

**Namibia's Export Led  
Industrialisation Policy –  
The case of the Export Processing  
Zones**

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## ABSTRACT

The shift from an inward-oriented development strategy world over and lately in Africa has been accompanied by the emergence of Export Processing Zones (EPZs) invariably called, Bonded Warehouses, Transshipment Zones, Free Trade Zones and Licensed Manufacturing Warehouse, all terms referring to a geographical or juridically bounded area in which free trade including duty free import capital and intermediate goods are permitted provided that all or a significant share of the goods produced within the zone are exported. (Helena Johansson and Lars Nilson, 1997)

The Namibian EPZ Act was passed in 1995. The implementation of the policy commenced in 1996. The objective of the Act is to promote export led manufacturing activities in designated zones where special incentives are provided for manufactures and exporters in the form of:

No corporate tax, no general sales tax, no additional sales duty, no stamp and transfer duty, substantial reimbursement on training cost, permission to hold foreign currency account in local banks, the right to set up base anywhere in the country and legal prohibition against strikes or lockouts in EPZ enterprises.

To date there are 12 companies operating in the Namibian EPZ. All together 121 companies applied for EPZ status since the inception of the program. In the beginning some interest in the EPZ program came from fly by night companies who abused the investor friendly reception demonstrated by the Namibian government. These companies compelled the Namibian government to institute an investors tracking system mechanism to ensure that the award of EPZ contracts should not benefit phony investors. The Offshore Development Company and the Walvis Bay EPZ Management Company are the sole agencies involved in the marketing and administration of the EPZ zones. To date these agencies face the task and challenge to bolster their efficacy in terms of enhanced investment application follow ups and the attraction of foreign direct investment to the zone.

The policy research methods used in this study are based on an integrated framework for policy analysis. No particular hypothesis is under test. An integrated framework on policy analysis is based on a multidisciplinary analysis of the contents and the process of public policy. This is based on the assumption that a successful policy has to fulfil a plurality of criteria derived from the literature in political science, public administration, economics and sociology. These criteria generally are effectiveness (degree to which various objectives of the policy are achieved), efficiency (the time and cost used in policy implementation), responsiveness (the degree to which all stakeholders are satisfied), innovation (extent of creativity, innovation in the design, instruments and implementation of policy), political feasibility (extent to which the alternative chosen is politically feasible in the particular environment), administrative feasibility (extent to which the selected implementing agencies have the administrative capability or the need for it to be created to achieve the policy objectives). The EPZ program being an economic policy will be analysed in terms of employment created, utilization of the country's natural resources and the transfer of technology. The study will draw some lessons from the experiences of countries like Mauritius, Ireland and Zimbabwe.

Additionally, the research will examine how the policy objectives of the EPZ programme in Namibia are being realised in practice. The performance of the policy will be analysed against the objectives of the Namibian EPZ Act and the views of stakeholders.

In the long run the success of the Namibian EPZ program will depend on the political risk free environment in Southern Africa, the availability of skilled labour, macro-economic stability in the SADC region, good infrastructure and appropriate policies that can support trade and investments.

At the moment it can be argued that the EPZ program in Namibia is more of a catalyst to curtail unemployment and poverty and to stimulate economic activities in general. However, caution should be made that the resources spent on the program should not invariably defeat the purpose for which the program was created. In other words the incentives provided to the investors should not crowd out on investments that otherwise would have brought about greater dividend than what the EPZ program requires.

Political support towards the EPZ program has been strong from the cabinet and parliament. The labour union movement feels that the EPZ program does not protect the interest of the workers as they are exploited and underpaid. The majority of the EPZ companies state that their wages are comparable to those paid outside the zone. They also feel that the reimbursement of incentives is slowly implemented. To a large extent it is necessary for the Offshore Development Company and the Walvis Bay EPZ Management Company to improve upon their policy monitoring, evaluation and implementation capacity in order to attain the objectives set out for the EPZ program in Namibia.

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## Dedication

This research paper is dedicated to the Namibian people in their quest to attain economic independence in the realm of the objectives of the New Economic Partnership for Africa's Development (NEPAD). Achieving this objective will mean that the Namibian people are well on course to be masters of their own destiny and thus will ensure their economic independence. My special dedication is also to commend the Namibian Government for the balanced policy decision made in the area of economic management. Meaning that their policy approach is characterised by the state's obligation to steer and not to row the process of decision-making when it comes to creating favourable conditions for growth. This approach is the reason for the economic and political stability we are enjoying as a nation. Therefore, it goes without saying that my research would not have happened should Namibians have failed to embrace a market driven economic system under a democratic constitution. The decision to the above mentioned has proven to be wise and realistic in order to ensure our continual integration in the global political economy.

My second dedication of the research goes to my family who brought me up under Christian instructions by so doing ensuring that my moral upbringing is complemented by academic pedagogy. I cherish both the spiritual upbringing and academic education as they have laid the ground for my contributions to societies development. Therefore, let the name of the Lord Be Praised who is the origin of wisdom.

## Chapter 1 - Overview of the EPZ

### 1.1 Introduction

The EPZ concept is an Irish invention that developed after the Irish authorities decided in 1959 to transform the airport area into a free trade zone and attract foreign firms to set up manufacturing facilities in the area.

According to Johansson and Nilson(1997) cited in Tekere(1997) EPZ represents a shift from an inward-oriented development strategy world over and lately in Africa called, Bonded Warehouses, Transshipment Zones, Free Trade Zones and Licensed Manufacturing Warehouse, all terms referring to a geographical or juridically bounded area in which free trade including duty free import of capital and intermediate goods are permitted, provided that all or a significant share of the goods produced within the zone is exported.

Generally, the EPZ is a useful policy instrument for countries which plan to develop an export oriented manufacturing sector and have the basic conditions in which an export industry can operate successfully, but lack the technical or administrative capacity to develop a country wide system allowing exporters duty-free access to imported equipment and materials. According to Sherbourn (1995), firms facing high wages and production costs in their home countries coupled with declining communications and transport costs relocate their industrial activities to countries which offer low labour cost

with good international transport linkages, and excellent financial and communication services.

Jauch, Keet and Pretorius (1995) argue that most countries adopting EPZ programmes are characterised by:

- High rates of unemployment in urban areas, as well as hidden under-employment in the informal sector;
- High proportions of their populations engaged in agricultural work with heavy national dependence on primary exports;
- Import-substitution strategies focusing on domestic markets-where industrialisation is attempted;
- Low levels of foreign investment-focusing on mining and other modern industrial enclaves;
- Declining incomes from unprocessed primary commodity exports and dwindling foreign reserves;
- Low levels of technological know-how and general economic stagnation.

(Jauch, Keet, Pretorius, 1995)

In the case of Namibia the EPZ Act was promulgated in 1995 whereas the first companies started their operations in the zone in 1996. The objectives of the Namibian EPZ program are stated as follows:

- a) To attract, promote or increase the manufacture of export goods;
- b) To create or increase industrial employment;
- c) To create or expand export earnings;
- d) To create or expand industrial investment, including foreign investment; and
- e) To encourage technology transfer and the development of management and labour skills in Namibia.

### **1.2 Statement of the problem**

There is a big debate going on in Namibia on whether the EPZ policy intervention has been successful or not? Some critics feel that the performance of the policy in terms of the number of establishments operating, employment created and increased export earnings has been unsatisfactory. Others blame the government bureaucracy and changing regional and international economic environment for this. On the contrary the companies operating in the EPZ blame the low productivity on a lack of a disciplined Namibian labour force.

In general it is felt that 4 years after the establishment of the EPZ the regime has not been able to realise its potential. The uniqueness in this particular study is that it shall combine the use of a systematic application of policy analytical tools in addition to conducting interviews and collecting and evaluating relevant data to arrive at a meaningful conclusion. Studies undertaken by some researchers and special committees and general bibliographical materials shall also be used. Examples of country experiences such as Mauritius shall be looked at to provide possible lessons for future

improvement. The policy study shall in particular use an integrated framework for policy analysis.

Although an EPZ is a very popular approach and many developing countries are adopting it, it is very difficult to put it into practice in the present context when there are so many developing countries offering similar and more attractive incentives chasing very few investors. In general there are very difficult requirements for a successful EPZ intervention. Few countries like China, Mauritius, Taiwan, Malaysia, South Korea which have been successful have started such strategies much earlier when competition was limited while big countries like China with a big internal market have an advantage whereas small countries like Namibia which recently got independence and with a limited domestic market, limited trained skilled human resources base, have many difficulties.

The EPZ policy is a complex policy involving the coordination between many agencies at different levels of the government and between the public and private sector organisations with the view to implement a very active and aggressive marketing strategy, targeting strategic countries and strategic business groups.

All this requires a high level of political support, administrative and technical expertise and a very well developed policy process involving operational policy design, well developed procedures and systems, a good system of monitoring and coordination, in addition to creating a proper climate for attracting and retaining local and foreign investment. Newly independent countries suffering from the legacy of colonialism find it

difficult to realise all these requirements in a short period. Thus, it is against this background that this study is being undertaken to see how the policy process took place, how the policy design was formulated and its contents arrived at, how it has been implemented so far, which objectives have been achieved and the problems which hamper further growth in this area and what can be learnt from the experiences of other countries.

### **1.3 Research Questions**

The research shall be conducted to examine how the policy objectives of the EPZ programme in Namibia are being realised in practice. The performance of the policy will be analysed against the objectives of the Namibian EPZ Act and the views of stakeholders. No particular hypothesis is under test however the study shall apply an integrated framework on policy analysis which is based on a multidisciplinary analysis of the contents and the process of public policy. This method is based on the assumption that a successful policy has to fulfil a plurality of criteria derived from the literature in political science, public administration, economics and sociology. These criteria generally are effectiveness (degree to which various objectives of the policy are achieved), efficiency (the cost and time in policy implementation), responsiveness (the degree to which all stakeholders are satisfied), innovation (extent of creativity, innovation in the design, instruments and implementation of policy), political feasibility (extent to which the alternative chosen is politically feasible in the particular environment), administrative feasibility (extent to which the selected implementing agencies have the

administrative capability or the need for it to be created to achieve the policy objectives designed). The EPZ program being an economic policy shall also be analysed against the cost and benefit criteria in terms of employment created, utilization of the country's natural resources and the transfer of technology. The study will use the experience of countries with EPZ programs like Mauritius, Ireland and Zimbabwe. Where appropriate lessons useful for improving the Namibian EPZ program from the aforesaid examples will be used as recommendations.

Combining these two foci of analysis, the research will aim at answering the following questions:

- a) How many companies operate in the EPZ?
- b) How many jobs have been created so far in the EPZ?
- c) What role do Unions play in the EPZ?
- d) How many companies are in full production and are involved in export?
- e) How do the wages in the EPZ compare to those of other industries in Namibia?
- f) What is the total value of investment brought in by the new establishments in the EPZ?
- g) What kind of local products and services does the EPZ establishment use from Namibia?
- h) What are the reasons for some establishments not setting of the ground?
- i) What are the main complaints of the EPZ establishments?

#### **1.4 Methodology**

The research will use available statistical and financial data on the EPZ and conduct interviews with key stakeholders who have been involved in the formulation, implementation and evaluation of the EPZ policy. When available other stakeholders with interest in the EPZ that is; the workers, officials from the Offshore Development Company, and others shall be interviewed. Bibliographic materials on country experiences on the subject under study, will be used to determine the similarities and differences that can provide lessons for future improvement.

The research methodology of the study shall involve quantitative and qualitative data analysis. This data will be used to answer various research questions stated earlier. For analysis of objectives the stated objectives of the EPZ programme will be used to measure the extent to which the policy is successful.

The first level analysis will be of the policy formulation process and policy design. Similar analysis will be that of policy implementation. Based on the analysis of implementation so far some judgement will be made about possible future impact of the policy. The main thrust of the study will focus on the implementation phase of the policy.

#### **1.5 Significance of the Study**

Thus, far what has been written about the EPZ program in Namibia is minuscule. Existing literature is descriptive about the EPZ program and short of in depth multidisciplinary analysis, suggesting recommendations for future improvement.

Therefore, much information is desired on how EPZs can be marketed to increase and attract greater investments, which is much more difficult and complicated in the context of globalisation and liberalisation. The contribution of the research to this subject is to look at how EPZs can be improved by using an integrated framework for policy analysis. Second, recommendations will be sought to propose how a policy redesign can be instituted to achieve greater policy improvement. The purpose of the research is to look at the contextual strengths and weaknesses of the EPZ program in Namibia and to come up with suggestions from stakeholders and available literature on the subject both from local and international sources and to see how this information could help overcome the current set backs of the policy in addition to finding recommendations that can serve as a remedy to alleviate the policy problem, where needed.

### **1.6 Limitations**

The study focuses on the implementation phase of the EPZ policy in Namibia within the past 4 years. The study undertaken is not a comparative case study but looks at experiences of selected countries with EPZs with the purpose of drawing lessons for further improvement. Although some statistical and economic data is used to analyse the policy, the study is not an economic or statistical study but will in addition apply a policy approach to studying the EPZ program.

## **Chapter 2 - Literature Review and Theoretical Framework**

### **2.1 Literature review**

#### **ECONOMIC & SOCIAL EFFECTS OF MULTINATIONAL ENTERPRISES IN EXPORT PROCESSING ZONES. International Labour Organisation, 1987**

This report is the outcome of a research project jointly sponsored by the Bureau of Multinational Enterprises of the International Labour Office (ILO) and United Nations Centre on Transnational Corporations (UNCTC). Its primary purpose was to provide a better understanding of the economic and transnational corporations in the terminology of the United Nations – in the Export Processing Zones (EPZ) of developing countries, and to confront a number of widely held assumptions about the role of such enterprises, with available facts and figures.

The report provides the following three factors in the success of EPZ's. The first factor is the EPZ as a planner's dream, which means for people involved in technical assistance in the framework of international agencies and for national planners trying to promote their country's industrial estate from scratch in a virtually virgin territory, with a sophisticated modern infrastructure and without red tape or the social opposition of tradition, as something inherently more stimulating and more glamorous than trying to transform a slow-growing economy, push old enterprises to innovate or modernise a poorly functioning infrastructure. The report states that for enterprises to invest in the EPZs, the attraction of such zones is not merely their low labour costs compared to the home

country, but also the fact that in these modern enclaves, everything is ready for firms to get down to work easily and without delay. Meaning, the well organised EPZ, with its good telephones and its pleasant landscaping has the same attraction to the cautious or inexperienced foreign investor as the package tour to the prudent holiday-maker. Finally, according to the report the success of the EPZ could also be attributed to the fact that it can be a means of circumventing trade restrictions: in the garment industry, for instance, a multinational enterprise investing in the EPZ of a country in the early stages of industrialisation can usually avail itself of the still unfilled export quotas attributed to that country, and thus maintain or even expand its market share in the industrialisation countries.

The research questions under this project are summarised and focus on four large groups of issues:

First, are the global economic issues, such as the linkage between EPZ performance and the host country's overall economic performance. Second, are the issues relating more specifically to the Multinationals which have invested in EPZs: for instance, on how footloose companies occur and the factors which motivate them to invest? Third, are the issues touching upon the host country's industrial and technological development and whether EPZs are an effective instrument for transferring technology to domestic enterprises and how good have EPZ enterprises been at building up their backward linkages with industrial suppliers in the host country? And fourth how are the social issues? And are employment conditions in EPZs very different from those prevailing

elsewhere in the host country? And whether the criticism of the EPZ as an anti-trade union enclave is really justified?

The report argues that even if EPZs account relatively for a small share of manufacturing employment, in general their overall economic importance to the country or area concerned may not be considerable in terms of economic benefits.

On the ownership structure the report argues that if investors in EPZs are exclusively or very largely foreign owned enterprises, their contribution to development, as opposed to the more straightforward process of employment creation or export generation, may somewhat work out if these groups of investors also include domestically owned enterprises, or enterprises which are jointly owned and operated by foreign and domestic investors. The report continues to state that the history of the industrialised countries suggest that one of the biggest contributions made to development by foreign investors was not so much the initial investment, with its concomitant transfers of technology, but the process of gradual integration of this investment into the host country's economy and the progressive transformation of foreign owned subsidiaries into major domestic enterprises.

The report explains that the reasons why the Multi National Enterprises of America or European origin are underrepresented in the EPZ is because of the following:

- (i) Multi Nationals had subsidiaries throughout the world; long before EPZs started expanding in the 1970s.
- (ii) Second their foreign investment decisions tend to be governed by their global market strategies rather than simple labour cost advantage offered by the EPZ.

The report argues that the EPZ idea is part of a much wider debate on industrialization strategies, which led, in the late 1960s and early 1970s to a transition from import substitution to export led industrialisation. It further, argues that the jobs located in the EPZ do not necessarily contribute to most country's economic, social and technological development and that the direct employment effects of the EPZ are higher than the indirect employment effects.

On investments in the EPZ the report states that a firm's decision to invest in the EPZ is not determined solely by the cost of labour but also by factors such as the labour force and political stability and the region in which the EPZ is located.

In conclusion, the report states that one can measure the performance of EPZs in terms of employment creation, export promotion or technology transfer by assessing what might have happened in the absence of an EPZ or whether a country might have developed better and more rapidly without an EPZ.

EXPORT PROCESSING ZONES IN SOUTHERN AFRICA: ECONOMIC,  
SOCIAL AND POLITICAL IMPLICATIONS, JAUCH, KEET, PRETORIUS,  
1996, Institute of Development Labour Law, UCT

The report states that EPZs have been introduced in developing countries as part of an export oriented industrialization strategy with the hope that EPZs will make countries internationally competitive and cater for immediate employment needs. Furthermore, the report states that the introduction of EPZs signifies a departure from import substitution strategy towards an export oriented economy.

The report states that there are 200 EPZs in 60 countries; 50% of them in Asia, 42% in Latin America and the Caribbean, and 10% in Africa. According to the report Asian EPZs account for 71% of all EPZ workers in the world, while less than 1% are employed in Africa. It further states that since the 1990's there are 22 EPZs on the African continent with Mauritius, Tunisia and Egypt accounting for approximately 97% employment in Africa.

The report draws on the experiences of other countries, in particular Mauritius hailed as an African success story. The report highlights the following criteria in evaluating the EPZ:

- a) Effect on trade union and workers rights.
- b) Effects on working conditions in general and the situation of women workers.

- c) The broader social, environmental, financial and economic effects.
- d) Implications for national economic development and regional co-operation and development in the context of Southern Africa.

The report states that firms are attracted to EPZs because of:

- generous tax holidays or total tax exemptions;
- developed infrastructure such as roads, transport and telecommunications;
- various subsidies especially on service provision such as water and electricity;
- import and export duty exemptions;
- unrestricted profit repatriation rights

While other attractions are:

- the availability of abundant cheap labour with low or no set wage rates;
- modifications, or what is termed flexibility in working condition and workers right;
- Restriction on trade union activities.

The report states that,

- a) Social problems in the EPZs are not an effective response to the fundamental structural problems of vast and endemic unemployment and hidden underemployment in these countries.

It also argues that the creation of industrial enclaves creates only relatively few employment opportunities and does little to alleviate the burgeoning employment in the urban and rural areas.

- b) Labour standards according to the report will lead to a down spiral of standards. It further states that the EPZ is a desperate attempt to attract and retain investors at the expense of labour, health and safety standards.

The report states that foreign exchange earnings from the EPZs are minimised by the generous concessions of profit repatriation and other financial inducements accorded to the EPZ investors. It further states that foreign exchange is further limited by the costs of importing capital equipment and production inputs from outside.

The report states that in most countries in Southern Africa there are inadequate development linkages between small but modern industrial sectors, the large traditional agricultural sectors and between the rural and urban areas. It adds that countries with EPZs need to be developed for strategies that are inter related for all economic sectors

and transformative economic development rather than creating more modern industrial enclaves within largely under-developed or stagnant traditional rural economies.

The report states that EPZs are located within a broader framework of globalization and viewed within the context of liberalization programmes promoted in Southern Africa. It concludes that promotion of the EPZ is a weak tool to realize full integration of neighboring and world economies.

**EXPORT PROCESSING ZONES, PRINCIPLES AND PRACTICE, UNIDO SURVEY REPORT, 1984**

According to the report an EPZ is a useful policy instrument which plan to develop an export oriented manufacturing sector with the basic conditions in which export industry can operate with limited technical or administrative capacity to develop a countrywide system allowing exporters duty free access to imported equipment and materials.

It further states that factors, which influence the shape and character of EPZs in future, include increased global competition for investment and lower stock levels/shorter delivery systems.

The report states, that Asia is the most important centre of EPZ activity both in terms of the investment and the number of persons employed. The report adds that in terms of employment, over half the total number of persons employed in EPZs in 1991 (2.2

million out of  $\pm$  4 million) were found in China with the second largest concentration followed by Latin America.

The report adds that garment manufacturing is an important industry in a large number of EPZs and that electronics are a significant activity in the more advanced Asian zones and to some extent in Mexico. However it states that with the exception of the advanced Asian zones few raw materials are sourced domestically.

Concerning exports, the report states that the Caribbean and Central American EPZs mainly export to the USA, while most exports go to Europe. The opposite is said about the origin of foreign investments.

The report elucidate that the EPZ is among many methods by which exporters can be given duty free access to materials and equipment. It also states that the EPZ can be effective in the early stages of an export drive, as a means of attracting investors and demonstrating a country's export potential. The report predicts that over the time EPZs would decline in importance as countrywide duty free schemes are successfully put in place and export industry's developed.

On the conditions for a successful EPZ the following are stated, as essential needs:

- i) A policy environment, which emphasizes a competitive exchange rate, access to credit at reasonable interest rates, the development of private enterprise and technical and management skills.
- ii) A good location in relation to international transport, financial and communication services. As a general rule, the first EPZ should be located in or close to the commercial capital of a country.
- iii) An organization with an appropriate structure which officially assists investors in the approval as well as the operation of a project.

The report alludes that investment promotion is essential because of the intense and growing competition for investments.

Furthermore, it states that promotion of an EPZ is expensive and suggests that target markets and sectors are essential.

It further, states that flexibility is essential and that promotion efforts must be able to switch to new markets at short notice. In particular the report states that domestic investors should not be ignored and that the importance of satisfying customers should be stressed, and that potential investors may be influenced by existing investors. It further states that advertisements should be properly targeted (e.g. by trade journals).

Suggestion is made for incentives to be geared towards the type of industries the zone hope to attract. Furthermore it states that some incentives provided in the EPZ are in the form of grants, low interest loans, for capital incentive projects and tax holidays for labour intensive projects. Under the circumstances the EPZ incentives provided should be in line with those offered by competing EPZs. The report adds that incentives cannot compensate for major problem deficiencies for example industrial relations and infrastructure.

On site location the report states that it is a costly exercise and that the phasing of development should be in line with demand. It also states that the ideal site should be close to international transport and business services. The report argues that the commercial capital is a good place for an EPZ programme. As caution the report states that the planning authority must implement a package of controls to ensure that there are no environmental problems and that there are good controls through by-laws attached to investors' lease.

The report states that the reasons why backward linkages and technology transfer are neglected with the exception of East Asian economies are as follow:

- a) The inability of domestic suppliers to meet the quality, delivery and/or price standards of EPZ producers due to a lack of skills, high duties and taxes on the inputs imported by domestic producers, and their limited access to foreign exchange and low-interest loans.

- b) The reluctance of some expatriate managers to purchase locally.
- c) Inadequate stimuli for linkages and technology transfers. An important mechanism for transferring technology and skills, and creating opportunities for local suppliers, is the movement of people who have been trained in EPZ firms to the domestic economy. This should be encouraged.

### EXPORT PROCESSING ZONES IN NAMIBIA: TAKING A CLOSER LOOK

#### Labour and Research Resource Institute REPORT, MARCH 2 000, NAMIBIA

The Labour Resource and Research Institute (LARRI) carried out a study on the EPZ programme in Namibia during 1999. The study was based on field trips and studies of available literature on the EPZ program. Operational visits to EPZ companies were undertaken and the following interviews were made with the following stakeholders; EPZ managers, government officials and 86 EPZ workers. Additional interviews were conducted with 100 workers in the fishing industry and labour hire companies.

The report established the following companies as operating in the zone,

- 1) Johanna Haida teddy bears;
- 2) Namibia Press & Tools;
- 3) Libra and Marine Ropes International;
- 4) NamDeb Diamond manufacturing;

- 5) Ostrich Production Namibia;
- 6) New Sun Household Namibia
- 7) The Tax free Warehouse
- 8) Goran Enterprise;

The report states that two additional companies that started operations at the time of the research were Transvehco and Namibia King Lion Company.

It adds that the operational investments in the EPZ at the time of the research were N\$130 million, of which N\$70 million (54%) belongs to Ostrich production Namibia. According to the report an average investments of the EPZ company stands at N\$13 million.

Regarding employment the report states that 400 jobs have been created of which 150 or 37% belongs to Ostrich Production Namibia.

The report further states that almost all EPZ workers are unskilled though most received basic on the job training, which lasted a few hours, few days or several weeks. The report claims that the EPZ companies do not utilise the 75% training refund incentives provided to EPZ companies. The reason given is that the government does not provide budgetary provision for training.

On the use of machinery the report states that the machinery used in the EPZ is not highly sophisticated and therefore does not lead to any transfer of technology.

As to the use of inputs the report states that almost all EPZ companies import their machines, raw materials and other factors from outside Namibia. According to the report the companies in the local economy do not use the machines and materials of EPZ companies. It states that the packaging of materials, the occasional servicing of machines and the utilisation of Namibian transport services are the only links between EPZ companies and the local economy.

The report states that the costs of the EPZ programme are substantial and includes;

- a) the cost of developing infrastructure;
- b) the government loan to the Offshore Development Company;
- c) the staff and administrative costs at the Offshore Development Company;
- d) the cost for municipal staff seconded to EPZ programme;
- e) subsidised services of EPZ companies;
- f) the cost of promotional trips and promotional materials;
- g) foregone government revenue as a result of tax exemptions and economic distortions due to special incentives for EPZ companies.

Further, the report states that labour relations seem stable at some companies while at others they are hostile.

The report states that at two companies there are serious concerns for health & safety conditions. It further states that racial discrimination is rampant and states that workers who join Trade Unions are discriminated against.

The report concludes that the EPZ programme is of limited success thus far. It states that the amount of actual investments received and the number of jobs created are rather small and do not justify the view that the EPZ regime is a major success. The report calls on a sober analysis to be undertaken in terms of the costs and benefits of the programme to determine suitability for Namibia.

The report recommends that because of the low wages strategy, a systematic programme of skills development coupled with targeted support for specific local industries and SMEs could be a more viable option. This should be accompanied by industrial projects aimed at processing local materials the report adds.

**NAMIBIA'S EPZS – THE MYTHS AND REALITIES: GERRY MUNYAMA,**  
**THE NAMIBIAN, 18 SEPTEMBER 2 000**

Gerry Munyama was Namibia's Former Commercial representative to the USA and wrote in response to the LARRI report that;

There are 871 EPZs worldwide employing about 27 million people. He further states that the zones and their kin have transformed many national economies including Ireland, Mauritius and Mexico. He further states that Namibia being a newly independent country with little in the form of natural resources and a small domestic market, seeks to use EPZs to achieve the following objectives;

- a) create jobs and raise standards of living;
- b) transfer new skills and expertise to local human resources;
- c) boost the export sector, particularly non-traditional exports;
- d) earn foreign exchange;
- e) create backward and forward linkages;
- f) introduce new technology;
- g) invigorate less developed regions in the country;
- h) stimulate sectors regarded as strategically important to the economy e.g. electronics, information technology, research and development, tourism, infrastructure and human resource development.

In attaining these objectives Munyama, states that a progressive revision has to be made in the design and implementation of the EPZ. Such modifications are to be made to EPZ management companies who by nature according to Munyama are dynamic instrumentalities that must adopt themselves to meet the challenges of the global market place.

He further calls on those with interest in the EPZ to bear in mind that the success of EPZs take years.

For example he states that Honduras only created 2 500 jobs between 1976 & 1986 and that these jobs increased to 61 000 in 1996.

He further states that Mauritius with an Export Processing Zone in the late 1960, only saw little growth until the 1980s.

Munyama states, the following as reasons why the Namibian EPZ does not see growth:

- The first reason he states is that the Asian financial crisis hit at a time when the Namibian EPZ among others was getting of the ground. With this the impact was catastrophic for according to Munyama this did not only lead to global demand constrictions for manufactured goods, but dramatically reduced labour cost for manufacturers in countries that EPZs targeted. By illustration he states that wages fell by 80% in Indonesia thereby eroding away any comparative advantages for the Namibia EPZ.
  
- Second, Munyama argues that the sluggishness of market access initiatives through Lome and the US Opportunity Act have kept investors away from countries like Namibia.

- Third, he argues that Namibia's economy being intrinsically tied to that of South Africa, has been hampered by slow economic growth rates. Furthermore he states that the sluggish growth coupled with massive job losses has hampered the attractiveness of Walvis Bay as an entry port to South Africa.
  
- Fourth, he states that the continued war in Angola and the Democratic Republic of the Congo have impeded investor's confidence.
  
- Fifth, he argues that the local private sector has not been very responsive in utilising the opportunities created by government to develop alliances with foreign companies since they can provide local knowledge and capital to get in to joint ventures.

In conclusion, Munyama, presents optimism about the EPZ because current discussions within the WTO that are directed at increasing market access of developing countries to the industrial and the US market. Furthermore, he states that the US Opportunity Bill holds good prospects for Namibia to benefit from foreign direct investment that can come as a result of Namibia's ability to offer strategic advantages.

**MAURITIUS: AN ISLAND OF SUCCESS, A RETROSPECTIVE STUDY 1960 – 1993, Edward and Bridget Dorman, Pacific Press**

The book states that the EPZ has been legally established in 1970, following a lead set by private enterprise. Subsequently, this led to the Mauritian government forming the Mauritius Export Development Industrial Agency (MEDIA) in 1985 to promote the EPZ among foreign investors. The Mauritius Free Port Authority was established in 1993 and plays a leadership role in Mauritius's current efforts to diversify financial services. The report highlights that the Mauritius government has been receptive in listening closely to business at home and abroad in the design of the legal and institutional framework for the EPZ program.

The report adds that that Mauritius copied the East Asian productive style after introducing the computer policy. This policy according to the report led to the establishment of two parastatals, the State Informatics Training Research Advisory Centre (SITRAC) which is an agency responsible for providing training and the National Computer Board which is responsible in defining computer strategies for the country.

According, to the report EPZs in Mauritius have a small union membership following of about 12%. In spite of this the low degree of unionization and conditions of work in the EPZ seem not to be exploitative and have steadily improved.

In addition, the report states that labour cost in the EPZ was kept low by reducing labour protection, such as overtime and the termination of employment which existed in the rest of the economy. However, annual and maternity leave are maintained. In general trade unions are not prohibited from the EPZ and the zone is not entirely exploitative.

The report states that Mauritius capital plays an important role in the EPZ and that these funds are not restricted to a few large firms.

### **INFLUENCE OF EAST-ASIA**

The report adds that the Mauritian EPZ has been particularly influenced by the Chinese link in the sense that Hong Kong has been the main source of foreign equity capital.

In conclusion the report states that the EPZ programme in Mauritius has particularly benefited from the availability of cheap transport and cheap electricity and water supply. Jobs were located close to the people to avoid congestion.

### **EXPORT PROCESSING ZONES AND THEIR RELEVANCE TO NAMIBIA**

**By Robin Sherbourn, April 1993, Nepru Research Paper Report no. 8**

According to Sherbourn, EPZs are physically separated industrial estates outside a nation's normal customs regime. He further states that firms that operate within the

zones enjoy duty free imports of inputs and equipment as well as favourable rates of taxation and better infrastructure.

He states that before the establishment of the Namibian EPZ a study was commissioned to lay preparation work under the funding of the African Development Bank (ADB). At the same time a study tour to Mauritius, Malaysia and Ireland of stakeholders in the EPZ was sponsored by the Namibian government to draw lessons from the experiences of these countries.

According, to Sherbourn the purpose of his paper is to survey international literature on EPZs and to draw lessons from the experiences of other countries.

By so doing he argues that it is difficult to come to a conclusion about the success of any particular EPZ because this can only be done by appropriate measures such as figures for direct employment and the number of facilities operating in the zone. He states that these indicators can sometime be misleading as seemingly successful. He warns that the EPZ should not be a showcase heavily subsidised by the rest of the economy. On the type of firms attracted to the EPZ, Sherbourne states that employment in the zone tends to be concentrated in a few labour intensive industries that is: garments, electronics and electrical goods assembly. He adds that the dominant characteristics of foreign firms operating in EPZs is their mobility and ability to migrate from one EPZ to one another. He further states that the reason why firms depart is because of the fixed term nature of the fiscal regimes they enjoy. He noted that once the tax holiday offered to attract a firm expires the firm may decide to leave and start a new tax holiday elsewhere.

Sherbourn stress that although foreign firms and their joint ventures predominate in most EPZs, local firms are active in almost all EPZs and actually outnumber foreign firms in India and Indonesia. He states that most foreign investments in electronics come from the USA or Japan while garment investors tend to come from Hong Kong, Taiwan and Korea.

He recommends that joint ventures should create a domestically owned proportion of profits and alludes that nominal ownership must not disguise the degree of foreign control. Furthermore he states that foreign firms with little stake in long term development is a high risk strategy for any country. He adds that a successful EPZ requires the presence of a very dynamic business community with links to overseas investors whose resources can be complimented by domestic funds. He further states that the competitiveness of the host economy must be high in international terms and that fiscal incentives appear only to reinforce existing cost advantages rather than off set disadvantages.

On whether EPZs lead to increased foreign exchange earnings, Sherbourne states that they do on a smaller scale, because capital equipment and inputs are imported from outside the host country and profits are allowed to be repatriated to the home country of foreign owned firms. He states that the only hard currency earnings from foreign sales of EPZ exports are those derived from conversions into local currency to pay for local expenses such as wages paid to local labour and the payments for local services, utilities,

materials and other non-labour costs paid to suppliers in the host country. This calculation according to Sherbourne excludes taxation. He states that all revenue from taxes represents a net benefit to the host country, as without the EPZ there would be no tax revenue.

In citing Basil and Germidis (1984), Sherbourne states that more than 50% of the foreign exchange benefits are due to employment. By looking at a case study covering five EPZs, Sherbourne argues that foreign exchange earnings must be set against foreign exchange expenditures required to build the EPZ in the first place and which could be considered for a small country with limited resources.

He further stressed that consideration must be taken into account regarding converting the foreign currency in to the local currency. In this regard he states that the host country can improve on implicit tax of EPZ firms by requiring that they convert the hard currency into local currency through the Central Bank at an over valued official exchange rate. He cautions that it is improbable for the Namibian monetary authorities to maintain the Namibian Dollar at a realistic rate because deviation from this policy may impact negatively on the whole economy.

On backward linkages, Sherbourn states that they rarely develop. This he says is due to the nature of EPZ firms which typically import inputs from countries other than the host country. He states that because local firms are to choose outside the EPZ they are not in a position to produce at a high standard unless they compete internationally and enjoy the same benefits as EPZs firms.

In conclusion Sherbourn argues that the success of an EPZ will depend on sharing infrastructural development such that costs are kept within reasonable limits and investment infrastructure takes place as the EPZ develops. He advises that the costs per job should bear some relation to total per capita income and average wages. He states that a ratio of 5% or 10:1 between total investment costs and the annual wage is typical while a higher ratio indicates over investment, poor occupancy or low wages.

#### **Literature – Course - Masters in Public Policy and Administration**

As part of the bibliographic research various materials from the course in Public Policy and Administration shall be used. In particular, definitions of different concepts shall be provided in terms of how they are used to enable the research accomplish its objectives. Furthermore, a select example of approaches used in the field of Public Policy shall be illustrated to indicate the extent to which literature from the course has influenced the research methodology.

In the contemporary language of Public Policy: A starting point, Thomas Dye (Understanding Public Policy) states that policy study; involves a description of the content of public policy; an assessment of the impact of environmental forms on the content of public policy analysis of the effect of various institutional arrangements and political processes on public policy; and inquiry into the consequences of various public

policies for the political system; and an evaluation of the impact of public policies on society, both in terms of expected and unexpected consequences.

In the same book in defining, group theory Robert Dahl states that group theory and pluralist, societies consist of a large number of racial, ethnic and economic groups who are more or less well organised. He states, that these groups are in political competition and that they exert pressure on government to produce policies favourable to them. He continues that the public interest tends to emerge out of the struggle of competing individual and group claims so that specific policies reflect the relative influence of the different interests on any given issue. This he states results in each policy area getting involved in a distinctive set of problems, and a separate set of political agents and forces. In the light of this he adds that public policy results in a unique process of interaction whereby elements of pluralism and group theory are multiple centres of power and optimum policy developments through competing interests.

The MPC 190 class notes of Moharir titled "Characteristics of Public Policy and Policy Making Process", highlight different definitions of public policy. Public policy in this regard is defined as, binding and backed up by authorities of the state. The notes state that public policies are obeyed by people if they share the values, objectives enshrined in public policy. Meaning that it is difficult to enforce coercion if the values are not accepted by the population. Compliance with policies is easier if incentives, rather than coercion is used for getting expected behavioural change on the part of the population. Furthermore he states in the notes that the problem of many developing countries remains

a shortage of resources to be used as incentive. This provides the dilemma of using monetary incentives or legal coercion as policy instrument.

The following are provided as definitions of public policy; that "policymaking is both an analytical process and a socio-political process which involves problem identification, problem definition, setting of objectives, developing alternatives, working out their consequences, selecting the "best" alternatives, implementing the alternatives, monitoring, evaluation, etc". The analytical, problem-solving part of the process requires the collection of information, it's analyses and techniques to be used. The other part of the process involves interaction between government and interest groups, political institutions and other actors to provide acceptance of policies. This to a large degree involves bargaining and a give and take, compromise. It is suggested that the concept of policy analysis has to incorporate both these elements. One without the other will create problems in realising the objective of the policy.

Hogwood and Gun provide the following as stages, in the process of policy making:

1. Deciding to decide
2. Deciding how to decide
3. Issue definition
4. Forecasting
5. Setting objectives priorities
6. Option analysis

7. Policy implementation, monitoring and control
8. Evaluation and review
9. Policy maintenance, succession or termination

(Adopted from Brian W. Hogwood & Lewis A. Gun, Policy Analysis for Real World, Oxford University Press 1984).

Underlying are definitions of concepts that inform the use of language in the research.

#### (a) Policy process

Dunn defines policy process as the administrative, organisational and political activities and attitudes that shape the transformation of policy inputs and impacts. (Dunn, 1994).

#### (b) Problem analysis

In the lecture notes of MPC 111, problem analysis is defined as the logical process of narrowing down a body of information during the search for solution. At each stage, specific information relevant to the problem drops out as the process moves successively from the overall situation to what is wrong within it, for the most important problems to be treated, then to possible things that might have caused it to go wrong, and finally to the most likely cause. Locating this cause makes it possible to take a specific, effective action. The following are given as steps in the process of problem analysis:

(4) Policy analysis

SITUATION

(1) In defining policy goals

(looking at the situation)



PROBLEMS

(Dunn, 1994)

(Identifying the problems)



PRIORITY PROBLEMS

(2) An applied social science

(focusing on the priority problems)



POSSIBLE CAUSES

(3) Policy analysis

(looking at the possible causes)



MOST LIKELY CAUSES

(4) Policy analysis

(looking at the most likely causes)



SPECIFIC CORRECTIVE ACTION

(Dunn, 1994)

(taking corrective action)

(5) Policy implementation

(MPC 111)

(c) **Policy analysis**

(i) In defining policy analysis Dunn, states that it is an applied social science discipline which uses multiple methods of inquiry and argument to produce or transform policy relevant information that may be utilised in political setting to resolve policy problems.

(Dunn, 1994)

(ii) An applied social science discipline that uses multiple methods of inquiry in context of argumentation and public debate, to create, critically assess, and communicate policy – relevant knowledge. (MPC 130)

(d) **Public Policy**

“A complete pattern of interdependent collective choices, including decisions not to act, made by governmental bodies and officials”. (Dunn, 1994)

(e) **Policy formulation**

“The development and synthesis of alternative solutions for policy problems”.

(Dunn, 1994)

(f) **Policy implementation**

“The execution and steering of policy action over time which create policy impact”.

(Dunn, 1994)

## Policy Models

**Mixed-Scanning: A "Third Approach To Decision-Making", Amitai Etzioni, Public Administration Review, December 1967, vol. 27, pp. 385-392**

In order to arrive at the most favourable outcomes of the research I have adopted the use of a Mixed-Scanning decision making model. This approach combines the elements of the Rational-Comprehensive Model and the Incremental Change Model.

The Rationalistic model posits a high degree of control over the decision-making situation by employing clarification of values or objectives as distinct and usually prerequisite to empirical analysis of alternatives whereas the Incremental model focuses on a trial and error correction of a policy problem, by means of involving greater stakeholder participation and debates. These two approaches add up favourably in my view to provide an acceptable framework for conducting my research. Further definitions of these approaches are provided below.

### (a) The rational comprehensive model

Amitai Etzioni (1967), defines the rationalistic model as, a widely held conception about how decisions are and ought to be made whereby an actor becomes aware of a problem, posits a goal, carefully weighs alternative means and chooses among them according to his estimates of their respective merit, with reference to the state of affair he prefers.

Otherwise put, a rationalist approach makes use of scientific technology such as data interpretation, feasibility studies, CBA in the process of policy making, little or no stakeholder inputting under this model is utilised to test the responsiveness of stakeholders. The rationalist approach strictly depends on scientific procedures and methods to inform policy.

#### (b) Incremental Change Model

Lindblom restricts the six primary requirements of the incremental model as follows:

1. Rather than attempting a comprehensive survey and evaluation of all alternatives the decision-maker focuses only on those policies which differ incrementally from existing policies.
2. Only a relatively small number of policy alternatives are considered.
3. For each policy alternative, only a restricted number of important consequences are evaluated.
4. The problem confronting the decision-maker is continually redefined: Incrementalism allows for countless ends-means and means-ends adjustments which, in effect make the problem more manageable.
5. Thus, there is no one decision or "right" solution but a "never-ending series of attacks" on the issues at hand through serial analyses and evaluation.
6. As such incremental decision-making is described as remedial, geared more to the alleviation of present concrete social imperfections than to the promotion of future social goals.

In short the incrementalist approach is based on instituting corrective measures based on trial and error. Incrementalists reject the notion that policies can be guided in terms of central institutions of a society expressing the collective "good". They also believe that policies are the outcomes of a give and take among numerous societal "partisans". Incrementalist argues that incremental arguments tend to be remedial provided steps are taken in the right direction and when the direction is wrong, the course is altered.

(c) The Mixed-scanning model

The mixed scanning model provides a realistic description of the strategy used by actors in a large variety of fields and the strategy for effective actors to follow. The mixed scanning approach is a mixture of the rationalist and incrementalist approach. The approach makes use of scientific methods and pluralistic inputting to inform the policy making process, thus combining the analytical and socio-political components of public policy.

Mixed scanning is flexible and represents changes in the relative investment in scanning in general as well as among the various levels of scanning and permits it to adapt to the specific situation. For example, the more encompassing scanning is called for the more when the environment is turbulent.

In conclusion, Etzioni recommends that an appropriate mixed scanning model requires the following elements;

1. A higher capacity to build consensus than even democracies command.
2. More effective though not necessarily more numerous means of control than totalitarian societies employ (which new knowledge technology and better analysis through the social sciences may make feasible).
3. A mixed-scanning strategy which is not as rationalistic as that which the totalitarian societies attempt to pursue and not as incremental as the strategy democracies advocate.

**Comparative picture of Rational-Comprehensive, Incremental Change and Mixed Scanning Models. (Lecture notes, MPC 110)**

| I                           | II                                 | III                          |
|-----------------------------|------------------------------------|------------------------------|
| Aspect                      | Rational Comprehensive Model       | Incremental Change Model     |
| 1. Nature Environment       | Comprehensive Environment scanning | Limited Environment Scanning |
| 2. Social Values            | Focusing on all social             | Focus on limited Values      |
| 3. Nature of policy problem | Comprehensive Statement            | Focus on limited             |

|                                      |   |   |
|--------------------------------------|---|---|
|                                      | of all related policy problems  | problem.  |
|                                      |   | (Reality+tomorrow)  |
| 4. Statement of objectives           | Statement of all objectives,<br>With priorities and trade<br>off between them | Attention on few or<br>one objective at a<br>time (unmet<br>objectives) |
| 5. Nature of alternatives            | Consideration of all possible<br>alternatives                                 | Consideration of<br>only one<br>alternative                             |
| 6. Consequences of<br>Alternatives   | Listing of all short-term<br>and long-term consequences                       | Consideration of<br>limited short term<br>Consequences                  |
| 7. Criteria choice of<br>Alternative | Comprehensive criteria  | Agreement among<br>decision-makers                                      |
| 8. Aim of Policy Design              | Maximisation of<br>Optimisation   | Moderate<br>change in status<br>quo                                     |

The Mixed-Scanning Model is a combination of the two models whereby a combination of the good points is sought while leaving the bad points out.

## **2.2 Preferred Theoretical Framework for Research**

The policy research method that is applied in this study will use an integrated framework for policy analysis. Additionally, the research shall examine how the policy objectives of the EPZ programme in Namibia are being realised in practice. The performance of the policy will be analysed against the objectives of the Namibian EPZ Act and the views of stakeholders. An integrated framework to policy analysis is based on a multidisciplinary analysis of the contents and the process of public policy. This is based on the assumption that a successful policy has to fulfil a plurality of criteria derived from the literature in political science, public administration, economics and sociology. These criteria generally are effectiveness (degree to which various objectives of the policy are achieved), efficiency (the time and cost used in policy implementation), responsiveness (the degree to which all stakeholders are satisfied), innovation (extent of creativity, innovation in the design, instruments and implementation of policy), political feasibility (extent to which the alternative chosen is politically feasible in the particular environment), administrative feasibility (extent to which the selected implementing agencies have the administrative capability or the need for it to be created to achieve the policy objectives). The EPZ program being an economic policy shall also be analysed in terms of employment created, utilization of the country's natural resources and the transfer of technology. The study will use experiences of countries with EPZ programs

like Mauritius, Ireland and Zimbabwe. Where appropriate lessons useful to improving the Namibian EPZ program shall be used as recommendations. Thus the research is behavioral (i.e. looking at how the policy is in reality) and normative (i.e. looking at how it can be improved).

The Namibian EPZ policy was initiated by the Swartland government. This is the formulation of the policy, the Ministry of Trade and Industry the principal agent in government (also) also envisaged the implementation of the policy. The World Bank made a contribution of US \$100,000 to cover the general policy research.

In order to test whether improvements in the policy a country-wide consultation process was initiated up to, through the, with, the, and public meetings. The stakeholders who were consulted are the National Union of Namibian Workers, the National Chambers of Commerce and Industry, the Ministry of Education, Labour, the Namibian Development Council, the Bank of Namibia, the Parliament of Namibia, the Council of Churches, the National Council, the Council of Municipalities, Regional Councils, Regional Chambers of Commerce and Industry, the Walvis Bay Port Area Community, Development Forum and Training Institutions.

As a result of the process of policy formulation which drew the Ministry of Trade and Industry, the Walvis Bay Port Area Community, the Investment Board, the National Development Corporation and a number of other people and institutions in the country and Mauritius to form and source from the Department of Trade and Industry.

## Chapter 3 – The EPZ program in Namibia

### 3.1. Policy Design

The Namibian EPZ policy was initiated by the Namibian government. Prior to the formulation of the policy, the Ministry of Trade and Industry the principle agent in government tasked with overseeing the implementation of the policy contracted international consultants to assist in preparing a draft policy document. As support the World Bank made a contribution of US\$ 300 000 to cover the consultancy expenses.

In order to test stakeholder responsiveness to the policy a country-wide consultation process was embarked upon through the radio, t.v. and public meetings. The stakeholders who were consulted are, the National Union of Namibian Workers, the National Chambers of Commerce and Industry; the Ministries of Finance, Higher Education, Labour, the Namibian Development Corporation, the Bank of Namibia, the Parliament of Namibia, the Cabinet of Namibia, the National Council, Audit Firms, all Municipalities, Regional Councils, Regional Chambers of Commerce and Industry, the Walvis Bay Business Community, Commercial Banks and Clearing Associations.

As a continuous process of policy formulation officials from the, Ministry of Trade and Industry, the Offshore Development Company, the Investment Centre, the National Development Corporation and a select Business people undertook study tours to Ireland and Mauritius to learn and borrow from the experiences of these zones.

Upon conclusion of the consultative process the EPZ committee which comprised of labour, training, customs and legal experts and which acted as a transitional vehicle for the advancement of the regulations and procedures pertaining to the Draft EPZ policy combined the consultant's document and stakeholders input to form the basis for the underlying;

1. Regulations pertaining to labour customs and training activities.
2. Procedures for EPZ applications and screening.
3. Analysis of the EPZ Act
4. Proposals for approved activities.
5. Definition of relationship between the Offshore Development Company (ODC), EPZ Management Companies and Investment Center.
6. Definition of proposed function of the Offshore Development Company

The work of the EPZ Committee led to the formulation of the EPZ Bill, which was tabled for debate to the Cabinet by Honourable Hidipo Hamutenya, Minister of Trade and Industry. Upon approval the Bill was taken to the National Assembly which gave support to it. As a next step the Bill went to the National Council for scrutiny and debate. The Bill was unanimously approved and thereafter taken by the Prime Minister to the Office of the President to be signed as an Act. The Bill was enacted in terms of Article 56 of the Constitution of the Republic of Namibia as no. 9 of 1995 Export Processing Zones Act of 1995.

### 3.2 Policy Content

The Namibian EPZ Act was passed in 1995 and became operational in 1996. The objective of the Act is to promote export-led manufacturing activities in designated zones where special incentives are provided for manufactures and exporters in the form of:

1. No corporate tax
2. No general sales tax
3. No additional sales duty
4. No stamp and transfer duty
5. Substantial reimbursement on training cost
6. Permission to hold foreign currency account in local Banks
7. The right to set up base anywhere in the country
8. Legal prohibition against strikes or lockouts in EPZ enterprises

In an interview Dr. Ken Kwaku, the former Advisor to the Minister of Trade and Industry, Hon. Hidipo Hamutenya during the period of 1995-1998, and who now acts as the current Africa-wide Program Manager of the Multilateral Investment Guarantee Agency/ a Member of the World Bank; states that the primary objectives of an EPZ policy are to create employment and to attract investments. He adds that the EPZ policy is a transitional instrument that act as a bait for other investments. His views are somewhat reflected in the policy objectives of the Namibian EPZ Act.

The objectives of the EPZ Act are;

1. Attracting, promoting or increasing the manufacturing of export goods.
2. Creating or increasing industrial employment
3. Creating or expanding export earnings.
4. Creating or expanding industrial investment including foreign investment.
5. Encouraging technology transfer and the development of management and labour skills. (Export Processing Zones Act 1995)

In providing the reasons why EPZs evolved, Sherbourn (1997), states that the zones are found in countries of differing incomes and have come to be seen as means by which lower income countries can rapidly transform their economies and increase industrial employment, enter world markets of manufactured goods, increase foreign direct investment and enhance training and skills acquisition within the economy as a whole.

The policy design of the EPZ was not based on any specific model nor was there a requirement for the government to follow any specific procedure for policy formulation. However, the implicit model used in the design of the EPZ seems to be the mixed scanning model. In other words a comprehensive analysis in terms of using foreign experts, consulting many stakeholders and using experiences of countries with EPZs has been applied with limited analysis on the local socio-political environment.

### **3.3 The Implementation machinery of the EPZ Programme**

In the course policy implementation various organisations are involved and are as follow:

#### **a) The EPZ Committee**

EPZ certificates are granted by the EPZ Committee. The committee is chaired by the Minister of Trade and Industry, and consists of the Ministers of Finance, Labour, Higher Education, the Governor of the Bank of Namibia, the Attorney-General's Office, officials from the Offshore Development Company and the Investment Centre. The officials from the Offshore Development Company and the Investment Centre sit on the committee in an advisory capacity. Recommendations to provide EPZ status to companies is forwarded to the Committee by the Offshore Development Company and the Investment Centre.

#### **b) The Ministry of Trade and Industry**

May establish EPZs and determine the location and scope of their activities. Furthermore, it can issue single factory EPZ enterprise certificates and determine the period of operation or order the discontinuation of any EPZ activities. The Ministry can appoint EPZ Management Committee members under certain conditions and should be consulted in issuing EPZ enterprise certificates.

**c) The Ministry of Finance**

Is responsible for the implementation of fiscal incentives and customs regulations in respect to EPZ companies.

**d) The Bank of Namibia**

Provides regulations regarding Offshore Banking and assist EPZ companies in the establishment of banking facilities.

**e) The Ministry of Higher Education**

Must be contacted on matters concerning training in the EPZ. Is responsible to ensure the implementation of the Vocational Training Act in the EPZ.

**f) The Ministry of Labour**

Oversees the implementation of the Social Security Act in the EPZ.

### **g) EPZ Management Companies**

These are private and public companies with limited liability tasked by the EPZ Act to implement the EPZ scheme on behalf of the Ministry of Trade and Industry. Currently, there are two EPZ companies operating namely the Offshore Development Company and the Walvis Bay EPZ Management Company. Their tasks are to grant services to EPZ certificate holders for fixed periods and to impose levies for services rendered to EPZ enterprises. They are also responsible for promoting, marketing, co-ordinating and monitoring all approved activities in the EPZ and act as the sole agents in handling investor's applications.

### **3.4 Policy Impact**

All together 121 companies have applied for EPZ status since the inception of the EPZ program in 1996. At present a total of 12 companies operate in the EPZ. Of this total 3 local companies are in joint ventures with foreign companies, while 8 of the companies are foreign owned and the remaining 1 being of local origin. In total 83% of the companies in the Namibian EPZ are involved in value addition. While the remaining 17% are involved in the re-export of general commodities. The current job level in the EPZ stands at 555 representing an average of 138 jobs created annually.

#### **3.4.1 Local Participation in the EPZ**

### **3.4.1 Local Participation in the EPZ**

Ostrich Production Namibia (OPN) is involved in the processing of Ostrich Meat and by-products. According to the Managing Director Frikie Mouton, the company has acquired markets for Ostrich meat in India, Malaysia and Hong Kong while maintaining its markets in the European Union. Products such as leather are exported to the EU, the Far East and the United States while the carcass, meal, oil and trimmings are destined to South Africa. Arrangements are underway to open a shop at Keetmanshoop to sell similar products in Namibia. The company thus far has employed 160 people. The combine investment value of Ostrich Production Namibia stands at N\$ 78 million.

Ongopolo Mining Processing (OMP) is another EPZ company involved in adding value to local resources. According to the company's (June, 2 000) report, 5 500 tones of copper and 10,2 tones of silver were smelted. More activities are expected as soon as the arsenic plant comes into action. At the moment 170 people are recruited to work at different mines. The mines operating under OMP are Tsumeb, Kombat, Khusib-Springs and Otjihase. The Ongopolo Mining Processing mines are a joint venture between workers and management and have an investment value of N\$ 46 million.

Nangem Diamond Manufacturing is an EPZ company that adds value to Namibia's diamonds. The company employs 39 people and is located in Okahandja. The projected employment figure of the company when fully operational will be 65 employees. The company has invested N\$ 10 500 000.00 in the EPZ program.

### 3.4.2 EPZ Companies in operation

Companies operational in the EPZ as at January 2001

| Company                           | Locality     | Economic Activity                                    | origin                 | Actual Investment | Employment | Year started |
|-----------------------------------|--------------|--|------------------------|-------------------|------------|--------------|
| Johanna Haida                     | Swakopmund   | Manufacturing of Teddy Bears                         | Germany                | NS 2 100 000      | 15         | 1997         |
| Namibia Press and Tools           | Walvis Bay   | Manufacturing of Motor vehicle components            | Germany                | NS 30 000 000     | 30-25      | 1996         |
| Libra Bathroom Ware               | Walvis Bay   | Manufacturing of acrylic and bathroom accessories    | Britain                | NS 5 500 000      | 69         | 1998         |
| Marine Ropes International        | Walvis Bay   | Manufacturing of ropes and associated products       | RSA                    | NS 20 000 000     | 10         | 1998         |
| Nangem Diamond Manufacturing      | Okahandja    | Polished Diamonds                                    | Namibia<br>Switzerland | NS 10 500 000     | 64/17      | 1998         |
| Ostrich Production Namibia        | Keetmanshoop | Ostrich Meat Processing and tannery                  | Namibia<br>RSA         | NS 78 000 000     | 166        | 1998         |
| New Sun Household Namibia         | Tsumeb       | Manufacturing of aluminium household and kitchenware | China                  | NS 30 000 000     | 16/14      | 1999         |
| Tax Free House                    | Oshikango    | Breakbulk and warehousing of general consumer goods  | RSA                    | NS 15 000 000     | 14         | 1997         |
| Goran Enterprises                 | Oshikango    | Re-export general commodities                        | Iraq                   | NS 30 000 000     | 5          | 1998         |
| Ongopolo Mining and Processing    | Tsumeb       | Processing of blister copper and arsenic trioxide    | Namibia                | NS 46 000 000     | 200        | 2000         |
| Dessert and Ocean Company Limited | Luderits     | Manufacturing of wellness cosmetic products          | Germany                | NS 892 115        | 8          | 2000         |
| Namibia Fashion Knitts            | Windhoek     | Manufacturing of ladies fashionwares                 | Namibia<br>RSA         | NS 1 000 000      | 12         | 1998         |
| Totals                            |              |  |                        | NS 268 92115      | 555        |              |

Please note that the above data is based on research findings and does not reflect data on potential investments underway.

According to the Preliminary EPZ Progress Review of September 2 000, the reasons for withdrawal of companies are caused by,

1. Failure to do market research prior to seeking EPZ status.
2. Ready market in the domestic environment as an alternative to export market.
3. Failure to raise required funding for their operations.
4. Various infrastructural shortcomings in the region, especially in the Internet related services.
5. Inadequate analysis of proposals and lack of verification of background of applicants, leading to a high percentage of rejections (now rectified through a follow up/tracking system).

### **3.4.3 Stakeholder Analysis on the performance of the EPZ program in Namibia**

#### **(a) Chief Executive Officer of the ODC – Mr. Sataar Aboobakar**

Mr. Abdool S Aboobakar the Chief Executive Officer of the Offshore Development Company states that among the major problems of the EPZ are export related. He states that there is a need to strengthen Namibia's manufacturing base noting that it contributes only 4% to the Gross Domestic Product. This figure excludes contributions of the fishing and beef sector.

He hints that among the problems faced by the EPZ are a lack of trained manpower at management and floor level. This problem he states will adversely affect Namibia's capacity to produce high quality products. Labour cost, freight and transport costs according Mr. Aboobakar are expensive compared to other EPZs. He adds that low cost countries are preferred by investors. On the availability of operational capital to set up investments in the EPZ he hinted that current interest rate loans repayments offered by Banks are too high to finance transport, communication and capital projects in the EPZ.

As solutions he suggests that Vocational Training should be expanded and that training in business related studies, engineering, civil engineering etc. should be bolstered. In order to alleviate the problem of lack of capital he suggests that the government subsidise long-term investments. He proposes that a Development Bank be created to extend soft loans on a long-term basis.

On the policy changes he would like to see in order for the program to become competitive he suggests that the private sector should enter in to smart partnership with government to fund the cost of training entrepreneurs and technical skilled labour.

He states that the Namibian EPZ regime compared to the Mauritian EPZ program provide better incentives. However, he states that investors are attracted to a zone based on its competitiveness. According to him Mauritius has a good Money Market, cheap freight

services, high technical skilled labor, low interest rates and a supportive trade union that cooperate with government in boosting investors confidence.

He stresses that the fruits of the Mauritian EPZ amounted to an increase in the wages from N\$ 4.00 per day in 1984 to N\$ 80.00 to date. In addition the success of the Mauritian EPZ, he states has brought about free Secondary, University and Vocational Education.

On the lessons that Namibia can learn from the EPZ in Mauritius he states that the government should encourage smart partnership with the private sector and the unions. At the same time he adds that the government should encourage export oriented manufacturing and provide lower interest rates to companies involved in exports.

He states that the Mauritius Export Development Industrial Agency which is responsible for export promotion has brought down the cost of operation in the Mauritian EPZ by providing a well maintained infrastructure, cheap water and electricity supply and cheap telecommunication cargo handling cost. Finally, he states that in Mauritius loans to companies in the zone are not provided without the upgrading of machines.

**(b) Former Personal Advisor of the Minister of Trade and Industry (1995-1998).**

**Current Program Manager of the Multilateral Investment Gurantee Agency**

**Africa-wide Office based in Windhoek – Dr. Ken Kwaku**

On stakeholder responsiveness Dr. Kwaku states that the labour unions are not happy with the non-applicability of the Labour Act in the EPZ. However he states that Namibia's average wages are better than those of Jamaica, Cameroon and Venezuela. He adds that labour rights are not totally excluded from the EPZ as the Act makes provision for grievance resolution procedures leading to arbitration. He mentions that the unemployed people consulted gave support to the scheme. However he states that the International Labour Organisation and an American consultant were against the scheme as it would mean a loss of jobs to America. This fear was illustrated by the American consultant and proves prophetic with the current financial crisis affecting the U.S.A, Europe and some parts of East Asia.

On how the various stakeholders were consulted he states that it is through public meetings, the media parliament and cabinet.

He stresses that among the implementation problems of the EPZ policy includes among others poor attendance of the EPZ Committee meetings which consist of the Ministers of Trade and Industry, Finance, Higher Education, Labour, the Governor of the Bank of Namibia, and representatives from the Offshore Development Company and Investment Centre. He adds that the EPZ concept in Namibia is not properly understood hence there

is inaction from the side of the local entrepreneurs to enter in to joint ventures with foreign partners in order to exploit the opportunities provided by the EPZ scheme. This he attributes to the "Laager" mentality of key business people who happen to be advantaged by the colonial dispensation and who are more close to South Africa as opposed to dealing with the Namibian government. This attitude he stresses is prevalent in the two-chamber system embraced by the Walvis Bay business community (i.e. a chamber catering for whites only and one operating on a national scale).

On the concessions that were made in creating the EPZ program, Dr. Kwaku states that they are in the form of tax incentives and training subsidies. He adds that these incentives are effective because Namibia is not an investment destination and therefore needs to go at full length to appeal to investors in the face of merciless competition.

He suggests that as an adjustability to enhance the performance of the EPZ program the Offshore Development Company should beef up its due diligence capacity in order to constrain the possibility of incentive hoppers or foot-loose companies streaming in the EPZ.

In addition, he states that an honest evaluation should be conducted on the personnel capacity of the staff employed in EPZ management companies in terms of their ability to take stock of past performances. Meaning that a targeting strategy should be developed that involves marketing the EPZ on the Internet, and by including business people on investment promotion missions.

Finally he concurs that the EPZ is an appropriate outward strategy that needs to be linked to achievements of the domestic industrialisation strategy. As an example he states that Zimbabwe has merged the EPZ Management Authority to the Investment Centre where government has a 30% shareholding.

**(c) Chief Customs and Excise Officer (Ministry of Finance) – Mr. Veripi Ngaujake**

According to Mr. Ngaujake, the Ministry of Finance is responsible for monitoring and controlling the inflow and outflow of goods in the EPZ. He stresses that the provision of rebates to EPZ companies is only made when particular conditions are fulfilled. The conditions are for an EPZ company to fulfill its export quota requirements and employment creation promises. He adds that if these specifications are not met as promised by a company then settlement of rebates are usually delayed. He concluded that the EPZ program is successful judging by the amount of companies operating and jobs created in a period of 4 years.

**(d) Director – Labour Resource and Research Institute - Mr. Hebert Jauch**

According to Mr. Hebert Jauch, Director of the Labour Resource and Research Institute (LaRRI), 60% of the EPZ is a failure. He states that the EPZ per se does not have any shortcomings and adds that the companies operating in the EPZ are satisfied with the service provided by the Ministry of Trade and Industry and the Offshore Development

Company. As among the set backs in the EPZ he stresses the inability of the EPZ companies to export to the Southern African Custom Union market. He highlights that investors to the EPZ would prefer to locate their operations in Namibia if there is a strong technical skills availability. He hints that Libra and Namibia Press and Tools are among some of the companies that export to the EU market.

Regarding, the composition of EPZ companies he states, that at the moment mining activities have a substantial stake in EPZ investments and questions whether such investments contribute positively to Namibia's economic development or whether they only benefit the mining companies.

On whether the EPZ yield any potential, he states that this is questionable as the wages in Namibia cannot compare favourably to those of countries such as China where wages are much lower. Furthermore, he states that the safety and health standards at some EPZ companies leave much to be desired as at one particular EPZ company no protective clothing is provided.

He suggests that in order to improve the EPZ program in Namibia an analysis first has to be made of the factors that attract investments. Secondly, he states that the EPZ should focus on specific sectors that have strong economies of scale. As an alternative he suggests that the incentives extended to the EPZ companies should rather be extended to support the mining, agro, and ostrich industry. Another alternative is for the capital invested in the EPZ to be used to support the SME sector in order to boost local

manufacturing. He concludes that a lot more resources needs to be invested in technical skills.

#### **(e) EPZ Company responses**

The questionnaire send out to all operational EPZ companies contained questions that are representative. The response rate obtained from the companies is a 20% and does not affect the findings of the study negatively.

In replying to the questions asked, the companies stated that the good incentives found in the EPZ are among the reasons why they have located their investments in Namibia. Another reason they provide, as reasons for locating in the Namibian EPZ are the benefits of a modern infrastructure.

Regarding how long the companies would like to operate in the EPZ the lowest time span provided is more than 20 years and the highest response was for an indefinite period.

On the shortcomings of the EPZ, the companies state that the incentives take long to be honoured and that there is a communication gap between the companies and the EPZ Management Authorities.

The rating provided on the infrastructure and administrative support extended by the EPZ Management companies was given as fair – good. Suggestion is made for the decisions of the EPZ Committee board to be implemented faster.

Regarding the labour situation in the EPZ, the companies felt that labour and company relations should be harmonious so that strikes do not lead to penalisation of companies after late delivery to clients.

On the wage rate the companies stress that their wages are comparable to those in the rest of the economy.

Conclusion  
Average  
Index Average 2

#### 4.2 Assessment of the Policy Design

In view of the policy design, a wide range of options was considered through the public and private policy-making process as part of the policy. This also covered the National Union of Maritime Workers and had been aligned with the development of the labour law in the EPZ region. The government's policy for the introduction of new rights being implemented in the EPZ region is also being implemented in other areas.

## Chapter 4 – Assessment of the EPZ program in Namibia

### 4.1 Scale for measuring policy performance

The EPZ policy is assessed by use of a scale that allocates different scores to each criterion used to evaluate the performance of the EPZ program in Namibia. The scores provided are numerated as follow:

Excellent : 5

Very Good : 4

Good : 3

Average : 2

Below Average: 1

### 4.2 Assessment of the Policy Design

In terms of the policy design a wide range of stakeholders were consulted through the media and through public meetings to provide an input to the policy. To a great extend the National Union of Namibian Workers has not been satisfied with the inapplicability of the labour law in the EPZ regime. The government opted for the exclusion of these rights based on fact that it wants to make the EPZ program competitive in order to attract reasonable levels of foreign direct investment.

**The rating for the Policy design of the EPZ is Very Good (4).**

### **4.3 Analysis of Policy Implementation**

In terms of policy implementation the Offshore Development Company and the Walvis Bay EPZ Management Company were established under the Act to handle investor's application and to develop and manage and supply service to EPZ enterprises. In terms of human resources the staff of the Offshore Development Company and the Walvis Bay EPZ Management Company have undergone training at home and abroad to enable them provide adequate customer service to investors. However, worrying at the moment is the fact that the companies currently operational in the EPZ are not happy with the speed at which incentives are provided. The poor communication between companies and officials responsible for the implementation of the EPZ program leaves much to be desired. At the same time a large number of EPZ applications have been rejected. The present rate of establishments operational in the zone signify some limitation in the implementation machinery of the EPZ.

**The rating for the Implementation of the Policy is Good (3).**

### **4.4 Analysis of Policy Performance**

#### **4.4.1 Effectiveness**

The effectiveness of the EPZ program is measured against its ability to achieve the underlying objectives as set out in the EPZ Act:

1. Attracting, promoting or increasing the manufacturing of export goods. (The following products are exported from the EPZ; teddy bears, motor vehicle components, acrylic and bathroom accessories, ropes and rope products, polished diamonds, ostrich meat, skin, feathers; aluminum household and kitchenware, cosmetic products and ladies fashion wares. All these products are locally produced and are destined for export to foreign markets).
2. Creating or increasing industrial employment. (555 direct jobs).
3. Creating or expanding export earnings. (because the EPZ zones are used for export purpose only a certain percentage of these earnings enter the economy through wage payments).
4. Creating or expanding industrial investment including foreign investment.
5. Encouraging technological transfer and the development of management and labour skills.

As indicated earlier, it takes at least 10-15 years for an EPZ to show results. Therefore it is premature to make judgement on whether the EPZ program in Namibia is a complete failure or not. However, for the program to be effective in the next five years the marketing capacity of the Off Shore Development Company and the Walvis Bay EPZ Company should be enhanced. Herewith, suggestion is made for the programme to be marketed on the Internet, by Namibia's Embassies abroad and in Trade Journals.

Since the Namibian market is fairly small most investors would opt to set up their investments for export to neighbouring countries or to overseas markets. The Oshikango and Katima Mulilo EPZ performance will largely depend on the how soon peace comes in the region. Secondly, the performance of the EPZ program in general will depend much on the attention placed in upgrading the infrastructure in neighbouring countries in order to make transport and freight less expensive.

**The rating for the Effectiveness of the Policy is Good (3).**

#### **4.4.2 Efficiency**

All together there are three EPZ parks; the Walvis Bay Park, the Oshikango Park and the Katima Mulilo Park. All these parks were constructed to provide serviceable infrastructure in the form of buildings and to extend water, electricity and roads to investment establishments in the parks. The cost of constructing these parks may be high compared to the value of jobs created. However the reason for establishing them should be seen as a long-term strategy.

Because of a lack of statistics this research could not establish how much government has spend in erecting and maintaining the EPZ as an opportunity cost to support other developments. Equally there is insufficient data available on the amount of export

earning contributions by the EPZ to the GDP. In the face of these limitations the efficiency measurement of the EPZ policy shall be restricted in measuring the number of business establishment operating in the EPZ, the type of activities they are engaged in and the number of jobs created.

(a) Companies operational – Thus far there are 12 companies operational in the EPZ. This represents an average of 4 companies attracted to the zone annually.

**The rating on companies operational is Good (3).**

(b) Activities of companies in the EPZ – Thus far 10 out of the 12 companies operational in the EPZ are involved in value addition. This represents an 83% rate of manufacturing. The remaining 17% are involved in the re-export of general commodities.

**The rating on manufacturing activities is Very Good (4)**

(c) Job creation – Thus far 555 jobs have been created in the EPZ, which represents a total of 138 jobs created per year. This is good as an initial start.

**The rating on job creation is Good (3).**

### Other efficiency sub-criteria

- ❖ Effective scrutiny of applications : limited scrutiny. Meaning out of 120 applications, only 50-60 were considered out of which 12 materialised.
- ❖ Delays in approving incentives : complaints from companies. EPZ companies complain about delays in approving incentives that is non-disbursement of training rebates etc. Surely, there is a need for improved management capacity.
- ❖ Very few local entrepreneurs : only 2 joined EPZ partly due to lack of information about the EPZ program and because of limited capacity of businesses.
- ❖ Low labour productivity : resulting from lack of responsiveness from Trade Unions and other institutions to promote productivity.

The overall rating for the efficiency of the policy is Average (2).

### **4.4.3 Responsiveness**

The responsiveness measurement shall be made against the following criteria, company responsiveness; trade union responsiveness and political responsiveness;

- (a) Company responsiveness rating - This involves support for the policy in terms of assessment of infrastructure, service from EPZ Management Companies, and incentive provision. The rating for company responsiveness is Average-Good (2-3).

The worry of companies is that incentives take long to be honoured. Contrary to the

claims of the National Union of Namibian Workers, some EPZ companies maintain that the wages in the EPZ are comparable to those in the rest of the economy.

(b) Trade union responsiveness rating – This involves trade union assessment of wages, health and safety conditions in the EPZ. The rating for trade union responsiveness is Below Average (1). The trade unions are not satisfied with the wages, health and safety conditions at particularly 1 EPZ company. Labour is also dissatisfied with the amount of training conducted by EPZ companies stating that the most senior positions are occupied by expatriates. In general there is a need to educate Trade Union leadership about special circumstances of EPZs as is the approach in Mauritius.

(b) Political responsiveness rating – This involves the views of the Ministry of Trade and Industry and the opposition parties perception on the performance of the EPZ policy. The Congress of Democrats is skeptical about the success of the EPZ Program in Namibia. This is based on the lack of clarity about the returns accrued from the EPZ program in terms of incentives provided and cost of building and maintaining the EPZ infrastructure.

The Minister of Trade and Industry in response to this stated in Parliament that Botswana spend 1, 200 Pula for every job created and that that Government covers 80% of the wages on foreign companies. This Honourable Hamutenya, stated as attempts made by Botswana to attract investors and reduce production cost in order to enhance competitiveness of that countries products in the market place. In addition

he stated that Mauritius offers outright citizenship to investors on top of investing heavily in infrastructure development. This he states are not incentives Namibia is not able to offer, but states that are incentives which could lead to Namibia's competitiveness and ability to attract investments into the country's industrial sector in order to create more employment. (Response by Hon. Hidipo Hamutenya, Minister of Trade and Industry, to questions tabled by opposition member, Hon. Tsudao Gurirab, National Assembly)

**The rating for the Responsiveness of the Policy is Good (3).**

#### **4.4.4 Innovation**

According to Jarno Hashikutuva, a Senior Investment Promotion Officer at the Offshore Development Company, the latest innovation to the EPZ Act has been an amendment to exempt EPZ enterprises from paying non-Resident shareholding tax on dividends.

A major outcry by Namibia Press and Tools, an EPZ company involved in the manufacturing of motor spare parts for Volkswagen that the Walvis Bay harbour be deepened has been attended to. This was a major problem because the company faced difficulties in exporting and importing the required volume of spare parts to meet international demand. Hitherto the Namibian government responded positively and deepened the Walvis Bay harbour ensuring the harbour to meet a much greater handling capacity.

In order to promote local participation in export led industrial activities the Ministry of Trade and Industry has secured a N\$ 30 million loan from the government of India, which is money made available to support companies interested in investing in the EPZ programme.

Thus far 3 local companies have taken advantage of the incentives provided by the Namibian EPZ program. These companies are, Namgem (polishing of Diamonds), Ostrich Namibia Production (Processing of Ostrich Products), Ongopolo Mining (Processing of Copper). The companies have created jobs to several hundred Namibians and are engaged in adding value to Namibia's natural resources.

As a measure to curb footloose investments the Offshore Development Company has introduced an investor's tracking system that essentially makes follow-ups on company profiles before awarding EPZ certificates. There is further scope for innovation but that is made difficult by paucity of funds and administrative-technical capacity.

**The rating for the Innovation of the Policy is Good (3).**

#### **4.4.5 Administrative and Political Feasibility**

In general, the acceptance of the EPZ policy was not controversial. The approval of the policy during the formulation stage was unanimous. The administrative requirement to

ensure success of the EPZ policy will among others require addressing the training needs of staff.

According to Jarno Hashikutuva, (an official at the Offshore Development Company) some of the shortcomings in the implementation of the EPZ program can be attributed to the poor application of the EPZ legislation along with administrative red tape. He states that competition from 600 EPZs worldwide including those in African countries such as Senegal, Mauritius, Kenya and Tanzania makes competition for the Namibian EPZ much stiffer. At the same time he adds that the political turn around in South Africa that lured away investments from Namibia and the current political instability situation in Angola makes it difficult for investors to export to Angola and other export markets in Africa. Despite these shortcomings interest in the Namibian EPZ will have to be judged against the current level of investments, manufacturing activities operational and jobs created.

Administrative feasibility: The administrative requirements of EPZs are high. A lack of adequate training and experience in EPZ matters affects the pace and nature of policy implementation.

Political feasibility : Policy Design : Unanimous

**The rating for Administrative and political feasibility is Good (3).**

#### 4.4.6 Summary of the EPZ Policy performance rating during the period 1996-2 000.

Scale: Excellent (5), Very Good (4), Good (3), Average (2), Bellow Average (1)

|  |               |
|--|---------------|
| Policy Design                              | Very Good (4) |
| Policy Implementation                      | Good (3)      |
| Efficiency                                 | Good (3)      |
| Responsiveness                             | Average (2)   |
| Innovation                                 | Good (3)      |
| Administrative and Political feasibility   | Good (3)      |
| Overall performance of Namibian EPZ Policy | Good (3)      |

## Chapter 5 – Summary, Recommendations and Conclusion

### 5.1 Summary

To date 12 out of the 121 companies, which applied for EPZ status, are operational. This represents 9% of the companies operational from all applications received. It should be stressed that the current applications received only reflect investments in the 4 year period of the EPZ's existence.

The Namibian EPZ program has created all together 555 jobs. This research could not establish the total amount of government revenue spent through the provision of incentives and the construction of EPZ infrastructure relative to the current level of jobs created and export earnings generated. This discrepancy comes in the face of the unavailability of data.

The policy formulation process of the EPZ programme involved consultation with a wide range of stakeholders, i.e. cabinet, parliament, foreign experts, the business community, the unions and civil society in general. In addition 20 country experiences were used in the design of the EPZ policy. Country tours to Ireland, Mauritius and Malaysia were undertaken to learn from the experiences of those countries.

Among some of the concerns of EPZ companies is their dissatisfaction with the speed at which incentives are provided. However, they are satisfied with the infrastructure and other services provided by the EPZ Management companies.

Hitherto out of the 12 EPZ companies operational, 2 companies have entered in to joint-ventures with foreign firms while 9 of the companies are 100% foreign owned. This leaves the zone with only 1 fully owned Namibian company.

On the other hand 16% of the companies currently operational are involved in the re-export of general consumer goods to foreign markets while the remaining 84% are involved in value addition.

In this regard considering the short life span of the EPZ program it could be argued that the policy has been able to achieve its objectives as set out in the Act which are;

1. Attracting, promoting or increasing the manufacturing of export goods.
6. Creating or increasing industrial employment
7. Creating or expanding export earnings.
8. Creating or expanding industrial investment including foreign investment.
9. Encouraging technology transfer and the development of management and labour skills. (Export Processing Zones Act 1995)

Though measureable indicators have not been provided to demonstrate the rate at which objectives have been achieved the logic dictating this conclusion is that the companies currently operational in the zone would not have been operational should it not have been for the generous incentives provided by the zone. In that case it is fair to state that the

presence of EPZ companies has led to the attraction of manufacturing companies, the transfer of technology, the creation of employment etc.

The Problems faced by the Namibian EPZ program are given by different sources as follow:

1. Slow investment inflows
2. A small backward linkages network
3. Fly by night investments
4. High labour cost and low productivity
5. Technically less endowed labour compared to the East Asian labour market that has attracted investment in the electronic sector and other light industries.
6. Labour discontent with wages and poor safety standards.
7. High freight and transport cost.
8. High interest rates on loans.
9. A lack of endogenous participation by local firms in the EPZ program.
10. Little marketing of the EPZ program in terms of the use of the internet, trade journals etc.

## 5.2 Recommendations

In order to improve the performance of the EPZ program in Namibia a variety of recommendations from individuals and texts on EPZs have been sought to see how they can be used in enhancing future output.

It is recommended that the following are some of the good measures for a successful EPZ;

1. A choice in site location of an EPZ should take in to account access to international transport, financial and communication services.
2. Access to credit at reasonable interest rates should be guaranteed to assist in the development of private enterprise and technical and management skills.
3. Regular investment promotion activities should be undertaken because of growing competition for foreign direct investment.
4. Investment promotion should be directed at target markets and sectors.
5. A switch at short notice should be envisaged in order to enter new markets as targets.
6. Site locations should be identified bearing in mind the expense involved in creating them, including the demand for products from the zone, and in line with international business and transport services.
7. Caution, to be made in order to protect the environment when designing an EPZ site.

8. Application of different incentives can be considered for different projects e.g. providing grants, low interest loans for capital projects and tax holiday for labour intensive projects.
9. Expansion of Vocational Training in order to accelerate the supply of technical skills.
10. Increasing the support for business related studies in order to meet the market demand for business skills.
11. Marketing of EPZ to local entrepreneurs in order to lure them in taking advantage of the incentives available that can enable them to enter into joint ventures and export manufacturing based activities.

### **5.3 Conclusion**

The study focuses on investment establishments currently operational in the Namibian EPZ. Furthermore, it focuses on the nature of companies operating in the zone that is whether they are foreign owned, joint-ventures or fully Namibian. At the same time the research is interested in ascertaining the type of activities these companies are involved with, the amount of jobs created and the amount of investments generated.

To a large extent it can be argued that the EPZ program in Namibia holds a bright future given the good infrastructure the country boasts of and given the abundant natural resources that awaits to be tapped and because of the proximity of Namibia to African markets and other export destinations. At the moment the cost at which the EPZ program is created may seem to be high, however, with attempts to secure peace in

Angola and the Democratic Republic of the Congo, Namibia will be far more competitive than her neighbours in terms of combining incentives and the provision of a well maintained infrastructure to lure foreign direct investment.

Hence, it is premature to state that the EPZ program is a failure. However, specific recommendations that need immediate implementation such as investing in technical and business skills, encouraging joint-ventures between Namibian and foreign companies should be encouraged so that Namibia's competitive advantage can be enhanced. At the same time an aggressive marketing strategy should be developed to tie the domestic industrialisation strategy to the export oriented policy by specifically focusing on sectors and specific markets over which Namibia has a well-defined competitive advantage.

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**Interviews:**

1. Mr. Sataar Aboobakar– Chief Executive Officer of the ODC
2. Dr. Ken Kwaku– Former Personal Advisor(1995-1998) to Hon. Hidipo Hamutenya, Minister of Trade and Industry. Act as current Program Manager of the Multilateral Investment Gurantee Agency/World Bank Group Africa-wide Office based in Windhoek
3. Mr. Jarno Hashikutuva – Snr. Investment Promotion Officer, Offshore Development Company
4. Mr. Veripi Ngaujake – Custom and Excise Officer (Ministry of Finance)
5. Mr. Hebert Jauch – Director, Labour Resource and Research Institute