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.

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On behalf of Federal Republic of Germany The Federal Government

A CASE STUDY ON NAMIBIA DAIRIES

MARCH 2012

FIRM OVERVIEW

Name	Namibia Dairies
Nationality	Namibian (part of Ohlthaver & List Group)
Sector	Manufacturing
SADC countries where doing business	Namibia, South Africa, Botswana, Zambia, Angola, Lesotho, Swaziland

BACKGROUND

Namibia Dairies (ND) is a dairy processor. It manufactures a wide range of dairy products for the local market and export. ND is part of the Ohlthaver & List (O&L) Group. O&L is a diversified manufacturing and services group and one of the largest private employers in Namibia. ND gets its supply of fresh milk from its own Superfarm in Mariental, which represented a significant investment. In addition it sources from 16 local dairy farmers and imports fresh milk from South Africa. The dairy sector currently faces a serious trade dispute over long-life milk with South African giants that import milk from South America and dump it in the Namibian market. After an eight-year infant industry protection measure expired, the industry faces demise because of the deemed unfair competition.

BARRIERS ENCOUNTERED

A main barrier to business relates to VAT claims. ND has some claims that have been outstanding since 2006. "Getting our money back is a hassle, the process is simply unacceptable."

Access to finance is hard. Banks are conservative and post-crisis finance is extremely hard to come by, banks only look at the bottom-line. "It has resulted in a situation where we are asset rich and cash poor". The company has to cut costs to remain competitive.

ND is shocked by the quality of graduates from Namibian tertiary institutions. The firm needs engineers and these are hard to find. There is a skills-imbalance, which reflects the broader issue of a non-existing industrial policy. It is very hard to source people from the rest of the SADC region because of work permit issues. It becomes even harder to source specialized engineers from large dairy producing countries (in Europe). "I have 742 people, all Namibian. If I want a foreigner, I have to wait 6 months before it is even discussed. Namibia should just introduce a quota system for companies."

Trade barriers are the most important issue for this respondent, brought to the fore of a looming milk war. ND believes Namibia is too open in certain regards, and complies with SADC FTA principles where other countries do not, leading to a deteriorating competition position. The country has no defined industrial development position for instance against South Africa that can rely on economies of scale. The protection offered to dairy industries in Angola and Zambia made it difficult to compete. ND complained that Angola has not implemented the bilateral FTA with Namibia. ND calls for punitive tariffs regarding the SA dumping of UHT milk.

ND noted that it is a problem to get money out of Angola. Arbitrary forex regulations mean the company has to wait months for its money. Agents/distributors do not pay their bills.

BARRIER ENCOUNTERED

It takes 1-2 weeks for a truck to enter Angola, for fresh produce that is a problem. The company pays a lot of money to have pre-inspections (on volume, batch, shelf life and sell by date) in Windhoek in order to clear the border faster (2 days). In contrast to the situation in Angola, Namibia has no additional inspection requirements. Between Namibia and South Africa there are no matching procedures which opens up the way for fraud.

The playing field in Namibia is not level for all firms due to corruption. Corruption can be frustrating even for those who do not play the game as those who do pay bribes can move faster.

Certification and packaging in foreign languages is a major issue for ND. Botswana has a special labeling situation. There is a meticulous standards certification, which means every batch has to be certified (microbiological analysis) at plant and quarantined in the meantime, leading to shelf life issues. Inspection takes 4 weeks, while shelf life is 7 weeks. This virtually makes doing business with Botswana not worthwhile.

IMPACT OF BARRIERS

The current situation reduces growth potentials and hinders product development in the dairy sector. Forex and regulatory restrictions and uncertainty mean loss of markets, i.e. in Angola. ND no longer has ground staff in Angola.

The dumping situation with South Africa is serious and threatens the future of the entire industry in Namibia.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

ND has invested in R&D on flexible shelf life per batch to address the Botswana situation.

To deal with the challenges of trading with Angola, ND has spent lots of money on pre-inspections by private companies.

With regards to the "milk war" with South Africa, ND is engaging government on getting punitive tariffs to protect the local market. The company is considering going to WTO and ITAC to raise a dumping claim.

The reality faced by ND is that to remove non-tariff barriers requires a long and expensive lobbying effort.

There has been little progress as a result of the lobbying and engagement undertaken by ND. There has been a slight relief in the situation with Angola regarding customs procedures through the use of private firms to undertake pre-shipment inspections.

ND regularly engages the Namibian government and raises issues through the Dairy Producers Organisation. But there is a disconnect, a mistrust, between the government and private sector that does not reflect common objectives.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. ND believes that the following suggestions would improve the business environment in SADC:
2. Joined border posts or rather standardized and harmonized procedures and matching of import and export documents between the countries.
3. Access to a good mix of road and rail transport infrastructure.
4. Development of a strong industrial policy.
5. Removal of non-tariff barriers and harmonized standards.
6. Strong regional institutions are required for effective integration.