foreign company and firms with university educated managers are more productive than other firms.¹⁶ Intuitively, most of the correlations make sense. For example, firms that receive bank credit might be more productive because they find it easier to invest in modern equipment or in the human capital of their management or workforce. Or they might be more productive because banks only give credit to firms that are already relatively productive. Similarly, firms that export might be more productive because exposure to foreign buyers might give them access to advice or new technologies. Or alternatively, only SMLEs that are already efficient might be able to enter export markets.

Table 2: Productivity differences between firms of different types in Namibia

Namibia	Point estimate of difference for Namibia
Age of Establishment	30%
Firm has bank credit	34%
Firm exports	13%
Firm is foreign-owned	30%
Firm has technology licensed from foreign company	1%
Firm uses internet	41%
Firm has training program	13%
Firm's workers are unionized	-21%
Firm's manager has university education	66%
Firm's manager has an MBA	3%

Foreign-owned firms are more productive than domestically owned firms in many countries in Sub-Saharan Africa. For example, this is also true in both Botswana and South Africa. Interestingly, foreign-owned firms in Namibia are about as productive as domestically owned firms in South Africa. Given that many of the foreign-owned firms are South African owned, this might not be surprising.

One interesting difference between Namibia and other countries in Africa is that although training programs do not appear to be more beneficial overall in Africa, firms in Namibia with formal training programs are about 13 percent more productive than firms without similar programs. Although the difference in productivity is not statistically significant (i.e., it could be

due to random variation), this suggests that training is more effective in Namibia than in other countries in Sub-Saharan Africa.

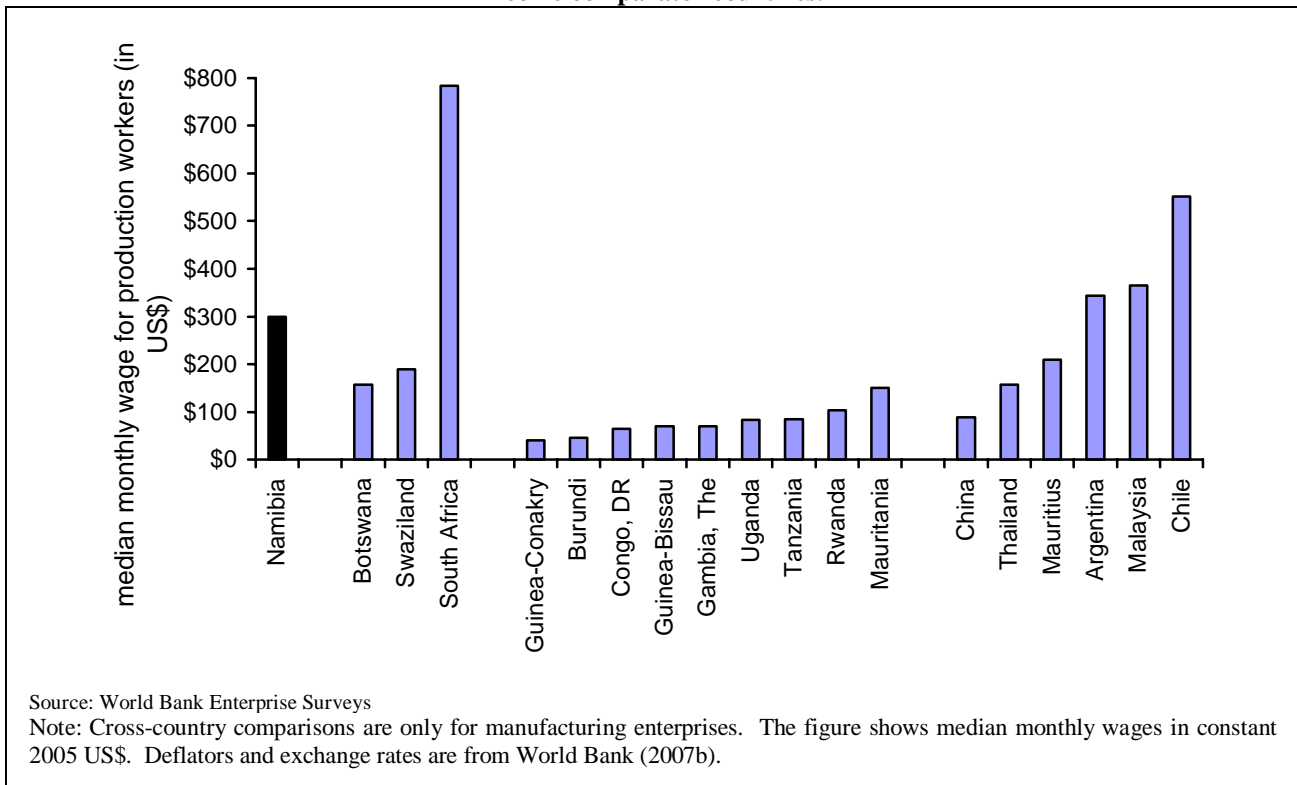
Wage Costs

Although productivity is an important element of competitiveness, it is not the only factor that affects it. Wage levels are just as important—firms that are productive can become uncompetitive if wages are too high and unproductive firms can remain competitive if wages are low.

The median monthly wage for full-time permanent production workers in Namibia is close to \$300. This is considerably higher than in most low-income countries in Sub-Saharan Africa. With a few exceptions, such as Mauritania, the median monthly wage is lower than \$100 per month for production workers in most of these countries (see Figure 4), making wages in Namibia over three times higher than in most low income countries in Sub-Saharan Africa.

Median monthly wages for full-time permanent production workers are also high relatively to some of the middle income comparator countries (see Figure 4). Average wage levels are lower in Botswana and Swaziland than in Namibia and are also higher than in the fast growing Asian economies of China and Thailand. Among the comparator countries, average wages are higher in only South Africa and Chile.¹⁷

Figure 4: Median monthly wages for production workers are higher in Namibia than in many of the middle-income comparator countries.



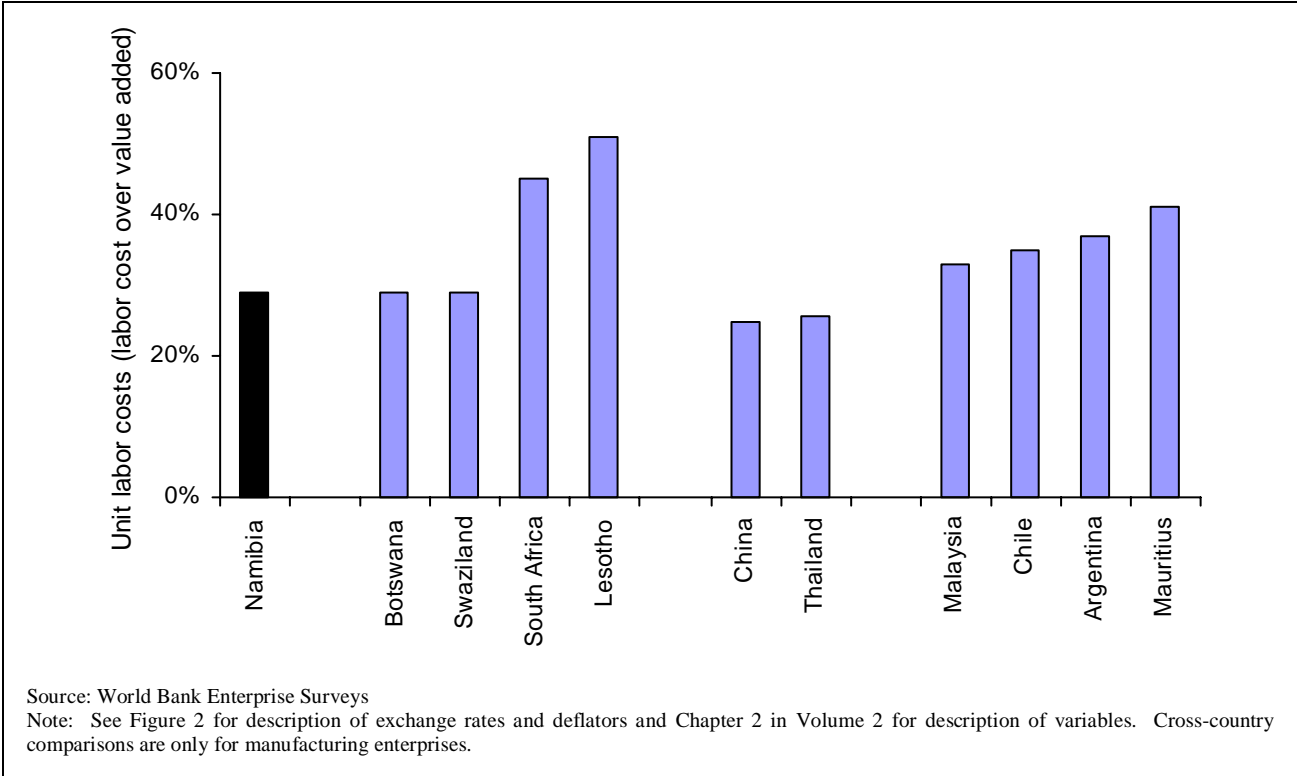
Although median wages gives some indication of how labor costs affect competitiveness, differences in wages can reflect differences in things such as worker education

and worker skills. That is, wages might be high because the cost of labor is high or might be high because workers are well educated or highly skilled and, hence, are more productive. Because wages and productivity are both higher in Namibia than in most of the middle-income comparator countries, firms could potentially remain uncompetitive despite relatively high labor productivity.

Unit labor costs (labor costs as a percent of value-added) are a measure of labor costs that make it easier to assess the net impact of labor costs on competitiveness by taking differences in productivity into account when assessing labor costs. Unit labor costs are higher when higher labor costs are not fully reflected in higher productivity. When unit labor costs are high (i.e., when labor costs are higher compared to productivity), firms will find it more difficult to compete on international markets than when they are lower. Although unit labor costs are not the only factor that affect competitiveness—for example, they do not take the cost of capital or capital intensity into account—they are a better measure of competitiveness than labor costs alone.

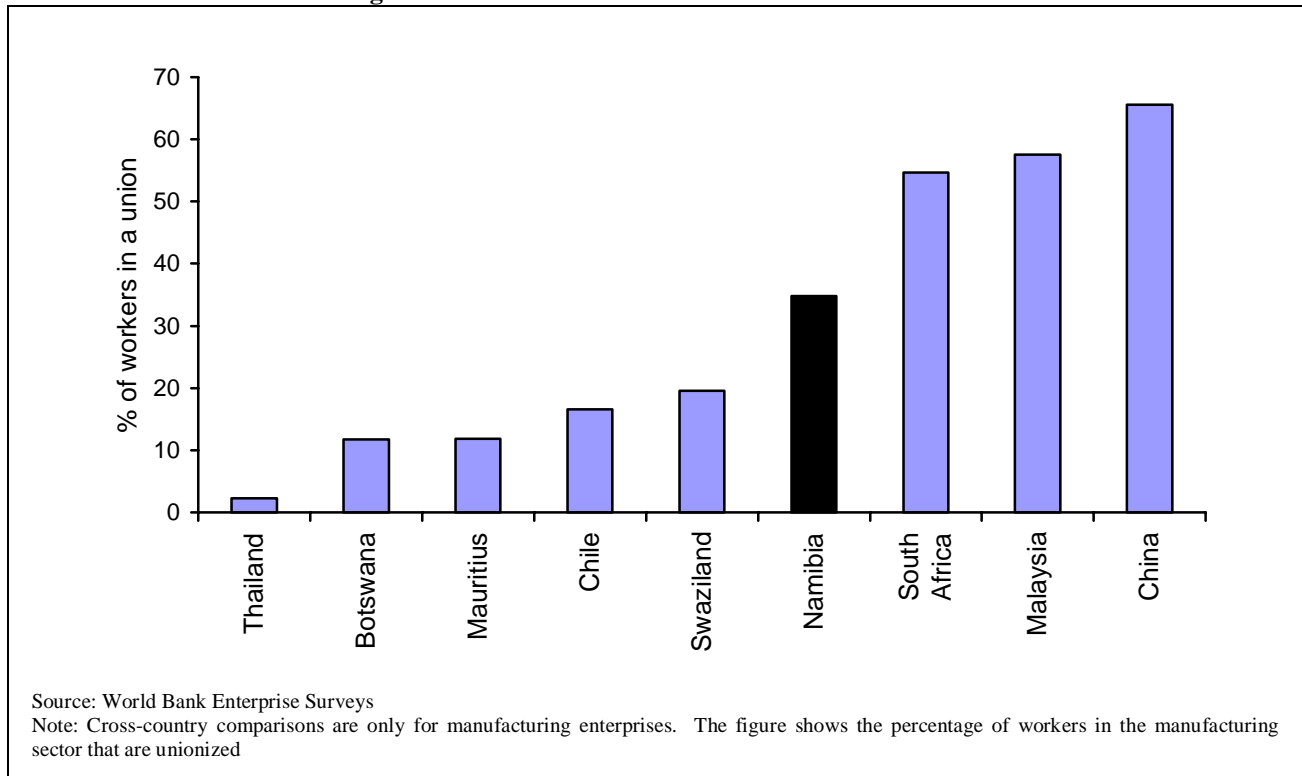
Unit labor costs are relatively low in Namibia. Although wage levels are moderately high, labor productivity is even higher. Unit labor costs are about 30 percent of value added—similar to unit labor costs in Botswana, Swaziland and Malaysia. They are considerably lower than South Africa, Mauritius or Lesotho and are slightly lower than in Chile or Argentina. They are, however, higher than in China or Thailand. This suggests that labor costs are probably not a huge drag on competitiveness.

Figure 5: Unit labor costs are low in Namibia relative to other middle-income countries.



Wages also differ across firms and workers.¹⁸ One factor that might affect wages is that unionization rates in Namibia are moderate, with about 35 percent of workers in the sample belonging to a union.¹⁹ Firms with a more unionized workers, however, do not appear to pay more than firms that are not unionized and workers in unions do not appear to be paid more than other firms within firms.²⁰ This does not support the assertion that collective wage bargaining is an important determinant of wages in Namibia.

Figure 6: Unionization rates in Namibia are moderate.



Other firm characteristics do not appear to be associated with higher wages—firms that export, are foreign owned, and that are more profitable pay higher wages than other firms. This suggests that rent-sharing might be an important factor in determining wages in the manufacturing sector: export status, foreign ownership and the use of external audits are all positively associated with higher firm wages.

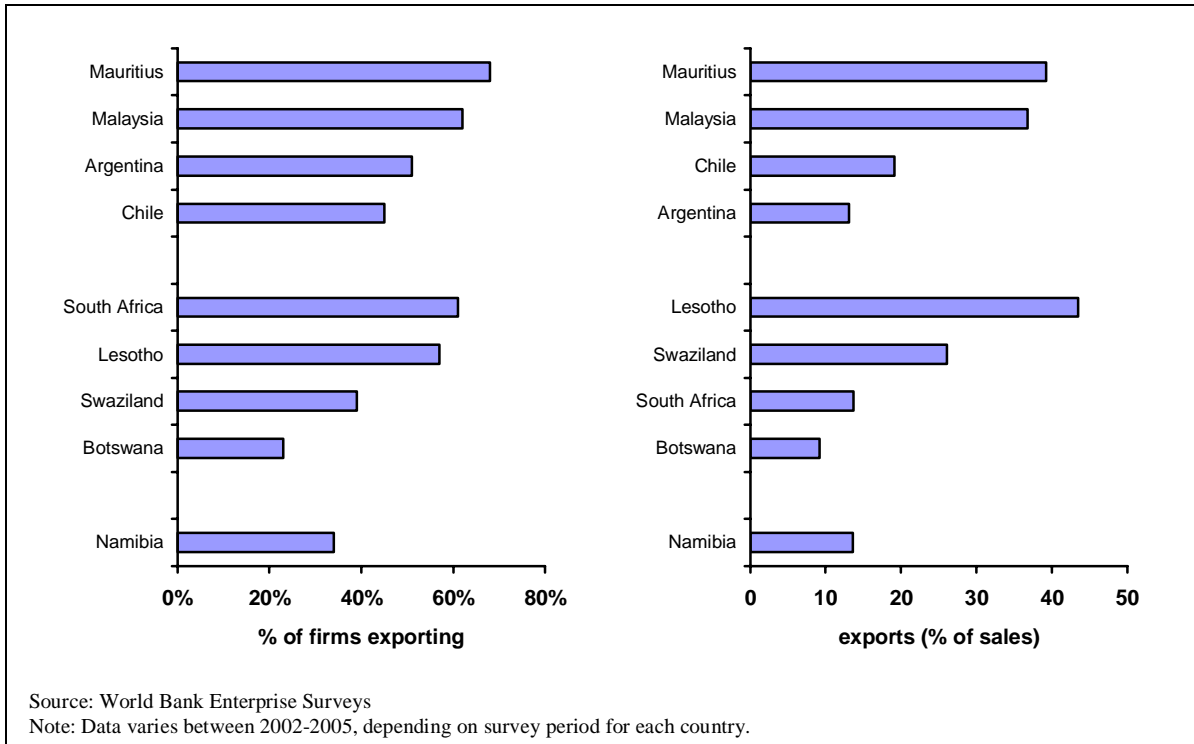
Consistent with the productivity regressions in Chapter 2 that suggested that firms with training programs might be more productive than firms without in Namibia, workers that receive training earn just over 20% more than otherwise similar workers. This suggests that firms and workers are able to share the rents that accrue from training-induced productivity gains.

Returns to schooling are relatively high in Namibia. After controlling for other worker characteristics, an extra year of schooling is associated with wages that are between 7 and 11 percent higher. This is consistent with estimates from other developing countries.²¹

Exports

Compared to the middle income comparator countries, Namibian firms export relatively modest amounts (see Figure 7). Only about one-third of firms exported anything—lower than in any of the comparator countries except for Botswana (about one-quarter of firms). In comparison, close to two-third of firms in Mauritius, Malaysia and South Africa exported some part of their output.

Figure 7: Compared to manufacturing firms from other middle-income economies, relatively few firms from Namibia export—and those that do, do not export very much.



For firms that do export, they usually export only a relatively modest part of their output. The average firm exported only about 14 percent of their output—more than in Botswana (9 percent) and similar to South Africa (14 percent) and Argentina (13) percent, but far lower than in many other countries (e.g., 44 percent in Lesotho and 39 percent in Mauritius). Only about 12 percent of Namibian firms—or about one-third of exporters—exported more than half of their output. Given the small size of the Namibian domestic economy, this is relatively low. In comparison, nearly one-quarter of Swazi firms exported more than half their output—about two thirds of Swazi exporters.

Although Namibian firms are less likely to export than firms in most of the middle-income comparator countries, they generally perform better when compared to other countries in Sub-Saharan Africa. Firms were more likely to export in Namibia than in 20 of 31 countries where World Bank Enterprise Surveys have been completed. Rankings based upon the average amount that firms export are similar—Namibia ranks 10th. Previous studies have noted that manufacturing firms in Sub-Saharan Africa are less likely to export than firms in other regions.²²

Like firms in Botswana and Swaziland, firms that do export mostly export to other countries in SACU. For the average exporter, about 46 percent of exports went to other SACU economies. This was slightly lower than in Botswana (48 percent) and Swaziland (54 percent). In all three countries, South Africa was the main export destination in SACU. About one-third of exporters said that South Africa was their most important export market. About 6 percent said that Botswana was their most important export market and no firms said that Swaziland or Lesotho was their most important export market.

Developed countries, however, were also important export markets for Namibian firms. For the average exporter, about 40 percent of exports went to developed economies—mostly to Europe. This was far higher than in Botswana (23 percent) or Swaziland (24 percent). Namibian firms tended to export less to other SADC economies however, with Angola being the most important market in this respect. Few firms reported exporting to developing countries not in SADC (about 3 percent of exports).

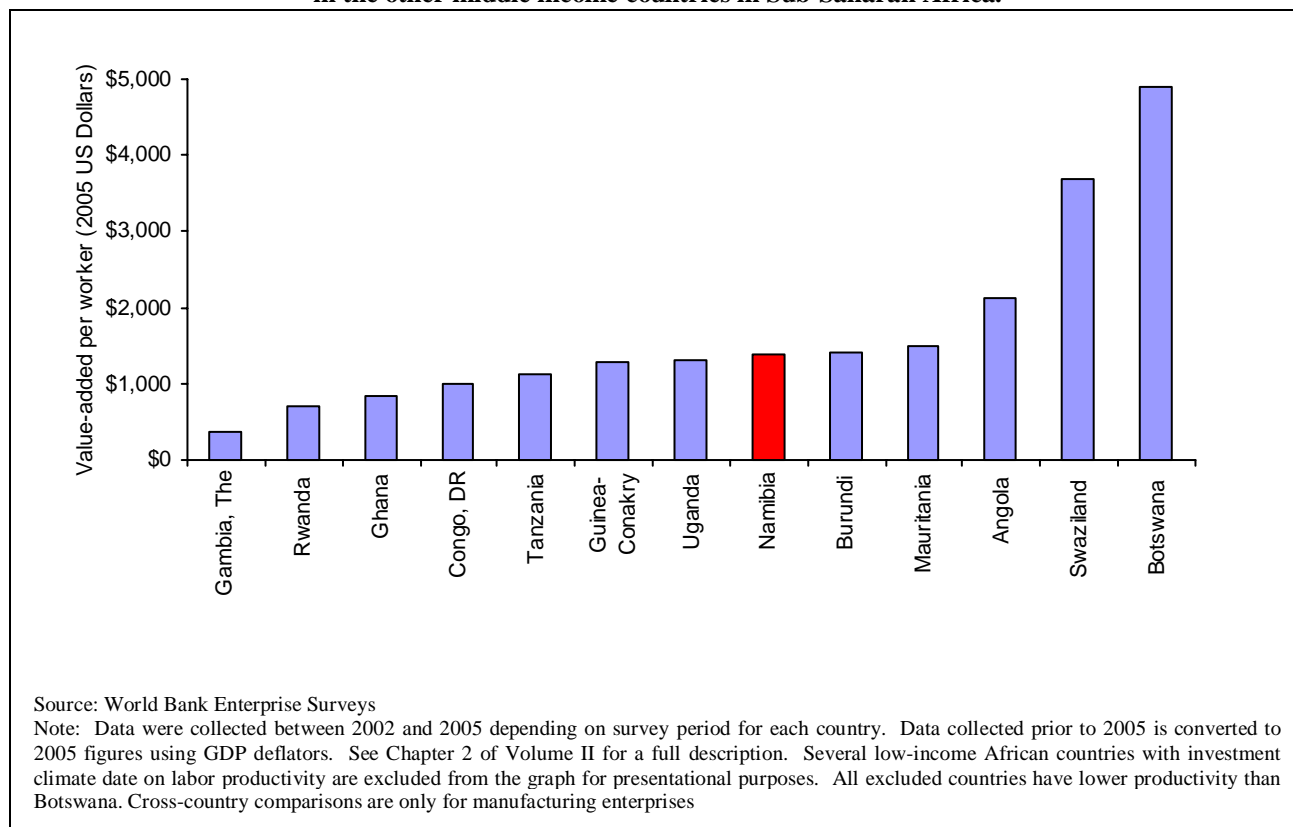
Foreign-owned firms were more likely to export (58 percent of foreign-owned firms) and exported more on average (35 percent of their output) than domestic firms (only 27 percent of firms and only 8 percent of output). This is broadly consistent with the previous results that suggest that foreign-owned firms are more productive and more competitive in terms of unit labor costs.

Microenterprises

Although manufacturing SMLEs are relatively productive in Namibia, microenterprises are considerably less productive. The median SMLE in Namibia produces over \$15,000 of output per worker, while the median manufacturing microenterprise produces less than one-tenth of that amount (about \$1,400 of output per worker).

In itself, this is not surprising. Microenterprises are typically less productive than SMLEs in most countries where surveys have been completed. But the gap in Namibia is particularly large. In Botswana, the median microenterprise produces about 50 percent less than the median SMLE. In Swaziland, the median microenterprise produces about one-half of the median SMLE.

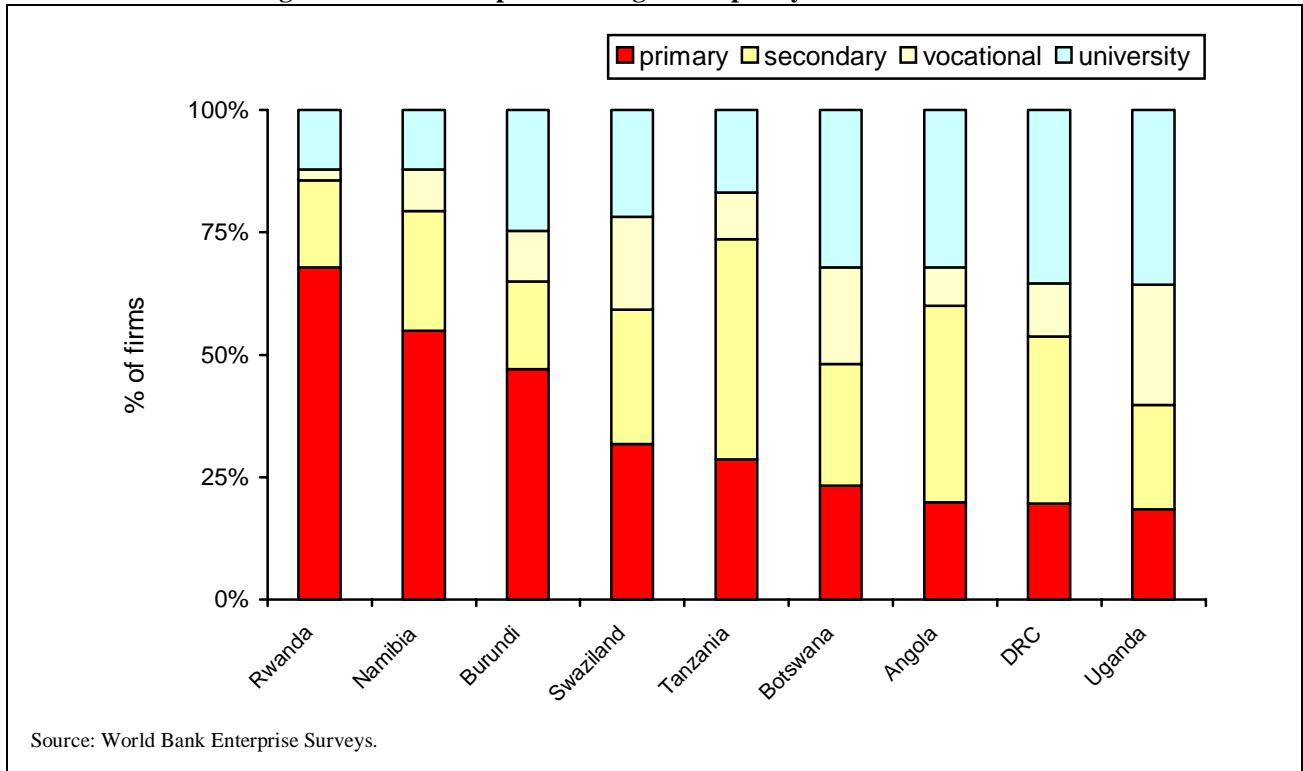
Figure 8: Manufacturing microenterprise in Namibia are considerably less productive than microenterprises in the other middle income countries in Sub-Saharan Africa.



In fact, microenterprises look like microenterprises in low income countries in Sub-Saharan Africa. Although labor productivity for SMLEs is between four and sixteen times higher in Namibia than in most low-income countries in Sub-Saharan Africa, microenterprises are only about as productive as microenterprises in low-income economies. This further emphasizes the size of the gap between the SMLE sector and the microenterprise sector in Namibia. Whereas SMLEs are as productive as SMLEs in high-performing middle income economies, the microenterprise sector looks like the microenterprise sector in a low income economy in Sub-Saharan Africa.

Consistent with this, microenterprise managers appear to be less well-educated than in the comparator countries with available data. For example, whereas about 32 percent of microenterprise managers in Botswana had a university education and only 23 had only a primary education, 12 percent in Namibia had a university education and 55 percent had only a primary education. In fact, Namibia compares unfavorably with most low income countries in this respect. Only in Rwanda are managers more likely to have only a primary education. And managers in Namibia are less likely to have a university education than in any of the countries in Sub-Saharan Africa with comparable data.

Figure 9: Microenterprises managers are poorly educated in Namibia.



4. Perceptions about the Investment Climate ²³

In addition to collecting information on productivity, firms are also asked about the investment climate—including competition from the informal sector, crime, taxation, worker education and skills, corruption, regulation, and infrastructure. Although most of the questions are quantitative (such as how many times did power go out in the previous month, how much do you spend on security, and how much time do senior managers spend dealing with regulation), managers are also asked what they see as the biggest problem that they face.

Although there are many problems with questions on firm perceptions, it is a natural to start an analysis of the investment climate by looking at what firm managers said were the biggest problems that they faced.²⁴ Objective data on many of these issues are discussed later in this report and in greater detail in Volume II.

Main Perceived Constraints

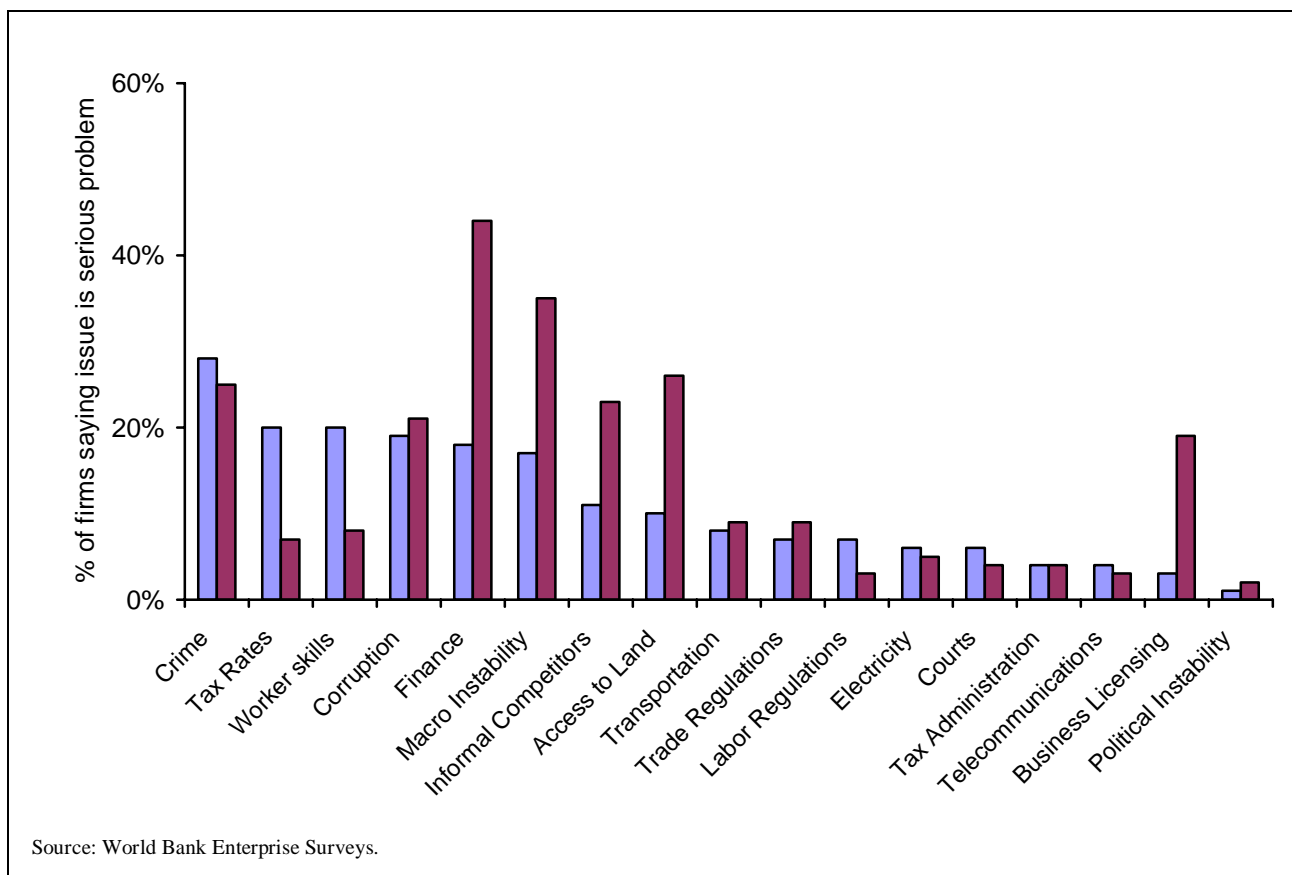
The Enterprise Survey asks firms to rank each of 17 areas of the investment climate as a constraint on the current operations of their business. They respond by rating each on a five-point scale between ‘no obstacle’ and a ‘very severe obstacle’. Figure 10 shows the percent of each type of firm that rated each area as a ‘major’ or ‘very severe obstacle’.

Among the SMLEs (i.e., firms with more than five employees), firms were most likely to say that crime, tax rates, worker skills, corruption, finance and macroeconomic instability were serious obstacles to their firm’s operations. Very few SMLEs—about 1 in 10 or even fewer—

rated any other area of the investment climate as a serious obstacle. In particular, fewer than 1 in 10 SMLEs rated any aspect of either regulation or infrastructure as a serious concern.

One notable aspect of this is that SMLEs do not seem to consistently be concerned about any area of the investment climate. In most countries where Enterprise Surveys have been completed, more than 60 percent of SMLEs identify at least one area of the investment climate as a serious obstacle.²⁵ In Namibia, only 28 percent of SMLEs identified crime, the most serious concern, as a serious obstacle. Namibia is similar to South Africa in this respect—only 35 percent of SMLEs rated the top constraint in South Africa as a serious problem and only four areas were rated as a major constraint by more than 20 percent of SMLEs (compared to three in Namibia).²⁶

Figure 10: There are large difference in perceptions between large and small enterprises



One possible reason for this is that SMLEs have relatively few complaints about the investment climate in Namibia. However, it is difficult to draw any strong conclusions from this given the difficulty of making cross-country comparisons with perception data. For example, differences in the number of complaints might reflect differing cultural norms.

As in South Africa, microenterprises in Namibia have a different view of the investment climate than SMLE managers.²⁷ First, they tend to be concerned about different aspects of the investment climate. Microenterprise managers' most serious concern, by a considerable margin, was access to finance, with over 40 percent of managers saying it was a serious problem. In

comparison, only 18 percent of SMLE managers said the same. Microenterprise managers were also far more likely to say that macroeconomic instability, business licensing, informal competition, and access to land were serious problems and were far less likely to say that tax rates or worker skills were serious problems that managers of SMLEs. Second, they appear less satisfied than SMLE managers—as noted close to one-half of microenterprise managers said that access to finance, the top constraint, was a serious problem.

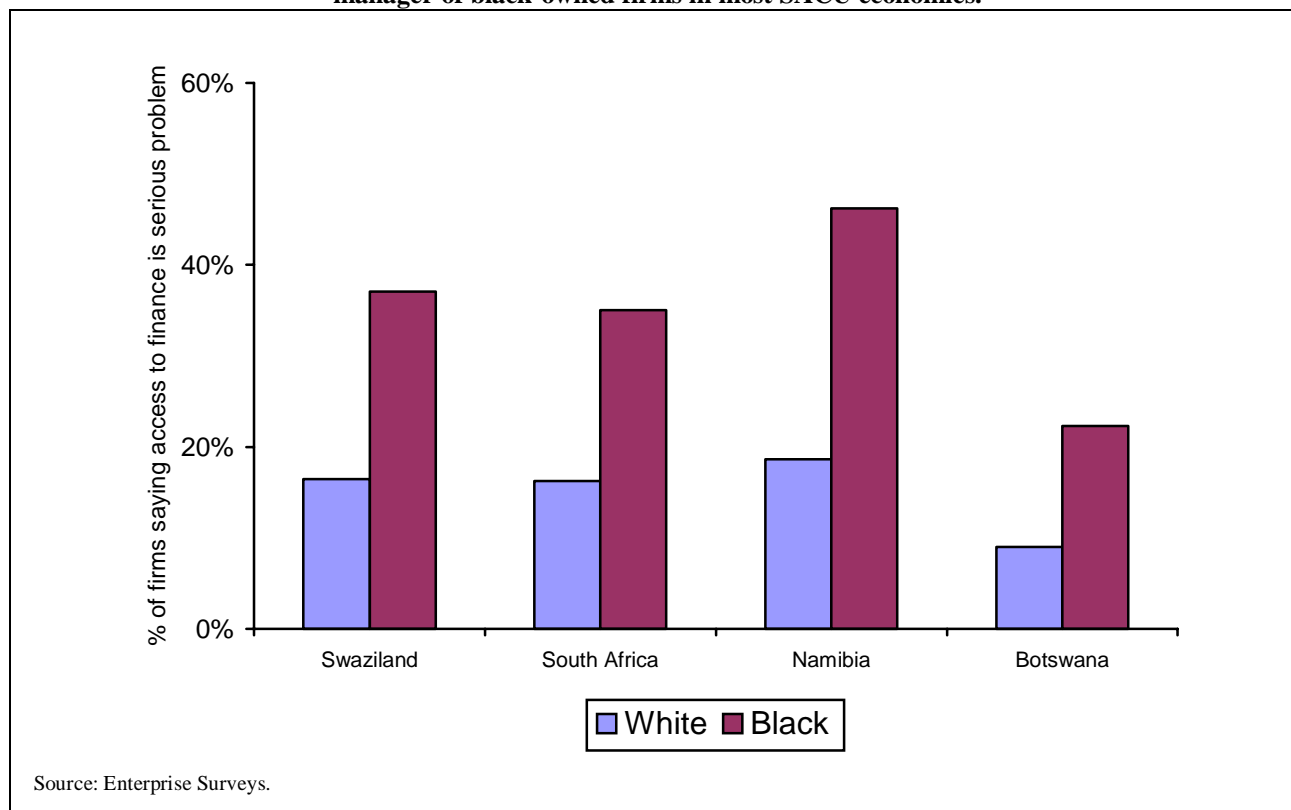
There are, however, some similarities between the perceptions of SMLEs and microenterprises. Most notably, although there were significant differences in the number of managers of microenterprise and SMLEs that rated some of the top areas as serious obstacles and the ordering of constraints, four of the top six complaints were identical for the two sets of managers (crime, corruption, finance and macroeconomic instability). In addition, a similar number of managers of both types of firms rated crime and corruption as serious constraints. Finally, managers of few firms of either type were concerned about any area of either infrastructure or regulation (other than business licensing for microenterprises).

Differences by Enterprise Type

In addition to differences in perceptions between managers of microenterprises and managers of other enterprises, there were also some differences in perceptions within these classes of enterprises.

One difference was that managers of white-owned firms were less likely to say that access to finance was a serious obstacles to their enterprises' operations and growth. After controlling for other differences between white- and indigenously owned firms, white-owned firms were 11 percentage points less likely to say that access to finance was a serious problem for their firm. Results are similar for the question about the main obstacle that the firm faces—whereas only 6 percent of managers of white-owned firms said that access to finance was the biggest obstacle that their firm faced, 13 percent of managers of indigenously owned firms said that same.

Figure 11: Managers of white-owned firms are less likely to say access to finance is a serious problem than manager of black-owned firms in most SACU economies.



The difference in perceptions about access to finance between white and black-owned firms is also visible in the enterprise surveys for Botswana, Swaziland and South Africa (see Figure 11).²⁸ In all four countries, managers of indigenously owned firm were more likely to say that access to finance was a more serious problem than managers of white-owned firms. An important issue is the extent to which the objective data on access to finance is consistent with the perception-based data. This is discussed in greater detail in Section 5.

For the most part, managers of foreign- and domestic firms had similar concerns—differences between foreign- and domestic firms with respect to the likelihood that they saw different areas of the investment climate as serious obstacles were relatively small. Similarly, managers of female-owned firms has similar concerns to managers of other firms.

Previous studies of firms in Sub-Saharan Africa have found that large firms appear to consistently be more likely to rate most areas of the investment climate as a serious constraint than smaller firms are.²⁹ The results from the Namibia survey are broadly consistent with this—either the difference between the responses of large and small firms were small or large firms were more likely to say that the area was a serious obstacle.³⁰

For two of the areas, crime and labor regulation, the differences were large. Whereas 25 percent of large firms said that crime was the biggest problem that they faced, only 15 percent of

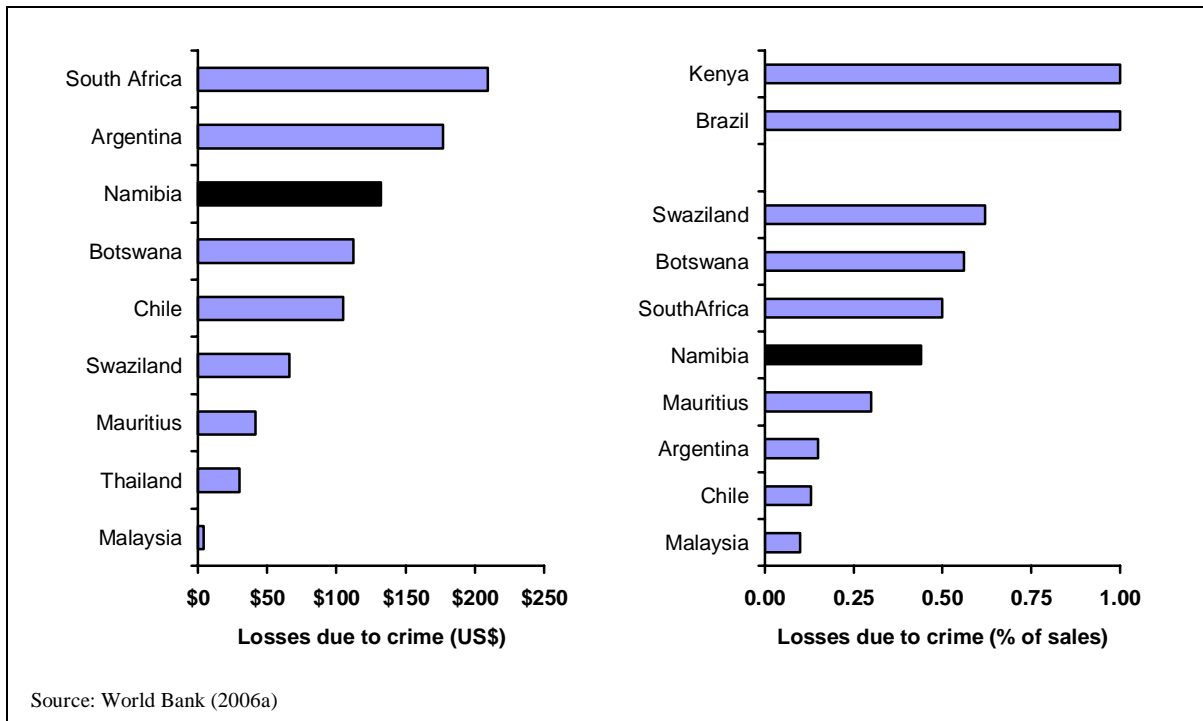
small firms said the same.³¹ Similarly, whereas 10 percent of large firms said that labor regulation was the biggest constraint they faced only 2 percent of small firms said the same.

5. Crime

Both SMLEs and microenterprise managers were very concerned about crime. Objective evidence from the Enterprises Survey on losses due to crime and the cost of crime and security in the countries also suggest that the direct costs associated crime are high in Namibia. The median firm reports that the combined cost of crime and security is about \$132 per worker per year or 0.6 percent of sales (see Figure 12). The cost in US dollars is lower than in Argentina or South Africa, but is quite high compared to most of the comparator countries

When measured as a percent of sales, cost remain high in Namibia. In all four SACU economies with comparable, the cost is about 0.5 percent of sales—the differences are generally small and are not statistically distinguishable from each other (i.e., any differences might be due to chance rather than due to there being an actual difference between the three countries). In addition to being higher in terms of US dollars, the cost is also higher as a percentage of sales than it is in most of the comparator countries, especially those outside of SACU. The cost is lower however than in the countries with the highest costs due to crime such as Kenya and Brazil.

Figure 12: The cost of crime is high in most SACU economies.



It is important to make two points about the questions on the cost of crime. The questions on losses due to crime will mostly be losses to theft, vandalism and other non-violent crimes. To the extent that many people are more concerned about violent crime than property crime, these questions do not reflect overall concern about crime.

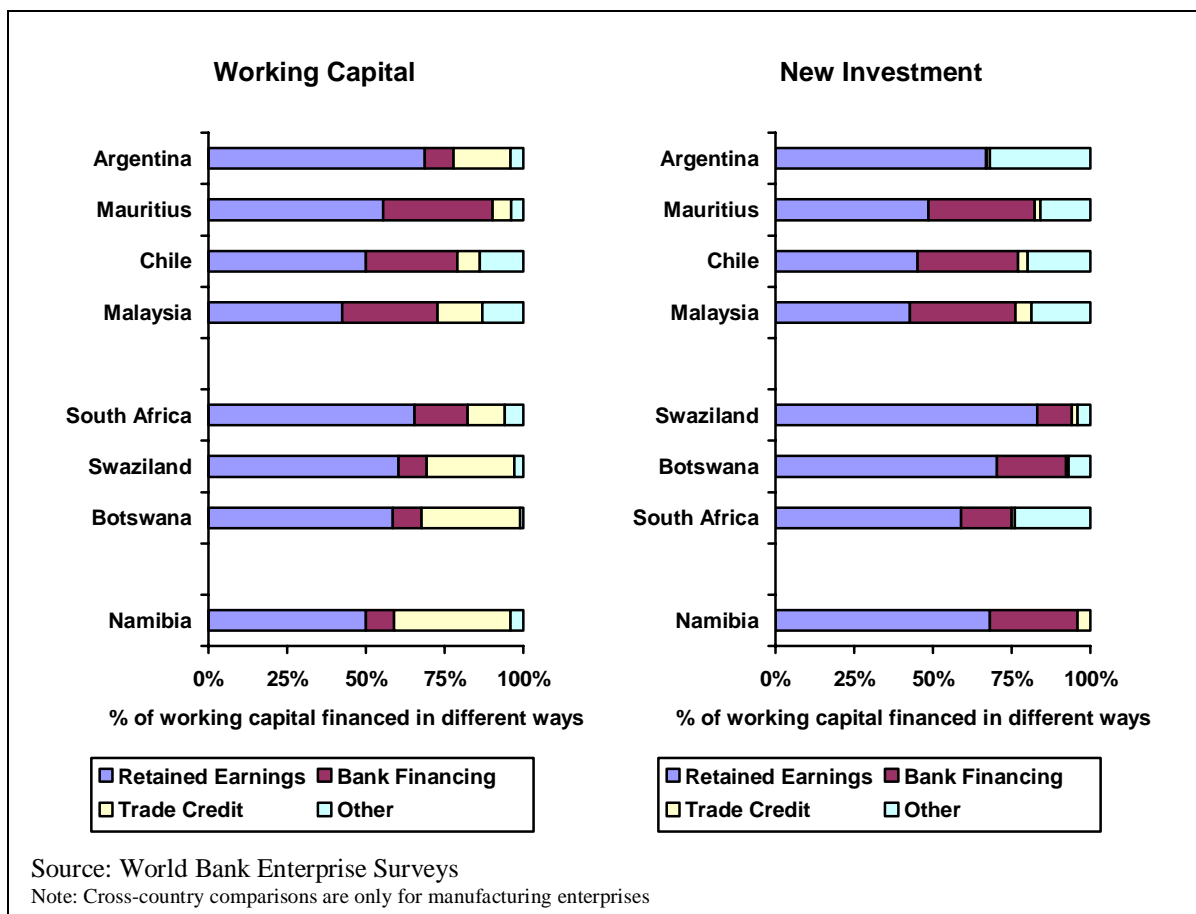
6. Access to Finance ³²

Microenterprise managers were more likely to say that access to finance was a serious problem than any other area of the investment climate—about 56 percent of microenterprises managers said that it was a serious obstacle. In contrast, it did not rank among the top concerns of SMLE managers—only about 29 percent of SMLE managers said the same, making it the fifth largest concern for SMLE managers.

Objective Indicators of Access to Bank Financing

The Enterprise Survey asks firms objective questions about their use of bank and other financing.³³ For example, it asks firms how they finance short-term working capital and long-term investment. In all countries, retained earnings—the income that the firm has left after paying for intermediate inputs, wages and other costs—is the most important source of funds (see Figure 13). But SMLEs in Namibia are more reliant on retained earnings to finance new investment than firms in any of the comparator countries outside of SACU. They use less retained earnings, however, than similar SMLEs in Botswana or Swaziland.

Figure 13: SMLEs in Namibia use bank financing less than firms in the middle-income comparator countries outside of SACU.



This is not true for working capital. On average SMLEs in Namibia finance less working capital with retained earnings than SMLEs in most of the comparator countries, including those outside of SACU. This is mostly because SMLEs in Namibia rely far more heavily on trade credit—credit from suppliers and customers—than SMLEs in the comparator countries. On average, SMLEs in the non-SACU comparator economies finance about 5 to 15 percent of working capital in this way compared to 28 percent in Swaziland, 31 percent in Botswana and 37 percent in Namibia.

But SMLEs in Namibia do tend to use bank financing less for both working capital and new investment than in the non-SACU comparator countries, except for Argentina. Whereas SMLEs in Namibia finance about 10 percent of working capital through bank financing, SMLEs in Chile, Malaysia, and Mauritius finance between 30 and 35 percent in this way. Similarly, SMLEs in Namibia finance about 28 percent of new investment through bank financing, compared to between 30 and 35 percent in the non-SACU comparator countries.

Characteristics of loans

Although SMLEs in Namibia use bank credit less than in the non-SACU economies, it is important to note that in other ways financial markets in Namibia display a reasonable level of development. Average and median interest rates are about 12 percent, which is comparable to the other comparator countries. The average and median loan maturity is about 5 years, which suggest that the long-term finance is available to at least half the firms that have access. Almost all loans in ICS sample are issued by private commercial banks, with state-owned banks taking up only 5 percent share of all loans. In contrast to Botswana, state-owned banks do not provide as large a share of bank credit in Namibia.

Collateral requirements are also fairly reasonable – the median firm posts 100 percent of loan amount as collateral. Some firms, however, report having very high collateral to loan values, with a maximum of 700 percent. Collateral is used by 73 percent of all firms with loans..

. The ability to use movable assets and receivables as collateral is an important indicator of financial market development and sophistication. In this respect, Namibia performs less well than other upper middle income economies. The most popular type of collateral is personal assets of the owner, reported by 62 percent of all those posting collateral. Next popular is land, used by 44 percent. The other types of collateral are used less frequently, with machinery and equipment, including movables, and receivables and inventory each used by 15 percent of the firms that post collateral. This suggests that this is not well developed in Namibia as in other middle income economies.

Access for microenterprises

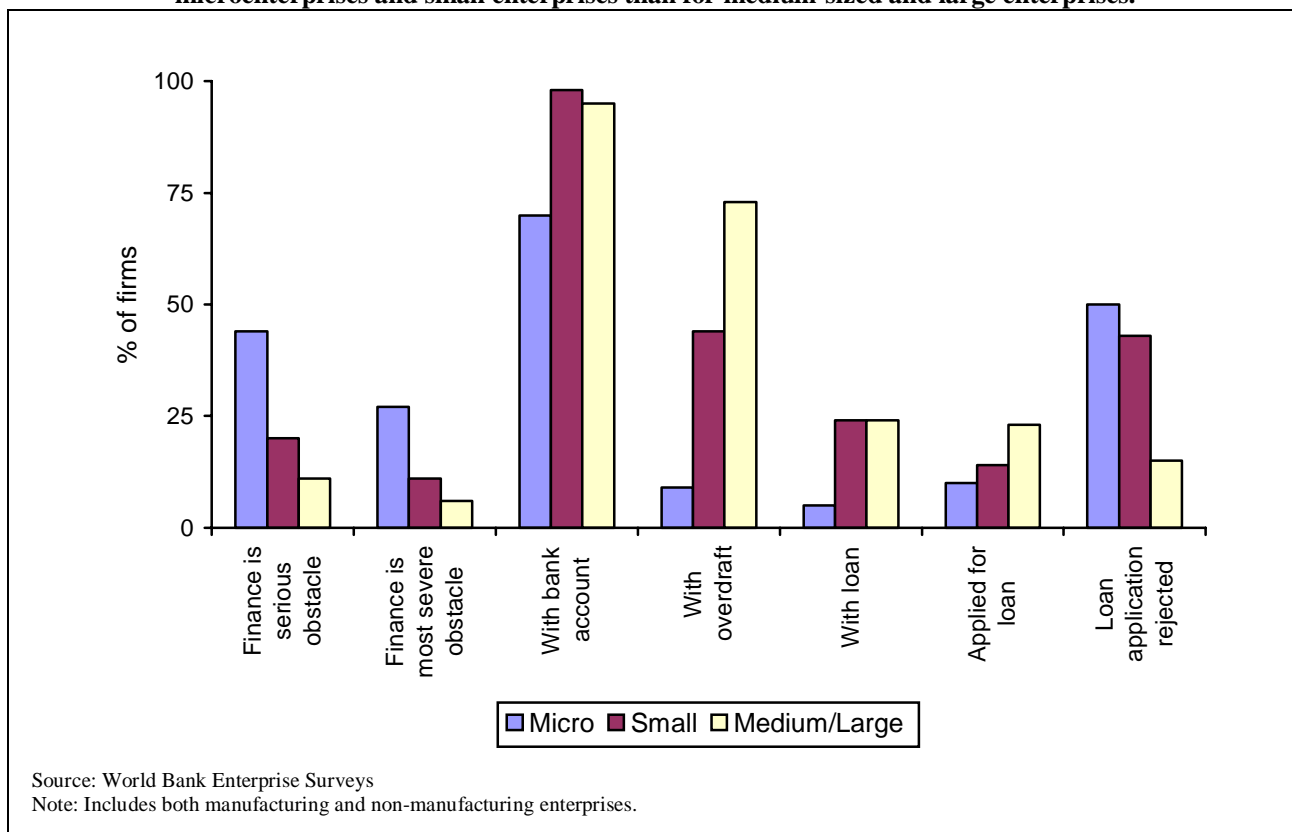
Both the subjective and objective indicators suggest that SMLEs in Namibia appear to have better access to financing than SMLEs in the other SACU economies other than South Africa. This is not the case, however, for microenterprises. Microenterprises in Namibia were more likely to say that access to finance was a serious problem than microenterprises in either Botswana or Swaziland. Objective indicators tell a similar story. Only 12 percent of

microenterprises in Namibia had any type of credit product. This is fractionally lower than in Botswana (13 percent) and considerably lower than in Swaziland (18 percent).³⁴

Comparable information on microenterprises is not available for countries outside of SACU. But microenterprises are more likely to have bank financing than in most other countries in Sub-Saharan Africa where similar surveys have been conducted. In the other 10 countries where similar surveys were completed in 2006, fewer than 5 percent of microenterprise had an overdraft facility and in several countries no microenterprises had overdraft facilities or lines of credit.³⁵

Within Namibia, both subjective and objective indicators suggest that access to financing is more difficult for microenterprises (see Figure 14). Microenterprises are more likely to report that access to finance is a serious obstacle, more likely to say it is the worst obstacle, are less likely to have a bank account and close to five times less likely to have access to any of the credit products (loans, overdrafts or line of credit). Among micro enterprises only 12 percent have any of the credit products, compared with 57 percent of SMLEs. Several of these correlations remain statistically significant even after controlling for other factors that might affect access to credit.³⁶ The difference is even more striking for unregistered micro enterprises – in the sample of about 25 unregistered micro enterprises none have any credit product.

Figure 14: Both subjective and objective indicators suggest that access to credit is a more serious obstacle for microenterprises and small enterprises than for medium-sized and large enterprises.



Microenterprises are also less likely to report not applying because of “no need for loan.” About 31 percent of micro enterprises say they don’t need loans, compared to 79 percent of

small and 96 percent of large firms. This suggests that unmet demand is significantly higher for microenterprises than for SMLEs. Micro enterprises are also more likely to expect being rejected for loans – 18 percent of those who do not apply expect to be rejected, vs. 4 percent of small and 0 percent of medium and large enterprises.

Other differences by firm type

In addition to the differences between SMLEs and microenterprises, there are also other differences with respect to access. Even among SMLEs, size has an effect on access, with access to credit being significantly more difficult for microenterprises than for small enterprises and significantly more difficult for small enterprises than for large enterprises (see Figure 14).

Other differences are also important. As in many countries, domestic SMLEs in Namibia are more likely to use credit products, such as overdraft, line of credit or a loan than foreign SMLEs (60 percent compared to 47 percent). However, they are also twice more likely to cite finance as a major or severe obstacle. This could be explained by differences in demand for credit. Domestic SMLEs are less likely to cite “don’t need a loan” as a reason for not applying for loans: 67 percent of them cite this reason, relative to 86 percent of foreign SMLEs. In line with this they are more likely to apply for a loan, but are also more likely to be rejected

. In some developing countries, access to credit is a greater problem for firms owned by women, possibly due to discrimination. In Namibia, female owned SMLEs have slightly more likely to have a loan, overdraft or line of credit than other SMLEs (57 percent compared to 60 percent). They are, however, slightly higher to report access as a severe or major obstacle (26 percent compared to 15 percent). These differences, however, are mostly not statistically significant after controlling for other factors that might affect access to credit.

As noted earlier, SMLEs owned by Africans are more likely to say that access to credit was a serious obstacle than white-owned SMLEs were. African-owned SMLEs are also less likely to have credit products (58 percent compared to 62 percent) and are more likely to have had a loan application rejected (38 percent compared to 23 percent). These differences, however, are not statistically significant after controlling for other factors that might effect access to credit (see Chapter 5 in Volume II)

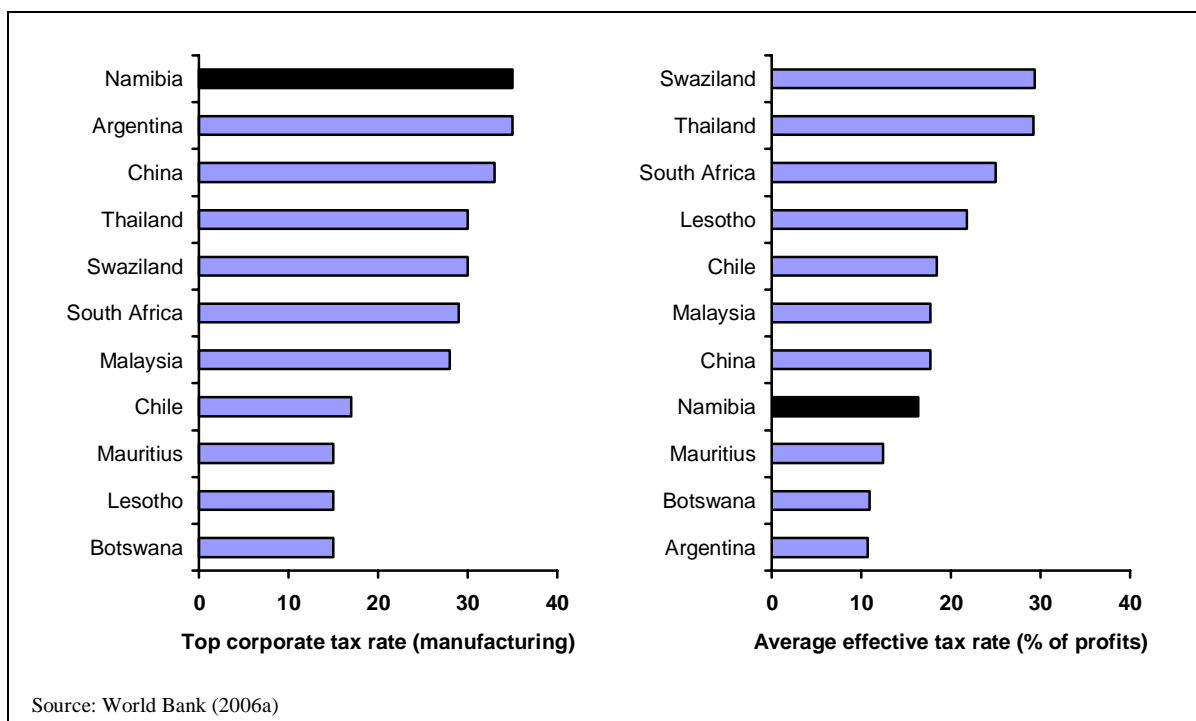
7. Tax Rates³⁷

Other than crime, SMLE managers in Namibia were more likely to say that tax rates were a serious problem than any of the other areas of the investment climate that they were asked about. Microenterprises were far less likely to say that tax rates were a serious problem—less than 10 percent said it was a serious problem.

Neither the high ranking for SMLEs nor the low ranking for microenterprises is surprising—tax rates typically rank among SMLE’s greatest concerns in investment climate assessments.³⁸ In contrast, given the high level of evasion among microenterprises in many countries—and that microenterprises can legally avoid many taxes such as value-added taxes (e.g., in Namibia, the VAT threshold, after which an enterprise has to charge VAT on sales, is NS\$200,000)—it is not surprising that microenterprises are often not concerned.

The basic rate for the corporate income tax is 35 percent. This is higher than in most of the comparator countries (see Figure 15). For example, the base rate for manufacturers is only 15 percent in Botswana. However, qualified manufacturers can qualify for an incentive rate of 18 percent. Moreover, exports receive even more favorably rates and firms in export processing zones can be exempt. About 100 manufacturers, although not all of them operating, had qualified for preferential rates by the end of 2006.³⁹

Figure 15: Although the standard rate of corporate income taxes is high, generous depreciation rates and loss carry-forwards mean that the overall burden is reasonable.



Moreover, even for non-qualifying investments, generous investment incentives apply.⁴⁰ These include generous depreciation rates for machinery and building and unlimited loss carry-forwards. Consistent with this, the Doing Business report finds that after taking into account these and other features, that the average effective corporate tax rate is quite low even for non-qualifying investments. Although higher than in Argentina, Mauritius, or Botswana, it remains lower than the other comparator countries. When other taxes are taken into account (e.g., Social Security payments, local taxes and vehicle taxes), Namibia ranks close to the middle of the group of comparator countries. In this respect, although taxes are not likely to be a major deterrent to new investment, they are also not likely to be a major attraction either.

8. Competition from the Informal Sector⁴¹

Like all countries in the sub-region, Namibia is faced with a high rate of unemployment. The microenterprise sector, including the informal sector, has therefore become an important alternative for employment. Although the informal sector provides employment to many workers, formal enterprises that have to compete with informal firms find themselves at a competitive disadvantage since their informal competitors can avoid costs associated with regulation and taxation.

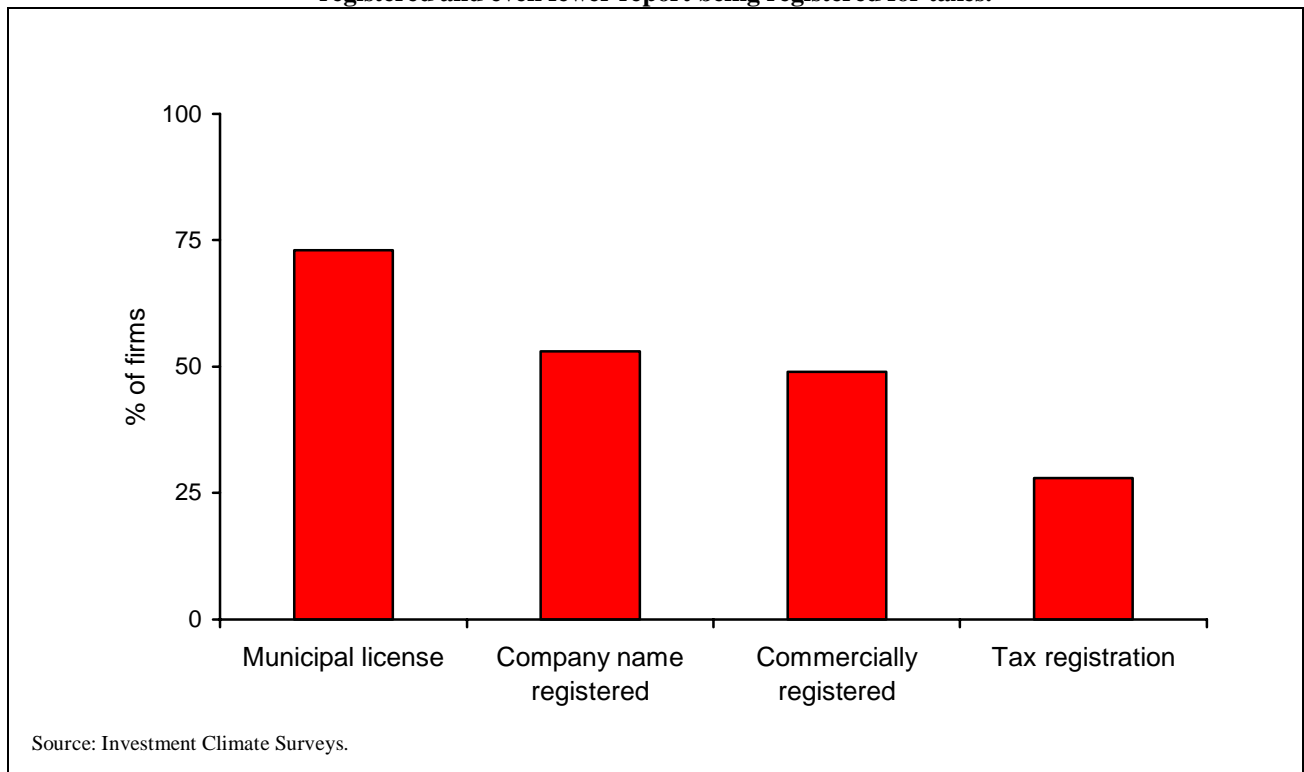
This is a particular concern for microenterprises. Although few SMLEs (about 11 percent) were concerned about competition from the informal sector, many micro-enterprises in Namibia were (23 percent). Given that formal (and informal) microenterprises will often find themselves in direct competition with their informal counterparts, this is not surprising.

The microenterprise survey provides additional information on informality. The survey asks firms whether they are registered with any of the following agencies:

- i) The Office of the Registrar or other government institution responsible for approving company names
- ii) The Office of the Registrar, the local courts, or other government institutions responsible for commercial registration
- iii) Any municipal agency for an operating or trade license or a general business license
- iv) The tax administration or other agency responsible for tax registration.

The registration status of these enterprises is presented in Figure 16:

Figure 16: Most microenterprises report municipal registration, but only half report being commercially registered and even fewer report being registered for taxes.

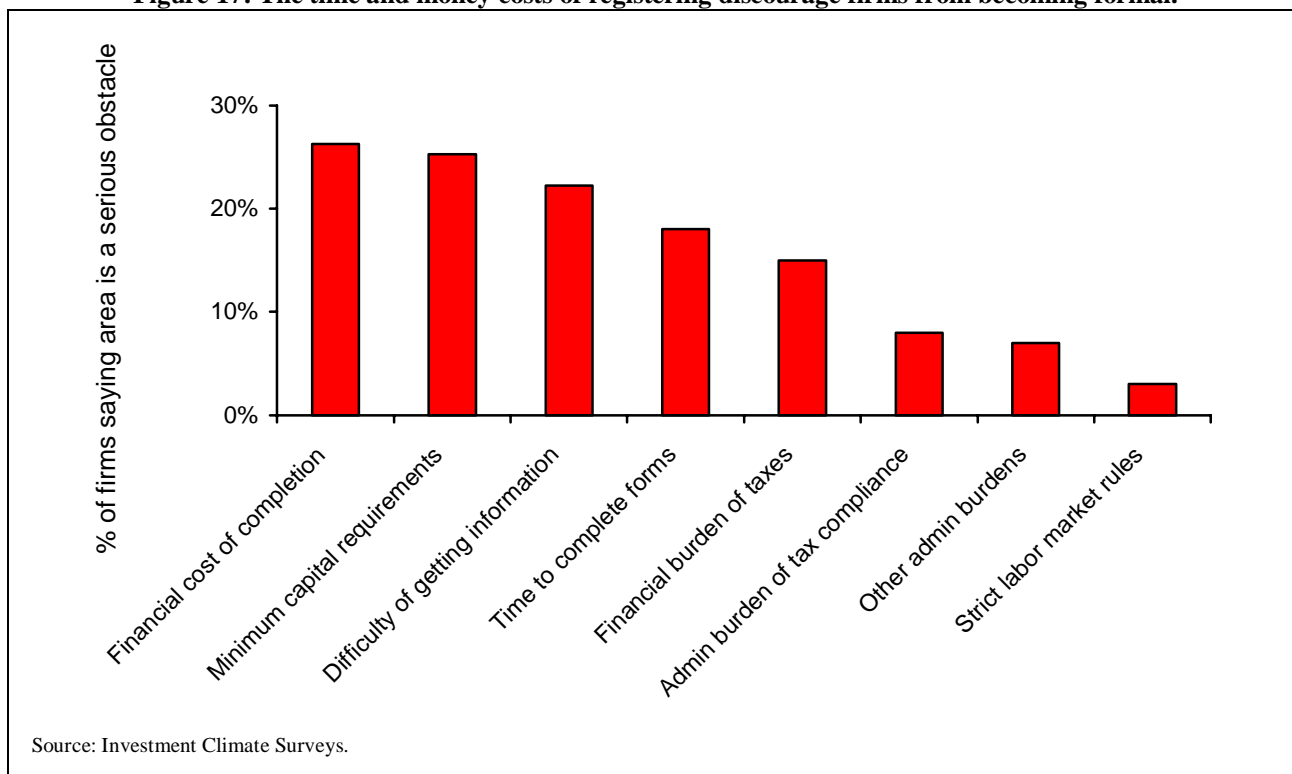


Most microenterprises are registered with at least one agency—only 25 firms (or one-fourth) are not. This is lower, however, than in Botswana, where nearly all microenterprises (about 97 percent) were registered with at least one agency. As noted above, unregistered firms appear to be particularly unlikely to have formal links to the financial sector. Among the unregistered firms, only about 25 percent have bank accounts and none have an overdraft, a loan, or a line of credit.

All microenterprises, including those that are registered, are asked whether they think various things that affect the cost of becoming formal were a very severe, a major, a moderate, a minor, or no obstacle to registration. Firms were most likely to say that getting information on registering, the financial costs of registering and capital requirements were serious obstacles. Microenterprises were less likely to say that the administrative burden on registered firms or labor market rules were serious obstacles.

Another interesting observation is that over one-quarter of microenterprises rated the top obstacle to becoming formal as a serious obstacle. This was far higher than in Botswana, where the top obstacle was rated as a serious problem by only 15 percent of microenterprises. This is consistent with the observation that firms in Namibia are to be less likely to be registered than microenterprises in Botswana.

Figure 17: The time and money costs of registering discourage firms from becoming formal.

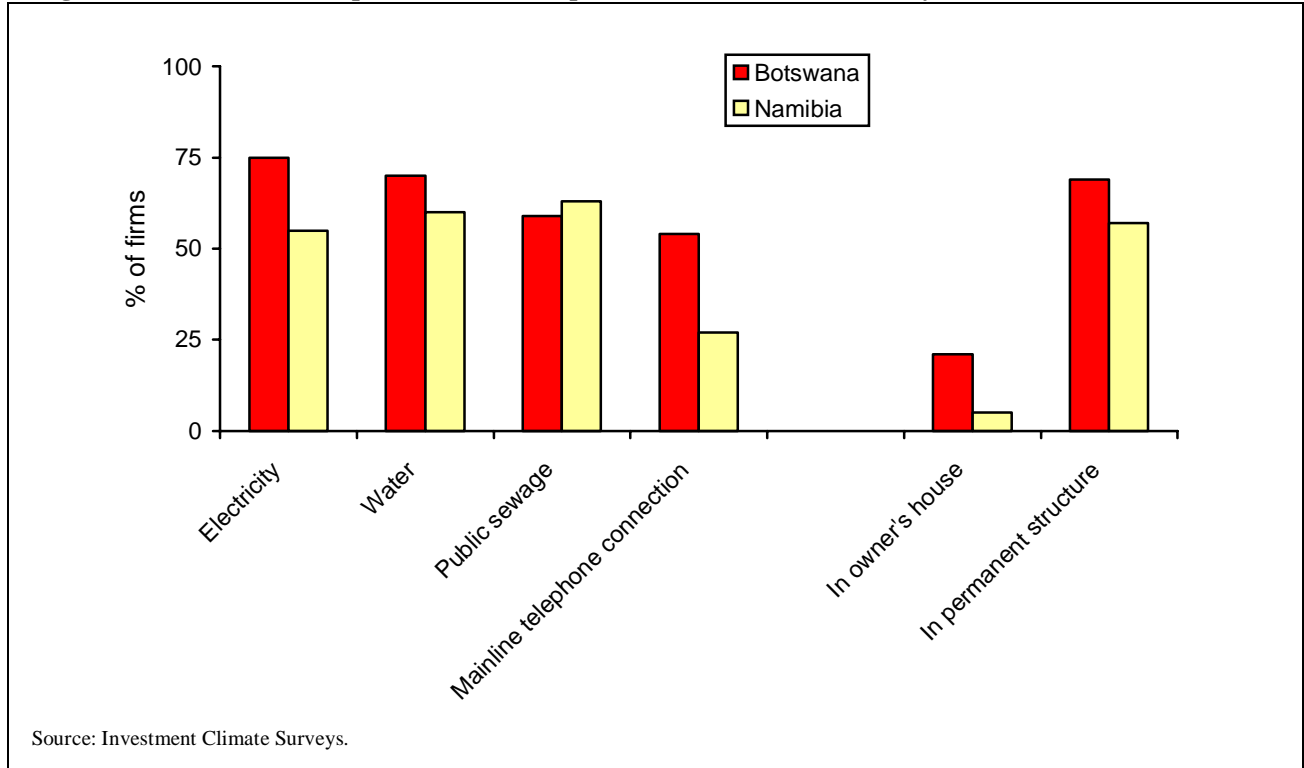


Over half of microenterprises in Namibia reported access to basic infrastructure services, such as electricity, water, and public sewage connections (see Figure 18). However, this is lower than in Botswana for most types of service. For example, whereas about 55 percent of microenterprises in Namibia are connected to the power grid, three-quarters of microenterprises in Botswana are. Microenterprises in Namibia are also less likely to be located in a permanent structure than microenterprises in Botswana. For microenterprises with connections, service is good. Only 14 percent reported power outages and 4 percent reported water problems interfering with production.

Tax compliance is also particularly low among microenterprises. On average, SMLE managers in Namibia said that ‘firms like theirs’ reported about three-quarters of their income for tax purposes. This was higher than in Botswana or Swaziland, where the median SMLE

managers estimate that ‘firms like theirs’ report about half income for tax purposes. The reverse is true of microenterprise managers. The median microenterprise manager estimated that a ‘firm like theirs’ reports 15 percent of income to the tax authorities, compared to about 20 percent in Swaziland, and 30 percent in Botswana.

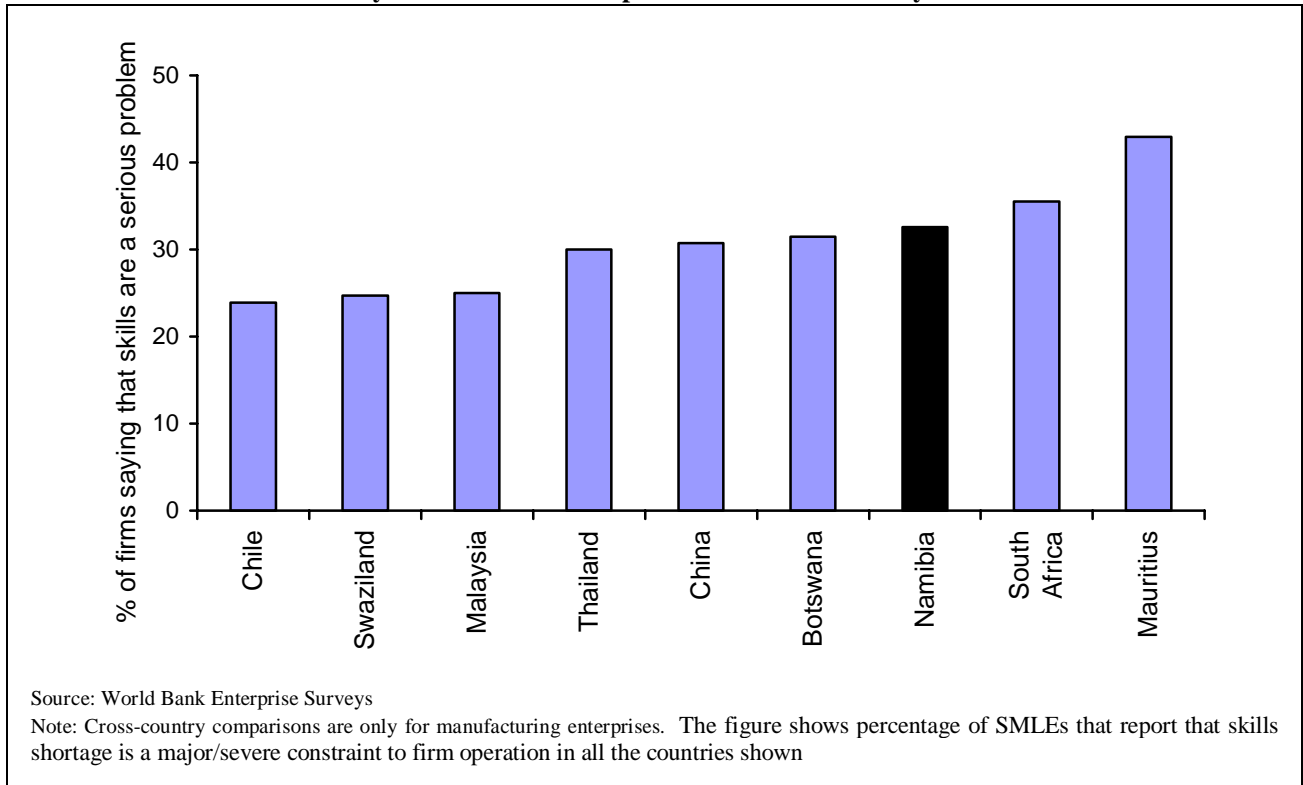
Figure 18: Most microenterprises are based in permanent structures and many have access to infrastructure.



9. Worker Skills ⁴²

SMLEs in Namibia are very concerned about labor market constraints. Manufacturing SMLEs were more likely to say that inadequate worker education and skills was a serious obstacle than any other area of the investment climate. Nearly 32 percent of manufacturing SMLEs report the shortage of skills is a major or severe impediment to growth—higher than in most of the comparator countries (see Figure 19). Manufacturing SMLEs were more likely to say worker education was a problem in only two countries: Mauritius and South Africa. The lack of a skilled pool of labor is also important in the retail trade and services sectors: it is the second ranked constraint by managers in the services sector and 5th ranked for firms in the retail trade sector.

Figure 19: Manufacturing SMLEs in Namibia are more concerned about worker education and skills than in any other countries except South Africa and Malaysia.



A shortage of skills can arise as a result of poor instruction in schools, a curriculum that is not in line with the required skills in the labor market or the lack of firm-based training. To look for the source of the problem, Table 3 shows the number of years of schooling available in the typical SMLE in the manufacturing sector in international perspective.⁴³ The typical worker in the modal SMLE in Namibia has between 7 and 12 years of schooling. However, one third of SMLEs report that their typical worker has between 0 and 6 years of schooling. This is higher than many of the comparator nations. Only Mauritius and Swaziland have a higher proportion of low-education workers. In addition, only 5 percent of SMLEs report average education levels of more than 12 years of schooling compared to 12 percent in South Africa, 13 percent in Botswana and 24 percent in Chile. Because completion rates are very low at the university level (less than 20 percent in science, 35 percent in humanities, and 44 percent in education) mean that this probably overemphasizes educational attainment in Namibia.⁴⁴

Table 3: Percent of workers that have completed 0-6, 7-12 and >12 years of school

	0-6 years	7-12 years	>12 years
Chile	4	72	24
South Africa	10	78	12
Mauritius	47	49	5
Botswana	20	66	13
Namibia	34	61	5
Swaziland	37	53	7

This suggests that there are two reasons for the inadequacy of skills. On the one hand, school achievement levels at the post-secondary level are low in Namibia. However, given the large fraction that have completed primary schooling, it appears that the curriculum or quality of instruction is plausibly inadequate in relation to firm needs.

The observation that the curriculum might be inadequate is consistent with other studies that have noted the low quality of education in Namibia.⁴⁵ In a 2000 study of eleven countries in southern Africa, Namibia ranked bottom for math scores and third from the bottom for reading scores, beating only Zambia and Malawi.⁴⁶ In addition to performing worse than several of the middle income comparator countries in this study (South Africa, Botswana, Swaziland, Lesotho and Mauritius), Namibia ranked below some low-income countries in the region.

One way that firms can deal with a skills shortage is to provide firm-based training. However, the ability of firms to impart the requisite skills will depend on a variety of factors that include the extent of demand for skills acquisition, the availability of external training by specialized firms, and financial and space constraints at the firm level. This section therefore also examines the extent to which firms are responding to the skills shortage by looking at the prevalence of training and trainees in the manufacturing sector.

About 44 percent of manufacturing SMLEs provide training to their workers; consistent with a firm response to a shortage of skills, 50 percent of SMLEs reporting skills shortage as a major or severe constraint provide training compared to 42 percent for SMLEs for which skills are not a binding constraint. Of the SMLEs that provide training, 68 percent of skilled workers and about 41 percent of unskilled workers receive training.

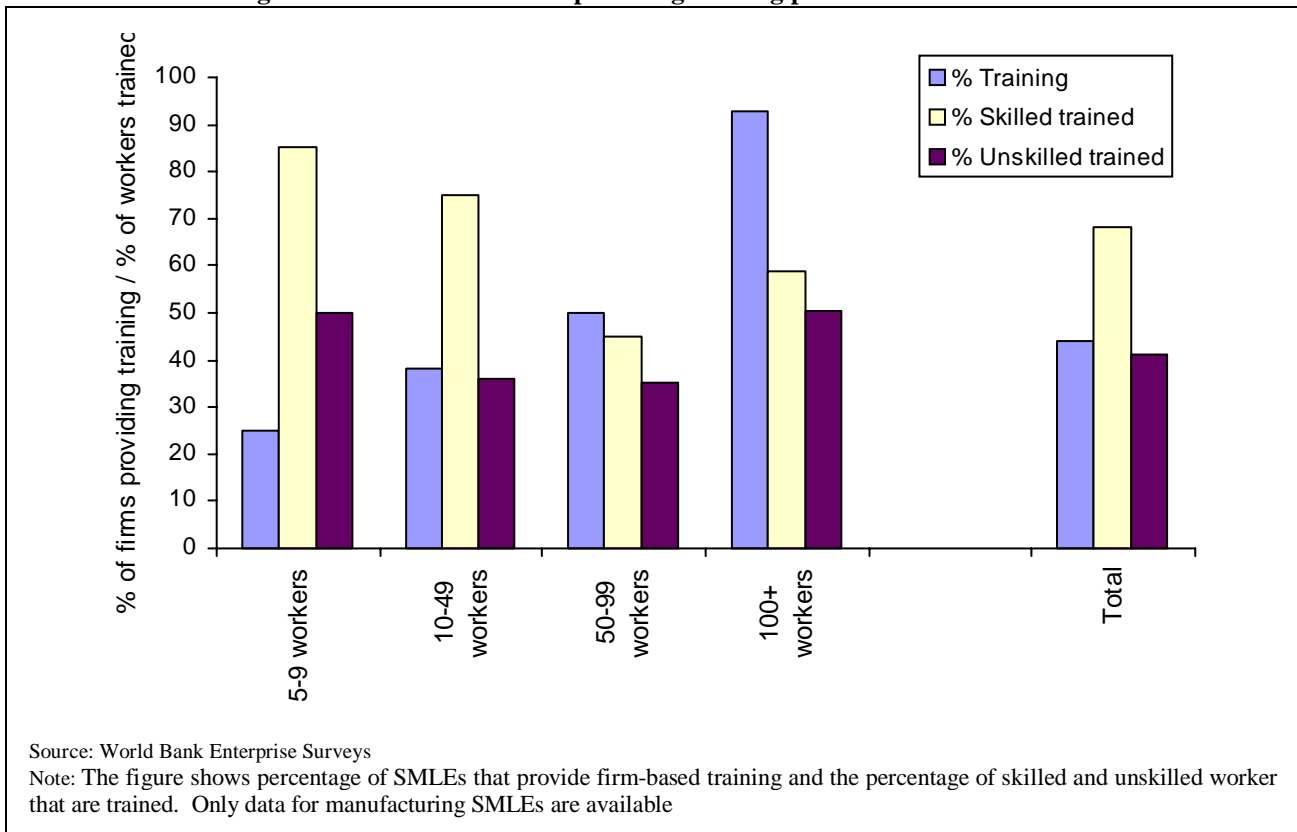
Although manufacturing SMLEs in Botswana and Malaysia are less likely to provide training than SMLEs in Namibia, Namibia remains in the bottom third of countries with respect to providing training (see Table 4).⁴⁷ About 93 percent of SMLEs in China provide some form of training to their workers compared to 76 percent in Thailand and 64 percent in South Africa. In this respect, Namibia performs far worse. Conditional on training, SMLEs in Namibia perform better, with SMLEs training a relatively large proportion of skilled workers and an average proportion of unskilled.

Table 4: Firm-based training: prevalence and % workers trained

Country	% of SMLEs offering training	% of skilled workers trained	% of unskilled trained
Botswana	37	57	41
Malaysia	42	81	76
Namibia	44	68	41
Swaziland	49	64	27
Mauritius	62	34	18
South Africa	64	45	47
China	72	48	25
Chile	72	34	25
Thailand	76	---	---
China	93	---	---

To understand how training can be extended to more workers, it is useful to identify characteristics of firms and workers that are correlated with the provision of firm-based training. Figure 20 above shows the proportion of firms training and percent of workers trained across a number of categories. The figure shows a strong firm size-training relationship with the largest firms significantly more likely to provide training. More formal econometric analysis of the relationship (see Chapter 4 in Volume 2) confirms this relationship. Firms with more than 100 workers are more than 50 percentage points more likely to provide training relative to firms with less than 10 employees even after controlling for other things. One plausible interpretation, consistent with a large and significant effect for only large firms is that there are substantial fixed costs associated with providing training that only really large firms can meet

Figure 20: Percent of SMLEs providing training/percent workers trained.



Other than firm size, the econometric results suggest that the provision of training is not strongly associated with most firm characteristics. One important factor that does affect training is worker education. Firms are more likely to train their workers when average levels of education are higher and better educated workers are more likely to be trained. The positive correlation between higher worker schooling and training suggests schooling and training are complementary. If this is the case, training is meaningful only when workers have a sufficient knowledge base. Alternatively, firms that require workers with sufficient education might be employing technologies that require more skills and training than other firms. In either case, however, training is not a substitute for a solid basic education. Given the low level and poor quality of schooling in Namibia, this might be a concern.

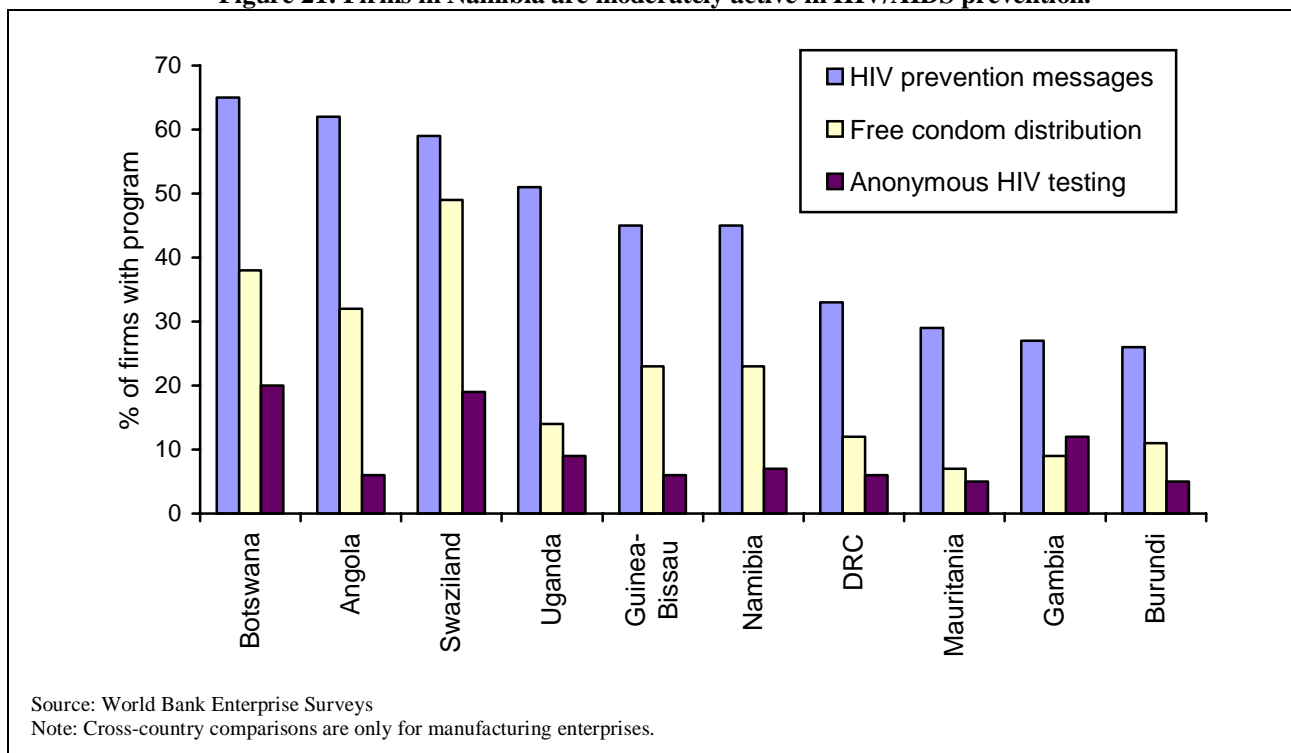
10. HIV/AIDS in Namibia

Namibia has one of the highest rates of HIV infection in the world, with a national prevalence rate estimated at 19.6 percent, which totals approximately 230,000 people living with HIV.⁴⁸ AIDS accounts for 50 percent of deaths among individuals aged 15-49 and over 75 percent of all hospitalizations in public sector hospitals.⁴⁹

Despite this, the percent of firms conducting prevention activities is moderate in Namibia, with about 50 percent of all formal firms and 21 percent of micro-enterprises conducting some form of prevention activity. Namibia is close to the median among the ten countries in Sub-Saharan Africa with comparable data on all three measures of HIV activity: 53

percent of firms report putting up HIV prevention messages, 23 percent report distributing condoms, and 6 percent report providing anonymous HIV testing. Firms are less active than in Botswana or Swaziland.

Figure 21: Firms in Namibia are moderately active in HIV/AIDS prevention.



This could be because the Government is relatively active in HIV/AIDS prevention. Previous literature on HIV in the workplace has eluded to a possible tradeoff between public and private HIV prevention activities, suggesting that perhaps less-active governments create a gap that can only be filled by workplace-level HIV care. Of all ten African countries for which comparable data are available, Namibia is second only to Botswana in per capita spending on HIV/AIDS (and third after Botswana and Burundi for per capita spending on the HIV-infected population), spending is about ten times that of the higher-prevalence Swaziland.

11. Labor Regulation⁵⁰

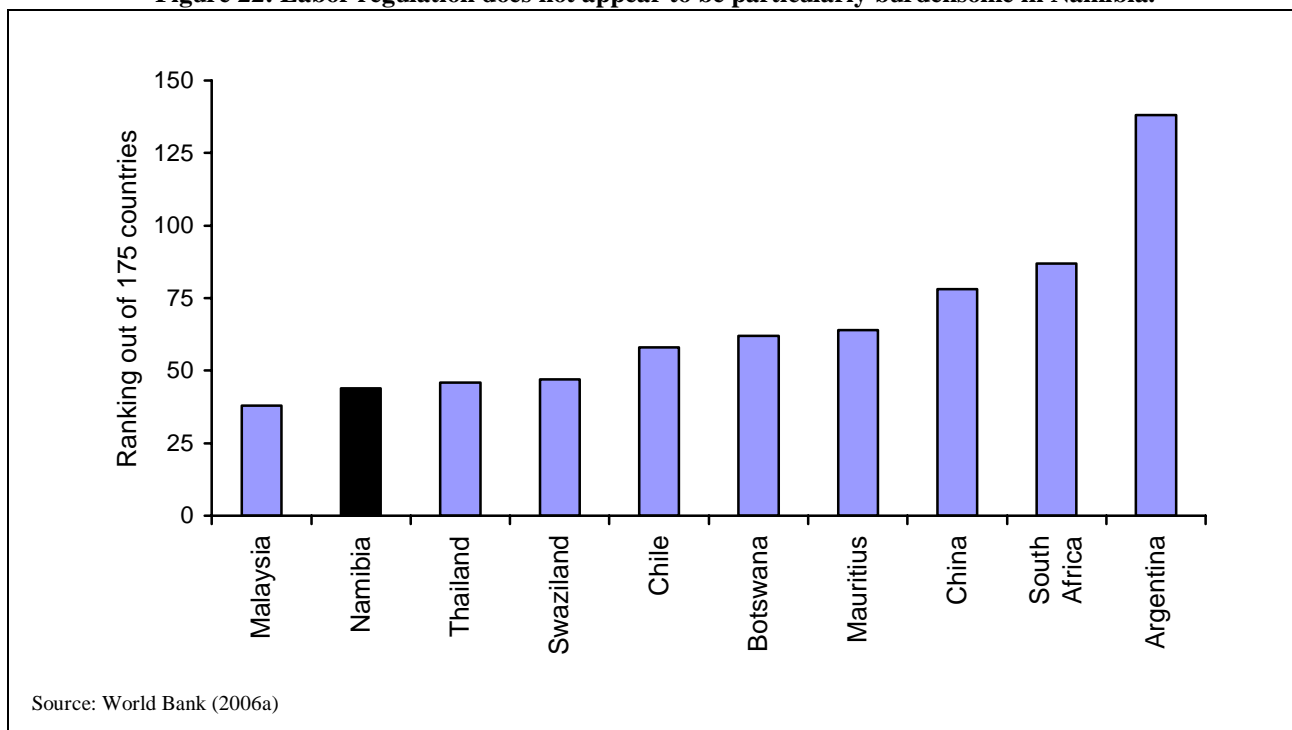
Labor regulations govern the terms under which firms can hire or fire workers. These terms include the minimum wage, leave policies and separation policies. Firms were asked to report whether labor regulations were a major or severe constraint to operations in Namibia. 17% of SMLEs in manufacturing, 9 percent of SMLEs in services and 8% of SMLEs in the retail sector find labor regulations to be a severe or major constraint to growth and operation. In looking at other constraints (see Figure 10), labor regulations are in the bottom half of constraints.

SMLEs were asked to report an elasticity of employment with respect to two different aspects of labor regulations. That is, they were asked if they would hire or fire more workers if

the regulations governing hiring and firing were removed. Only 16 percent of SMLEs in the manufacturing sector responded that they would change their employment. The corresponding shares in the retail and services sectors are 9 percent and 14 percent respectively. This is consistent with the perceptions data, suggesting that in general, SMLEs do not find the regulatory regime governing the hiring, remuneration and firing of workers an encumbrance to firm operation.

The Doing Business report collects detailed information on how labor regulations affect hiring, firing, and rigidity of employment. Based upon these regulations, the report calculates objective measures that assess how strict labor regulation is in the country. Although Namibia performs less well than the best performing comparator countries, labor regulation does not appear to be particularly burdensome in this respect either.

Figure 22: Labor regulation does not appear to be particularly burdensome in Namibia.



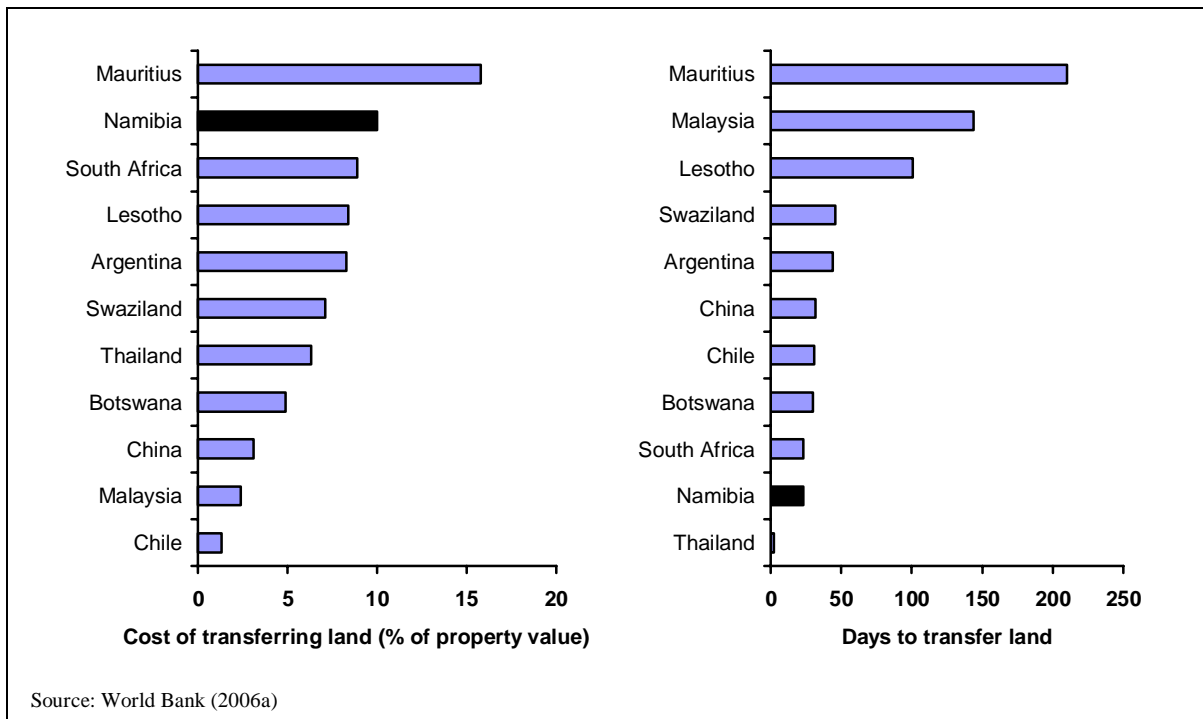
Although both the subjective data and the objective data suggest that labor regulation are not a serious problem, it is important to keep two additional points in mind. First, as pointed out by previous studies, although Namibia performs reasonably on the Doing Business indicators, not all aspects of labor regulation are captured in this data. For example, the data do not cover hiring of expatriate workers—a problem in Namibia—or the quality of the conflict resolution system.⁵¹ Second, although firms do not appear to be especially unhappy with the current labor regulation, during field interviews several managers expressed concern about proposed labor regulation. In particular, there was concern about provisions that increase annual leave (which is currently at 24 days for an employee with 20 years of service), make maternity leave easier to qualify for (e.g., for workers who are already pregnant when they start working), and increased fines and prison terms for non-compliance with laws. To the extent that labor regulations are currently a relatively attractive area of the investment climate, this suggests that reform might

remove this area of advantage. Other aspects of labor markets remain a problem. As noted above, unionization rates are relatively high in Namibia and labor relations can be abrasive.⁵²

12. Access to Land

According to the World Bank *Doing Business* surveys, it takes about 23 days, 10 percent of the property value and 9 procedures to transfer land title from one private party to another. Although the number of days is lower than in most comparator countries, Namibia ranks as one of the worst for procedures and cost (see Figure 23). Namibian firms who want to acquire land therefore face considerable barriers unless they have already accumulated capital assets.

Figure 23: The cost of transferring land is high in Namibia in terms of the monetary cost.



Although this does not appear to be a particularly large burden for SMLEs, microestablishments were concerned about access to land. Among micro firms, about one-fourth complained that access to land was a major or very severe obstacle to doing business and 11 percent cited it as the most serious obstacle.

Only 5 percent owned their own land, and at the median, microenterprises spent about 6 percent of total sales on renting land, buildings, and equipment. Nevertheless, although 41 percent reported that the main business location was in a temporary or movable structure, only 4 percent said they had been compelled to changed locations during the past year. Not surprisingly, microenterprises that had been forced to move were far more likely to say that access to land was a problem than microenterprises that had not (75 percent compared to 22 percent). More surprisingly, microenterprises that were located in fixed structures were more likely to say access to land was a problem than microenterprises that were not (29 percent

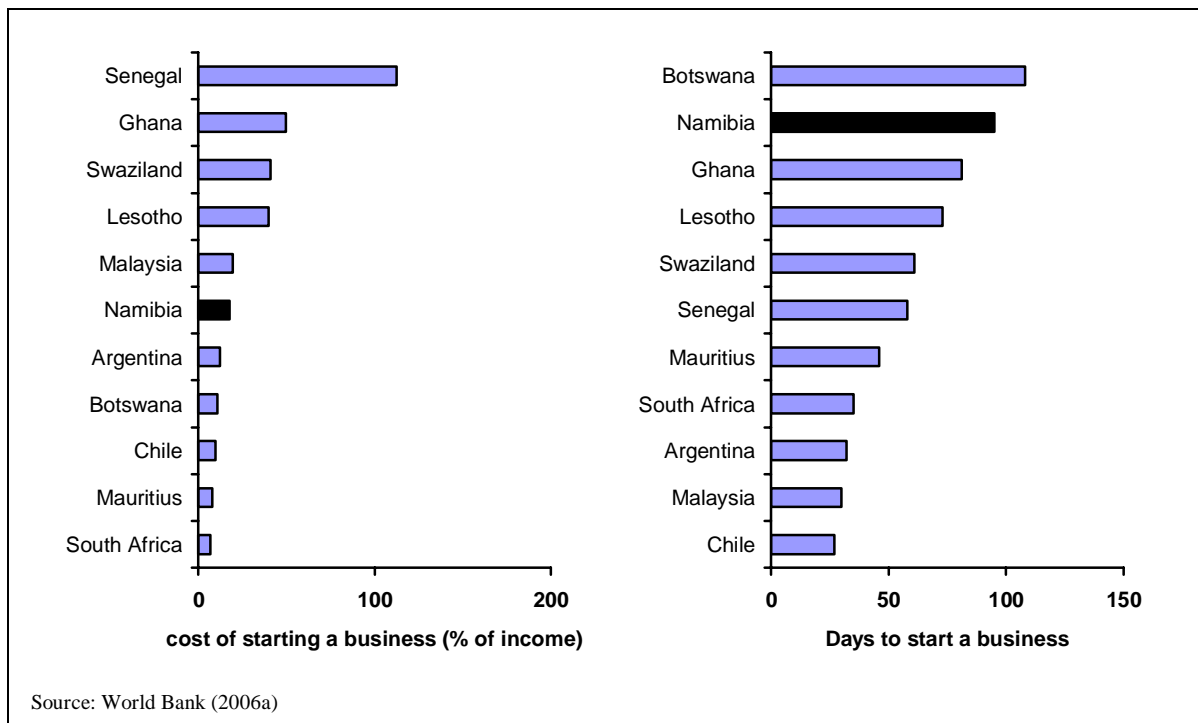
compared to 20 percent). This suggests that many firms not in permanent structures are not in them because they do not want to be.

13. Business Licenses and Registration

Managers of SMLEs complain very little about business licensing and registration in Namibia, but there is a sharp disparity between SMLEs and microenterprises discussed in Chapter 3. Like South Africa, but unlike Botswana or Swaziland, firms can register as a close corporation. The registration process is simpler and firms do not have to submit annual audited accounts if they use this firm of registration.

Although this can ease registration for some small companies, the cost of starting a business is high in Namibia. The *Doing Business* report collects information on the regulations for starting a business. Namibia ranks poorly on this index. Its rank of 86th is better than Botswana (93rd) and Argentina (106th), but worse than South Africa (57th) and Mauritius (30th). According to the data, entrepreneurs in Namibia require 18 percent of income per capita, have to deal with 10 procedures, and wait an average of 95 days for start-up (Figure 24).

Figure 24: It takes a long time to start a business in Namibia.



The main bottlenecks in the system appear to be at the Registrar of Companies. The longest procedure is registering the company. It also takes a long time to register for the VAT, register workers for Social Security and Workmen’s Compensation, and obtain approval for the company name. The company registrar is currently computerizing its processes, which should accelerate this process. Once this is complete, the time to register a business will be reduced considerably. However, even after this, the number of procedures will remain high and it will still take longer than in the best performing countries. For example, all procedures can be

completed in Australia in two days. To reach this level of efficiency, procedures will have to be eliminated or combined.

Table 5: Procedures to start a business in Namibia (January 2006)

Nature of Procedure (2006)	Proc #	Duration (days)
Deposit the initial capital in a bank account.	1	1
Obtain the approval for a company name from the Registrar of Companies.	2	14
Pay the registration fees and buy revenue stamps at the Receiver of Revenue	3	1
Hire an attorney to register the company with the Registrar of Companies; obtain the Certificate to commence business.	4	35
Register for VAT with the Receiver of Revenue at the Ministry of Finance	5	21
Register for PAYE with the Receiver of Revenue.	6	1*
Apply for a Town Planning Certificate.	7	1
Apply for a health certificate/trading license from the local municipality.	8	1
Register workers with the Social Security Commission.	9	21
Register workers with the Workmen's Compensation Commission	10	20*
Totals:	10	95

14. Summary

Namibia faces many of the same challenges that other countries in the region do. Namibia's domestic market is small, like Botswana, Lesotho, and Swaziland, and the country is relatively remote. Most of the countries in the region—particularly Botswana and South Africa—have relatively attractive investment climates and Namibia shares many of its strengths (e.g., relatively good infrastructure, relatively clean government, and relatively modest regulatory burden) with these countries. As a result, firms from Namibia have to compete with efficient firms from these other countries in both national and regional markets and Namibia has to compete with these same countries to attract foreign investment.

In addition, to sharing its strengths with its neighbors, Namibia also shares many of their weaknesses. Losses due to crime are high in all of the SACU economies. HIV/AIDS is a serious problem in all countries. Competition is relatively low. Unemployment is high in most countries, especially among workers with little education. Although all economies in the region have well developed and sophisticated financial sectors, access to credit throughout the region is lower than in most middle-income economies. Firms in South Africa appear to have adapted to this by relying on financing from parent companies, but this is less true in the other economies.

Namibia does differ from the other SACU economies in several ways. First, the gap between the SMLE and microenterprise sectors appears larger in Namibia than in either Botswana or Swaziland. Microenterprises in Namibia have very different concerns and face different barriers from SMLEs. Although the divide between microenterprises and SMLEs is not as sharp as in South Africa, this strongly suggests that the Government of Namibia needs to make greater effort to integrate these firms into the economy than governments of other countries in the region.

A first step in doing this would be to make it easier for firms, especially microenterprises, to register as limited liability companies and to make it easier to get licenses. Close to 20 percent of microenterprises said that business registration and licensing was a serious obstacle.

Although the computerization of the Registrar of Companies should reduce the time to register a business, more could be done to reduce this burden.

A second step might be to improve access to finance for microenterprises. Although the modern banking sector serves SMLEs relatively well—although not as well as the banking sectors of other middle income countries outside of SACU, it is serving microenterprises less well. It might, therefore, be useful to look at the experience in other countries in Sub-Saharan Africa and other regions with respect to microfinance.

Another area of concern is that worker skills and education appear to be a greater problem in Namibia than in other countries in the region. Namibian students score worse with respect to reading and writing than students not just in Botswana, Lesotho, South Africa and Swaziland, but also worse than students in several low income economies in the region. Manufacturing firms were more likely to say that worker skills and education were a problem than they were about any other area of the investment climate.

In the medium term, improving the average quality of education and reducing the variability in quality should also reduce the disparity between microenterprises and SMLEs in terms of challenges that they face and in terms of firm performance.

In addition to these areas of concern, it is important to remember that Namibian firms are competing against firms from countries with relatively good investment climates—including several in the region—and Namibia has to compete for foreign investment with these countries. It is therefore important that Namibia continues to perform well even in areas where its performance is in line with other middle income countries. This includes areas such as corporate taxation and corruption, where Namibia is comparable with other countries and areas like labor regulation where current proposals might reduce Namibia's attractiveness.

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¹ The issues in this section are discussed in more detail in Chapter 1 of Volume 2

² See International Monetary Fund (2006a; 2006c)

³ See International Monetary Fund (2006c)

⁴ See International Monetary Fund (2006b)

⁵ See International Monetary Fund (2006c)

⁶ Broader definitions that include discouraged workers yield estimates as high as 54 percent (International Monetary Fund, 2006c). Two recent World Bank studies, which are background papers for the Namibia *Country Economic Memorandum*, look at the unemployment issue in Namibia and ways of addressing it (Carneiro, 2007; Henley, 2006).

⁷ Carneiro (2007) notes that growth does not always translate into employment and the extent that it does varies from country-to-country. This paper argues that mismatches and imperfections in the Namibia labor market are behind many of these issues.

⁸ Results are from the Afrobarometer survey (Bratton and Cho, 2006; Keulder and Wiese, 2005)

⁹ See Regional Program on Enterprise Development (2005)

¹⁰ The issues in this section are discussed in more detail in Chapter 1 of Volume 2. A detailed description of the firm survey and sampling is given in an Appendix in Volume 2.

¹¹ See Appendix in Volume 2 for a discussion of the sampling methodology.

¹² The issues in this section are discussed in more detail in Chapter 2 of Volume 2 (productivity, exports, and unit labor costs) and Chapter 4 (wage levels).

¹³ Chapter 2 of Volume II describes the different measures and the statistical analysis underlying them and discusses the advantages and disadvantages of the measures.

¹⁴ The actual measure of labor productivity used in this report is value-added per worker. This is the amount of output that the firm produces less the cost of raw materials (such as iron or wood) and intermediate inputs (such as engine parts or textiles) used to produce the output divided by the number of workers.

¹⁵ Total factor productivity (TFP), which is calculated as a residual from a regression, takes into account both capital and labor use at the same time. Differences in TFP between groups of SMLEs (e.g., between SMLEs in different countries or between exporters and non-exporters) are due to differences in things other than capital, intermediate inputs, raw material, and labor. For example, differences in TFP might be due to differences in firm organization, differences in management efficiency, or differences in worker skills or education. To the extent that differences in technology are not embedded in the machinery and equipment that the firm uses, differences in total factor productivity can also reflect this.

¹⁶ For the entire cross-country sample, these correlations are mostly statistically significant. It is possible to reject the null hypothesis that the correlations are different in Namibia in only in a few cases. The econometric analysis is described in detail in the Econometric Annex to Chapter 2 in Volume II.

¹⁷ Chapter 2 of Volume II makes similar cross-country comparisons based upon the per worker cost of labor from the firms' financial records. For several reasons, these two approaches can sometimes give different results. One is that labor costs from the firms' financial statements include wages for non-production workers, managers, and professionals. In countries such as South Africa, where manager's wages are high relative to production workers (Regional Program on Enterprise Development, 2006), this might have a significant effect with respect to comparisons. Other things, including the ratio of production to non-production workers, ratios of skilled to unskilled production workers, differences in average (relative to median) education levels, differences in ratios of full-time and part-time workers, differences in ratios of permanent and temporary workers, and many other factors, can also

affect results. In practice, however, the results comparing wages for production workers and the results in Chapter 2 that used wage costs from the firm's financial statements are similar. In both cases, Namibia appears towards the upper end of the comparator countries with respect to wage costs compared to the comparator countries. Further, in both cases, wages costs are considerably higher than in the other SACU economies and China and far lower than in Chile or South Africa.

¹⁸ See Chapter 4 of Volume II for a more detailed discussion of these topics.

¹⁹ Carneiro (2007) also points out that unionization rates are relatively high in Namibia overall, according to the latest labor force survey, are about 30 percent in the manufacturing sector. Although this is lower than for the sample used in this survey, unionization rates are higher in urban areas and are probably lower in microenterprises (not included in this survey).

²⁰ See Econometric results in Chapter 4 of Volume II

²¹ See Psacharopoulos (1993; 1994)

²² See Clarke (2005)

²³ The issues in this section are discussed in far greater detail in Chapter 3 of Volume II.

²⁴ See Chapter 3 in Volume II for a full discussion of the problems associated with subjective measure of the investment climate.

²⁵ For example, over 90 percent of firms in Uganda reported that electricity was a problem (Regional Program on Enterprise Development, 2007c) and over 70 percent of firms in Kenya reported that corruption was a problem (Regional Program on Enterprise Development, 2004)

²⁶ Regional Program on Enterprise Development (2006).

²⁷ See Regional Program on Enterprise Development (2005; 2006). In contrast, microenterprise managers in Swaziland and Botswana perceive similar obstacles as their SMLE counterparts. See Regional Program on Enterprise Development (2007a; 2007b)

²⁸ See Regional Program on Enterprise Development (2005; 2006; 2007a; 2007b) and Clarke and others (2007). The econometric evidence for microenterprises in South Africa is discussed in greater detail in Clarke and Cull (2007).

²⁹ See Gelb et al (2006)

³⁰ The effect was more noticeable than in Swaziland, where most differences were statistically significant (Regional Program on Enterprise Development, 2007b) and more noticeable than in Botswana (Regional Program on Enterprise Development, 2007a).

³¹ Because the number of large (over 100 employees) and medium-sized (50-99 employees) firms is so small, for the purpose of these comparisons, large firms are defined to be firms in the 75th percentile or above. Small firms are defined as firms below the median size.

³² This section presents a summary of the results in Chapter 5 of Volume II.

³³ These indicators, which are discussed in greater detail in Chapter 5 of Volume II.

³⁴ Results are similar looking only at microenterprises in the manufacturing sector. Only 9 percent of microenterprises in this sector had any type of credit product in Namibia. This is fractionally lower than in Botswana (11 percent) and considerably lower than in Swaziland (19 percent). Comparable data are not available for microenterprises in South Africa

³⁵ Similar surveys have been conducted in Angola, Burundi, Democratic Republic of Congo, the Gambia, Guinea-Bissau, Guinea-Conakry, Mauritania, Rwanda, Tanzania, and Uganda.

³⁶ See Chapter 5 in Volume II for a full description of econometric results.

³⁷ See Chapter 6 in Volume 2 for more information

³⁸ According to the *2005 World Development Report*, SMLE managers ranked tax rates among the top five obstacles in all upper middle-income countries and in over 4 out of 5 countries in Sub-Saharan Africa where World Bank Enterprise Surveys had been completed at that time (World Bank, 2004).

³⁹ Foreign Investment Advisory Service (2006)

⁴⁰ Foreign Investment Advisory Service (2006)

⁴¹ The issues in this section are discussed in far greater detail in Chapter 6 of Volume II

⁴² The issues in this section are discussed in far greater detail in Chapter 4 of Volume II.

⁴³ Education data was not collected in the retail/services sectors

⁴⁴ See World Bank (2007a).

⁴⁵ See for example, Makuwa (2005), and World Bank (2007a)

⁴⁶ See Makuwa (2005)

⁴⁷ It is important to

⁴⁸ UNAIDS (2006)

⁴⁹ United States President's Emergency Plan for AIDS Relief (2007).

⁵⁰ The issues in this section are discussed in far greater detail in Chapter 6 of Volume II.

⁵¹ See Carneiro (2007)

⁵² See Carneiro (2007) for further discussion.