

**THE PERFORMANCE OF STATE  
OWNED ENTERPRISES (SOE) IN  
NAMIBIA**

**A RESEARCH PAPER SUBMITTED IN PARTIAL FULFILLMENT  
OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF  
PUBLIC POLICY AND ADMINISTRATION**

**OF**

**THE UNIVERSITY OF NAMIBIA (UNAM)  
AND  
THE INSTITUTE OF SOCIAL STUDIES (ISS)**

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**April 2007**

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## ABSTRACT

Parastatals play an important role in national economic development. They represent the extended arm of government providing key goods and services to the economy that would otherwise not be served by private enterprise as well as playing an important regulatory role.

As a result they are set up with state funds-monies which might be misallocated because of the lack of timely reporting, monitoring, and scrutiny and often due to the limited enforcement of basic corporate governance principles.

The financial performance of SOEs since 1993 has been disappointing in the majority of cases, with government expenditure on bailing out to SOEs increasingly significantly. Government expenditure on SOEs shifts away the resources from vital capital transfers towards the expenditure on salaries and wages. Therefore, many SOEs experience high levels of debt as well as declining levels of capital productivity.

This study has revealed that management of SOEs are not entirely to be blame for the poor performance in the sector. If the head of a company such as Transnamib is told to run a railway line to the north that everyone knows will lose considerable amounts of money over the short to medium term, but which is deem as a "national priority", he is certainly not to be blame when the company makes a loss. Management in the SOE sector do not have much independence as their counterparts in the private sector. They would not have this autonomy unless they have significant private shareholders. Until that happens, real freedom to manage appears a distant dream in Namibia's SO sector.

**TABLE OF CONTENTS**

ABSTRACT	i
TABLE OF CONTENTS	iii
ACKNOWLEDGEMENT	iv
DEDICATION	v
DECLARATION	vi
ACRONYMS	vii
<b>CHAPTER 1: INTRODUCTION</b>	<b>1</b>
1.1 BACKGROUND	1
1.2 PROBLEM STATEMENT	8
1.3 RESEARCH OBJECTIVES	9
1.4 SIGNIFICANCE OF THE STUDY	9
1.5 RESEARCH QUESTIONS	10
1.8 LIMITATIONS OF THE STUDY	10
<b>CHAPTER 2</b>	<b>11</b>
2.1 LITERATURE REVIEW & THEORETICAL FRAMEWORK	11
2.2 ECONOMIC RATIONALE FOR SOEs	22
2.3 PERFORMANCE OF SOEs	24
2.4 REASONS BEHIND SUCCESSES & FAILURES OF SOEs	26
2.5 INSTITUTIONAL REFORMS	35
2.6 MANAGEMENT	35
<b>CHAPTER 3</b>	<b>36</b>
METHODOLOGY OF THE STUDY	36

<b>CHAPTER 4</b>	<b>40</b>
STATE OF NAMIBIA'S PUBLIC ENTERPRISES	40
<b>CHAPTER 5</b>	<b>57</b>
ANALYSIS AND DISCUSSION	57
<b>CHAPTER 6</b>	<b>67</b>
CONCLUSIONS AND RECOMMENDATIONS	67
<b>REFERENCES</b>	<b>72</b>
<b>APPENDIX</b>	<b>79</b>
1. Questionnaire	79
2. Table 3	81
3. Table 5	83

## **ACKNOWLEDGEMENT**

First of all I would like to acknowledge the help of my Almighty God- without His help and guidance, the production of this piece of work would not have been possible.

The support of my fellow colleagues would also be acknowledged. I would also like to acknowledge the technical assistance of Ms. Hilde Tjireja Kazongominja.

Finally, I would like to thank my Supervisor Professor. Bedari for his immense support.

## **DEDICATION**

I would like to dedicate this piece of work to my family: My late Grandmother who brought me up with love, my Dad, my Mom, my Son, Mbango, Ratieua and the entire family.

## DECLARATION

I, Tjiuai Kanguuehi, declare hereby that this study is a true reflection of my own research, and that this work, or part thereof has not been submitted for a degree in any other institution of higher education.

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Tjiuai Kanguuehi

Signature

30 March 2007

Date

## ACRONYMS

Agribank	-Agricultural Bank of Namibia
DBC	-Development Brigade Corporation
CCEDP	- Cabinet Committee on Economic Development and Parastatals
CGA	- Central Governance Agency
GDP	- Gross Domestic Product
LaRRI	- Labour Resource and Research Institute
Meatco	-Meat Corporation of Namibia
MWTC	- Ministry of Works, Transport and Communication
NAMPA	-Namibia Press Agency
NAMWATER	- Namibia Water Corporation
NBC	-Namibian Broadcasting Corporation
NATAU	-Namibia Transport and Allied Workers Union
NEPRU	- Namibian Economic Policy Research Unit
NWR	- Namibia Wildlife Resorts
SIDA	- Swedish International Development Co-operation Agency
SOEGC	- State-Owned Enterprise Governance Council
SOEs	- State Owned Enterprises
SWABC	-South West African Broadcasting Corporation
Telecom	-Telecommunications of Namibia
UNAM	-University of Namibia
WASCOM	- Wage and Salary Commission



## **CHAPTER 1**

### **1.1 BACKGROUND**

The Namibian Government's economic programme puts specific emphasis on economic empowerment and active participation of all Namibians in the economic reconstruction and development of our country. This is to be achieved through deliberate policies and programmes aimed at fostering creativity and business initiatives which will lead to the growth of the economy and improve the living standard of all the Namibian people.

In part, it is for these reasons that the Government of the Republic of Namibia has decided to commercialize some departments in order to enhance service delivery, reduce expenditure and generate income to strengthen our economy. "At independence most African states inherited the notion that extensive government involvement in the economy and society was the natural order of affairs" (Grosh & Mukandala 1994:9). Since independence (1990) more than 50 state-owned entities have been established as a cost-effective measure of service delivery by our government. This mushrooming

of parastatals since independence was understandable because there was a need to emphasize new priorities.

These parastatals have indeed reduced the Government's workload in terms of diversified responsibilities, which are now the responsibility of different parastatals on behalf of the Government.

The initial idea of commercializing these entities was for government to reduce costs and generate revenue by way of dividends, which state owned enterprises were expected to declare to government as the sole shareholder. These are dividends that government hopes to use in developing socially and economically deprived areas of our country and in addressing the economic plight of our citizens.

Whilst the number of parastatals is rising, sound financial performance remains elusive for most. Namibian parastatals needed to be regularly evaluated for performance and service delivery.

The country has more than 50 state - owned enterprises (SOEs) in the service provision: developmental, education, culture and media, and regulatory spheres. An act of Namibian Parliament has

established most of the state owned enterprises. But at least six of them, including power utility NamPower, Air Namibia and the National Petroleum Corporation of Namibia (NamCor), are established purely through the Companies Act, with government as the main and in most cases the sole shareholder.

Unfortunately, many parastatals have not been successful in declaring dividends to the Government. Instead, some unscrupulous managers have used incomes generated to finance their extravagant lifestyles. When we look at the Medium Term Expenditure Framework (MTEF) for 2005/06 to 2007/08, it indicates that only (8) economic enterprises have committed to pay dividends amounting to N\$33 million during the 2005/2006 financial year and totaling N\$139 million during the 2005-2008 periods. It must be mentioned that this contribution falls far short of the state financial support to some enterprises.

However, a study conducted by Government of Namibia on the functions and performance of state owned enterprises in 2001 revealed very worrying trends, indeed. These include (The Namibian 2005):

Increasingly high state financial allocations mainly to sustain the high current expenditures related to the over-sized organizational and personnel structures of state owned enterprises;

Monopolistic practices that have resulted in uncontrollable prices to the concern of the general public;

Low productivity and contribution towards the achievement of rational development goals;

High exposure to unsustainable debt;

Poor leadership at both Board and Management levels;

Poor technical capacity for Research and Development

Lack of intra-agency co-ordination, planning and linkages, including promotion of local industries through preferential procurement of goods and services.

Remuneration at both management and Board levels not linked to productivity; and the inability of the enterprises to carry the expenditure

burden. These findings confirm the concerns of the government and those of the public at large that urgent remedial action is needed.

It has also confirmed the sad truth that Namibians have learnt about corrupt practices in some parastatals as revealed by different Presidential Commissions of Inquiry. These commissions have revealed disturbing and shocking malpractices, misuse of funds, corruption and misappropriation of assets in some parastatals.

SOEs in Namibia have made a relatively small contribution to the economy in terms of percentage contribution to the gross domestic product (GDP) as well as job creation. State expenditure on and lending to SOEs has increased rapidly in recent years. A rising proportion of these disbursements are for current expenditure such as salaries and wages rather than capital expenditure.

This study will focus on the performance of selected few state owned enterprises. On one extreme, there are parastatals such as NAMPOWER, TELECOM and others that operate as monopolists and are making huge profits. While at the other, there are parastatals that depend entirely on state transfers for their survival and are making substantial losses, for example: Air Namibia, University of Namibia (UNAM) to mention a few.

It is widely recognized that good corporate governance is one of the cornerstones of business excellence. This study therefore, has a story to tell about the challenge of maintaining good governance and achieving superlative performance using the case study of some successful public enterprises, such as NAMPOWER. NAMPOWER has evolved from a bloated state-owned enterprise into an efficient business that is able to contribute effectively to Namibia's economic growth and prosperity, so can others (SOEs) too.

Finally, the study will analyse the impact of the newly promulgated Act on the performance of State Owned Entities. The State Owned Enterprises Act of 2006 was passed during the 2<sup>nd</sup> session of 2006 (February-May).

## **1.2 PROBLEM STATEMENT**

SOEs have not performed according to the expectation of government and general public. Presidential inquiries on some failed enterprises have revealed poor management, poor leadership, low productivity etc as the major reasons for their failure. Every year valuable government resources are being diverted from their rightful social and productive expenditure towards saving of some the SOEs. Government itself as a share holder has not benefited meaningfully in financial terms. The current situation with most SOEs is counterproductive to the process of national development. So far, failures have been made public on the basis of reports from Presidential Commission of Inquiries and annual budget allocations made in effort to rescue some of the enterprises. It is therefore necessary to examine the data to unearth any commonality for their successes as well as failures under the given circumstances. As the SOEs are of paramount importance nationally, exploring the factors responsible for their strengths and weaknesses, finding mistakes with the current administrative and organizational set up and removing the bottlenecks are very important

forward steps towards finding a solution. This research intends to critically examine some of the relevant issues.

### **1.3. RESEARCH OBJECTIVES**

The objectives of this research are:

- To examine the performance of a few of Namibia's state-owned enterprises.
- To investigate the reasons behind their successes and failures.
- To analyse the impact of the newly promulgated act on the performance of state owned entities.
- To make policy recommendations to transform SOEs to successful institutions.

### **1.4 SIGNIFICANCE OF THE STUDY**

The SOEs have been in the eyes of public for the last few years. As so much has been questioned on SOEs performance, the research objectives are relevant; and it is hoped that this study will be able to go deeper in answering some of the questions. The Namibian Government can't continue pumping money to resuscitate these institutions. It is very important to find possible

solutions to turn the non-performing entities into profitable and efficient companies. This study is expected to contribute in this regard.

## **1.5 RESEARCH QUESTIONS**

- 5.1 What are the critical success factors of an efficient company?
- 5.2 What are the reasons for SOEs poor-performance?
- 5.3 What reforms initiatives are presently in place?
- 5.4 What are the suggested organizational reforms?
- 5.5 How effective will be the newly promulgated Act in improving the performance of SOEs?

## **1.6. LIMITATION OF THE STUDY**

One of the limitations associated with this study has been the release of highly confidential information such as salary and other benefits of senior managers. Another limitation has been the limited time available to include the number of SOEs in the study.

## CHAPTER 2

### LITERATURE REVIEW & THEORETICAL FRAMEWORK

#### 2.1 Introduction

An SOE is an organization which produces and sells goods or services, and whose assets are owned by a public agency (Rees 1984:1). This definition reveals the dual nature or dimensions of SOEs: these are the **enterprise** dimension and **public** dimension. The enterprise dimension refers to that SOE is a type of business organization, and its basic activities resemble to those of any other firm. The public dimension, on the other hand, means that the SOE is publicly owned, and therefore it should be operated in line with the public purpose.

There are four basic sets of reasons for the existence of public enterprises:

(Rees, 1989:2)

- ❖ To 'correct' market failure.
- ❖ To alter the structure of payoffs in an economy.
- ❖ To facilitate centralized long-term economic planning.
- ❖ To change the nature of the economy, from capitalist to socialist.

Some of the reasons that have resulted in poor performance of SOEs are: lack of spelt out expectations from SOEs; lack of checks to see the performance of the enterprises; confusion that has been created by the system in which two ministers are responsible for the companies and also government's failure to make a distinction between parastatals such as monopolies and those that compete with the private sector. Also the inefficiencies of SOEs were also caused by the use of parastatals that are not directly related to economic and social development. Globally, SOEs were used to locate surplus labour and its senior positions were held by virtue of political patronage. In Namibia, SOEs do not have budget constraints as the treasury always bails them out and they survive as loss makers. Political interventions and strenuous government controls inhibit them from fulfilling their missions and the SOEs are protected from major threats like takeovers or bankruptcy due to protected or monopoly status.

Governments all over the world face certain policy choices in terms of how to structure its participation in certain sectors of the economy. State owned enterprises can play an important role in contributing to economic development and can also contribute to the reconstruction and transformation both the society and the economy. This can only happen if the enterprise is set up in a manner that is poised for success. Where a

state owned enterprise is established as a company but the relationship between government as shareholder and the board of that enterprise is not different from a state owned enterprise that is run as a government department, the benefits of creating the company are lost. Reuel Khoza and Mohamed Adam (2005) argued that there are benefits for government if it conducts business through state owned enterprises that are established as separate companies. These are:

- The opportunity for improved governance.
- Encouraging entrepreneurial flair and attracting appropriate skills, and talent.
- Avoiding government bureaucracy, and
- Attaining a more focused business direction.

In recent years, the performance of state-owned enterprises (SOEs) has in many countries received considerable criticisms. Governments of different political ideologies around the world are increasingly dissatisfied with the performance of SOEs. SOEs managers and Chief Executive Officers have shown little interest in responding to market challenges.

The quest for the “new public management movement” came about in the

developed world during the 1970s and the 1980s due to the disillusionment with the uniform, centralized control of civil service management (Nunberg, 1995:4)

Many governments around the globe have undertaken various reforms initiatives, ranging from changing the external policy environment in which public enterprises operate from one based largely on government commands to one in which market signals function. They include policies aimed at rationalizing the less than optimal portfolio composition, reducing its burden on the economy, and enhancing management and system capabilities so that the enterprises may carry out their operations more efficiently (Alexander 1989:332-333).

Many African state-owned enterprises (SOEs), particularly those in infrastructure, have a long history of poor performance. There are so many reasons why there has been great reliance on SOEs in most African states, especially when it comes to their development strategies. Firstly, at independence most African states inherited the notion that extensive government involvement in the economy and society was the natural order of the day. Secondly, colonial governments, especially in the period from 1945 to 1960, had created economic planning bodies and agricultural marketing

boards, instituted wage and price controls, and started industrial parastatal enterprises. In the 1960s and 1970s a number of theoretical justifications for public enterprises were in the air, lending intellectual support to what governments in Africa (and Asia and Latin America) were strongly inclined to do for social and political reasons. Thirdly, in many African countries ideology played a more silent role. Socialism was seen as the more just, the more effective, and the more culturally relevant approach to economic affairs. There were two compelling factors which justified public intervention: The very small size and limited capital, and the generally non-African nature, of local private sectors. Overall, by the end of the 1970s, the average African country's public enterprise sector accounted for over 17 per cent of GDP, compared to a world wide average of about 10 per cent (falling to 5 per cent of GDP in OECD countries).

The parastatal sector has often been viewed as an essential tool to establish a new private sector; to stimulate a weak or small national private sector; or to attempt to transfer technology absent in the local private in fields as "strategic", such as communications, transport, or certain branches of heavy industry. Further, SOEs were thought to be able to fill an "entrepreneurial gap" and gain access to small local entrepreneurs possessing limited assets.

African planners also hoped that PEs would use more appropriate, less capital-intensive technologies". (Nellis 1986: P)

"State - Owned Enterprises (SOEs) in Namibia play a crucial role in the provision of important goods and services to all our people as well as in the promotion of economic growth for the development of our country. Article 98 of the Namibian Constitution prescribes the economic order of Namibia which shall be based on the principles of mixed economy. This type of economic order has as its main objectives securing economic growth, prosperity and human dignity for all Namibians"(President of the Republic of Namibia, 2005).

The President went ahead by emphasizing that SOEs are the biggest single actors because of their significant buying and spending power. SOEs must be managed professionally and efficiently, since they are a vital sector to the Namibian economy. SOEs provision in Namibia, include a variety of sectors including housing, water, power, roads, and these services reach every Namibian.

The Deloitte and Touche report of 2001 that was submitted to Cabinet in October 2001, which dealt with corporate governance within parastatals,

cites the draft State Finance Bill of 2001 as defining parastatals as:

A corporate body established under any Act other than the Companies Act of 1973 (excluding local or regional authorities) and;

A company registered under the Companies Act in which the government controls the composition of the board of directors, controls more than 50% of the votes and controls more than 50% of the issued shares.

Thus, parastatals are companies or institutions in which the state has a complete or controlling shareholding. Generally, we refer to these institutions as public sector enterprises and more commonly as state-owned enterprises (SOEs). Parastatals are quite common around the world with most governments around the world owning companies, some wholly funded by the state. However, countries such as the UK have aggressively dismantled theirs during the conservative administration of Margaret Thatcher (1979-1990) and John Major (1990-1997) (Pollitt, 1999) - a trend that has not been reversed by the subsequent Labour government.

Other countries are following suit as central governments are increasingly looking at ways and means to improve their own fiscal positions and enhanced the delivery of certain key goods and services. For example, South

Africa has started with the sale of some state-owned enterprises. In Namibia, like elsewhere in Africa, parastatals have been mushrooming since independence.

Among the first parastatals created were the Bank of Namibia, Telecom Namibia, and NamPost. In most countries parastatals that can sustain themselves financially are eventually privatized. Indications are that Namibia intends following this route, judging by the contents of the Deloitte and Touche report. This report advocates the creation of a Central Governance Agency (CGA) that would monitor the operations and performance of parastatals. Even though the creation of another parastatal to monitor existing ones does in no way reduce the number of parastatals, the creation of the CGA can be construed as a positive development if it results in the fundamental restructuring of parastatals in the long run.

In the absence of large-scale nationalization programmes in the past, SOEs in Namibia make a relatively small contribution to the economy in terms of percentage contribution to GDP and in terms of employment contribution. However, they play a dominant role in certain sectors, especially in infrastructure and in the promotion of socio-economic development.

The history of SOE establishment shows that states have opted to own and control enterprises in specific sectors for a variety of reasons. In most cases, the key consideration for the establishment of SOEs has been to address perceived allocative inefficiencies in the provision of products and services to a country's population. In the quest of maximizing national welfare through government intervention, state ownership was seen as the best way to encourage development and growth while maintaining basic services to all.

## **2.2 The Economic Rationale for the existence of Parastatals**

In most economies, decisions regarding production and the use of various factors of production are taken by the private sector. However, there are instances under which the market fails to provide certain goods and services and instead the state has to provide services.

The instance where the state provides services occurs where a particular service or good shows what is referred to as public good characteristics. These characteristics are: the non-excludability and non-rivalry in consumption. With public goods it is physically impossible or prohibitively expensive to prevent consumption by all consumers, particularly those that have not directly contributed – this is the so-called non-excludability characteristic. In terms of non-rivalry characteristic, the consumption of a

good or service by one consumer does not affect the quantity available for consumption by others as in the case of street lighting. Once street lighting has been erected, anyone who walks along the lit street benefits from the light without affecting the quantity of lighting available for other pedestrians. Of course, technological advancements can make goods that previously had non-excludability characteristics excludable such as television broadcast. A good example is digital satellite television, which is only available to those that subscribe to the services. A pure public good has both characteristics whereas a pure private good has neither. However, many goods exhibit elements of one or other of these characteristics.

The presence of both these features of non-exclusivity and non-rivalry prevents the provision of such goods or services by competitive private firms, as they would be unable to operate profitably, unless they are natural monopolies. As a result pure public goods are typically provided by the state mostly through parastatal enterprises. However, it is important to note that not all goods or services provided by the state possess these two characteristics and are therefore not public goods in the pure economic sense. Therefore the competitive market could profitably provide some of the services currently provided by the state under monopoly regimes. A good example is telecommunications services (see Motinga 2003).

In theory, public enterprises are there to provide public goods in addition to complementary services that the state may opt to provide based on equity or equality considerations. Good examples of the latter type of service are public hospitals and basic education and UNAM.

### **2.3 Performance of SOEs**

One vital question we have to answer is the meaning of “the performance of public enterprise”? Generally speaking we tend to focus on the losses, and if enterprises are profitable we focus on the level of prices of these profitable SOEs. “There is naturally something of a contradiction here, when both losses and profits arouse public criticism. It suggests a general presumption that public enterprises are in some sense inefficient. Losses are then taken as an indicator of this inefficiency while profits are regarded as having been generated by use of monopoly power in pricing, rather than, as would be the case for a price-taking competitive firm, superior efficiency” (Rees,1989)

This view is held differently in Namibia, though. We assume SOEs that are of monopolistic in nature and at the same time profitable, those are SOEs we praised as being efficient and better performance.

This general view has been widely supported by economists in attempting to assess public enterprise performance. The conclusions that were made from thorough survey of the wide range of studies which tried to compare the costs of production in public and private enterprises in a number of countries and types of activity, Borcharding and et al (1982) found that large majority show higher cost levels in public enterprises than in private enterprises carrying on comparable activities. All over the world, there has been great dissatisfaction with the performance of public enterprises (PEs). Like in most developing countries, SOEs are dominant economic entities in the Namibian economy.

The international track record of SOEs in delivering goods and services effectively and efficiently is in general viewed critically. The major contributing factor to this has been SOEs's closeness to corrupt political regimes and the concomitant introduction of political considerations into their operational management. In addition, SOEs are often perceived as being sheltered from competitive market conditions. As a result, SOEs world wide have become strongly associated with operational inefficiencies, low service levels and productivity and bureaucratic structures. This had led to a large-scale adoption of policies, which were aimed at transferring the

ownership of these entities to the private sector, although the latter has not always been with significant success, especially in some African countries.

At a time when parastatal reform is on the lips of many, privatization, liquidation, enterprise reform and private public partnership are four ways in which parastatals can be reformed. Due to public perception that some SOEs are bureaucracies that are plagued by ineffectiveness, inefficiencies, corruption and incompetence as well as being a drain of public resources, around 7 000 companies were sold or liquidated in the 1980s alone. In Africa, 2 270 privatisation transactions took place between 1991 and 2001.

While privatization may seem a better way of disposing of companies that do not make money, researchers have it that the process benefits the rich rather than the poor, thereby widening the gap between the haves and the have-nots.

According to Nicolas van de Walle, Princeton University, New Jersey, "PEs were created for complex and varied reasons. First, it was widely thought that nationalization and PEs in general would provide government's access to much needed revenues.

## **2.4 Reasons behind successes & failures of SOEs**

### **2.4.1 Transparency among SOEs**

Openness to shareholders and the general public (the consumers) determines the long-term financial sustainability of any enterprise, be it publicly or privately owned. A key element in achieving openness for any organization is the publication of a comprehensive and accurate annual report. However, despite the fact that this requirement is contained in many parastatals' founding legislation, Namibia's parastatals do not archive past reports. In addition, the quality of reports differs very much from one year to the next both in terms of the clarity of the report and the detail of information provided. As a result, the construction of time-series data based on these reports proved difficult if not possible.

The following questions then arise concerning accountability and transparency (these two concepts go hand in hand): how can anyone perfectly monitor what public enterprises are doing and if they are delivering at all? How frequently do they prepare and submit annual reports and are these available for public scrutiny and dialogue? Existing institutions such as the different line ministries and Parliament are not able to keep track of what is going on. There are chances that parastatals prepare "secret reports" that are

only available to line ministries but this would go against the whole spirit of public openness and accountability.

Sound corporate governance and openness are at the core of any successful enterprise and can make or break an institution, irrespective of ownership.

#### **2.4.2 State involvement**

There are two different models which the public sectors can choose to play. The 'minimalist' model as the name depicts is where the government exists to address certain market failures in the most efficient way, by delivering a certain service, just like any other enterprise.

The second one is the 'redistributionalist transfer model' incorporates a high degree of redistribution; it provides essential services as well as transfer of money from the better off parts of the population to the worse off (Nepru 1999). These two models both support the classical theorists who believed that governments must have a minimal role to play in the economy mostly by provision of public goods and the distribution of equity.

On the alleged state interference, state owned enterprises by creation are owned by the state and utilize public assets, hence the involvement of the government in ensuring their efficiency and productivity. It is worth pointing out that Article 40 of the Namibian constitution entrusts Cabinet with the duty of direction, co-ordination and supervision of parastatal enterprises and to review and advise both the President and the National Assembly on the rationale, desirability and wisdom of legislations, regulations or orders pertaining to such state enterprises taking into account the public interest. The trend in the restructuring process has been towards greater decision-making autonomy for boards and executive management. In line with the South African King Report and the UK's Cadbury Report, international best practice in the governance of SOEs, Namibia moves towards less government interference in the operational decision-making of SOEs. Commercialisation means that SOEs should be run on business principles rather than political principles. Government input into SOE decision-making is seen as political interference, and something which should be actively discouraged. This is even more the case once SOEs become even partly privatised. Should an SOE like the electricity supply company Nampower take on strategic (private sector) partners as it is hoping to do to better position it to compete with Escom to take over more of the Southern African market (interview: Mr Hoogenout, former Nampower Chief Executive

Officer: 2006), government will find it increasingly difficult to interfere in the operational decisions of SOEs.

Instead of further reducing the developmental role of the state through privatising SOEs, we propose a thorough investigation to find out how the performance and efficiency of SOEs can be enhanced while retaining them under public ownership. Namibia cannot afford to leave socio-economic development to the market alone and we believe that is government's responsibility to direct development in favour of the poor, said Hoogenout.

#### **2.4.3 Pricing Policy**

For example, it is clear that pricing policies have had a powerful and generally negative effect on African SOEs' performance. Many Sub-Saharan countries have a regime of controlled prices. Controlled prices have seldom kept pace with rising costs; indeed, in most countries markets and profit calculations have taken a decided second place to socio-political considerations. Control of SOEs prices for both the materials they buy and the products or services they sell has led to great inefficiencies in resource allocation, contributed to large operating losses, reduced financial responsibility and accountability, and increased the dependence of SOEs on government subsidies (Grosh & Mukandala 1994:14).

Running SOEs on a profit basis is likely to result in dramatic increase in user prices. According to the former CEO of Namibia Wildlife Resorts (NWR), price increases will be tagged to improvements in standards of services, which are to be based on international standards; "If Etosha can offer the same service standards as Makuti Lodge, then there is no reason why we cannot charge the same prices". Clearly the focus is on international tourists who want high quality facilities and can afford the high prices. In order to make Namibia's resorts accessible to Namibians (especially middle and working class Namibians) Bunjon suggests that NWR will have sales promotions in the off season, such as a Namibian week where prices will be temporarily lowered.

The commercialization policy has resulted in large price increases at many other SOEs as well. These increases have had far-reaching effects. For the rural communities, mostly subsistence farmers, the water tariff increases by NamWater are a threat to their existence. The Minister of Agriculture recently stated that if a customer feels that a certain shop is charging exorbitant prices for its goods, then the customer must go to other shops (that offers the goods cheaper). ever, in the case of NamWater there is no alternative. This annoyed the local community and led to heated debates over the Otjiherero radio for

several days. Communal farmers in the Okakarara, Otjituuo and Okamatapati, who all tap water from a major NamWater distribution pipe, were served with water bills of several thousands of Namibian dollars they owed NamWater. The bills dated back to September of 2001 and put many farmers in difficult financial position. NamWater is threatening to reduce the water flow and ultimately cut off the supply of water if communities do not pay their dues. The practicality of such a move has however not been thoroughly thought through, as it is virtually impossible to reduce the water flow as a punishment to the defaulters without punishing those who pay their bills.

At present, government is subsidising rural water supply by about 60% and the communities pay the remaining 40%. Government hopes to abolish all water subsidies by the year 2010. The Khoi-San communities and the pensioners in particular bemoan the gradual withdrawal of government support from rural water supply which may make water unaffordable for them. Wealthier farmers who have some means to contribute to the payment of village bills are now threatening to deny pensioners and the Khoi San access to water. This shows some of the likely but unintended consequences to what the government may regard as a rational move of making the consumers pay for the full price of water.

NamWater which currently enjoys a monopoly is leaving no stone unturned as far as profit-maximisation is concerned. Despite the good rains that were received in most parts of Namibia during 2000, NamWater still announced a price increase of 17%. According to the Corporation's motivation to cabinet, this increase was justified as it was in line with its pledge of not increasing tariffs with more than 20% annually for a period of five years (MAWRD, 2000:1)

Another SOE that is providing an essential service is Telecom Namibia. Telecom has since independence been given a monopoly in the provision of telecommunications services although that protection will soon be over. In 2001, Telecom Namibia hiked its tariffs through what the company termed Tariff Rebalancing. Telecom Namibia argues that this was a necessary step for the company to prepare itself for stiff competition when the telecommunications market will be opened for competition. Tariff Rebalancing\_ according to Telecom means that the company must base its income on the degree of the utilisation of the Telecom network (Telecom Namibia, 2001: 3). This move affected the ordinary users who make local and short distance calls far more dramatically than the business sector and wealthier people who make long distance and international calls. According to Telecom, local calls in Namibia currently account for 85% of traffic in the

network, but contribute only around 17% to the revenue (Telecom Namibia, 2001). According to the company this state of affairs warranted a rebalancing of tariffs in which local calls will be charged their 'fair share for the utilisation of the network. This move has angered service users and the agricultural sector in particular protested Telecom's tariff increases.

Most SOEs have given the following reasons for its tariff adjustments and increases:

- Average increase cost of inflation (CPI) – from 8% to 10%
- Increase in transportation, maintenance and leasing costs - + 35%
- Increase in Office Rental - from 8% to 16%
- Upgrading of infrastructure and responding to technology.
- Additional VAT charges on products and services network, but contribute only around 17% to the revenue (Telecom Namibia, 2001). According to the company this state of affairs warranted a rebalancing of tariffs in which local calls will be charged their 'fair share for the utilisation of the network. This move has angered service users and the agricultural sector in particular protested Telecom's tariff increases.

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- Increase in Office Rental - from 8% to 16%
- Upgrading of infrastructure and responding to technology.
- Additional VAT charges on products and services.

## **2.5 Institutional Reforms**

Experiences of institutional reform in some countries show that for the reform to be effective, the means to achieve the reform objective and the related complementary policy measures should be properly designed (Gala 1991:24-34). However in many countries' institutional reform process, there were some serious shortcomings in this regard.

There are three main areas of institutional reform, which can be proposed to any country seeking to improve the performance of its SOEs. These are (1) expanding SOEs managerial powers; (2) clarifying and limiting government's role in the relationship with SOEs; (3) and political which is a necessary condition for the efficient and effective functioning of SOEs.

## 2.6 Management

Provided that the various interests of a state have been accommodated and that executive management functions within the boundaries of the SOEs strategic plan, the day to day operational management of the SOE should be left to the discretion of executive management.

- ✓ Asked to comment on the recent developments around Namibia's SOEs, the chairperson of the Namibian Consumer lobby said:  
"Considering the failure of many of the Namibian parastatals to make profit or at least break even, we have seen that government had to bail out to most of these cash-strapped institutions. Namibians are starting to doubt the managerial capability of the people who are put in charge of these institutions" (Beukes: 2006)

In the event that executive management does not function according to the approved strategic plan of the SOE, the State has the right to intervene but must follow the proper channels through the board of directors.

Below are some of the problem areas common to public enterprises from 16 developing countries:

### **GROUP 1**

#### **HUMAN RESOURCES**

- ✓ Lack of qualified workers and technicians
- ✓ Difficulties in motivating management and employees (problems with compensation policies).
- ✓ Lack of management skills.
- ✓ Weak management training policies.
- ✓ Employment on the basis of nepotism rather than competence.
- ✓ Lack of flexibility in assigning employees to real needs.

### **GROUP 2**

#### **ENTERPRISE OBJECTIVES AND RELATIONSHIPS WITH GOVERNMENT**

- ✓ Unclear, ambiguous and conflicting enterprise objectives and goals.
- ✓ Unclear accountability to government: one can rarely find evidence of formal controls on enterprise performance.
- ✓ Difficulties in establishing how to evaluate enterprise performance: on the basis of profits or social welfare?

- ✓ Pressure on management from politicians.
- ✓ Failure by the state to determine priorities.
- ✓ Frequent restrictions on management autonomy.

### **GROUP 3**

#### **THE MANAGEMENT PROCESS**

- ✓ Scarcity of resources (financial, human, etc.).
- ✓ Faulty coordination and planning, often due to the several levels of hierarchy.
- ✓ Deficient pricing policies, which often lead to bankruptcy and massive government loans.
- ✓ Unclear definition of management responsibilities.
- ✓ Inaccurate planning by uninformed decision-makers.
- ✓ A low level of efficiency and poor performance standards.

(Source: Report on a Governance Policy Framework for State-Owned Enterprises in Namibia. Deloitte and Touche, October, 2001)

## **CHAPTER THREE**

### **METHODOLOGY OF THE STUDY**

#### **3.1 Population and Sampling**

Since main part of the study constitutes analysing the performance of SOEs, the number of SOEs in Namibia makes up the population. A sample of this population was carefully chosen on the basis of judgmental sampling, in which five enterprises divided into groups of best performers and worst performers were selected. The study has looked at the performance of best performers such as Telecom, Nampower, while worst performers include Air Namibia, Transnamib and NamWater.

#### **3.2 Methods of Study**

The study used qualitative as well as quantitative methods of analysis in approaching the objectives. To study the factors responsible for making a public enterprise efficient, the research was carried out by taking a sample of performing and non-performing SOEs. Performance of an enterprise was

measured with the help of quantitative methods, such as, averages, ratios, correlations, trends in some indicator variables. Academic literature, research papers and documents written on Namibian SOEs and others assisted in appraising the reasons for successes and failures of Namibian SOEs. The implication of newly promulgated reforms was evaluated on the basis of interviews with various expert stakeholders as well as stocktaking of the effectiveness of such reforms experienced elsewhere.

The study relied on both primary and to a large extent secondary data sources that are relevant to exploring the research questions on the performance of SOEs, the reform process and the impact of the implementation of the legislation on the reform process.

### **3 Sources of Data**

#### **(a) Literature**

The research used other published works especially from developing countries that might have undergone the same process. Examples

from developed world were also being considered as they might provide some success stories.

**(b) Documents**

- Documents from the line ministries and the relevant SOEs such as annual reports were studied.
- Budget documents from the Ministry of Finance were consulted to see the allocation of state funds over the years to the SOEs.
- Annual reports of the different SOEs were consulted.
- Consultancy and informative papers already published in the same field were consulted.

**(c) Interviews**

Interviews were conducted by withdrawing a sample of eight experts from different institutions of Namibia, based on their relevant expertise and these included: Heads of SOEs; previous heads of SOEs in Namibia; officials who were instrumental in the commercialization process in government; heads of research institutions and other government officials. The information assisted

in formulating an opinion on the reasons behind the performance of SOEs in Namibia. Please see **Table 1** below for the summary of those interviewed.

**Table 1 Summary of Persons interviewed.**

Name	Position	Date Interviewed
Ms. Inge Muringi	Deputy Director :Office of the Prime Minister	22 September 2006
Mr. Etiene Maritz	Director: Office of the Prime Minister	22 September 2006
Mr. Lazarus Uaandja	Head: Central Governance Agency	17 August 2006
Mr. Kuiiri Tjipangandjara	GM: HR: NamWater	18 August 2006
Mr. Daniel Motinga	Director: IPPR	4 August 2006
Mr. Claus Schade	Director: NEPRU	15 August 2006
Hon. De Waal	Chairperson: Public Accounts Committee	1 August 2006
Mr. Benhardt Kukuri	Deputy Director: Office of the Prime Minister	20 July 2006
Mr. Heward Beukes	Chairperson: Consumer Lobby	September 2006

## **CHAPTER 4**

### **STATE OF NAMIBIA'S PUBLIC ENTERPRISES**

This chapter will look at the performance of SOEs in Namibia. It will also highlight the rationale for the creation of SOEs in Namibia; the number and types of SOEs; their organizational and management structure and finally their performance in terms of newspaper articles, commissions of inquiries and other sources. It is imperative to note at this juncture that SOEs came about as a result of government's reform initiatives. Finally it will look at the Governance Policy Framework on SOEs.

At independence, the Namibian Government inherited a civil service of 42 562 people, highly fragmented along ethnic lines and totally imbalanced as almost all management positions were occupied by white males. The civil service thus had to be dramatically restructured to meet the needs and goals of national development. This necessitated the immediate creation of some 15 000 new posts and thousands of additional posts during the 1990s,

increasing the number of civil servants to about 70 000. This caused a huge expenditure on personnel as a proportion of total government current expenditure and a widely held perception that the Namibian public service is bloated and over-subscribed, lending credence to a number of policy proposals to restructure and downsize the public service.

#### **4.1 Types of Public Enterprises**

There are various public enterprises in Namibia. On the one hand is NamPower, the electricity utility; on the other is the Development Brigade that was to provide much needed job opportunities for ex-fighters but was subsequently liquidated in 2002.

**Table 2: Parastatals in Namibia**

<b>Name of Company</b>	<b>Operating Since</b>	<b>Line Ministry</b>
1. Meat Board of Namibia	1931	Agriculture
2. NDC	1969	Trade & Industry
3. Windhoek College of Education	1979	Higher Education
4. Meat Co	1986	Agriculture
5. Development Fund	1987	Finance
6. Air Namibia	1990	Works
7. Transnamib	1990	Works
8. Namibia Petroleum Corporation	1990	Mines & Energy
9. Namibia Broadcasting Corp.	1990	Information & Broadcasting
10. Namibia Press Agency	1990	"
11. Bank of Namibia	1990	Finance
12. Agribank	1991	Agriculture
13. Law Reform Dev. Commission	1991	Justice
14. UNAM	1992	Higher Education
15. Ongwediva College	1992	"
16. New Era	1992	Information & Broadcasting
17. NamPost	1993	Works
18. Telecom Namibia	1993	"
19. Sea Flower Whitefish Corp	1993	Fisheries
20. National Housing Enterprise	1993	Local Government
21. Development Brigade	1993-2002	Higher Education
22. Namibia Bricks Enterprises	1993	Subsidiary of DBC
23. Patriot Construction	1993	"
24. Star Protection Services	1993	"
25. Caprivi College of Education	1993	Higher Education
26. Polytechnic	1994	"
27. National Theatre of Namibia	1994	Basic Education
28. NamPort	1995	Works
29. Social Security Commission	1996	Labour
30. Rundu College	1996	Higher Education

31. Namibia Trust for Maritime & Fish.	1996	Fisheries
32. NamWater	1997	Agriculture
33. Windhoek Machinen Fabrik	1998	Defence
34. NAMCOL	1998	Basic Education
35. Namibia Airports Company	1999	Works
36. Namibia Wildlife Resorts	1999	Environment & Tourism
37. August 26 Holding	1999	Defence
38. Premier Electric	1999	Mines & Energy
39. Roads Contractor Company	2000	Works
40. Road fund Administration	2000	Works
41. Roads Authority	2000	Works
42. NamibRe	2001	Finance
43. Central Governance Agency	2002	“
44. NAMFISA	2002	“
45. Namibia Film Commission	2002	Information & Broadcasting
46. Development Bank of Namibia	2003	Finance

Source: Parastatals' annual reports and government press releases at [www.grnnet.gov](http://www.grnnet.gov)

In Namibia, the State acts through SOEs in a number of recognizable cases. The categorization of these cases forms the basis for the classification of SOEs.

One category of SOEs in Namibia includes enterprises providing infrastructure, fulfilling an important role in the provision of basic services such as water and sanitation, electricity, transport and road infrastructure as well as post and telecommunications services. Service providers in these industries are traditionally referred to as **natural monopolies**, i.e. industries where more than one supplier would be cost-inefficient, and hence regarded as appropriate industries in which the State should play a role.

Another category of SOEs in the Namibian economy include SOEs with **regulatory functions**, such as the Bank of Namibia, the Diamond Board and the Meat Board and non /partially self-funding, service rendering SOEs with **developmental roles** such as the Namibia Development Corporation.

LIBRARY SERVICES  
UNIVERSITY OF NAMIBIA  
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WINDHOEK / NAMIBIA

LIBRARY SERVICES  
UNIVERSITY OF NAMIBIA  
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WINDHOEK / NAMIBIA

**Goods and services with substantial “externalities”, i.e.** when the consumption of goods or services has a positive (or negative) effect on society at large (e.g. education, health), is usually under (or over)-provided for by the market and is therefore seen as an appropriate case for government intervention.

In Namibia, a number of SOEs have also been established in strategic industries, e.g. petroleum.

#### **4.2 Rationale for the setting-up of SOEs**

One such set of policy proposals is contained in Namibia's first National Development Plan, NDP 1, which suggests that the government needs to change its role of basic service provider and allow the private sector to play more of a role in service provision.

In outlining the future role of government, the NDP1 states that:

- government will continue to withdraw from activities that can be more effectively undertaken by the private sector;

- the ownership, management structure and pricing policies of existing parastatals should be reviewed;
- parastatals will become increasingly self-financing or more open to competition, or will be privatised altogether;
- the number of civil servants will be reduced;
- increasing use will be made of user charging to attain cost recovery.

The **Efficiency and Charter Unit**, housed within the Cabinet Secretariat in the Office of the Prime Minister was created to provide a central focus for efficiency and effectiveness measures within the Namibian Public Service (Outsourcing Policy, Efficiency/Charter Unit, Annex A). The establishment of the Unit was in line with the Wages and Salary Commission (WASCOM) recommendations of streamlining the public service towards greater efficiency, and followed a cabinet decision of 4 June 1996 which “instructed Ministries to categorise their government functions into essential/non-essential, and those categorised essential into core and non core, and to come up with proposals how to restructure themselves to eventually focus on core functions only, to abolish non-essential functions, and to outsource the non-core activities (MWTC 1998). In order to ensure an acceptable

level of service, performance targets will be built into tender requirements and contracts. According to Inge Murangi, Deputy Director, Efficiency and Charter Unit, "this is the only way to performance manage government". According to Murangi, government is spending too much money and not doing a very good job at delivering services. Outsourcing and commercialisation are therefore seen as means to change the input/output equation so that more (service delivery) can be got with less (budget allocation) [Murangi: 2006]. Murangi also argues that contracting out and commercialisation will overcome the lack of management capacity in the public service. The day-to-day management of service delivery will be in the hands of the private firm which was awarded the contract (or the relevant commercialised entity) while government can utilise its management capacity to performance monitor the company undertaking the service.

**Downsizing the public service** - This is perhaps the central objective behind the restructuring process. Numerous policy proposals have suggested that government spends too large a proportion of its budget on personnel expenditures. The WASCOM (accepted by Cabinet in December 1995), for example, recommended that the public service must reduce its personnel expenditure by at least 2% per year. A commonly held

perception within Government is that the optimum size of the public service is 30 000, which means a reduction by 50%. Outsourcing and commercialisation are the principal strategies to attain downsizing. Compared to outright retrenchment, these strategies appear to be the least politically controversial, particularly in view of the fact that restructuring is not being directly associated with any privatisation drive, and employees are being transferred to new undertakings on similar terms and conditions of employment. In a sense, by transferring employees to new undertakings, Government is deferring the responsibility for downsizing to these SOEs (and their boards of directors). In other words, downsizing will now become a more fragmented and depoliticised process.

**Reduce fiscal deficits** - Related to the objective outlined above, it is thought that reducing government expenditure and contracting out functions and activities to the newly established commercialised entities will reduce fiscal deficits to targets seen necessary for macro-economic growth.

**Improving efficiency** - This is perhaps the second most important objective behind restructuring, and has grown out of the realisation that Government is not performing as

well as it should. There is widespread concern that Government output (in terms of productivity and service delivery) does not justify the amount of (financial and human) resources which Government invests. Underlying this objective is the (neo-liberal) belief that organisations running on market-principles (as do commercialised entities) are inherently more efficient than government.

**Improving service delivery** - Evident in the Outsourcing Policy of Government is the belief that outsourcing and commercialisation will actually improve the delivery of government services. In a similar way to the objective above (efficiency), this is closely tied to the neo-liberal belief that the market is an efficient and effective allocator of resources, and that government should limit its role as service provider. As will be argued below, such assumptions fail to account for the fact that when left to the will of the market resources and services tend to gravitate to those who can afford them, thereby failing the poor and necessitating a central role for Government in service delivery. This is even more the case in a country such as Namibia with huge socio-economic deficits and disparities in wealth and income, and where a large proportion of the population does not have access to basic needs goods and services.

### **4.3 Central Government Transfers to SOEs**

Aside from the differential performance of these entities, what cannot be disputed is that lots of public resources have been and are being allocated to most of these public enterprises. Between 1991 and 2003 the Government spent between N\$79 million in 1991 and nearly N\$ 1 billion in 2003 on parastatals. This has been either through subsidy for operations (through current transfers) or lending and equity participation. (Please see Table 3 in Appendix)

Government expenditure on SOEs has increased dramatically over the past few years, from N\$102.4 million in 1993 to almost N\$ 500 million in 1997 (Deloitte and Touche: 1999). In 2001, government had to bail out the national airline, Air Namibia with almost N\$ 400 million to prevent bankruptcy. On the other hand, some SOEs like NamWater, NamPost and Telecom Namibia were able to pay small moderate dividends to government for the first time in 2001. In a narrow sense (cutting costs), the commercialisation of SOEs thus seems to show results. However, one also needs to look at the social implication such as employment and prices for services.

By 2003, which covers the 2002/2003 financial year, only 24 of the 45 parastatals confirmed that they produced annual reports. However, only five annual reports could be traced. How could only five annual reports be traced if 24 enterprises say they produced annual reports regularly and on time? Of course, some parastatals' financial years only in end in December or January but these are typically in the minority. Thirty - three out of forty-five parastatals whose financial years were able to be confirmed; only 5 have financial years that fall between December and January. Thus the majority of parastatals should be able to produce annual reports by October each year.

As part of the exercise of reviewing parastatal openness, it was investigated what each Act of Parliament for each parastatal stipulates with regards to the preparation of audited annual financial statements and annual reports. With the exception of one or two, most acts require that companies submit these reports to line ministries within six months after the end of each financial year or within such periods as the line ministry may allow. Unless line ministers do indeed allow public enterprises to delay these reports, then one can assume that based on Table 2 at least 85% of the 2002/2003 financial year audited reports should have been available for public scrutiny by March 2003. This was clearly not the case.

Furthermore, it was found that very few parastatals have websites. Of the 45 parastatals only 47 % had an accessible website by January 2004.

However, most of the data on these websites were outdated which shows that very little effort is made to update websites. Furthermore, only a few parastatals are posting their annual reports and audited financial statements on their websites.

#### **4.5 Reviewing Parastatal Financial Performance**

Just as SOEs differ widely in their governance arrangements, so too are there vast differences in their economic performance. The SOEs with the highest financial returns are those operating in (state-maintained) monopolistic or near-monopolistic environments. SOEs in this category would be NamPost (although it is showing a significant drop in returns on investment over the past few years), NamPort, and Telecom (Marais: 1999). According to Hermann Marais, these SOEs have shown exceptionally high returns on investment, which suggests they perhaps need to review their pricing and tariff structure. The only SOE which is showing high returns which operates in a competitive sector is Meat Co. NamPower is regarded as showing a medium to high return on investments, while most other SOEs operate at a financial loss.

Although not all SOEs are expected to show a high rate of return on investment due to their developmental role, some of the more commercially oriented SOEs will be made accountable for its poor showing. Air Namibia, for example, incurred losses of N\$ 51.5 million within 9 months in 1999 (The Namibian: 1999) and had to be bailed out by government with almost N\$ 400 million in 2001 (The Namibian: 2001). Likewise, TransNamib incurred massive debts over the past few years and such SOEs are likely candidates for large-scale privatization.

Whilst the number of parastatals is rising, sound financial performance remains elusive for most. Of course, not all parastatals are able to generate sustainable income or profits because of the nature of their role. However, aside from the occasional allegations of resource misappropriations followed by commissions of inquiry, there is indeed a lack of consistent and regular evaluation of parastatal performance and service delivery in Namibia. This is rather surprising because one would expect that the owner, in this case the state, would have had a keen interest in its investments. Of course, skeptics may legitimately ask if things are likely to improve even with the formation of the CGA – the CGA will review

business plans of parastatals as well as the monitor and evaluate their performance over time.

Parastatals should ideally perform functions that no private sector entity would and could therefore provide a crucial link in the production chain. As a result, their role can be crucial to most economic processes from making a phone call to preparing a cup of tea.

Evaluating the financial performance of parastatals is problematic. On the one extreme, there are parastatals such as Nampower and Telecom that operate as monopolists and are making huge profits. At the other extreme there are parastatals that depend entirely on state transfers for their survival.

#### **4.6 Current Governance Policy Framework for SOEs**

The Government is committed to reverse the negative trends in our parastatals through appropriate reforms. The government still believes that state enterprises can serve as important catalysts and contributors to economic growth by providing a strong foundation for attaining and sustaining our socio-economic activities and goals and by providing

efficient services that will enhance efficiency and the quality of investments in the rest of the economy.

Mindful of the above responsibilities entrusted upon it by the supreme law of this country, the government is going ahead with the reform of these enterprises, clarifying the role and mandate of the shareholder who in this case is cabinet and by delegating supervision and monitoring function to the Central Governance Council, chaired by the Prime Minister which shall serve as a policy-maker and overseer.

As one of its SOEs reform initiatives, in 2003, the Cabinet established and appointed an executive director to the Central Governance Agency (CGA). The function of the CGA was to get the SOE bill (which later became an Act) to Parliament, and also to provide for its own legal set-up in order to regulate and restructure SOEs with the necessary legal backing.

Other measures include developing clear procedures, parameters and targets which will be monitored by the Central Governance Agency, as well as the development of flexible rules defining the organizational structures and accountability at various levels such as the Board of Directors, the Chief Executives and top Management of the various organizations. Thus,

government will ensure that the Boards of Directors of parastatals comprise of professional individuals who are capable of supervising the management of these entities.

At a time when parastatal reform is on the lips of many, **privatization**, **liquidation**, **enterprise reform** and **private-public partnerships** are four ways in which parastatals can be reformed.

It has been suggested that the government should scrutinize the SOEs and see if it needs all of them and to embark on a reform process for those SOEs which it deems necessary to keep. The government must make sure that it does not waste resources to reform enterprises that cannot be reformed (De Waal, 2006). The Act aims to provide for the efficient governance of state-owned enterprises and the monitoring of their performance.

The State - Owned Enterprise Act is an act in which the activities of the Central Governance agency (CGA) are stipulated. By virtue of the Act the agency will have power to investigate unscrupulous managers and directors, in consultation with the law enforcement agencies.

Some of the main recommendations approved by Cabinet on the governance policy framework for SOEs were those of performance management, financial accountability, a regulatory framework, and the creation of codes of ethics and promotion of a competitive environment. The Central Governance Agency is mandated to make sure that SOEs in Namibia adhere to the above mentioned principles.

## **CHAPTER 5**

### **ANALYSIS & DISCUSSION**

This chapter highlights the findings from interviews, questionnaires, desk research, and summarizes the results.

#### **5.1 Package/earning structure of CEOs-Top Management**

One group that has already emerged as direct beneficiary from the commercialisation process is the CEOs at SOEs. Their salary and benefit packages are far higher than those offered in the civil service and at most private companies and are thus higher than market-related remuneration.

The Namibian government now plans to introduce performance-related contracts for SOE managers to link the (economic) performance of the company to the packages that the managers will be able to earn.

**Table 4: Remuneration for Top Management in State-Owned Enterprises.**

Average yearly total packages in different enterprises.

Category and Company	Number of Managers	Average total package NS 000
<b><u>I. Service Providing and Potentially self-funding</u></b>		
Air Namibia	8	809
Namibia Airports Company	4	364
NamPower	10	402
NamPort	5	534
Namibia Post&Telecom Holdings	1	354
NamPost	7	349
Telecom	6	363
Namibia Wildlife Resorts	5	349
NamWater	5	438
Transnamib	5	564
August 26 Holdings	1	384
National PetroleumCorp.of Namibia	2	491
Premier Electric	2	243
Roads Contractor Company	3	314
Sea flower Whitefish Corporation	2	522
Windhoek Machinen Fabrik	2	252

Social Security Commission	4	389
Namibia National Re-insurance Corp.	2	315
Meat Corporation of Namibia	0	0
<b>2. Developmental SOEs ( including Subsidiaries)</b>		
Agribank	5	485
National Housing Enterprise	4	526
Namibia Development Corporation	2	361
Development Fund	1	340
Road Fund Administration	4	450
Roads Authority	3	374
Development Brigade Corporation	1	250
Namibia Bricks Enterprise	1	162
Patriot Construction	1	240
Star Protection Services	1	144
<b>3. Education, Culture and media institutions</b>		
Polytechnic of Namibia	3	504
University of Namibia	4	376
Namibian College of Open Learning	4	311
Caprivi College of Education	2	157
Ongwediva College	3	164
Windhoek College of Education	3	157
Rundu College	2	157
National Theatre of Namibia	1	114
Namibian Broadcasting Corporation	1	343
Namibia Press Agency	1	182
New Era	1	183
<b>4. Regulatory SOEs</b>		
Bank of Namibia	4	517
Law Reform and Development Comm.	1	347
Meat Board of Namibia	2	330
Namibian Agronomic Board	1	235
Namibian Trust for Maritime & Fisheries	2	291

Source: Report on a Governance Policy Framework for State-Owned Enterprises in Namibia, October 2001.

**Top management** in the Namibian context, has been defined as managing directors/ Chief Executive Officers (CEOs) or general and senior managers at national level. Corresponding positions for educational institutions have been defined as vice chancellor, or rector.

**The total remuneration** for those 132 managers amounts to N\$ 52.8 million, which corresponds to an average per person of N\$400 000.

**For CEOs/Managing Directors** (excluding those in subsidiaries), the average yearly package is N\$ 448 000. Considerable differences exist between categories of state-owned enterprises. In the first category-service providing and potentially self-funding SOEs-the average package for managing directors is N\$ 558 000.

## **5.2 Reasons for Performance & Non-performance**

The majority of the respondents pointed to government interference in SOEs affairs as the main reason for poor performance and the apparent lack of direction in most SOEs.

An expert on SOE pointed out that a managing director of a certain company had to quit due to government intervention with regard to the acquisition of plant and machinery.

Economists noted that state funds are wasted in these non-performing entities. Therefore, they suggested that the best solution to have efficient and performing SOEs is to squeeze the budget allocation to these SOEs. Using the budget as the leverage, SOEs will be forced to manage their resources better, making them more efficient, productive, transparent and re-directing funds to higher priority areas.

### **5.3 Possible ways to deal with non-performing SOEs**

Those interviewed felt that the new Act on SOEs might not bring about any changes as the same people who are responsible for the enhancement of SOEs, are the same people who are supposed to implement the Act. At the same time, they expressed their hope that the Act on SOE's will bring about changes in their performance.

There were mixed reactions for those who work for monopolistic SOEs such as Telecom, NamPost, and MTC. Some felt, their financial performance was not by chance or due to their monopolistic status, while another group felt that yes being a monopolistic did help in attaining financial benefits.

The issue of high salaries being paid to managers was sensitive one. Most respondents argued that the high salaries were justified. They argued SOEs, were semi-private entities and there are conditions that must be met if you were to function as an SOE. They argued that these conditions are different from the public service, hence the pay structures should not be the same. Therefore, high salaries, according to these respondents are justified.

What suggestions do people have for non-performing SOEs? Many respondents felt some of these SOEs have wrong people in the right places. People are not hired on merit but on other reasons like political, who knows who? "These things, they argued, should be stopped if SOEs want to be profitable and efficient", pointed one expert on SOEs.

Interest groups interviewed felt that not all SOEs are bad performers. They acknowledged the performing SOEs, who pay dividends to the State and who at the same time do not depend on the government subsidies.

We should do away with non-performing, milk-drying SOEs and remain with the performing ones. The SOEs who could not deliver died a natural death, like DBC.

#### **5.4 Various Performance Indicators**

Somewhere in between these two extremes are parastatals that make substantial losses each year. Therefore talking about parastatals profitability is tricky because how do you compare UNAM and NamPower. To get around this difficulty we compare the ratio between income and expenditure. For our purposes we are not interested in how the income or revenue is derived or generated. All we are interested in is whether parastatals are adhering to their budget constraint. Ideally, we are looking for a ratio of one, meaning expenditure is equal to income and therefore the budget constraint is binding. If the ratio is less than one, then we can conclude that the budget constraint does not hold. We shall admit that it is a fairly

crude test of the moral hazard hypothesis with regards to cost minimisation within parastatals.

The hypothesis states that state-owned enterprises are almost always likely to overstretch their limited resources because the likelihood of being bailed out by the state is greater than the risk of going bankrupt. The implication is that in difficult times a typical private enterprise would cut costs to survive whereas a typical state enterprise would not cut costs to survive because it could always be bailed out or if it is a monopoly it could simply increase its prices and thereby increase revenue. The fact that a weakly monitored or regulated monopolist could increase income yearly by simply raising the price of their goods or services and thereby balance income and expenditure is one limitation of this ratio analysis. We have only included the parastatals for which revenue and cost data were available between 1996 and 2003 (see Table 5 in Appendix).

A key prominent point from Table 5 is that most parastatals are just barely surviving looking at the revenue-cost ratio. Some are consistently achieving a ratio of less than one - for example the NDC, and TransNamib between 1997 and 2000. In fact, the

NDC has consistently failed to balance income and expenditure between 1996 and 2002 with the exception of 1999. Naturally, we are only able to report this about NDC, as they are one of the few parastatals whose financial reports are available since 1993 in our database, despite its financial situation. If we consider 1998 for which we have the largest number of observations, the following comments are warranted.

These are: Of the 16 parastatals in the 1998 column only 5 have achieved a ratio of less than one and of these four (Air Namibia, TransNamib, UNAM and NDC) have been in a similar position in the past. Three of these four are the largest beneficiaries of government guarantees and subsidies.

Of the remaining eleven parastatals, four are barely breaking even-just exceeding the ratio of one. Of these four, one fell below the break-even point the following financial year.

Of the other companies that are not affected by the above discussion, exceeded the cut-off point, namely, NamPower, Telecom, Namibia, Agribank, NHE, and Meatco and the Bank of Namibia. Not surprisingly this group includes parastatals that are already paying dividends to the state.

Naturally, some of these enterprises, such as NamPower, the Bank of Namibia and Telecom are indeed operating as monopoly institutions with regard to their core business and that could easily explain their profitability. These are also the enterprises according to Table 3 that receive relatively limited state subsidies.

The financial performance of SOEs since 1993 has been disappointing in the majority of cases, with government expenditure on bailing out to SOEs increasing significantly. Government expenditure on SOEs shifts away the resources from vital capital transfers towards the expenditure on salaries and wages. Therefore, many SOEs experience high levels of debt as well as declining levels of capital productivity.

In 1997, it was estimated that SOEs in Namibia contributed to 2.3 per cent towards national output and 2 per cent towards total employment, which are relatively low percentages when compared to other African states such as South Africa (14.9%), Zimbabwe (11.3%) and Malawi

(4.3%). The Namibian situation compares with situations in first world economies such as the United Kingdom (3.4 %), stronger South American economies such as Argentina (1.3%) and developing Southeast Asian countries such as the Philippines (2.2 %). Namibia's SOEs contribution should be higher, because SOEs operations fulfill a strategic function in the national economy in terms of economic growth, development and poverty eradication.

## **CHAPTER 6**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **6.1 CONCLUSIONS**

The performance of several SOEs suggests that they spend too much on personnel costs and achieve insufficient output. Another reason that has contributed to the poor performance of SOEs is the inappropriate investment decisions of establishing SOEs. Some SOEs have been established without sufficient reflection, with unclear objectives, and few linkages to the rest of the economy.

It is the conclusion of this study that very few parastatals produce annual reports and audited financial installments regularly and therefore the majority of parastatals are not open for public scrutiny. Most are often spending monies that they do not have by consistently spending more than their income. As a result, the state is pumping lots financial resources into these institutions some of which will most likely never become independent and self-financing.

## **6.2 RECOMMENDATIONS**

### **6.2.1 Role of Parliament**

Interest groups such as NGOs, consumer lobby groups cannot force parastatals to regularly prepare audited reports nor can they instruct parastatals to make their reports available to policy makers and the general public. That is the prerogative duty of Parliament. Thus, Parliament has to demand greater openness and accountability from parastatals as they have the legal mandate to do so. It is also the role of the Public Accounts Parliamentary committee to oversee the overall performance of SOEs and to bring the non-performers to book. It is hoped that the newly instituted Central Governance Agency will promote and entrench greater openness and transparency within parastatals.

### **6.6.2 State-Owned Enterprise Governance Act**

The newly promulgated Act on the State-Owned Entities of 2005 is finally in place. It is hoped that the work of the State-owned Enterprise Governance Council will be enhanced by the enactment of this much awaited policy on state-owned enterprises, to foster private sector practices in the running of SOEs.

### 6.6.3 Private Sector Participation

International practice in both developing and developed countries displays the general endorsement of policies towards private sector participation in, as well as state divestiture from, the SOE sector. These policies are being pursued with a view to financial returns to the State, to improve the efficiency and competitiveness of these organisations and to create wealth through broadened ownership. The above mentioned steps might not come without financial and social risks; the emerging consensus is that the longer term benefits tend to outweigh the shorter term sacrifices that may be involved. The national airline, in Namibia is regarded as the “priorities of priorities”, which is in such dire need that action needs to be taken fast.

Air Namibia is losing money and is operating in a fast moving industry. There is a need for the shareholder to review and re-focus on the operations of Air Namibia. At the end of the day, we must decide whether or not we really need Air Namibia.

The challenge facing Namibia is to ensure a balanced approach that can address both allocative and operational inefficiencies, while keeping all relevant considerations of a developing country in mind. The following are the options facing Namibia to improve the performance of SOEs.

Private ownership in developed countries is typically introduced to strengthen competition and to counter externalities and monopoly situations. Where natural monopoly exist, however, experience has shown that effective competition might be impossible to attain and also not necessarily ideal.

Introducing competition to enhance SOE efficiency is more successful if an adequate system of sanctions and rewards is in place. Ongoing political patronage of SOEs will not provide an incentive for improved management, nor will inappropriate political interference and weak governance improve performance. Maintaining SOEs under state ownership for social development purposes is a preference of many developing countries, yet the costs and benefits of socially focused SOEs can often not be adequately measured, especially in financial terms. The decision, in most cases, to maintain so-called social SOEs is a political one.

It is imperative to separate ownership and control in SOE governance. This is so because the above has been identified as a necessary factor able to contribute a net benefit to SOEs' overall performance.

Finally, a move to private sector participation should not entirely focus on revenue maximisation through the sale of shares, but should also focus on considerations such as improved efficiencies, empowerment and market development.

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**Questionnaire used in gathering the data for Thesis.**

How do you rate your performance over the last 5 years?

What do you think are the reasons behind your successes/failures? Critical success factors.

What do you think will be the impact of the newly promulgated act on the performance of state owned enterprises?

What suggestions/ideas would you recommend to the non-performing SOEs in Namibia?

What expertise do you board of directors have?

How are your salary structures determined? Are the high salaries for SOEs management justified; i.e. do they relate to performance?

How would you rate your services to the end users? Quality, affordability

In your views what reforms initiatives have the government embarked on, to transform SOEs in Namibia?

Are you a monopolistic entity? If yes, how have this contributed to your performance over the years? Positively/negatively

How would you compare yourself with non-monopolistic SOEs which compete with private sector enterprises? In terms of profits, pay structures, etc.

How do political interventions affect your day to day business operations? Is it negative/positive?

Strenuous government controls: do they inhibit u from fulfilling your mission, is this positive or negative please explain?

Finally, please elaborate on the factors that inhibit SOEs performance in Namibia against those that enhances their performance?

**Table 3: Loans and other transfers from government to parastatals between 1990 and 2003 (N\$ million)**

Parastatals	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04
<b>Loans</b>														
NamWater								30.0	16.0					
NWR									10.0					
<b>Total</b>								30.0	26.0					
<b>Subsidies</b>														
Academy/Unam	25.7	27.3	31.1	49.7	58.6	58.6	60.7	83.5	86.9	95.4	119.6	124.5	155.5	
Bank of Namibia			0.4											
Polytechnic							27.0	35.2	41.7	47.3	51.8	66.2	68.7	80.0
Namcor				1.8					2.1		1.8			
SSC									10.0	5.0	7.4	5.7	8.5	10.0
NHE			3.1	2.9										
DBC					18.7	9.1			21.2				5.0	
NamWater							40.0	30.0	20.0	15.0	10.0	10.0		
NTB								9.4	11.4	14.9	20.3	12.4	12.6	30.0
DFN									22.0	20.0	3.5	40.0	11.0	
NAB														
NDC								2.4	15.0	7.9	7.4	8.2	8.2	3.2
Meat Co												0.5	0.5	0.6
Agribank				4.1	0.4	3				1.9	5.0	1.5		
NAMCOL									16.0	16.4	16.9	20.0	23.8	25.9
NBC	37.5	39.5	41.4	34.7	35.3	48.9	45.5	54.0	58.4	70.0	62.2	67.5	111.2	103.9
NAMPA			3.6	3.5	4	4.2	5.0	5.0	5.7	5.4	8.4	6.3	5.8	5.8
New Era			2.5	2.5	3.0	3.0	4.0	4.0	4.7	8.5	8.6	6.3	5.8	
NTN	1.0		1.0	0.9	0.9	1.0	1.1	1.2	1.3	1.4	1.4	1.9	1.9	
TransNamib	5.5			0.8										
<b>Total</b>	<b>69.7</b>	<b>39.5</b>	<b>80.2</b>	<b>81.4</b>	<b>112.0</b>	<b>127.7</b>	<b>181.1</b>	<b>201.9</b>	<b>312.9</b>	<b>300.5</b>	<b>299.9</b>	<b>366.0</b>	<b>387.5</b>	<b>414.9</b>

<b>Capital</b>													
Unam					10.0								
Nampower		22.4	12.0	16.8	6.2								
RA										6.2	5.94	5.2	6.0
NDC				2.0	1.0								
DBC				15.0	15.0								
TransNamib										5.3	2.4	5.5	3.2
NBC	6.2	6.0	8.0	9.5	8.0								
<b>Total</b>	<b>6.2</b>	<b>28.4</b>	<b>20.0</b>	<b>43.3</b>	<b>40.2</b>					<b>11.5</b>	<b>8.3</b>	<b>10.7</b>	<b>9.2</b>
<b>Equity participation</b>													
NAMFISA											8.5		
NamRe													
Bank of Namibia		7.1	10.0						11.0	9.0			
NDC		4.6	5.0										
Kalahari Express										5.0			
Air Namibia									9.5	20.0	293.0	325.0	400.0
TransNamib										43.0	43.0	121	
NWR											10.0		
DBN												125.0	125.0
<b>Total</b>	<b>0.0</b>	<b>11.7</b>	<b>15.0</b>						<b>20.5</b>	<b>77.0</b>	<b>354.5</b>	<b>571.0</b>	<b>525.0</b>

Source: IPPR Briefing Paper No. 30, February 2004

**Table 5: Ratio of Income to Expenditure**

	1996	1997	1998	1999	2000	2001	2002	2003
<b>Service providing and potentially self-funding</b>								
Air Namibia	1.03	0.85	0.85					
Meat Corporation of Namibia		1.09	1.21	1.13	1.11	1.1	1.17	1.08
Namibia Airport Company					1.36			
Namibia College of Open Learning				1.19	1.02	0.9	0.85	
Nampost	1.17	1.15	1.04	1.05	1.02			
Nampower	1.89	1.72	1.84	2.08	1.59	1.36	1.21	
NamWater				1.14	1.12	1.24		
National Petroleum Corporation of Namibia	1.37	1.61	0.81	1.85	2.28	3.7	2.34	2.07
Roads Authority						1.01	1	1
Roads Contractor Company						1.27	0.99	1.17
Social Security Commission			1.01	1.07	1.05			
Telecom	1.28	1.28	1.23	1.28	1.18	1.15		
TransNamib	1.09	0.88		0.72	0.93		0.84	0.98
Namibia Development Corporation	0.89	0.85	0.4	1.12	0.69	0.46	0.2	
National Housing Enterprise	2.2	2.38	2.24	2.19	2.21	1.96	1.76	
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Polytechnic of Namibia	1.27	1.03	1.02	1.02	1.02	1.01	1.01	
Rundu College								
University of Namibia	1.05	0.92	0.86	0.8	0.94	0.98	1.06	
Namibian Broadcasting Corporation			1.02	0.97				

Source: IPPR Briefing Paper No. 30, February 2004