SADC BUSINESS CASE STUDIES

Various surveys and indices have identified major business constraints in SADC. These include independent assessments of the regional business climate plus studies that specifically reflect the views of the private sector. These assessments have been undertaken over a number of years but there has been little follow up by policy makers or attempts to address the identified constraints. To assist in this regard, the SADC Secretariat in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has initiated a research and dialogue project that aims at identifying the most important business constraints for the SADC region and making them more tangible by conducting firm level case studies on the identified constraints. This is one of the collection of case studies.

On behalf of
Federal Republic of Germany
The Federal Government

A CASE STUDY ON
NAKARA CC

MARCH 2012

FIRM OVERVIEW

Name	Nakara CC
Nationality	Namibian
Sector	Leather
SADC countries where doing business	Namibia and South Africa

BACKGROUND

Nakara is a Namibian owned leather manufacturing company which was founded in 1980 by a German born businessman, Kevin Davidow. In 1989, Nakara opened up a factory in Namibia consisting of a large tannery and a manufacturing plant. During the early production years, Nakara concentrated on Swakara garments for the local and the South African Industry. Later it started manufacturing leather from cow skin and all types of game skins ranging from Kudu and Oryx to Ostrich.

Nakara exports to European countries (Italy and France) but its major export destination is South Africa because of its large leather industry and production capacity there. About 90% of its production is exported to South Africa and is used in the manufacture of furniture. About 5% of the remaining 10% is used to produce small leather products in Namibia such as hand bags, wallets and belts, while the remainder is exported to Europe. While contributing positively to the Namibian trade balance, Nakara also made a difference in the living standard of many as it employs 150 people. The production capacity of the firm averages about 30,000 metre of leather per month.

BARRIERS ENCOUNTERED

Considering the fact that leather production in Namibia is a small industry, there is an imbalance in the supply of labour (graduates) produced by the Namibian educational institutions, culminating into a severe lack of labour and technical skills. "We are not left with any other option than to use foreign labour". However, the Ministry of Home Affairs is "a "pothole" in the process of employing staff for Nakara. It takes about two months or more for a foreigner to obtain a work permit.

The documentation and process of issuing export permits for natural commodities is very slow. It takes the Ministry of Environment and Tourism about five working days to issue the producer with the export permit. That means an additional five days for their customers in South Africa to obtain the import permit from the regulating Ministry. This means two weeks of doing business are lost.

The most critical issue however are the custom regulations between the two governments (Namibia and South Africa). Most of Nakara's customers are medium sized businesses that do not have a "Deferred VAT Account". As such Nakara has to lay out (prepaid) VAT on behalf of South African companies (importers) for them to export as fast as possible. Although the prepaid amount is claimable on an interest free basis, the money is only availed after two months or so, thereby affecting the cash flow of the business and consequently prompting them to acquire additional cash at a cost to ensure continuous operation of the business. It is extremely expensive to open a "Deferred VAT Account" in South Africa.

IMPACT OF BARRIERS

The layout of VAT on behalf of their customer does at sometimes make it difficult for Nakara to cover their operational costs. This is because the chemicals (i.e. dyes, oil, tanning agents) used in the production process are expensive and the transport cost to import them from Europe is high.

Delays caused in issuing the necessary legal documentations to conduct business i.e. export and work permits, can lead to a huge loss to the business and unsatisfied customers.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

With regard to delays in issuing export permits, Nakara indicated that they have tried numerous times to convince the technical people (lower middle management) at the Ministry of Environment and Tourism about the huge loss they incur as a results of delays in processing documentation. However, it appears as if their concerns fall on deaf ears. "We were very cautious not to take up the matter to the executives (Permanent Secretary) as this would frustrate the technical people and further worsen the situation".

In respect of the prepaid VAT on behalf of their South African customers, which is paid into the Ministry of Finance's accounts prior to exporting, Nakara have lodged a complaint with the Ministry of Finance and Ministry of Trade and Industry five years back. The matter was well noted and further promised that the issue will be investigated. To date, nothing positive has been communicated to them.

Nakara has over the years advised their customers to apply for a "Deferred VAT Account", however, obtaining that account is described as another stumbling block, because of the costs involved.

Despite being given the opportunity to engage with policymakers, nothing positive has been achieved to date with regards to reducing the barriers.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. The issue of "Deferred VAT Account"/prepaid VAT can only be resolved at a high governmental level (government-to-government). It is difficult for a private company to have much influence over the process.

2. The process of issuing permits (work, export) and other official documentation should be efficiently managed and speeded up to warrant a healthy cash flow for business.

3. Market access in SADC countries except South Africa is a major problem. Zimbabwe has, however, expressed interest in Nakara's leather production, but their industry is very small. "It doesn't make economic sense to supply a market that is far and doesn't have bulk buying capacity".