Private Sector Development Policy for Namibia

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Executive Summary

i. This Private Sector Development Policy represents a new approach on the part of the Namibian government. Until now, Government has pursued three parallel policies for enterprise development, one each for industrial development, trade and SMEs. These polices have had positive results but fewer than envisioned, in part because they have not been as integrated as they might have been. This new Private Sector Development (PSD) Policy resolves such problems by employing a single framework to guide all PSD-related initiatives.

ii. This Policy focuses mainly on improving the business environment to make it more supportive of private sector investment and growth. The objective is to stimulate investment and productivity gains among firms of all sizes, in large part by lowering the costs, risks and barriers to doing business to the minimum justified to protect the public. The approach to realize this objective involves fine-tuning the content and streamlining the implementation of business-related policies, laws and regulations to make them more business friendly.

iii. This Policy also focuses on delivering support to four groups of investors who are of particular importance to Namibia: exporters, foreign investors, microentrepreneurs, and small and medium enterprises (SMEs). As a small economy, integration with regional and global markets is of paramount importance, and exporters and foreign investors are the main actors to bring about that integration. Boosting their abilities to enter and compete in these markets is the objective here. Microentrepreneurs and owners of small and medium enterprises (SMEs) have been disadvantaged historically and are currently underserved by market institutions. The objective here is to increase their access to markets and to the economic resources they need to pursue those markets, mainly by leveling the legal/regulatory playing field so that those with modest means are not stymied by costly, unnecessary red tape and also by helping economic institutions extend their reach to include these underserved groups.

iv. How Government intervenes on behalf of these four groups matters a great deal. To the extent that interventions facilitate and accelerate markets to serve these groups, e.g., by furthering information flows, modernizing ICT infrastructure, liberalizing land markets, lowering legal and regulatory barriers to business entry, and extending the reach of economic institutions to underserved groups, these interventions will further growth of a robust, competitive economy going forward. But to the extent that they put in place additional policies that block or undermine market development, mainly through discretionary targeting of individual firms and inappropriate use of subsidies for groups of firms, they will slow economic growth going forward. An example of the former would be supporting banks to move into new, underserved and *bankable* markets; and example of the latter would be requiring banks to lend to new, underserved but *unbankable* markets.

v. The complexities of implementing PSD policies must be acknowledged. Adoption of a big picture, comprehensive policy imposes a certain degree of discipline in programming: maintaining consistency with the framework means that only those programs that fit the framework should be undertaken. Issues relevant to PSD are crosscutting and implementation of a PSD agenda necessarily calls for a high level of coordination across government offices that might not be accustomed to working together. Sequencing issues can arise when some initiatives need to be pursued in tandem or following one another to optimize end results. Measuring outcomes can be difficult in cases where outcomes result from multiple interrelated initiatives.

vi. <u>The Strategy Statement.</u> The Government of Namibia will foster economic growth and poverty reduction by encouraging more private investment and higher levels of firm-level

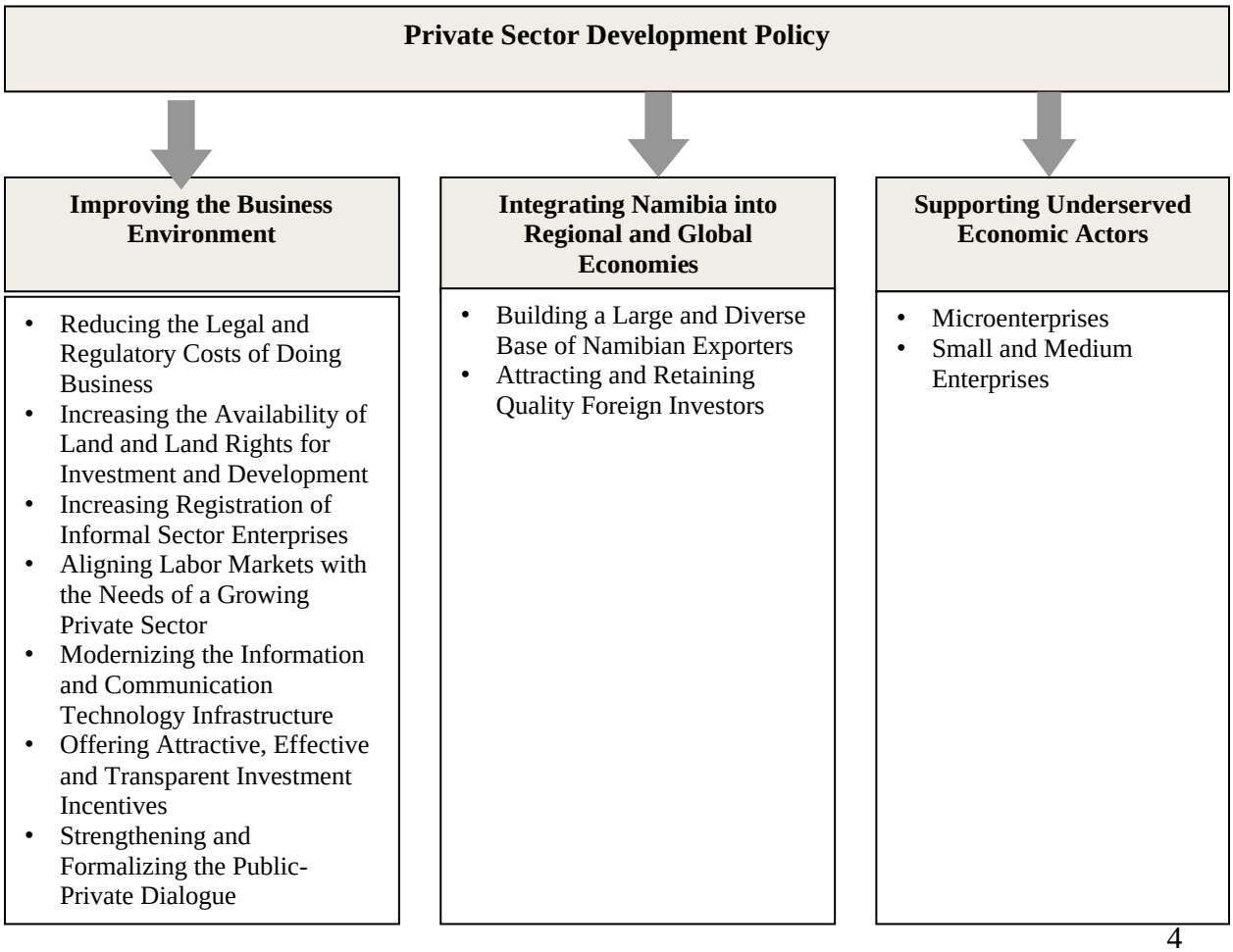
productivity and by increasing access to economic opportunity and economic resources among underserved groups. Strategies for achieving these goals include significantly improving the business environment, taking steps to integrate Namibia more fully into regional and global economies, and providing selective support to underserved economic actors.

vii. In addition to a series of core policies, this Policy also calls for a change in the current definition of SMEs to a new one that is more in keeping with international practices. The new definitions of SMEs will be based solely on full time employment as follows:

New Definition of Microenterprise and SMEs

Microenterprises:	0-5 employees
Small Enterprises:	6-30 employees
Medium Enterprises:	31-100 employees
Large Enterprises:	>100 employees

viii. As shown in the Diagram below, this Policy calls for concerted efforts in eleven core areas categorized into three thematic groups: improving the business and investment climate, integrating Namibia into the regional and global economies, and supporting underserved economic actors. Core policies for each area are summarized below and are presented in some detail in the text of this policy document.



ix. Core Policies.

Improving the investment and business climate:

1. The Government will build upon its considerable progress to date in creating an effective, low-cost legal and regulatory framework for doing business in Namibia by taking steps to reduce further business-related legal and regulatory costs and other barriers to investment that remain unjustifiably high and that undermine the competitiveness of Namibia, its businesses and its products.

2. The Government will place a high priority on making land and land rights available for development and investment within the framework of the law and on speeding up and stream-lining bureaucratic processes associated with granting property owners legal rights to their land.

3. To reduce the number of enterprises operating in the informal sector, the Government will encourage smaller enterprises to register as Sole Proprietors and larger ones as Close Corporations or as limited companies (Ptys). The core strategy will be to induce voluntary registration by lowering the costs and increasing the benefits of registration and by carrying out a public campaign to urge people to register. At some point, the Government might choose to enforce registration of those have failed to respond to voluntary incentives, particularly those enterprises that are inappropriately large for an informal sector.

4. The Government will take an active role in aligning the Namibian labor market with the needs of a growing private sector, including balancing the needs of employed labor with those of unemployed labor.

5. The Government will develop a competitive, modern and countrywide ICT infrastructure. Over time, the private sector will take the lead in building out and managing the infrastructure while the public sector will use its revenues to finance education in information technology, e-government, and other initiatives that drive consumer and business adoption of fixed line, wireless and Internet networks.

6. The Government will reform and streamline the current roster of investment incentives to optimize their effectiveness in stimulating domestic investment, attracting and retaining foreign direct investment, and supporting regional economic integration including the flow of investments, goods and services with neighboring countries.

7. The Government will strengthen and formalize the public-private dialogue to gather needed grassroots information and to solicit private sector views of Government actions for inclusion in the policy making process.

Integrating Namibia into regional and global economies:

8. The Government is committed to building a large and diverse base of Namibian exporters, particularly exporters of processed and manufactured goods, that will be able to take full advantage of trading opportunities both regionally and internationally. The Government strategy to do so will *simultaneously* pursue first-stage export growth that is based on value

addition to local resources and lay the groundwork for second- and third-stage export growth based on significant expansion of non-traditional and manufactured exports.

9. The Government will be proactive in attracting and retaining a significant number of those foreign investors that offer the most valuable benefits to Namibia, including transfers of technology and advanced skills, investments in diversified, high value-added manufacturing, and investments in strategic services like information and communications technology.

Supporting underserved economic actor:

10. The Government will help microenterprises increase their revenues as rapidly and sustainably as possible by increasing their access to appropriate financial services, better business premises, affordable telecommunications, and opportunities to cluster production to achieve greater economies of scale.

11. The Government will assist Namibian SMEs to become highly productive, competitive businesses that will make a considerable contribution to the economy of the future. Government assistance will focus on expanding markets for local SMEs and on facilitating access to critical resources, including finance, skills and knowledge, information and business premises.

I Overview

The Economy

1.01 The Namibian government laid out specific targets for economic growth and for more equitable distribution of growth in *Namibia Vision 2030*, including attainment of per capita income equivalent to upper income countries, a drop in the Gini coefficient from .69 to .30, an increase of the manufacturing and services sectors to 80 percent of GDP, an increase of processed exports to at least 70 percent of total exports with a corresponding decrease in raw material exports, and accumulation of a critical mass of knowledge workers in the economy.

1.02 Development of a robust, broad based private sector is the only means by which these targets can be achieved. The private firm has proven to be the most powerful engine of growth and of poverty reduction in the world. It is the private sector that will build manufacturing and services companies that will increase Namibian GDP, and it is the private sector that will train and employ the knowledge workers that will increase Namibia's competitive advantage.

1.03 In pursuit of private sector growth, Government has put in place one of the better legal/regulatory frameworks in Africa for domestic and foreign business, including sound legislation and a relatively efficient, low cost regulatory regime.[1] Over the course of the last decade, the government also has supported private sector growth through extensive support programs for small business and through packages of guarantees and incentives for foreign investors, exporters, and manufacturers.

1.04 Government has also taken an active role as both facilitator and partner of the Namibian private sector. Due to their history, too few Namibians have sufficient assets and business experience to build the robust, diversified private sector needed in Namibia. To compensate and accelerate growth in these early years, Government has therefore taken the initiative to finance some of the largest investments, support financial institutions' outreach into new, underserved markets, work directly with selected foreign investors, open channels to further regional trade, and underwrite development of business premises.[2]

1.05 The results to date can perhaps be most accurately described as positive but modest. With unemployment at a very high 35 percent, job creation is at the top of the government's list of priorities. As shown in the Table below, incomes continue to be extremely unequal in Namibia although the income gap has lessened considerably since independence. Similarly, poverty rates remain high, but they have dropped by more than a quarter over the past ten years. These are significant achievements.

[1] The Foreign Investment Act of 1990 guaranteed national treatment and offered generous incentives to foreign investors; the Industrial Policy of 1992 laid out plans to further develop Namibia's key resources; the Close Corporations Amendment Act created a corporate legal form for small business that is less complex than limited liability companies; and the Company's Act of 2004 lays out the criteria for public and private companies with and without share capital and for associations. At this time, a new Companies Act has been passed but is still being revised, and a new Closed Corporations is under review.

[2] The Government is now looking for more in the way of public/private partnerships, whether as private sector management contracts, leases, private provision of sites and services and so forth.

Poverty Reduction in Namibia

Poverty Indicators	1993	2004
Gini Coefficient	0.69	0.60
Percentage of Poor Households[3]	37.8%	27.9%
Percentage of Extremely Poor Households[4]	8.7%	3.9%
Unemployment		c.35%

[1]. Namibia Household Incomes and Expenditure Survey 1993/1994
[2.] Namibia Household Incomes and Expenditure Survey – Preliminary Report 2003/2004
[3].Households that spend 60% and more of their income on food
[4].Households that spend 80% and more of their income on food

1.06 Annual growth rates have been far higher than before independence, averaging a little over 4 percent per year in current prices since 2000, rising in some years to 6 percent or better and falling in others to around 3 percent. These are respectable growth rates but not high enough to fuel the leap in development sought by the Namibian government.[3]

1.07 People have registered businesses in reasonable numbers, but most new businesses are very small. There is no census of enterprises that would verify the number of enterprises in Namibia, but the Office of the Registrar reports that 31,910 enterprises have registered in that office since 2000, including 6,631 share companies (both private and public), 25,119 Close Corporations, and 160 foreign or foreign-affiliated companies.[4] Enterprise surveys have indicated that most Close Corporations enterprises are tiny with fewer than three employees, and little is known about private limited companies other than that their numbers are few.

1.08 The problem of over-dependence on exports of primary products with the accompanying vulnerability to world commodity prices and to climatic conditions is ongoing with only modest improvements. Over the past five years, the share of manufacturing in GDP increased slightly: in 2006, the primary sector contributed 20 percent of GDP, the secondary sector 17 percent (up from 15% in 2000), and the tertiary sector 55 percent (in current prices).[5] More encouraging, the share of manufactured goods to total goods exports increased from roughly 25 percent in 2000 to 33 percent in 2005 (in current prices).

1.09 Total exports have grown, and shares of non-traditional exports and of manufactured exports in total exports have increased, if slowly. Between 2000 and 2005, exports grew by 9.4 percent on average: services exports by 8.1 percent and goods exports by 9.6 percent (in current

[3] Figures in this Section come from the "National Accounts for the Republic Of Namibia 2005", Central Bureau of Statistics and the National Planning Commission 2006 and from " National Accounts 1995-2005", Sept 2006.
[4] This report also shows that a total of 2,591 Internal and External Corporations and Close Corporations have de-registered since 1995, reducing the total number of registered enterprises to 29,319. There is no reliable way of knowing the percentage of registered firms that are actually operating. Informal estimates are that no more than half of firms that have registered are still operating.
[5] Mining and commercial agriculture account for the bulk of output in the primary sector. The secondary sector, (manufacturing) comprises mainly food and beverages (47%), other manufactured goods (35%), processed fish (13%) and meat (5%). The tertiary sector (services) is mainly government services (35% of total services and 20% of GDP), followed by wholesale and retail trade (19%), real estate and business services (17%), and transport and communications (14%).

prices). The top five export products (precious stones, fish, meat and meat products, food and beverages and live animals) dropped from 57 percent of total exports in 2000 to 51 percent in 2005 (in current prices). Of the 98 different products that Namibia exported in 2005, 40 had average annual growth rates of 20 percent or better between 2000 and 2005. And roughly half of these 40 fast-growers exported products that were processed or manufactured to some degree. While still too small to appear in aggregate statistics, some of these 20 fledgling exporters might be the first shoots of the more diversified, higher value added export base that Namibia needs.

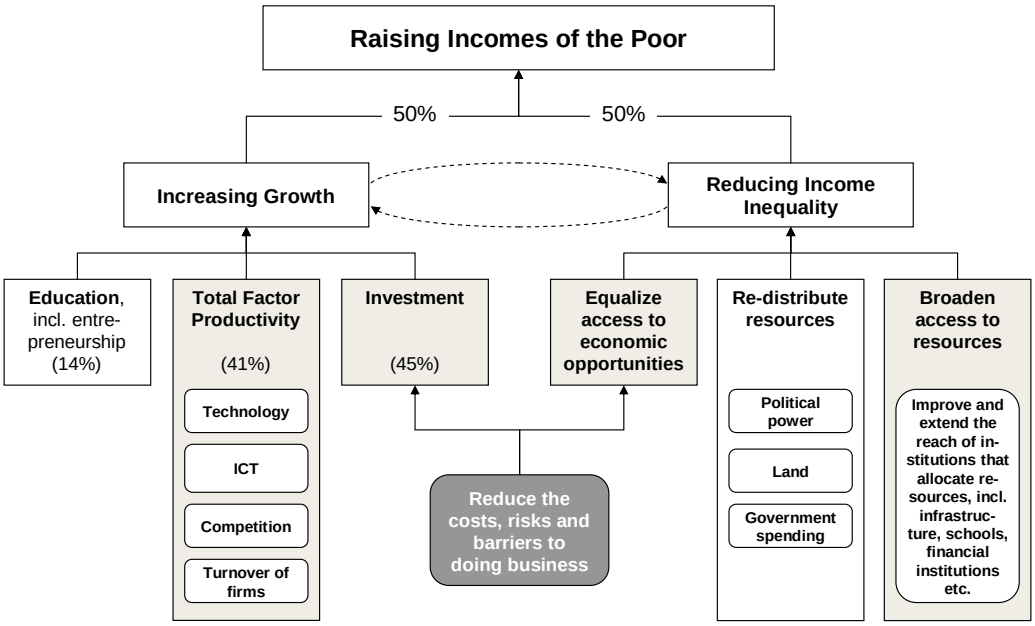
1.10 Foreign investment remains highly concentrated in primary industries of mining and fishing and in tourism, with relatively little presence in other manufacturing and services concerns. Concentration in these few areas would suggest that, for the most part, Namibia has benefited minimally from the valuable technology and know how transfers that can accompany foreign investment.

The Role of Private Sector Development in Economic Development

1.11 A new Private Sector Development (PSD) Policy in Namibia should take into account current knowledge about the role of PSD in accelerating growth rates and reducing poverty. Those who have studied the evidence on how to reduce poverty and increase incomes have found that, on average, about half of poverty reduction comes simply from growth (a rising tide raises all boats) and the other half comes from the national distribution of incomes (how the benefits of growth are distributed).

1.12 These findings illuminate clearly the two most effective paths to poverty reduction: increase rates of economic growth and decrease income disparities. As shown in the Diagram below, *economic growth* comes from three main sources: investment of capital, improvements in productivity, and investments in education.[6] *Greater income equality* comes from: increasing access to economic opportunities among underserved groups, re-distributing resources from those with excesses to those with deficits, and extending the reach of institutions that ration economic resources to include the underserved.[7] Levelling the legal/regulatory playing field is a particularly powerful intervention as lowering business-related regulatory costs, risks, and barriers supports both sides of the equation, i.e., it both spurs investment and opens access to economic opportunities.

[6] The World Development Report 2005:.A Better Investment Climate for Everyone, The World Bank Group (2005)
[7] World Development Report 2006: Equity and Development. The World Bank Group (2006)



Sources: **World Development Report 2005: A Better Investment Climate For Everyone, The Worldbank Group (2005)**
World Development Report 2006: Equity and Development, The Worldbank Group (2006)

1.13 In addition to these fairly linear relationships, there is a powerful interaction between growth and income distribution: where incomes are highly equitable, increases in growth are well distributed and poverty rates fall proportionally faster. But where incomes are highly unequal, the benefits of growth do not filter down as well to the poor and poverty rates can be left little changed by positive growth rates. This means that countries like Namibia, where income inequality is significant, cannot count on high growth rates to reduce poverty. They must also work to reduce income inequality so that the effects of growth impact all economic segments and thereby reduce poverty.[8] The conclusion must be that poverty reduction comes about when growth rates consistently inch up at the same time that income inequality inches down—and in fact, the significant reduction in poverty rates in Namibia over the past decade supports this conclusion in that this reduction has taken place in the context of both relatively strong growth rates and respectable reductions in income inequality as measured by the Gini coefficient.

1.14 *Looking at how to increase growth rates,* we see that growth comes from three main sources: increasing the volume of investment (accounting for 45% of growth), increasing total factor productivity of enterprises (41%), and raising education levels (14%). Domestic (and foreign) investment increases when opportunities to earn profits are strong and when the costs and risks of doing business are reasonable. Investment clearly boosts growth rates, but the contribution of investment to growth declines over time because the marginal returns to additional capital eventually decline, i.e., the growth that results from simply adding more capital slows at some point.

1.15 Increases in productivity explain much of the dramatic acceleration in income levels among the fastest growing countries over the last 200 years. Productivity increases not only through adoption and innovations related to technology but also through smaller advances, including new and better ways to organize production processes, interact with consumers, and

[8] And the inverse of this equation is also true: as became evident in the former communist nations, levelling incomes without growth will also do little to reduce poverty.

distribute goods. The advantage of improvements in productivity is that they are not subject to diminishing marginal returns but can continue to fuel growth over time. Another modern advantage is the readiness with which new technologies can be imported and adapted. So while it took first-comer industrial nations 40-60 years to double their incomes in real terms, others have done so much faster—Costa Rica in 19 years, Jordan in 15 years and China in 10 years.

1.16 Productivity increases also come from domestic marketplaces that force firms to develop better ways of doing business by confronting them with competition. Marketplaces with high rates of firm entry and exit have high levels of productivity: firms that leave markets are the least productive ones and economies reap more than 20 percent of their productivity gains simply from the departure of weak firms, and then additional gains from the higher productivity of new entrants. In addition, use of modern information and communications technology (ICT) has recently spurred strong gains in productivity the world round.

1.17 *Looking at the income distribution side of the equation*, we see that incomes become more equitable when economic opportunity is extended to underserved groups—whether by reducing the costs and risks of entry/operations so that they can better afford to undertake business activities or by increasing their access to resources that they can use to start up business activities. Reducing the costs and risks of entry is mainly a matter of lowering and leveling legal/regulatory obstacles to doing business. Increasing access to resources typically involves helping key institutions that allocate economic resources (infrastructure, government offices, schools, financial institutions) extend their reach to provide services to under-served populations. Poverty rates also come from judicious re-distribution of political and economic resources from the wealthy to the poor, always a delicate balance between justice and economic efficiency.

This Private Sector Development Policy

1.18 This Private Sector Development Policy represents a new approach on the part of the Namibian government. Until now, Government has pursued three parallel policies for enterprise development, one each for industrial development, trade and SMEs. These polices have had positive results but fewer than envisioned, in part because they have not been as integrated as they might have been. This new Private Sector Development (PSD) Policy resolves such problems by employing a single framework to guide all PSD-related initiatives.

1.19 A PSD Policy focuses mainly on improving the business environment so that it is highly supportive of private sector investment and growth. The objective is to stimulate investment and productivity gains among firms of all sizes, in large part by lowering the costs, risks and barriers to doing business to the minimum justified to protect the public. In pursuit of this objective, PSD Policies typically call for reforms of business-related policies, laws and regulations to make them more business friendly.

1.20 PSD Policies also can focus attention on particular groups of economic actors that are of special importance in a given economy. In some cases, targeted groups are disadvantaged and the objective is to increase their access to economic opportunity and to economic resources, often by leveling the legal/regulatory playing field so that those with modest means are not stymied by costly, unnecessary red tape and also by helping economic institutions extend their reach to include underserved groups. In other cases, economic groups are targeted with special assistance because of their great importance to a given economy and their needs for an additional boost.

1.21 This PSD Policy adopts these objectives and in pursuit of them, it focuses primarily on making improvements in the business environment and secondarily on supporting selected groups

of entrepreneurs. Exporters and foreign investors are singled out for targeted attention by this Policy: both are critically important to Namibia's economy and both face rather significant challenges. In addition, this Policy also focuses on the needs of microenterprises and small and medium enterprises (SMEs), both very important to Namibia's future and both notably underserved by market institutions.

1.22 The complexities of implementing PSD policies must be acknowledged. Adoption of a big picture, comprehensive policy imposes a certain degree of discipline in programming: maintaining consistency with the framework means that only those programs that fit the framework should be undertaken. Issues relevant to PSD are crosscutting and implementation of a PSD agenda necessarily calls for a high level of coordination across government offices that might not be accustomed to working together.[9] Sequencing issues can arise when some initiatives need to be pursued in tandem or following one another to optimize end results. Measuring outcomes can be difficult in cases where outcomes result from multiple interrelated initiatives.

1.23 The Strategy Statement. The Government of Namibia will foster economic growth and poverty reduction by encouraging more private investment and higher levels of firm-level productivity and by increasing access to economic opportunity and economic resources among underserved groups. The strategy for achieving these goals will include a primary focus on improving the business environment, targeted initiatives to integrate Namibia more fully into the regional and global economy, and dedicated support to underserved economic actors.

1.24 In addition to a series of core policies, this Policy also calls for a change in the current definition of SMEs to a new one that is more in keeping with international practices. The new definitions of SMEs will be based solely on full time employment as follows:[10]

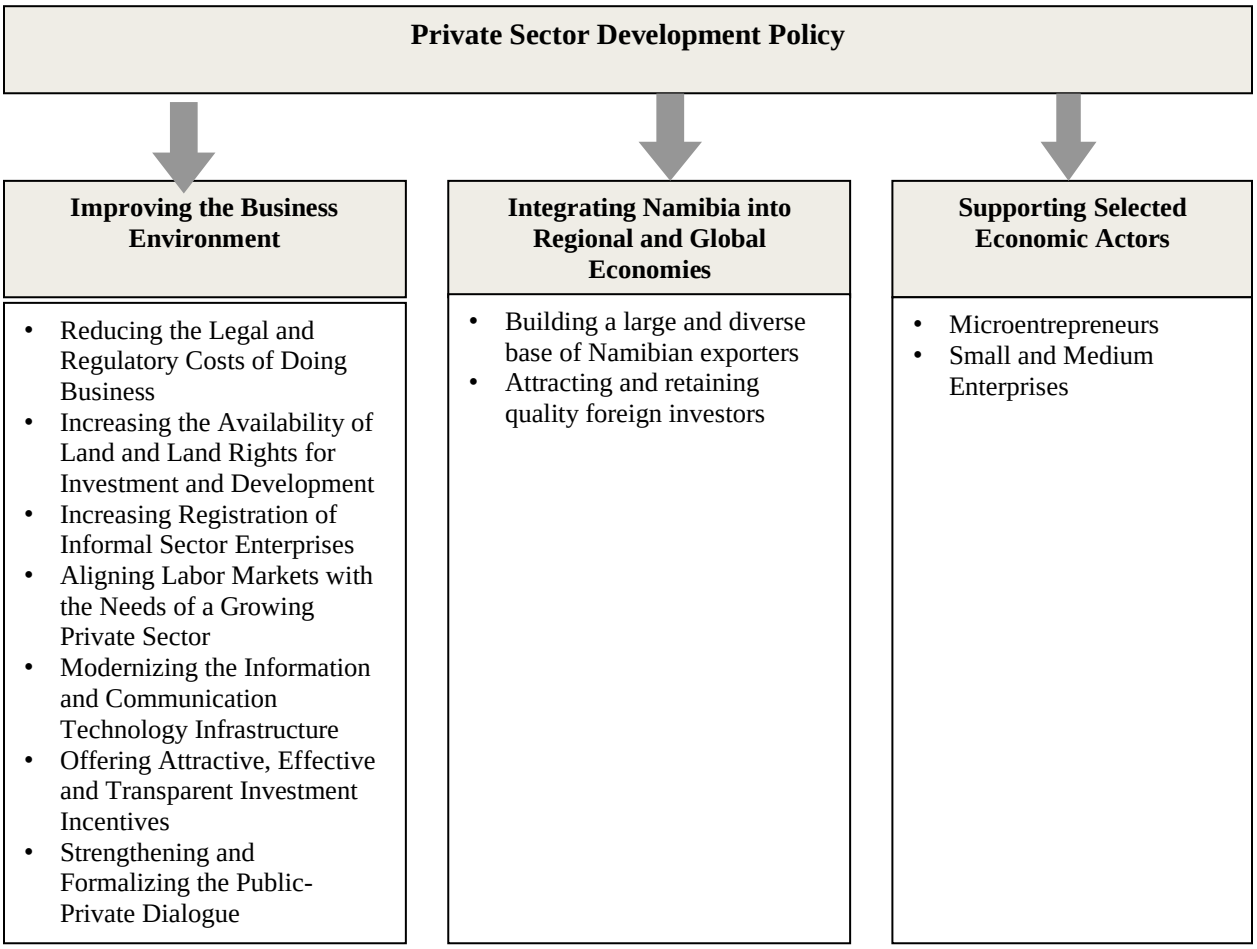
New Definition of Microenterprise and SMEs

Microenterprises:	0-5 employees
Small Enterprises:	6-30 employees
Medium Enterprises:	31-100 employees
Large Enterprises:	>100 employees

1.25 As shown in the diagram below, this Policy calls for concerted efforts in eleven core areas categorized into three thematic groups: improving the business and investment climate, integrating Namibia into the regional and global economies, and supporting underserved economic actors. Core policies for each area are summarized below and are presented in some detail in the text of this policy document.

[9] Because on the cross-cutting nature of a PSD policy, it would seem appropriate that an inter-ministerial committee like the Committee of Trade and the Economy of the Cabinet would need to assume some responsibility for structuring and overseeing implementation of this Policy.

[10] Countries around the world have struggled to devise appropriate, workable definitions of SMEs, and most have come to one comparable to this one. Some have included turnover as a defining characteristic, but there have been chronic problems with verifying data on turnover. Others have added separate definitions for services but this has proved cumbersome and unnecessary in most cases.



1.26 **Core Policies**.

Improving the investment and business climate:

1. The Government will build upon its considerable progress to date in creating an effective, low-cost legal and regulatory framework for doing business in Namibia by taking steps to reduce further business-related legal and regulatory costs and other investment barriers that remain unjustifiably high and that undermine the competitiveness of Namibian businesses and products.

2. The Government will place a high priority on making land and land rights available for development and investment within the framework of the law and on speeding up and stream-lining bureaucratic processes associated with granting property owners legal rights to their land.

3. To reduce the number of enterprises operating in the informal sector, the Government will encourage smaller enterprises to register as Sole Proprietors and larger ones as Close Corporations or as limited companies (Ptys). The core strategy will be to induce voluntary registration by lowering the costs and increasing the benefits of registration and by carrying out a public campaign to urge people to register.

4. The Government will take an active role in aligning the labor market with the needs of a growing private sector, including balancing needs of employed labor with unemployed labor.

5. The Government will develop a competitive, modern and countrywide ICT infrastructure. Over time, the private sector will take the lead in building out and managing the infrastructure while the public sector will use its revenues to finance education in information technology, e-government, and other initiatives that drive consumer and business adoption of fixed line, wireless and Internet networks.

6. The Government will reform and streamline the current roster of investment incentives to optimize their effectiveness in stimulating domestic investment, attracting and retaining foreign direct investment, and supporting regional economic integration including the flow of investments, goods and services with neighboring countries.

7. The Government will strengthen and formalize the public-private dialogue to gather needed grassroots information and to solicit private sector views of Government actions for inclusion in the policy making process.

Integrating Namibia into regional and global economies:

8. The Government is committed to building a large and diverse base of Namibian exporters, particularly exporters of processed and manufactured goods, that will be able to take full advantage of trading opportunities both regionally and internationally.

9. The Government will be proactive in attracting and retaining a significant number of those foreign investors that offer the most valuable benefits to Namibia, including transfers of technology and advanced skills, investments in diversified, high value-added manufacturing, and investments in strategic services like information and communications technology.

Supporting underserved economic actors:

10. The Government will help microenterprises increase their revenues as rapidly and sustainably as possible by increasing their access to appropriate financial services, better business premises, affordable telecommunications, and opportunities to cluster production to achieve greater economies of scale.

11. The Government will assist Namibian SMEs to become highly productive, competitive businesses that will make a considerable contribution to the economy of the future. Government assistance will focus on expanding markets for local SMEs and on facilitating access to critical resources, including finance, skills and knowledge, information and business premises.

1.27 Section II is devoted to priority issues in the business environment that affect virtually all private sector enterprises (domestic and foreign). Section III focuses on policies/initiatives to better integrate Namibia into regional and global economies, including policies for exporters and foreign investors, and Section IV outlines interventions on behalf of two, underserved economic actors: microenterprises and SMEs.[11]

[11] There are no special provisions for government support for non-exporting large firms in this Policy under the assumption that these relatively few, well connected firms will benefit greatly from an improved business environment and do not need additional boosts from the government. Market institutions usually function best for large firms.

II. Improving the Business and Investment Climate

2.01 The 2005 World Development Report, A Better Investment Climate for Everyone, defines the investment climate as "the location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand." It goes on to define good business environments as those that reduce:

- Unjustified costs that accrue to firms mainly as a result of weak contract enforcement, inadequate infrastructure, crime, corruption and over-regulation;
- Risks beyond normal business risks incurred by firms as a result of policy uncertainty, macroeconomic instability, insecure property rights, and arbitrary regulation; and
- Barriers to competition that benefit some firms but block entry/opportunity and increase costs for other firms.

2.02 This Section proposes policy initiatives in seven areas that are central to improving the investment climate in Namibia: (i) reducing the legal and regulatory costs of doing business; (ii) increasing the availability of land and land rights for investment and development; (iii) increasing registration of informal sector enterprises; (iv) aligning labor market development with the needs of a growing private sector; (v) modernizing the information and communications technology (ICT) infrastructure; (vi) offering attractive, effective and transparent investment incentives; and (vii) strengthening and formalizing relationships between government and the private sector.

A. Reducing the Legal and Regulatory Costs of Doing Business

2.03 Context. The fact that the Doing Business Report 2007 ranks Namibia as 42nd among 175 countries in overall ease of doing business reflects the Namibian government's success in establishing a fairly good legal/regulatory business framework. In Sub-Sahara Africa, only South Africa (at 29th) and Mauritius (at 32rd) rank higher than Namibia in this Report's latest assessment (with Botswana at 48th).

Doing Business 2007 Report: Rankings for Namibia

Ease of...	2006 rank	2005 rank	Change in rank
Doing Business Overall	**42**	**39**	**-3**
Starting a Business	**86**	83	-3
Dealing with Licenses	19	20	+1
Employing Workers	44	42	-2
Registering Property	**127**	124	-3
Getting Credit	33	33	0
Protecting Investors	60	58	-2
Paying Taxes	28	29	+1
Trading Across Borders	**144**	136	-8
Enforcing Contracts	64	62	-2
Closing a Business	42	41	-1

Doing Business 2007: How to Reform The World Bank Group 2006
(175 countries: 1 is strongest and 175 is weakest)

2.04 The Table above tells us that an entrepreneur in Namibia likely will not have to spend an exorbitant amount of time or money to get business licenses, pay taxes, get a loan, close a business or enforce a contract. But this entrepreneur will have great difficulties trading across borders and registering property, mainly with excessive documentation, high costs and long waiting periods. In addition, it would have taken a good many steps and days to register the business.

2.05 The recent *Namibia Investor Roadmap* corroborates the finding of the *Doing Business* team that much is right about the legal/regulatory framework for business and that more needs to be done.[12] This analysis recommends a reduction in red tape associated with registering businesses, with importing and exporting, and with obtaining foreign work visas;[13] new legislation for Close Corporations and foreign investment; a review of investment incentives; a reduction in barriers to firing employees in cases of proven gross misconduct; and improvements in tax administration.

2.06 One source of excessive red tape in the business environment in Namibia is weak coordination across Government ministries. It is not uncommon to find duplication and overlapping mandates across ministries that serve to make regulatory compliance more complex than it need be. Creation of some sort of inter-ministerial group that could take investment decisions on behalf of multiple ministries could reduce the regulatory burden on investors.[14]

2.07 Rationale for Support. The business legal and regulatory framework exacts a good share of the costs and risks an entrepreneur must bear beyond those inherent in the business. As shown in the conceptual framework above, such costs and risks are fundamental determinants of the decision to invest among those with capital and of the ability of marginalized entrepreneurs to undertake economic activity. Where regulatory cost or risk burdens are too high, the potential for profitability/competitiveness is undermined and investments fail to materialize. Those with little capital simply cannot afford to play. Keeping the costs and risks of regulatory compliance to the minimum needed to protect public interest is therefore key to stimulating investment and opening access to economic opportunity for marginalized players.

2.08 Core Policy. The Government will build upon its considerable progress to date in creating an effective, low-cost legal and regulatory framework for doing business in Namibia by taking steps to reduce further business-related legal and regulatory costs and other barriers to investment that remain unjustifiably high and that undermine the competitiveness of Namibia, its businesses and its products.

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[12] *The Namibia Investor Roadmap* by Donaldo Har, Sutherland Miller, and Theo Lyimo, the Regional Center for Southern Africa, USAID. August 2005

[13] There have been chronic problems with obtaining business visas and foreign work visas in Namibia. The Ministry of Home Affairs has recently computerized their records, which should increase efficiency, and it is in the process of greatly reducing the number of countries that are subject to business visa requirements. Securing foreign work permits and permit renewals remains a very unsure, slow process—one that reportedly can be an important deterrent to foreign investors.

[14] MTI has recently proposed creation of a single agency that would take responsibility for promotion of domestic and foreign investment as well as for management of the EPZ program and the ODC that administers that program. This proposal is under consideration with outstanding questions as to whether such an agency should sit outside the Ministry as a parastatal and how it might be structured to be assume responsibilities that currently cut across ministries.

2.09 Key Actions.

1. The Government will review the existing legal, regulatory and policy framework affecting business with the objective of removing or reforming those that impose unjustified time and cost associated with compliance.

2. The Government will put in place any new laws, regulations and policies required to facilitate and promote business start up and growth.

3. The Government will build capacity in its local, national and international offices to ensure efficient implementation of regulations, policies and laws affecting business.

B. Making Land and Land Rights Available for Investment and Development

2.10 Context. Lack of secure and transferable property rights is problematic for many Namibians, especially for rural residents, both private individuals and potential investors.[15] Land problems in Namibia are mostly historical: land is either customary (just under half of total land, government-owned, locally administered communal land where rights to utilize land are granted by traditional authorities) or commercial land (just under half, owned by individuals and government) or set-aside, state land (15% of total land, parks, diamonds etc). Because more than half of the land in Namibia is owned by central or local government, core issues arise about security of access and the tradability of this property, most of which is utilized by private individuals either by permission of local authorities or within leaseholds with the government. Most of this land is without secure property rights and is non-tradable, and thus unavailable for development or investment—particularly important to the high value added tourism industry and to the fledgling high value add horticulture industry, both of which depend on secure access to rural land.

2.11 The Government has taken several initiatives to try and broaden access to land rights to include more citizens.[16] In communal areas, the Communal Land Act of 2002 established Land Boards that are charged with giving formal approval to local authorities' land allocation decisions, thus ensuring that they are made according to criteria contained in the Act. And the Government is finding avenues by which leaseholds can be awarded to people with communal land, a right that eventually could be collateralized at banks. This process has been implemented only slowly: since the beginning of 2003, 1,061 customary rights and 690 leaseholds have been approved, 408 of which are in Caprivi. The process of granting leaseholds in communal areas takes three months on average to work through traditional authorities, land boards, and the ministry. There is a large scale, long-term effort underway to record customary land rights, an important first step to establishing property rights.

[15] The most difficult problems with land concern rural land, but the municipalities also have their problems. Windhoek itself reportedly has about 80,000 squatters, and efforts are underway to resolve the issues associated with illegal use of municipal land.

[16] Estimates are that roughly 5 million of the total 35 million hectares have been re-distributed since independence, over 3 million in private-to-private sales of commercial land. This has reached the target figure contained in NDP2, but is significantly short of the 2007 target of 9 million hectares and the 2020 target of 15 million hectares. There is also a national target of redistributing 10 million hectares of land through the Resettlement and AA LS programs by 2010.

2.12 In commercial areas, the Government has taken several initiatives to redistribute land from the small minority that own the majority (4,000-5,000 farmers own about 80% of commercial land) to those without land.[17] The Agricultural Commercial Land Act of 1996 established that the Government would have the right of first refusal for all commercial agricultural land sales. Making use of this right, the Government has purchased and distributed 900,000 hectare of land, typically purchasing a large piece of land, subdividing it in to 4-6 smaller pieces and providing basic servicing such as roads and bore holes. Between 1,000 and 1,500 low income people have been resettled on these plots of land, but many have left to seek employment. The success of this program is unclear. A second program, the Affirmative Action Loan Scheme, provides subsidized loans to previously disadvantaged Namibians for use in purchasing land. Most of these sales are private-to-private sales where the Government has not exercised its right of first refusal.

2.13 The problems associated with increasing people's access to land rights are well understood in Namibia, and many in government recognize the importance of finding solutions.[18] Investment in Namibia will continue to focus narrowly on the proclaimed areas where property rights are secure until land rights in other areas are clarified, and long waits of six months or more to access land for investment will continue to discourage investors. Establishing ownership rights in communal and resettled areas will not come quickly, but issuance of larger numbers of leaseholds and expanding the provisions of leaseholds such that they become tradable and can be used as collateral will be keys to making more land available for investment—and to spurring greater investment. Larger numbers of leaseholds would also offer low-income residents a potential avenue by which they could unlock the value of their largest assets.

2.14 Success in speeding up the process of providing more people with land rights likely will depend in part on success in streamlining and speeding up implementation of associated regulations and bureaucratic procedures. A first step might be a careful mapping of the time and cost associated with obtaining the several different kinds of land rights discussed above to pinpoint bottlenecks that need clearing. A second step could involve significant streamlining of regulatory requirements and clear steps to speed up implementation. A third step would involve increasing the supply and efficiency of service providers like land surveyors who are key players in moving applications along.

2.15 Rationale for Support. Land is usually a major asset for those who own it. An inability to develop, mortgage or sell this major asset robs it of much of its value and stifles enterprise growth. Investors will not make significant capital investments on land to which they do not have secure access, and nor can low income people access the value of their primary asset, whether they want to develop, mortgage or sell it. As Hernando de Soto would call it, land without property rights is "dead capital", its monetary value unavailable to owners or investors. Bringing such land into the marketplace is key to spurring investment and getting capital into the hands of low-income citizens, particularly those in rural areas.

2.16 Core Policy. The Government will place a high priority on making land and land rights available for purposes of development and investment within the framework of the law and on

[17] The Ministry of Land and Resettlement reports that there are about 12,000 pieces of land that are taxed as farms. Of these 4,000 are in Rehoboth and these are subdivided into small plots and another 3,000 are also small farms, leaving a total of about 5,000 good-sized farms, 399 of which are owned by foreigners (although some foreign farms are hidden as Close Corporations). There is a highly regulated process with many steps by which foreigners can lease or purchase freehold commercial land in rural areas. The Government preference is to maintain restrictions on foreign access to rural land in order to meet demand among Namibians for rural land.

[18] Government has the additional problem of finding efficient means of servicing the relatively large amounts of land that it now owns.

speeding up and streamlining bureaucratic processes associated with granting property owners legal rights to their land.

2.17 Key Actions.

1. The Government will enact or reform laws that provide for secure and transferable land rights within the whole country to stimulate investment and development, i.e., clarify and expand ownership rights of land.

2. The Government will reform policies on accessing land for investment and development without compromising laws on land ownership, i.e., clarify and expand leasing rights of land.

3. The Government will build capacity within regional and local authorities to handle land issues effectively, including capacity to plan, service, allocate, title, zone and price services.

4. The Government will streamline and reduce requirements of titling and transferring ownership of land to the minimum needed to protect buyers and sellers.

C. Increasing Registration of Informal Sector Enterprises

2.18 Context. Informal enterprises, for the purposes of this Policy, are those business activities whose output and employment are not registered with government authorities.[19] These enterprises account for a large share of economic activity and of employment in Namibia, with estimates of share of GDP and employment of about 12 percent and 20 percent, respectively.[20]

2.19 Namibia's informal sector houses large numbers of self-employed, low income people who are engaged in very marginal economic activities like petty trading, selling agricultural surpluses and the like, and these individuals may not be good candidates for registration. Those that are somewhat larger and more stable, particularly small family businesses, would seem to be good candidates for registration as sole proprietors, for some a good introduction to business formality. Those small and medium sized enterprises that are hiding in the informal sector for the additional profit it affords could and should register in the appropriate corporate form, whether as closed corporations or as limited companies. The mixed nature of the Namibian informal sector means that it will be important that incentives are such that the latter group is strongly encouraged to formalize while the former group is not subjected to an increased regulatory burden.

2.20 Registering a sole proprietorship in Namibia appears to be a relatively simple, local procedure, but registering a company has been a cumbersome, time-consuming process. The World Bank's 2006 Doing Business Report reports that, on average, it takes ten steps and 95 days to register a business in Namibia.[21] While lower than in some other countries, the direct cost of

[19] When people talk about the informal sector, they normally are referring to self-employed people and very tiny enterprises that are not registered, but it is important to remember that informal sector activities also includes off the books activities in large and government-owned enterprises.
[20] These figures refer to the contribution of small businesses, most (but not all) of which are in informal sectors.
[21] The cost of registering a business are normally measured as the cost of registering at the national level, but regional and local governments can also exact high costs from formal enterprises by requiring compliance with a second set of parallel, local regulations that might or might not be in harmony with national regulations and that might be unjustifiably restrictive (some local regulations in Namibia date back to 1954). To get an accurate measure of

business registration could be lower yet.[22] The Office of the Registrar has recently completed computerization of its company registry and of the registration process, and this should speed up the process considerably—as well as encourage entrepreneurs to become more familiar with using the Internet in their businesses as much of the new process is online. Once initial bugs are out of the system, it will be important to monitor improvements in customer service and in time and financial costs to businesses.

2.21 The benefits of formalization are not always clear in Namibia, in part because they are still materializing and in part, because those benefits that are available to local enterprises are not reserved for registered businesses but are also available to informal firms, e.g., access to bank finance, government contracts, subsidized business sites, technical assistance and so forth. While laudable in its spirit of inclusiveness, this approach deprives government of a major tool by which it can encourage businesses to register.

2.22 Rationale for Support. Informal sectors provide critical incomes for poor people all over the world, but there is broad consensus among development economists that a large and growing informal sector is bad for economic growth and for social equity. Studies show that, on average, informal sectors cost developing counties some 1-2 percent of annual GDP growth, and that large informal sectors tend to reinforce parallel rather than integrated economies. Some of the mechanisms behind these outcomes are as follows.

- Economies forego growth because informal business is estimated to be 2-3 times less productive than formal business, largely because of lack of access to bank finance, contracts with larger firms, and relevant government services. Lower productivity leads to reduced output, revenues, and job creation.
- Large numbers of informal sector enterprises (particularly the larger ones) not only cost the government in foregone tax revenues, but they also slow the growth of more productive formal sector firms that pay the costs of legal and regulatory compliance only to lose sales to informal sector competitors that skirt such costs. This also has the perverse effect of encouraging more informality because as the tax burden rises on small numbers of formal firms, more of them will move into informal operations to avoid this burden.
- Large numbers of workers in the informal sector are almost entirely unprotected by minimum income, social and safety regulations with little access to training of any kind that would raise their productivity—often a perverse effect of labor regulations that are intended to protect labor but, in doing so, end up so stringent or overly generous that they function to reduce formal employment because compliance is too costly.
- Very large informal sectors can threaten the foundations of democracies as they indicate that critical masses of citizens are failing to participate in the gains of the mainstream economy and risk social and political marginalization.

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registration costs of both sole proprietorships and the two corporate forms, local costs would have to be figured and added into the calculus.

[22] A recent review of the regulatory, administrative and procedural requirements to register a close corporation and a limited company, "The Namibia Investor Roadmap", reports that the cost to register a close corporation is N$175 if done oneself and N$1,200 if an attorney completes the paperwork and filing, and the time for approval varies from 14 days to three months. As regards registering a limited liability company, a "Pty", the total cost averages N$3,500 and assumes that an attorney does the paperwork, and the whole procedure takes at least three months. Estimates of total registration costs of a Pty given in interviews with this author in the northern region were twice as high at N$7000, perhaps reflecting repeated transportation costs.

2.23 The main reason why informal sectors grow so large is a simple and obvious one: informal operators have concluded that the cost of becoming formal outweighs the benefits of being formal and that non-compliance with regulations concerning formality is not so costly. The initial cost of registering their businesses combined with the subsequent cost of complying with regulations once registered (including excessively high/complicated taxes, official and unofficial fees for approvals/licenses, costly trade/border requirements, rigid labor regulations, and time/hassles to keep and file numerous returns) is simply greater than the benefits they will receive as a registered company. And if registered, they have to compete with their former compatriots who remain cost-advantaged in the informal sector. In many countries, the benefits of registration are few and far between with a dearth of contracts available from large firms and government, little incremental access to credit, few truly valuable assistance programs, and ineffective protection of property and contractual rights.

2.24 Governments' strategies to reduce the size of their informal sectors are simply the corollaries of the above: they must decrease the cost and increase the benefits of being formal. On the cost side (money out of pocket, time, and hassle), this means stripping out all regulatory requirements of registered firms that do not have clear justification and reducing formal and informal costs associated with those regulations that stand to the extent feasible. The benefits available to registered companies must be truly valuable ones, such as access to high quality, efficient government services that are reserved for registered enterprises, the ability to gain better access to bank finance, eligibility to bid for government contracts, and opportunities to link up with larger firms.

2.25 Core Policy. To reduce the number of enterprises operating in the informal sector, the Government will encourage smaller enterprises to register as Sole Proprietors and larger ones as Close Corporations or as limited companies (Ptys). The core strategy will be to induce voluntary registration by lowering the costs and increasing the benefits of registration and by carrying out a public campaign to urge people to register. At some point, the Government might choose to enforce registration of those have failed to respond to voluntary incentives, particularly those enterprises that are inappropriately large for an informal sector.

2.26 Key Actions.

1. The Government will review the process of registering and operating Sole Proprietorships with an eye to reducing any and all unjustified costs and red tape at national and local levels. The Government will reduce the time, steps, and paperwork required to register a Close Corporation and a Limited Liability Company (a Pty.) to the minimum justified to make the registration process as fast and convenient as possible for all.

3. To induce registration, the Government will launch a national campaign to encourage enterprises to register, either as Sole Proprietors or as Close Corporations or limited companies (Ptys). This campaign would include publication of a user-friendly registration package (online and/or paper version) that explains the registration process with timeframes for each step and all paperwork needed to register. And the Government might consider a special one-off reward (or moratorium) for those firms that register within a given month (this, of course, after registration costs have been brought to rock bottom).

4. The Government will restrict certain of its benefits for private enterprises to only registered enterprises (presumably limiting some benefits to Sole Proprietors and some to

registered companies) to induce more registrations (and it might choose to phase this in to give people time to register). The government will not attempt to require other service providers like banks, municipal governments and so forth to limit their services only to registered enterprises, but it will make the case to these other parties that encouraging enterprises to register will contribute to the larger economy.

5. Once the cost of registering has been reduced significantly, the Government will consider various measures to compel enterprises to register—microenterprises as Sole Proprietors and larger businesses as Close Corporations and Ptys. Careful thought would be needed to devise the best means of doing this to avoid the obvious dangers that compulsory registration could place undue hardship on the smallest microenterprises unless the process is a very simple one or that setting a *de facto* ceiling on the size of enterprise allowed to remain informal could function negatively to inhibit growth as entrepreneurs seek to stay beneath the minimum. It would be important to enlist the assistance of local government in devising solutions to this problem as they will know the composition of their enterprise sectors and what might work best.

6. As part of its program to increase the benefits of formalization, the Government will provide businesses with technical support as they formalize and grow larger.

D. Aligning Labor Markets with the Needs of a Growing Private Sector

2.27 Context. A central challenge in developing the Namibian private sector is aligning labor markets with the needs of a growing private sector. The legacy of Namibia's history of apartheid, which denied most Namibians access to basic and advanced education and to good jobs where they would have been trained, makes this challenge more complex than in most other countries. An additional issue is finding the right balance between the needs and rights of employees, many of whom are members of trade unions, and the needs and preferences of business.

2.28 Looking first at the *issue of skills and productivity*, most Namibians with an overview of the economy would agree that, taken as a whole, the Namibian labor force is unprepared for the requirements of modern business. Technical, financial, information technology, and general business skills, including entrepreneurship and business/work standards, are in scarce supply among local Namibians.

2.29 The best strategies to build a productive, skilled labor force are much debated in Namibia. There is consensus in some areas, but less so in others:

- Government spends about 20 percent of its budget on education, working to make drastic improvements in basic education by upgrading schools, teachers' skills and curriculum and to revamp curricula in technical colleges to meet current demand for skills. [23] The private sector does not appear to take as active a role as in some countries in advising on curriculum development.

- Government encourages on-the-job training by offering manufacturers a 125 percent tax deduction for training employees and by asking companies that hire foreigners for senior

[23] Namibia has just embarked on a new, large education program with the World Bank, the European Union, and other donors that will extend over the coming 15 years. Starting next year, schools will add entrepreneurship to their curriculum to encourage self-employment.

staff positions to match them with a Namibian counterpart for on the job training and eventual handover.[24]

- Relying on foreign labor to train Namibians (and to meet investors' needs) is a much-debated approach, and Government continues to limit access to work visas rather tightly. Some argue that importing foreign labor is the most efficient way to train up locals (and that denying work permits for foreigner employees is a major problem and disincentive for local and foreign businesses that would set up in Namibia). Others argue that foreign workers take jobs that local Namibians are ready (or almost ready) to take, exert downward pressure on local labor standards through their willingness to work longer hours, produce more per hour, and accept lower wages than Namibians, and fail to pass on their skills even when expected to.

- Government acknowledges problems with labor productivity, and the Ministry of Labor plans to establish a productivity institute that would offer much needed measurement and training services. Those concerned with this issue point to a weak link between wages and productivity, warning that rising wages without concomitant increases in productivity quickly undermines Namibia's competitiveness.

- The affirmative action program managed by the Employment Equity Commission seeks to ensure that all Namibians have equal opportunities to jobs. It monitors the employment practices of all companies with more than 50 employees (soon to include those with 25 or more employees). Some argue that the administrative burden on firms is excessive (submission of about 15 forms once per year with audit once per three years), and others point to fact that the Commission has yet to take a single company to court for non-compliance and question the net benefits to the economy of this program.

- With Government offering secure and fairly comfortable jobs and parastatals offering salaries that reportedly are 30 percent higher than private sector salaries, some argue that the private sector has little chance of attracting the most qualified employees—that, in fact, the Government is attracting skilled labor away from the private sector.

2.30 Turning to *the relationship between business and unions,* an equally complex set of issues emerges. The core issue revolves around finding the best balance possible between protecting the rights of employed labor without unduly compromising job prospects for unemployed labor. The new Labor Act (approved by Cabinet but still being revised before going to Parliament, replaces the Labor Act of 1992) mandates more flexible arrangements for resolving disputes (conciliation before mandatory arbitration with tight time limits) and more generous benefits for labor, including longer leave allowances.

2.31 Union representatives are strident in their efforts to protect labor rights. They would like to participate more fully in Government and business decision-making, e.g., to sit on more boards, to have a stronger voice in government decisions. They also defend the rights of labor to be protected within foreign firms, including within export processing zones.

2.32 Employers argue that the new Act introduces new rigidities and increases labor costs for business, and that it will function to reduce rather than increase investment and employment—and to diminish chances for badly needed new industries to develop. They would prefer that the new Act serve as a safety net that sets minimum standards rather than prescribe actual standards and that it be oriented more towards creating new employment rather than focused so entirely on

[24] Both of these initiatives could usefully be reviewed to ascertain their real value in stimulating on the job training.

protecting the rights of those already employed. They also support the Namibia Investor Roadmap's recommendation that provisions for firing employees in proven cases of misconduct should be simplified and reduced. Others point to lack of clarity on provisions of this Act regarding outsourcing and subcontracting and worry that these will inhibit use of SMEs as subcontractors.

2.33 Rationale for Support. Along with modern logistics and information infrastructure, a skilled and productive labor force is increasingly the basis for global competitiveness. This is the case not only for industries that employ semi-skilled labor like light manufacturing but also for technologically complex industries and for more sophisticated, higher value added services. Skilled and productive labor forces are needed across the board.

2.34 Lessons in how to integrate previously disadvantaged groups into mainstream economies, including how to accelerate acquisition of modern skills and work culture, are only now being learned in countries like Namibia and South Africa. In the meantime, the best sources of information about how best to accelerate the transformation to a modern labor force may come from the fast-growing economies in Asia. The experience in those countries tells us that establishment and maintenance of a quality basic education system is an essential building block to creating this labor force. Another is subjecting the labor force to competitive forces: protected labor forces have never progressed in skills and productivity at anywhere near the rate of those in open economies. A third is that foreign direct investment and participation in export markets has been key to transferring advanced skills to local labor forces. A fourth is that overly rigid labor regulations discourage business expansion, new investment and job creation, and they often result in very large informal sectors where labor conditions can be very poor.

2.35 Core Policy. The Government will take an active role in aligning the Namibian labor market with the needs of a growing private sector, including balancing the needs of employed labor with those of unemployed labor.

2.36 Key Actions.

1. The Government will support (financially and/or otherwise) analysis needed to evaluate the competitiveness of the Namibian labor force, including comparisons of wages, benefits, productivity, and roles of trade unions (including means of resolving disputes) with other relevant countries.

2. The Government will support (financially and/or otherwise) analysis needed to ascertain the effectiveness of current programs and incentives in creating new jobs and in training people in current jobs and for new jobs.

3. The Government will work with foreign investors to devise effective means of transferring skills to Namibian employees, perhaps within the context of loosening work visa requirements.[25]

4. The Government will actively and systematically engage the private sector in setting training curriculum in the various higher education institutions.

[25] One idea here would be to devise strong incentives for those with work visas to train local counterparts, perhaps by including training in their job description or by making extension of visas dependent upon their success in training others.

5. The Government will address productivity issues head on, first by obtaining reliable measures of current productivity levels and comparing these to other countries to clarify the productivity gap and second, by putting in place proven approaches to improving productivity levels.

6. The Government will examine salary scales and other terms of employment in the public and parastatal sectors to identify ways in which it is competing with the private sector for skilled labor and how it can better level this playing field.

7. The Government will consider carefully the outcomes of its current approach to formulating labor legislation, particularly as regards the unemployed, and will advocate strongly for a good balance between the needs of employed labor and those of the unemployed.

E. Modernizing the Information and Communications Technology Infrastructure

"ICT is … crucial to sustainable poverty reduction, because it makes a country's economy more efficient and globally competitive, improves health and education services, and creates new sources of income and employment for poor people." [26]

2.37 Context. Even though Namibia has far more computers than other lower-middle income countries, information and communications technology (ICT) usage is relatively low; prices are high compared to prices in comparator countries; and reinvestment in the sector is low despite higher than average revenues. [27] The specifics are as follows:[28]

- *As regards telephones*, the number of fixed-line telephones (per 1000 people) is fairly low at only a third of coverage in lower middle-income countries, and its growth has been flat since 2000. And prices of fixed line telephones are high: the "price basket" (installation, monthly rates and charges for 15 minutes of local calls) for fixed line residential has increased by 66 percent over the past four years, a far higher growth rate than seen in other countries.

- The number of mobile subscribers per 1,000 people tripled between 2000 and 2004, but subscriber rates in Namibia were only 50 percent of those in comparable lower middle-income countries and 20 percent of subscriber rates in developed countries. Although relatively high at 87 percent, the coverage area for mobile telephony was relatively flat between 2000 and 2004. (A second mobile telephone provider has just come on board so coverage and price should improve with increased competition.)

- The 2004 "price basket" (calculated using prepaid phone rates for 25 calls spread among network outside network, mobile to fixed and peak/off peak hours) for mobile phones was about twice the rate of other lower middle-income countries although equivalent to most of Southern Africa (better than Angola, worse than South Africa). International

[26] The *IFC 2006 Overview Information and Communications for Development*

[27] It must be noted that there are fewer people with access to electricity than people with cell phone coverage (which is projected to reach 95% by end of this year) and extension of electricity to the entire country must also be a priority, not only to further development generally but also to further business investment.

[28] The figures in this Section are taken from Chris Stork, *Namibia E-Access & Usage Index Survey 2004* NEPRU Research Report Number 35, NEPRU (2005) which relies heavily on figures from the International Telecommunications Union.

voice traffic was virtually unchanged in volume from 2000 to 2004, a particularly discouraging finding in light of the Government's program to promote exports.

- *As regards the Internet,* access is slow and relatively costly in Namibia. In 2004, usage rates were only 50 percent of those of other lower middle-income countries (though they were higher than the average for Sub-Sahara Africa). The 2004 Internet "price basket" (calculated as the cheapest available rate for 20 hours of Internet access a month) was higher than elsewhere in Southern Africa (10 times rates in Angola and Botswana) and 30 percent higher than comparable low middle-income countries.

- Particularly costly from a development perspective is lack of Internet access in the schools: only 4 percent of Namibian schools were connected to the Internet in 2004, compared with a developing country average of 38 percent and a developed country average of 94 percent.

- Namibia has no broadband connection although Namibia Telecom promises that this will be coming soon. Additionally, connection to an underwater fiber optic cable network is under preparation. Not only do most other developing countries have broadband connections but, on average, 12 percent of other lower middle-income countries' Internet users subscribe to broadband. The difficulties of downloading from the Internet are obvious when comparing the average Internet bandwidth (a measure of the average rate of bit transfer) across countries. As of 2004, Namibia's rate of transfer was 4 bits, 80 percent lower than South Africa's rate, 85 percent lower than Mauritius, and 90 percent lower than rates in Thailand, Bolivia and Peru.

- With only four secure Internet servers per million people (so eight, in total), Namibia lacks a sufficient base of secure servers to support development of e-commerce and e-governance capability as both of these services rely on user and transaction security. This compares with 20 secure Internet servers per million people in South Africa and 226 per million in Singapore.

- Namibia is significantly behind other countries in e-governance. Measured as the availability of government products online, Namibia's e-governance index is .12, significantly lagging both other developing countries (average index of .27) and developed countries (average index is .68).

- The surprising finding given these many lagging indicators is that total revenues from all sources of telecommunications Namibia are among the highest in the world (measured as a percentage of GDP). The disheartening news is that reinvestment rates from this revenue declined by 70 percent between 2000 and 2004—from 30 percent to 8 percent of revenues. This reinvestment rate is about a third that of average ICT investment in comparable low middle-income countries and barely a quarter that of the average ICT investment in Sub-Sahara Africa.

2.38 Rationale for Support. Access to modern ICT services is now integral to development of competitive private sectors. A review of ICT access and usage in 27 high-income countries and 66 developing countries found that firms that use ICT are *more than twice as profitable,* have *sales growth nine times higher, increase labor productivity by 60 percent* and *create 25 percent more jobs* than firms that do not use ICT. It also points to significant linkages between access to the Internet and the growth of trade: a one percentage point increase in the number of Internet

users boosts total exports by 4.3 percentage points on average and increases exports from low-income countries to high-income countries by an average of 3.8 percentage points.

2.39 The path to development of a modern ICT sector is well trod and clearly marked. In stage one, countries build their telephone systems, usually by way of a state-owned telephone company that holds a monopoly on virtually all ICT systems in the country. Stage two is initiated when the government decides to open entry to private players, usually foreign ones, either as part of a broader liberalization agenda or because foreign capital and the technology are needed to establish and modernize fixed line, mobile, DSL and wireless networks.[29] And it is during this period that competition takes off as regulations are liberalized (especially on pricing and coverage) and more service providers enter the market. In stage three, domestic investors take center stage as they move full force into the many product and service markets offered by a developed, modern ICT system.

2.40 The results of this process have been nothing short of remarkable. Information and communications services in some form reached half the world's households in 2005. Furious competition in this industry along side continuous technological innovation has brought about not only unbelievable increases in reach but also decreases in cost. Countries that have full competition in the telephone marketplace have price structures half of those with only one operator. The Democratic Republic of the Congo and Ethiopia have similar per capita income levels, yet the DRC has a mobile telephone density that is 13 times greater than Ethiopia. The difference: Ethiopia has only one operator and the DRC has six competing operators.

2.41 *In addition,* e-governance has proven to be a significant driver in increasing ICT use when governments put their business forms/applications on line. These might include land and business registration, import and export permits, permits for foreign workers, bidding documents for contracts, tax forms and payments and so forth. This not only saves firms' money and time but it also drives more firms and businesses to realize these savings by going online. This on line experience drives other Internet and ICT usage by the firms. And it increases computerization of government offices, which realize considerable gains in efficiency and transparency as a result.

2.42 Core Policy. The Government will pursue public-private partnerships to develop a competitive, modern and countrywide ICT infrastructure. Over time, the private sector will take the lead in building out and managing the infrastructure while the public sector will use its revenues to finance education in information technology, e-government, and other initiatives that drive consumer and business adoption of fixed line, wireless and Internet networks.

2.43 Key Actions.

1. The Government will seek the best foreign investors available for its ICT sector and conclude the most advantageous agreements possible with one or more of them. More specifically, it will search for investors that are willing to allow/encourage a fully competitive marketplace in ICT and that have the potential to build out an ICT system that is as close as possible to self-financing.

2. To promote critical competition, the Government will ensure that any investor in Telecom Namibia LTD agrees to open fee-based access to the network by other mobile and Internet licensees. It should then sell at least two of each of these licenses.

[29] From 1990-2003, 122 of 154 countries received foreign investment in ICT. FDI in this industry rose from US$2 billion in 1990 to 33 billion in 1998 and is currently at about 18 billion. The drop off in FDI comes as domestic private investors supplant foreign investors over time.

In addition, fair access to the electrical grid (again, fee-based) should be integral to negotiations with ICT investors so that the most cost efficient choices of broadband (including Power-line Communications (PLC), which is also known as Broadband over Power Lines (BPL) can be introduced to the Namibia marketplace.

3. The Government will legalize VOiP, which will enable telephony over the Internet and insure telephone service competition from three different ICT channels: fixed line, mobile and ISP enterprises.

4. The Government will make those changes needed in its regulatory framework to accommodate a larger and more competitive ICT marketplace, including any liberalization of pricing and coverage restrictions needed to ensure the new players can pursue reasonable profits. It will also consider recommendations to merge the current two regulatory agencies into a single one.

5. The Government will invest heavily in ICT public goods (presumably using revenues realized from sector liberalization including asset sales, licensing fees and tax revenues), including:

    - Encouraging business applications of ICT.
    - Moving towards a 100 percent connect rate at primary and secondary schools, across both urban, town and rural settings for big payoffs in computer literacy and workforce skill level.
    - Implementing e-government in areas like land and business registration, import and export paperwork, tax payments and a broad scope of other regulatory paperwork. This not only reduces the cost (in time and money) of enterprise compliance with government regulations, but it also drives businesses to start using ICT tools—skills that they can transfer to profitable use in their businesses.
    - Encouraging widespread availability of PCs and Internet access for the general public at government centers, post office branches, private sector cyber cafés, public libraries and so forth.

F. Offering Attractive, Effective and Transparent Investment Incentives

2.44 Context. Namibia has put in place very generous incentives for private sector investors, both domestic and foreign. General incentives include low corporate tax rates of 35 percent, tax-free dividends, and fast depreciation periods for buildings and equipment. In its efforts to promote manufacturing and particularly manufactured exports, special incentives are also offered to three groups of enterprises: registered manufacturers, exporters of manufactured goods, and firms with export processing zone (EPZ) designation. Registered exporters and EPZ enterprises are allowed significant breaks in corporate taxes, and EPZ firms import their raw materials and machinery on a tax-free basis. Registered manufacturers also receive large tax breaks but in addition, they are allowed even greater reductions in depreciation periods plus deductions for transport, export promotion, training and research costs.

2.45 As of 2006, it is clear that the incentive regime has not attracted as much new investment and generated as many new jobs and exports as envisioned. Only about 100 firms have been approved as “qualifying manufacturers”, not all of whom are still in operation. There are

currently 19 EPZ firms. Employment at the EPZ firms is currently under 6000 according to data gathered by the MTI.

2.46 Two questions arise in connection with the current incentive regime: are current incentives the right ones to deliver increased investments, jobs and export and are they being administered in the best possible ways?[30] A recent FIAS mission concluded that current incentives are overly generous, overly complex and not particularly effective in spurring additional investment. This team recommended elimination of these incentives and a renewed focus on broader investment incentives like access to suitable property, skilled labor, and modern information systems in place of more targeted incentives. They also recommended replacing the current regime with a new investment code that would combine a restructured package of incentives and re-drafts of the Foreign Investment Law and of the Export Processing Zones Act.

2.47 In response, the Government has acknowledged that formulation and administration of the incentives can be improved but argues that they remain important sweeteners for some investors. Improvements would include greater specificity and transparency of eligibility criteria and a more streamlined process by which eligible firms can access benefits. There is widespread agreement that some analysis is needed to know clearly the number and quality of jobs that have been created as a result of the investment incentives.

2.48 Rationale for Support. Governments everywhere struggle with setting investment incentives that are effective in attracting and encouraging desirable domestic and foreign investments. The most desirable investment incentives involve provision of the basics, such as stable government and macro economy, sizable market opportunities, a low cost legal/regulatory regime, an educated local labor force and so forth. When set at the right levels, financial incentives like tax breaks work to enhance the basic offering. When set inappropriately, they introduce economic distortions that can encourage investments in non-viable business opportunities that can only be sustained with ongoing and unsustainable subsidization.

2.49 The Core Policy. The Government will reform and streamline the current roster of investment incentives to optimize their effectiveness in stimulating domestic investment, attracting and retaining foreign direct investment, and supporting regional economic integration including the flow of investments, goods and services with neighboring countries.

2.50 Key Actions.

1. The Government will review its current package of investment incentives to assess their impact and cost effectiveness, i.e., their benefits relative to their cost.

2. Based on this review, the Government will eliminate those provisions of the incentive regime that have not proven effective, strengthen remaining ones as needed, and adopted new ones where needed to deliver tangible results.

3. The Government will reduce and streamline the administrative procedures connected with implementation of investment incentives to the minimum justified.

[30] A more fundamental question would ask whether the economic benefits attributable to the incentives exceed the economic costs of foregone tax revenue.

G. Strengthening and Formalizing the Public-Private Dialogue

2.51 The Context. The Government has built strong and useful relationships with Namibia's private sector membership organizations, including the Namibian Manufacturers Association, the Namibian Trade Forum, the Indigenous Business Forum, the Namibia Chamber of Commerce and Industry and others. Cooperation agreements have been written, and interactions have been frequent and helpful in exchanging needed information.

2.52 But such interactions have tended to be bilateral and somewhat ad hoc, without a means by which the Government can consult regularly and transparently with the private sector. The time would seem right to launch a more formal public-private sector dialogue, whether the mechanism takes the form of a single representative board or council whose members come from the various private sector membership groups or another, more pluralistic form. With such a mechanism in place, the private would be able to offer its advice and feedback on many Government policies that affect the private sector in a more systematic, transparent fashion.

2.53 The Rationale. Government and private sector investors are partners in developing private sectors, and the evidence is that PSD progresses both faster and better when these groups work in real partnership. Government needs to understand clearly the issues that affect private investors, particularly those issues that are related to public policy. And private investors not only need to understand clearly government rules that apply to them, but they also benefit by understanding the constraints with which government must operate.

2.54 Many countries have found it helpful to institutionalize this partnership through establishment of regular mechanisms for public-private consultation. These have taken the form of annual or semi-annual formal meetings between government and private sector representatives, joint task forces and committees, joint participation in advisory boards and so forth.

2.55 Core Policy. The Government will strengthen and formalize the public-private dialogue to gather needed grassroots information and to solicit private sector views of Government actions for inclusion in the policy making process.

2.56 Key Actions.

1. The Government will support, financially and/or otherwise, a review of other countries' approaches and experiences with launching formal public-private sector consultations.

2. With these findings in hand, the Government will work with private sector membership organizations to devise a new and appropriate mechanism by which the public-private sector dialogue can be formalized and strengthened.

III Integrating Namibia into Regional and Global Economies

A. Exporters

3.01 The Namibian Context. As a small country with only two million citizens, Namibia's economic growth depends critically on increasing revenues that come from exports. The Government struggles with three problems as it seeks to expand its exports:

- Exports are concentrated in too few products: diamonds and fish, both subject to variable world prices, have long accounted for about half of Namibia's exports;
- The share of primary product exports is too high: the great bulk of Namibia's exports are unprocessed raw materials with little value added, including diamonds and fish but also other mining products and live animals and meat;
- The destinations of exports are too few: fully 80 percent of Namibia's exports went to only four countries in 2003: 32 percent to South Africa, 25 percent to Angola, 13 percent to Spain, and 10 percent to the United Kingdom.

3.02 The Namibian Government has done a great deal to date to address these problems, including expanding Namibia's borders to include the larger regional market through membership in SACU and SADC, signing a good number of preferential trade agreements with multiple countries, offering numerous valuable incentives to exporters, building export processing parks, and investing its own funds directly into export businesses.[31] One of the many issues associated with increasing exports is access to foreign markets, and Namibia has made solid progress in opening such access.

3.03 In response, total exports have grown, and the shares of non-traditional exports and of manufactured exports have increased if slowly.[32] Between 2000 and 2005, exports grew by 9.4 percent on average, services exports by 8.1 percent and goods exports by 9.6 percent. Indicative of some diversification, the top five export products over the past few years (precious stones, fish, meat and meat products, food and beverages and live animals) have dropped from 57 percent of total exports in 2000 to 51 percent in 2005. And notably, the share of manufactured goods to total goods exports has increased from roughly 25 percent in 2000 to 33 percent in 2005.

3.04 A closer look at the growth rates of exported goods shows more signs of increasing diversification. Of the 98 different products that Namibia exported in 2005, 40 had average annual growth rates of 20 percent or more between 2000 and 2005. And roughly half of these 40 fast-growers exported products that were processed or manufactured to some degree. While still too small to appear in aggregate statistics, some of these 20 fledgling exporters might be the first shoots of the more diversified, higher value added export base that Namibia needs.

3.05 Namibia still relied on South Africa for more than 80 percent of its imports in 2003, but the remaining 20 percent came from a wide range of countries from other regions in Africa, from

[31] Namibia is a member of the World Trade Organization, the Cotonou Agreement, the Southern African Development Community (SADC), the World Intellectual Property Organization (WIPO) and the African Regional Intellectual property Organization (ARIPO), and the Southern African Customs Union (SACU). It has signed bilateral trade agreements with many countries, and has established relations with the International Organization for Standardization (ISO) and the International electro Technical Commission (IEC).

[32] All export figures for Namibia quoted in this Section come from the Namibian National Bureau of Statistics.

the Middle East and from Asia. Export destinations have also become more diverse, small amounts now reaching additional African, European and Asian countries for the first time.

3.06 The challenge now is to ramp up both traditional and non-traditional exports. This will be key to producing the growth needed now to avoid further dips in GDP, and to effectively enter new export markets. This includes ramping up service exports to neighboring countries, e.g., exporting water and power services to Angola as well as road construction and engineering services. Indeed increasing trade within the SACU trade union would appear to be the easiest and most natural avenue for trade expansion.

3.07 The International Context. Global markets have changed rapidly in the past decade and would-be exporters of today face an enormously challenging environment—one that Namibia must take into account when formulating its policies. Some of the most important of these changes would include:

- Large-scale exporters of labor-intensive goods/services are now mostly free of export restraints: much-reduced tariff and non-tariff barriers, including partial dismantlement of quota systems like the MFA, have resulted in floods of manufactured exports from huge producers like India and China. These countries have a comparative advantage in their plentiful, low cost unskilled and skilled labor forces.

- Competition and margins have gotten much tighter: multinational buyers, particularly those who buy or produce light manufactured goods, are enormously powerful. Decreased IT and transport costs enable them to pick and choose their suppliers from across the globe, demanding more in terms of quality and squeezing margins ever tighter, spawning a cutthroat race among suppliers to be the lowest cost suppliers.

- Competitive niches are now defined more narrowly in components and processes than in complete products and services: production of many goods, and increasingly services, is fragmented into segments, and now it is less the ability to produce an entire product that matters than demonstrated excellence in a particular segment of the process—the motherboard of a computer rather than the whole computer and medical transcriptions services more so than comprehensive hospital services.

3.08 The Rationale for Support. Significant growth of exports is almost always at the heart of rapid economic growth, particularly for small countries like Namibia and indeed, growth of exports is Namibia's main means of generating overall economic growth. Large volumes of high value added exports not only generate foreign exchange and add local jobs, but they have proved to be an extremely efficient means of building highly productive local firms in many countries. Namibia can be expected to garner the same benefits.

3.09 The experiences of others, particularly those of the East Asian Tigers, are instructive:

- Virtually all countries started out by adding value to their local resources, whether their comparative advantage was raw materials, the skills and work ethics of their labor force, their geographical location and so forth;

- Building a profitable and sustainable export base involved careful sequencing so that the capital and knowledge built in the first phases of export growth could be applied to secondary and third stages, e.g., upgrading workforce skills and modernizing

infrastructure might be early stage investments but, once in place, they form the basis of later stage export expansion;

- The fastest route to building competitive exports almost always has involved either attraction of quality foreign investors or development of a keen ability to extract advanced technologies from leading company research and products.

3.10 The Core Policy. The Government is committed to building a large and diverse base of Namibian exporters, particularly exporters of processed and manufactured goods, that will be able to take full advantage of trading opportunities both regionally and internationally.[33] The Government strategy to do so will *simultaneously* pursue first-stage export growth that is based on value addition to local resources and lay the groundwork for second- and third-stage export growth based on significant expansion of non-traditional and manufactured exports.

3.11 Key Actions.

1. The Government will encourage significant domestic (and foreign) investment in processing selected raw materials that are now exported mostly unprocessed, particularly encouraging larger export firms that can achieve economies of scale.

2. The Government will seed non-traditional exports by maintaining a conducive business environment and by offering modest support to a wide diversity of companies that seek to enter export markets, i.e., adopt a venture capital, "wide net" approach that avoids the risk of predicting winners in favor of offering small support to many candidates including market intelligence and opportunities to participate in trade fairs, trade missions and so forth. It will find ways to support local exporters in skills and knowledge acquisition, technology adoption, and in ICT infrastructure, perhaps through "light touch" interventions like matching grant schemes and productivity or profitability competitions.

3. The Government will systematically lay the groundwork for movement down the road into more complex, higher value added products by increasing the proportion of the workforce with modern skills. This might include:

   - Introduction of state of the art courses in cross-industry process skills like accounting, logistics, information and human resources as well as industry-specific management, technical and production skills;
   - Attraction of high quality foreign investors who commit both to upgrading local firms (through supplier linkages, using local firms for service, manufacturing and resource inputs) and to training and knowledge transfer to Namibian workers.
   - Provision of an information-rich environment through multiple means, including increasing access and lowering costs associated with use of the Internet.

4. The Government will work to increase domestic exporters access to neighboring country markets by formulating and implementing strategies to take greater advantage of membership in SACU and the Trade Protocol of SADC, concluding trade agreements with neighboring countries of Angola, Zimbabwe, Botswana

[33] This Section is cross-cutting: it deals with issues related to the business environment in Section II and some of the economic actors discussed in Section IV surely will be exporters, i.e., SMEs and foreign investors.

and DRC, and forging practical agreements on low-cost, workable solutions to getting goods and services back and forth across borders with minimum red tape.

5. The Government will rely heavily on foreign direct investment (FDI) to boost exports in the near term, but it will be proactive in attracting foreign investors who can help build a robust base of domestic exporters over time. To this end, the Government will do its best to attract foreign investors that bring significant numbers of high value added jobs, broad-based knowledge and technology spillovers to local partners, and investments in infrastructure (including information infrastructure) that bring productivity gains across the economy.

6. The Government will build on efforts underway to create and promote a national brand that emphasizes the high quality of Namibia's goods and services and then will follow up by launching a modern branding campaign that supports the objectives of entering new markets with premium products.

B. Foreign Investors

3.12 The Context. The Government from Namibia has recognized the importance of attracting quality foreign investment, and it has gone a good distance to ensure that Namibia offers this group of large and small firms a positive operating environment. On the legal/regulatory side, the Foreign Investment Act of 1990 is a liberal one that allows foreign investment in all sectors and the freedom to own 100 percent of those investments. As regards infrastructure, Namibia offers some of the best in Sub-Sahara Africa, including good air connections, an excellent road network within the country as well as the Trans-Caprivi Highway which links Walvis Bay with Botswana, Zambia, Zimbabwe and DRC and the Trans-Kalahari Highway which links Walvis Bay with South Africa via Botswana. A recent review of administrative procedures in Namibia (the Namibia Investor Roadmap) concluded that foreign investors generally face a fairly low bureaucratic burden, lower than that of many other countries.

3.13 But Namibia continues to struggle to attract and retain both a greater volume and a greater diversity of foreign investors, particularly manufacturers. The legislative framework and modern infrastructure are draws for foreign investors, but the small size of the domestic market, the lack of a skilled, productive labor force along side fairly high wages, and pervasive red tape in areas like access to land, terms and conditions of labor, and granting of work visas combine to create fairly strong deterrents to potential manufacturing investors.

3.14 The Rationale for Intervention. Different kinds of foreign investors deliver different benefits to their host countries. At the most basic level, Namibia would expect foreign investors to bring local jobs, foreign exchange earnings, and tax revenues to the government. But those that focus only on extraction of raw materials or on light manufacturing are unlikely to offer Namibia a great deal in terms of creating new skills, introducing new technologies, and forging supply linkages with local firms. Rather, the most valuable foreign investors are those bring a much broader range of benefits to Namibia, including building exports, upgrading various kinds of infrastructure, and enhancing the Namibian labor force.

3.15 These kinds of investors have the potential to offer rapid progression to higher value added exports because they: (i) import the leading edge technologies, often with significant spillover effects for local firms; (ii) spur enormous improvements in their suppliers; (iii) increasingly prefer mergers and acquisitions over greenfield investments, thus offering fast

avenues for upgrades and growth to their partners along with capability and financing for expensive branding, distribution and after-sales servicing; and (iv) can effect enormous improvements in productivity and efficiency of their partners but also to the customers of their partners and the economy as a whole where their presence spurs large improvement in infrastructure like utilities and telecommunications.

3.16 Until the last decade or so, foreign investors looked mainly for country locations where the government and the economy were stable, raw materials were plentiful, the domestic market was large, the labor force was ample and low cost, red tape was minimal, and foreign investors were granted equal treatment with nationals. The incentive package that a country was willing to offer made some difference to their calculations. And some foreign investors still put these characteristics at the top of their list depending to a large degree on their industry, e.g., for many in extractive industries where raw materials are what matter most and in light manufacturing that relies mainly on unskilled, low cost labor.

3.17 But the most desirable foreign investors, long-term investors that bring complex manufacturing and services businesses, have added substantially to the wish list above. These investors are looking for a workforce with modern skills and for local institutions that offer up to date training in fairly technical subjects. Depending on the industry, many are also looking for clusters of local suppliers; efficient logistics including modern physical infrastructure that contains quality and testing bodies, measurement and calibration services; efficient telecommunications and transport services; and low transactions costs including an efficient, responsive government bureaucracy and flexible arrangements for moving employees across country borders as needed.

3.18 The circular nature of at least part of this problem becomes obvious: a host country like Namibia will find it difficult to attract high quality foreign investors without being able to offer them the skilled supplier base and labor force that they will need, but it will find it even more difficult to develop the local skill base needed to attract better foreign investors without those same foreign investors.

3.19 Core Policy. The Government will be proactive in attracting and retaining a significant number of those foreign investors that offer the most valuable benefits to Namibia, including transfers of technology and advanced skills, investments in diversified, high value-added manufacturing, and investments in strategic services like information and communications technology.

3.20 Key Actions.

1. The Government will undertake whatever reforms needed to limit the legal/regulatory requirements of foreign investors to the minimum needed, including labor legislation that is fair to both employees and investors.

2. The Government will be proactive in marketing Namibia as a desirable location for foreign investment

3. The Government will maintain accurate and up to date databases of current and potential foreign investors.

4. The Government will be proactive in helping foreign investors link up with local firms, whether as suppliers or distributors.

IV. Supporting Underserved Economic Actors

4.01 The main focus of a PSD policy is on building a quality investment climate to support private sector development, but most development economists would agree that there is a case to be made for offering tailored support for particular groups of economic actors under certain circumstances. Most such circumstances boil down to situations when markets fail to function properly, most often because of policies that distort them and because markets are either too new, too risky or too small to support investment and competition, the keystones of market economies.

4.02 The first best solution to market failure is reform/correction of policies that distort markets but, given the time required to effect policy reform and the imperfect nature of the process involved, many governments have chosen to intervene with targeted programs for particular groups that are disadvantaged by poor market functioning. The goal in such interventions should be to accelerate market development or to provide a temporary substitute for markets until they can develop. Where such programs have been aligned with markets, they have had some success in jumpstarting private sectors, e.g., some government interventions on behalf of groups of firms in East Asian countries to build their competitiveness. Where targeted programs have worked against markets by favoring certain groups with unsustainable subsidies and protection from competition, they have largely failed.

4.03 There is a strong case for targeted Government support for several groups in Namibia: microenterprises, small and medium enterprises (SMEs), and foreign investors. The heart of the case for supporting these three groups is Namibia's history of apartheid policies, which effectively distorted markets and denied the great majority of Namibians access to economic opportunity and resources. Without intervention, markets to serve these groups will develop only slowly, e.g., banks will only slowly realize the profitability of lending to local enterprises; rural land markets will only slowly sort themselves out; large firms will only slowly learn to work with local suppliers and distributors; and foreign investors only slowly will begin to transfer their valuable know how to Namibian companies and employees.

4.04 How Government intervenes on behalf of these three groups matters a great deal. To the extent that interventions facilitate and accelerate markets to serve these groups, mainly by those avenues laid out in the conceptual framework in Section I, i.e., by equalizing access to economic opportunity and by increasing access to economic resources, they will contribute to the growth of a robust, competitive economy going forward. But to the extent that they put in place additional policies that undermine market development, they will slow economic growth going forward. An example of the former would be supporting banks to move into new, underserved and *bankable* markets; and example of the latter would be requiring banks to lend to new, underserved but *unbankable* markets.[34]

4.05 This Section proposes policies initiatives to assist market development on behalf of three key groups of entrepreneurs in Namibia: (i) microentrepreneurs; (ii) small and medium enterprises (SMEs); and (iii) foreign investors. Each group occupies a unique niche; each makes a vital economic contribution to the whole economy; and each is disadvantaged by market failures in important areas.

[34] In the first example, the intervention accelerates development of financial markets by reaching underserved and viable borrowers faster than banks would have reached them. In the second example, the intervention retards development of financial markets by forcing banks to lend to non-viable borrowers, which will lead to sustained losses and an eventual withdrawal from non-profitable credit markets.

A. Microentrepreneurs

4.06 Context. The great majority of entrepreneurs in Namibia are microentrepreneurs, i.e., self-employed people and very small enterprises with no more than about three to five employees including family members. Surveys of microentrepreneurs tell us that most start up with less than N$50,000 and depend almost entirely on local, often highly competitive, markets. Some are registered with local authorities as sole proprietors or simple partnerships or with national authorities as Close Corporations or as limited companies (Ptys.), and most are informal with no registration. They operate mainly in the textiles and garments, catering, trade, agro-processing, transport, construction, repair services, and wood and metalworking industries.

4.07 When surveyed, microentrepreneurs place assistance with obtaining business premises and with accessing new markets at the top of their wish lists. Some rank financial support as their most urgent need while others are reluctant to take on debt. Almost none have had access to institutional credit, and most presumably rely on high-cost moneylenders when faced with a critical need for cash.

4.08 Rationale for Support. In Namibia, as elsewhere, microenterprises are the engines of family welfare: the most profitable and sustainable ones provide low-income families with a reliable income that prevents them from falling into poverty, and the weaker, survivalist enterprises/activities keep poor families and individuals from falling into dire poverty.

4.09 Research tells us that the great majority will remain microenterprises and not grow larger. We also know from extensive research on the impact of microfinance that the benefits of increasing microenterprise revenues *by even very small amounts* through access to better equipment or business premises or to more working capital can be quite significant This is because increased revenues in microenterprises almost always go directly to increasing household welfare, i.e., to improve family nutrition, education, housing and so forth.

4.10 Microfinance has proven to be highly effective in protecting family incomes and raising microenterprise revenues, particularly those of women's enterprises. Many entrepreneurs greatly value access to convenient savings services, and even very small loans enable microentrepreneurs to stock more inventory, take their wares to further markets, and purchase needed equipment. Where microfinance organizations have adopted what are now accepted as best practices, they have been able to achieve remarkable operational scale and sustainability.

4.11 A second tool that is proving very useful to microentrepreneurs everywhere is telecommunications, particularly access to reasonably priced, reliable cell phones that help them reach buyers and sellers beyond their immediate locale. And third, microentrepreneurs can benefit substantially by working with one another in formal or informal clusters, whether sharing common facilities or working together in clusters that incorporate several complementary segments of a value chain, e.g., farmers and agro-processors, to reduce the costs of transport and to increase flows of vital information.

4.12 Core Policy. The Government will help microenterprises increase their revenues as rapidly and sustainably as possible by increasing their access to appropriate financial and advisory services, better business premises, affordable telecommunications, and opportunities to cluster production to achieve greater economies of scale.

4.13 Key Actions.

1. The Government will begin the process of putting in place a state-of-the-art legal and regulatory framework for microfinance and once this framework is in place, the Government will establish mechanisms by which it will support development of at least a handful of good practice microfinance institutions.

2. The Government, including its various regional and municipal offices, will continue to devote resources to provision of business premises including market stalls to microentrepreneurs, whether it provides them directly, in partnership with the private sector, or entirely through the private sector.

3. The Government will continue to unfold its program of establishing industry-based clusters for micro and small enterprises, but it will place a high premium on identifying and securing buyers for cluster outputs before significant investments are made to avoid situations where microenterprises end up producing goods for which there are no ready markets. These clusters will involve as much private sector participation in ownership and management as is feasible.

4. The Government will lend its support to regional and municipal government efforts to formulate and implement local economic development programs that expand opportunities for microenterprises.

5. The Government will review current cost and coverage of its mobile phone network and make whatever reforms needed to reduce costs and expand access to all ready customers in Namibia including microenterprises that rely heavily on cell phones to expand their markets—but *without* employing subsidies that would undermine the commercial sustainability of the mobile telephone business.

6. The Government will conclude trade agreements with border countries, including agreements on workable borders procedures, such that even very small enterprises can trade into neighboring countries without undue red tape and delays.

B. Small and Medium Enterprises

4.14 The Context. Defined in this Policy as registered companies with roughly six to 100 employees, the latest figures from the Company Registrar confirm that there are now sufficient numbers of private businesses in Namibia to form the foundation of a corporate private sector (see figures in Section I). The issue now is how to help these companies grow to become a robust corporate sector. Their ability to do so will depend largely on the degree to which they have access to the basics: profitable *market opportunities* and the *resources* to take advantage of those opportunities including finance, skills and knowledge, information and physical infrastructure.

Access to Market Opportunities

4.15 Access to markets is a significant issue for many SMEs, in large part due to the small size of Namibia's domestic market but also a result of the low purchasing power of the majority of the population and of the fragmentation of rural, low-density markets. In addition to retailing directly into the small domestic market, a Namibian SME has four possibilities for expanding his/her

markets: linking up with large domestic and foreign firms as suppliers/distributors; accessing government procurement contracts; exporting into foreign markets; and exporting into foreign markets within Namibia.

- Linking up Large Firms and SMEs. There is no question but that large firms in Namibia, both domestic and foreign, could integrate more SMEs into their supply chains than they currently do.[35] Both large and small firms can benefit from linking up, but experience shows that bringing about sustainable, mutually beneficial linkages between the two can be surprisingly difficult to do well. This is where government can usefully take up a facilitating role, helping the large firm identify feasible subcontracting opportunities and make needed amendments in its processes and helping the small firm learn how to meet large firm requirements for quality and volume.

- Government Procurement from SMEs. With Government services accounting for 35 percent of Namibia's GDP, government contracts for services and goods should offer a significant opportunity for local SMEs. Some government offices (and several large multinationals) have undertaken sizeable experiments in procuring services (fewer goods than services at this point) from SMEs. These include low value added services like basic maintenance, catering and cleaning office buildings but also more profitable activities like small-scale mining and cutting and polishing gems. The approach is either to set aside some tenders for small contractors or to unbundle a large contract by specifying that some percentage go to SMEs. Initial contracts often have ended in failure, but they have spurred contracting organizations to move on to devise new approaches.

  A recent study by MTI of procurement by a sample of seven government ministries calculated goods and services purchases and broke them down by product and identified the suppliers for each.[36] The conclusion was that most goods are purchased from Namibian-owned companies, but almost all are imported goods. The report concludes that Namibians could make many of these goods easily if they could access the resources needed to produce them.

  Above all else, those who have written procurement contracts with SMEs emphasize the need for training: first, in business basics like financial/cash flow management, human resources management and project management and second, in how to work with the public sector, including how to get into the system, submit bids (both filling forms and compiling bids), and handle projects. At this point, each organization is training their own contractors, but all find this difficult and expensive.

- Selling into export markets. Please see the above Section III of this Policy.

- Selling to foreign markets in Namibia. Tourism is the main avenue by which local firms can sell into foreign markets within Namibia, and it is a fast growing sector. In 2006, it accounted for 18,840 direct jobs and 71,777 indirect jobs (4.7% and 17.7% of total employment, respectively) and N$1.6 billion in direct contribution to GDP and N$6.8 in

[35] Some have indicated that the new Labor Act contains disincentives for firms to outsource to local SMEs in the form of provisions that hold the contracting firm somehow responsible for the financial health of the subcontractor. Any disincentives for large firms (domestic and foreign) to subcontract/outsource to smaller, local firms would seem to be a great pity.

[36] "Import Substitution Survey". Ministry of Trade and Industry. October 2006

indirect contribution (3.7% and 16.0% of GDP, respectively).[37] Foreigner investors currently dominate business ownership in tourism, but this industry represents a major opportunity for local investors (and job seekers) if they can obtain needed skills.

Access to Economic Resources

4.16 *Finance.* Increasing SME access to financial services is a high priority. Namibia's current financial sector is a narrow one with four commercial banks that cater mainly to the better off, a state-owned development bank, a small number of credit cooperatives and friendly societies, and the Namibia Postal Bank, which takes savings but does not issue loans.[38] Microfinance is almost non-existent in Namibia as are leasing and venture capital.

4.17 Initial government efforts to help banks reach under-served groups with loans had mixed results. A publicly funded loan guarantee scheme ran into problems with poor repayment rates from borrowers but, in the end, it served the important function of getting participating banks interested in learning how to lend effectively to SMEs. Now several banks have launched significant SME lending programs and are experimenting with different approaches, including tighter management of SME loans through measures like paying suppliers directly, releasing loan funds in tranches, requiring borrowers to obtain multiple bids for equipment and supplies, maintaining strict repayment plans, and sending bank staff on frequent site visits. They are also putting programs in place to build borrowers' capacities to manage their businesses, including training and mentoring programs. These banks watch their SME portfolios very carefully to catch and solve problems as fast as possible and to date, their SME portfolios are performing remarkably well.[39]

4.18 Lack of collateral is the number one issue cited when discussions turn to credit issues, and there seem to be two main problems in this area. The first is that most people are without sufficient assets to offer as collateral, even in cases where banks are willing to accept a variety of assets. The unfortunate answer to this problem is that banks simply cannot serve people with few or no assets without putting their portfolios at excessive risk, and that these groups would be far better served by microfinance institutions. The second problem is that people cannot use their land as collateral unless they have proper rights and/or titles to that land. As noted above, clarifying and awarding property rights to people so that they can leverage their land at the bank is a high priority.

4.19 A second important issue in providing financial services to SMEs is the absence of products other than savings and credit products. There are only the barest beginnings of leasing and venture capital industries in Namibia, both potentially of great use to SMEs. Making sure that legal frameworks for these are in place might be a first step, but a search for investors presumably would proceed in tandem.

4.20 The Government has responded to shortages of private investment capital by making a number of relatively large investments itself. The strategy is to demonstrate the viability of the investment and then to sell a portion or all of the concern to private investors. To date, this

[37] These figures come from Namibia: The Impact of Travel and Tourism on Jobs and the Economy, The World Travel and Tourism Council and the Namibia Tourism Board. 2006

[38] The Development Bank of Namibia has established an SME window and simply passes funds in this window to Bank Windhoek to include in their SME lending program for loans from N$250,000 to N$7 million. There is talk of transforming the Small Credit Trust into an SME bank that would make micro-loans of N$7,000-N$250,000.

[39] Most of these points come from Bank Windhoek but several other Namibian banks also have SME credit programs.

strategy has been executed successfully in construction of small shops, housing developments, and business premises that have been leased (but not yet sold) to the private sector.[40]

4.21 *Skills and Knowledge.* As discussed in Section II, few Namibians have experience with managing a business or even with working for companies and not surprising, many run into difficulties when they are faced with operating their own businesses. They have problems of all kinds: technical problems show up most frequently in product quality issues and management problems show up in difficulties with financial, marketing and human resource management. One of the most pressing issues in Namibia today is how to address these capacity problems as effectively and quickly as possible—both to ignite growth of the private sector and to avoid even more costly failures than have occurred already.

4.22 People learn technical skills from educational organizations like the Polytechnic College and the Vocational Training Centers in Namibia—and long experience has taught that the most effective technical training is tightly linked to the industrial sector to ensure that people learn skills for which there is demand. People learn formal management skills in classrooms of universities and colleges, from non-profits and government offices that sponsor training courses in small business management, and from occasional seminars put on by various groups. And they learn from books and from a wide variety of on-line sources. The challenge here is to deliver training courses that are practical, relevant to local conditions, and well tailored for SME needs.

4.23 In addition to learning in formal settings, most small business owners around the world have learned their most useful technical and management skills from former jobs, usually in other companies. The fact that so few Namibians have had opportunities to work in companies, particularly in foreign firms, export firms or simply larger firms, places them at a great disadvantage when they start up their own small businesses.

4.24 *Information.* Business people everywhere rely heavily on personal connections in their businesses, often making those connections through organized gatherings of business people such as business membership organizations, training seminars or special one-off events. Namibia has many such organizations, including a Chamber of Commerce, a Manufacturers Association, an Indigenous Business Forum, a National Trade Forum and the President's Economic Advisory Council. These organizations offer support services to their members like trade visits, seminars, access to databases, import facilitation and news letters, and they likely offer quite a few opportunities for business people to connect with one another. Expanding these services and opportunities would seem a high priority for these organizations.

4.25 Business people also need ready access to impartial business information about the economy, new markets, regulatory changes, new assistance programs and so forth. In developed economies, business-related information floods the marketplace through television, radio, newspapers, newsletters, and now mainly through the Internet. But, with the exception of its newspapers, sources of basic information relevant to business are scarce in Namibia. Because access to the Internet is so limited, slow and costly, the major avenue by which businesses elsewhere obtain up to date information is scarcely available to Namibian businesses. Government offices do not seem to have taken an active role in disseminating their information, leaving people largely unclear about the various regulations and services that apply to them and

[40] The keys to success of this strategy are obvious ones: the investments selected by government must offer profitable opportunities to private sector agents, i.e., they must be financially sound investments to begin with; great care must be taken to ensure a high level of transparency and competitiveness in the process as transferring government shares in enterprises always raises the specter of inside deals; and Government has to have the discipline to exit part or all of a profitable enterprise.

about information of relevance to them, e.g., up to date information on agricultural, industrial and services issues.

4.26 *Business Sites and Premises.* The Namibian government recognized early on that the need for business premises would be significant and that few local entrepreneurs would have capital to build them. It responded by financing and constructing premises (through ODC) for lease to a mix of large and small private entrepreneurs. Implementation of this strategy has been strong, including finding a formula by which these premises can at least break even and reportedly in some cases, make a profit by cross-subsidizing small firm large firm rents. To date, the government's Sites and Premises Program has constructed two industrial parks, four slaughterhouses, six common technology facility centers and 24 SME modular parks in 23 locations around the country. Leased to 383 small businesses, occupancy rates are over 85 percent. There are plans to build more facilities.

4.27 Rationale for Support. This Policy looks squarely to SMEs to become one of Namibia's growth engines, but it acknowledges that a central economic role for SMEs in Namibia cannot be assumed. It is easily observable that in some countries, SMEs contribute significantly to GDP, job creation, and competitiveness whereas in others, they are fairly stagnant businesses with little promise of growth and significant job creation.

4.28 The central question for Namibia, therefore, is not how simply to have more SMEs but rather, how to have more SMEs that are highly productive, competitive businesses that will help drive the economy. The answers to that question are actually fairly straightforward as SMEs tend to thrive under similar conditions worldwide—and it is these conditions that Namibia needs to meet to further SME growth:

- SMEs grow faster when the rest of the economy grows and their markets expand: a rising tide does indeed lift all boats at least some distance;
- SMEs grow faster when they are unencumbered by an unnecessarily costly and restrictive business environment;
- SMEs grow faster when they have access to profitable opportunities for expansion and to key resources, including competitive labor, reasonably priced and packaged finance, modern technology including ICT, a steady flow of business information now mainly via the Internet, and quality business support services including advisory services;
- SMEs grow faster when they are integrated into the mainstream economy, particularly when they are linked up as suppliers and distributors to larger firms, foreign firms and exporting firms.

4.29 Core Policy. The Government will assist Namibian SMEs to become highly productive, competitive businesses that will make a considerable contribution to the economy of the future. Government assistance will focus on expanding markets for local SMEs and on facilitating access to critical resources, including finance, skills and knowledge, information and business premises.

4.30 Key Actions.

1. Facilitate formation of business linkages between large firms (domestic and foreign) and local SMEs.

2. Support current initiatives to extend public sector contracts to local SMEs and encourage expansion of these practices through activities such as:

- Distilling lessons from current practices for dissemination to other government offices, encouraging them to include SMEs in their own procurement practices;
- Facilitating provision of training for SMEs that have won or seek to win government contracts in the basics of bidding and of project management;
- Reviewing government procurement regulations and removing all unjustified obstacles that discourage government procurement from SMEs (without offering undue protection from competition);
- Looking into the desirability and feasibility of establishment of a contractor's database that would contain pertinent information about SME contractors that have executed government contracts.

3. Facilitate growth of the tourism industry through activities such as:[41]

- Broad based recognition within government of the importance of tourism as a generator of jobs and revenues
- More comprehensive long term planning
- More aggressive marketing and promotion abroad
- Extension and maintenance of key infrastructure
- Better management of parks and wildlife resorts
- A low cost regulatory framework for local investors
- Improvements in ICT crucial to the tourism industry

4. Seek ways to support those commercial banks that are building SME portfolios, including resolution of outstanding problems with land rights.

5. Encourage development of the leasing and venture capital industries by establishing legal frameworks for these financial products and by seeking investors.

6. Continue to execute its strategy of investing in profitable projects that, once up and running, are then offered for sale or for lease to private investors.

7. Assist SME owner/managers to increase their technical and managerial skills and knowledge through multiple means, including:

- Helping the Polytechnic and the Vocational Schools link up as closely as possible with the business community to ensure a good volume of high quality input into curricula;
- Helping SME owner/managers link up with knowledgeable individuals, firms and electronic sites as critical sources of information and knowledge;
- Facilitating faster, easier access to work permits for foreign workers who can bring needed skills to Namibian SMEs;
- Facilitating training opportunities for local business consultants to advance their technical and managerial skills;
- Working with local consultants to look into the desirability and feasibility of establishing an accreditation system for business consultants that sets professional standards.[42]

[41] Namibia: The Impact of Travel and Tourism on Jobs and the Economy. The World Travel and Tourism Council and the Namibia Tourism Board. 2006

8. Contribute to improvement in dissemination of many types of business information through multiple channels, including making greater use of business membership organizations as distribution channels and improving access to the Internet by increasing availability and decreasing cost.

9. Continue its successful program of providing business premises.

[42] The Namibian Consultants Association was established as a Section 21 company several years ago to promote Namibian consultants but has since gone dormant.

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