

COMMERCIALIZATION AND PRIVATIZATION: OPTIONS FOR NAMIBIA

**This study is in partial fulfillment of the requirements for the master's degree in
public administration at the University of Namibia.**

BY

LOISE PENNA NAMBAHU-SHIXWAMENI

SUPERVISOR: PROFESSOR MOHAMMED M. EL TOUKHY



DEDICATION

To my husband, my son Pandu and to all my sisters and brothers whom I want to inspire.

122942
SC TH 351 NAM

LIBRARY SERVICES
UNIVERSITY OF SIEMRANG
P/BAI
BINHCHH

ACKNOWLEDGEMENTS

Very special people made this study possible and I want to specially acknowledge and thank them for their valuable inputs and contribution. Special thanks to the Bank of Namibia, Deputy governor's office and the Research Department, Friedrich Ebert Foundation (FES), Office of the Prime Minister (Efficiency Charter Unit) and Ministry of Finance for providing me with most of the data and publications.

A lot of thanks to Paul Kalenga for taking the trouble to proofread and comment on the manuscript. To my friend Justine for offering valuable advice. My profound gratitude, thanks, and appreciation to Professor Mohamed El Toukhy for his guidance, criticism and support right from the start up to the finalization of this study.

Very special thanks to my little son, Pandu Che Guevara, for his endurance of the long times that I spent away from home and to my husband for his understanding, encouragement and advice and for proofreading the manuscript several times.

Lastly, I take responsibility for any weaknesses, opinions and conclusions contained in this report.



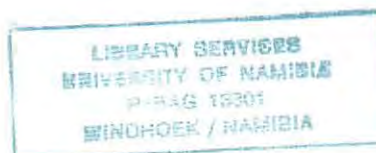
Abstract

The core objective of this dissertation/thesis is to study the methods and approaches that are involved in the process of privatization and examine its validity in the Namibian context. It is an attempt to reach some policy implications, which might help the Namibian Government to decide upon which stage of privatization to adopt in its efforts to reform the Public service and its state owned enterprises. To achieve the above objectives, the study first examined the theoretical background of both commercialization and privatization in general. From the theoretical background it is concluded that there are three stages of privatization, starting with corporatization, commercialization and latest followed, by privatization.

However, in an attempt to understand the main problems and needs of the economy, the study analyses the main features of the Namibian economy in order to determine whether privatization can solve it. Furthermore the principles, conditions, and requirements for privatization are extensively discussed in the study. This is mainly to weight the pro and cons of the process and to determine at what stage Namibia is and what is expected of her if decide to embark upon such process.

The main conclusion for the study is that having analyzed the pros and cons of both commercialization and privatization process and taking into consideration the main problems of the Namibian economy, the study recommends a gradual process towards privatization. The process should start with, an in depth scientific review of the performance of the government's enterprises, commercialization and when the economy is mature privatization thereof.

The study therefore proposes several recommendations, which may help the Namibian government in achieving its objective that of making its public service efficient, accountable, productive, and responsive to the public. It is my hope it will contribute to the ongoing debate in its own way.

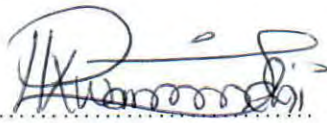


Declaration

I, **Loise Penna Nambahu - Shixwameni** hereby declare that the work contained in this dissertation for the purpose of obtaining a degree of master's in Public Administration (MADMIN) is my own original work. I have not used any sources than those cited in the text as reference and those listed in the bibliography.

I also declare that this work has never been submitted to any other University for the purpose of obtaining a degree.

Signature:



Windhoek, March 1999

LIBRARY SERVICES
UNIVERSITY OF NAMIBIA
P/BAG 1330
WINDHOEK / NAMIBIA

ACRONYMS

| | |
|----------|--|
| BON | Bank of Namibia |
| CMA | Common Monetary Area |
| CSO | Central Statistics Office |
| DBC | Development Brigade Corporation |
| ECU | Efficiency Charter Unit |
| EEZ | Exclusive Economic Zone |
| FISHCOR | National Fishing Corporation of Namibia Limited |
| GDP | Gross Domestic Product |
| ILO | International Labor Organization |
| IMF | International Monetary Fund |
| NAMPA | Namibia Press Agency |
| NAMPOST | Namibia Postal Services |
| NAMPOWER | Namibia Power Corporation |
| NDPI | First National Development Plan |
| NDC | Namibia Development Corporation |
| NEPRU | Namibia Economic Policy Research Unit |
| NHE | National Housing Enterprise |
| ODC | Offshore Development Company |
| OPM | Office of the Prime Minister |
| POE | Public Owned Enterprises |
| SACU | Southern Africa Customs Union |
| SIDA | Swedish International Development Agency |

| | |
|---------|---|
| SOE | State Owned Enterprises |
| SWAWEK | South West Africa Water and Electricity Corporation |
| TELECOM | Telecommunications Corporation of Namibia |
| UN | United Nations |
| UNDP | United Nations Development Programme |
| WASCOM | Wages and Salary Commission |
| WB | World Bank |
| ZPA | Zambia Privatization Agency |

TABLES OF CONTENT

| | |
|--|------------|
| ACKNOWLEDGEMENTS | VII |
| ACRONYMS | I |
| INTRODUCTION | 1 |
| Chapter 1 | |
| 1.1 BACKGROUND | 7 |
| 1.2 PRIVATIZATION – DEFINITION | 10 |
| 1.3. COMMERCIALIZATION – DEFINITION | 13 |
| Chapter 2 | |
| 2.1 INTRODUCTION..... | 16 |
| 2.2 THE ROLE OF GOVERNMENT | 16 |
| 2.3 ECONOMIC FUNCTIONS OF GOVERNMENT | 17 |
| 2.4 THE STRUCTURE AND PERFORMANCE OF THE NAMIBIAN ECONOMY | 19 |
| 2.5 THE PROBLEMS AND NEEDS OF THE NAMIBIAN ECONOMY | 24 |
| 2.6 FISCAL POLICY | 29 |
| 2.7 GOVERNMENT REVENUE AND EXPENDITURES..... | 31 |
| Chapter 3 | |
| 3.1. PRIVATIZATION | 35 |
| 3.2 OBJECTIVES OF PRIVATIZATION..... | 37 |
| 3.3 FORMS OF PRIVATIZATION..... | 38 |
| 3.4 PRINCIPLES AND REQUIREMENTS FOR A SUCCESSFUL PRIVATIZATION | 39 |
| 3.5 CONDITIONS FOR PRIVATIZATION | 40 |
| 3.6 PRIVATIZATION –THE NAMIBIAN CASE..... | 41 |
| 3.7 ARGUMENTS FOR AND AGAINST PRIVATIZATION..... | 43 |
| 3.8 COMMERCIALIZATION AS AN ALTERNATIVE TO PRIVATIZATION IN NAMIBIA..... | 45 |
| 3.9 REVIEW OF COMMERCIALIZED ENTERPRISES IN NAMIBIA..... | 49 |
| CHAPTER 4 | |
| 4.1 AN ANALYSIS OF THE COMMERCIALIZATION PROCESS OF THE NAMIBIAN POSTAL SERVICES | 53 |
| 4.2 REASONS FOR COMMERCIALIZATION | 54 |
| 4.3 NAMPOST AFTER THE COMMERCIALIZATION | 55 |
| 4.3.2 INTERNAL CHANGES WITHIN CERTAIN DEPARTMENTS | 55 |
| 4.4 HOW DID NAMPOST CHANGE ITS ORGANIZATIONAL CULTURE? | 58 |
| 4.5 THE SOCIAL IMPACT OF THE COMMERCIALIZATION OF POST AND TELECOMMUNICATION | 59 |
| CHAPTER 5: EXPERIENCES FROM OTHER COUNTRIES | |
| 5.1 INTRODUCTION..... | 62 |
| 5.2 PRIVATIZATION IN UGANDA..... | 62 |
| 5.2.1 THE REFORM PROCESS..... | 63 |
| 5.2.2 ACTIONS IN PRIVATIZATION | 64 |
| 5.2.3 PROBLEMS ENCOUNTERED WITH THE PRIVATIZATION PROCESS IN UGANDA..... | 66 |
| 5.3 THE PRIVATIZATION PROCESS IN ZAMBIA | 67 |
| CHAPTER 6 | |
| 6 .1 SUMMARY AND RECOMMENDATIONS..... | 70 |
| 6.2 BIBLIOGRAPHY | 73 |

A. Introduction

In the last decade, the world has experienced a revolution. Most profoundly, it saw the end of the cold war, the ultimate fall of the Soviet Union, the reunification of East and West Germany, and the end of colonialism in Africa and apartheid in South Africa. Throughout the world, in diverse circumstances, policy makers have been critically reexamining the performance of state owned economic assets, and as a result many have recognized the need to improve the economic performance of the public owned enterprises (POE).

All over the world, during the last decade, economic reforms have become the order of the day ranging from fiscal reforms to public sector reforms. Privatization and Commercialization - relatively new concepts - have come to stay. They have spread out to all other parts of the world. They started in the developed countries, these concepts recently have become very popular in developing countries, including African countries.

However, their growing popularity does not mean that it is easy or that they have been perfect in design and implementation. This may be the case for Namibia as well. Different countries have different objectives for their privatization or commercialization process.

How have African countries dealt with this process? What are the lessons that Namibia can learn from this experience? The concepts of commercialization and privatization of state enterprises are relatively new to Africa.

This is because at independence many African countries were faced with the option of adopting either the capitalist system of free enterprises, or that of state controlled economy. Most chose the latter either because of ideological and socio-political reasons or because they could not have relied on the weak private sector in their countries, in which the economy in most cases was in the hands of a few and had existing skewed distribution of income and wealth. They thus opted for public ownership of enterprises as the panacea that would catapult them to the pinnacle of industrialization and ensure a fair and equitable distribution of income and wealth. Further reasons include the obvious lack of indigenous private sector and the selective attitude of the private sector towards curbing the then existing high unemployment.

Public enterprises in many African countries were set up as legal entities like Private Corporations but fully owned by the State. They were headed by Boards of Directors as the highest authority with the Managing Director as the executive head of administration. Any profits made by the corporations were used for capital investments or transferred to the treasury. Thirty years later, the performances of many public enterprises were far from satisfactory. The reasons for poor performance include among others: poor initial investment decisions, overstaffing, political interference, and corruption (Nellis, J, 1986, p.10).

This decade however has seen a radical change in the role of governments in the economy. Governments have recognized that they can no longer afford to keep a big public service and provide services that can be better managed outside the public service. Those experiences are not only unique to African countries but to almost all developing countries and Namibia is no exception from them.

Consequently, because of the experience stated above, African countries like other countries in other parts of the world were compelled to reform and look at other economic management initiatives. Initiatives which can improve the performance of the public enterprises and lead to greater efficiency, accountability, and to a reduction of both the budget deficit and size of the public service. It is against this background that they opted for either commercialization or privatization process.

B. Purpose of the Study

The objective of this study is to analyze the methods and approaches that are involved in the process of privatization and commercialization. In addition, the study purports to make some recommendations on what approach the Namibian Government should take in the process of reforming its public sector as a whole, particularly the parastatals.

C. Methodology

The research methods turn on the use of secondary data, interviews with key policy makers and is predominantly analytical descriptive. In a very elaborate manner, the pros and cons of both privatization and commercialization have been studied, using a descriptive and analytical approach. The descriptive approach is also used in an attempt to point out some of the impacts of both privatization and commercialization on the Namibian society. Several examples from different countries that have similar political and economic situations are drawn. The study in particular analyses the performance of the Namibian economy and makes recommendations on how to address the problems of the economy.

Structure

The study explores the following topics in turn and they are outlined as follows:

Chapter 1: Conceptual Clarification

It is important that before one arrives at the conclusion as to what is an appropriate reform strategy for any country, a thorough understanding of the concepts is essential, therefore in this chapter definitions for both commercialization and privatization as put forward by analysts around the globe are presented. The chapter also covers the background information of the privatization and commercialization process worldwide and how Namibia fits within the global village. It also states the Namibian government's intention to engage in the process of change.

Chapter 2: Review of the Namibian Economy

Government all over the world has economic functions, which they cannot give away. The role of the government in the economy is very important. The study in this chapter therefore examines the economic role of government in general and of the Namibian government in particular. With any reform process government has to define its role very clearly through its economic policy. The study also considers the main features of the Namibian economy and reviews its performance for the past eight years since independence in an attempt to understand its problems and needs.

Chapter 3: Comparative Experiences

Since privatization or commercialization programs differ from one country to another, this chapter looks at experiences of other countries in detail through case studies. The Zambian and Ugandan experiences have been used for the purpose of this study. This is mainly to get an insight into how other African countries with similar economic situations have fared and what lessons Namibia can draw from their experience.

Chapter 4: Options for the reform of Parastatals in Namibia

Having analyzed the main features of the Namibian economy in chapter two, this chapter analyzes the pros and cons of both privatization and commercialization. A critical look at the requirements and criteria of the privatization process as well as other possible problems that can occur if the privatization process is not carefully implemented is also examined.

Chapter 5: Namibia: Social Impact of Commercialization

In every aspect of life, there are always opportunities and threats. What are the social impacts of Commercialization on the Namibian society?

NAMPOST as one of the commercialized enterprises in Namibia, is used as a case study to illustrate the main argument of the study that commercialization should be the way ahead for Namibia as it can contribute to solving the problems of the economy for example, employment creation, increase in revenue collection and poverty alleviation.

Chapter 6: Summary and Conclusions

An overall summary and recommendation is provided for in this chapter. The main conclusion from the study is that having examined the main features of the Namibian economy and its problems, and also having looked at the experiences of other African countries, a gradual process towards reforming the public service, starting with commercialization is the best option for Namibia.

CHAPTER 1: CONCEPTUAL CLARIFICATION

1.1 Background

*“ The trouble with the future is
that it isn't what it used to be. ”*

Paul Varely.

In managing the economy of a country, the ultimate problem is to set up regulatory and resource allocation mechanisms that are viable and sustainable. The difficulty is however how to allocate the limited resources within a system, and it is clear there is no universally valid model. It is therefore important to point out that in recent years, the allocation mechanisms have been increasingly directed and supported by government interventions that have varied in massiveness and scope according to economic and political forces at play. Where developing countries are concerned, it is evident that since independence it has been the relative weakness of some actors that has led to a greater degree of government intervention in support of economic progress and development. Engaging in the process of commercialization or privatization is only one mechanism in the whole arsenal of mechanisms that can be used as a vehicle for reforming the public sector.

The process of reforming the public service sector is a global process. Its rapid spread was dominated by the industrialized nations in the 70s and was joined by a large number of developing countries during the 1980s. It is today recognized that an efficient private sector is an essential element of a successful development strategy. In many countries, the privatization of state owned enterprises (SOE) is being taken to strengthen the role of the private sector.

Since the 1980s more than 2 000 public enterprises which have been privatized globally are in developing countries and over 80 developing countries worldwide are involved in these efforts (Viravan, A, 1992, p.14).

Namibia is part of the global village and as such it cannot afford to ignore what is happening in other parts of the world. Eight years after independence the government finds itself in a position where it can no longer sustain the large public service sector nor can it ignore its need to relieve itself from non-core functions and concentrate on the core functions. The reality is that there is tremendous pressure from all corners of society for government to improve the performance of its service delivery and provide effective and “value for money” services to the people. The privatization and commercialization wind that is blowing is here to stay and has to be recognized and accepted by all of us.

The challenge that Namibia is faced with is how to do it, when and where to start. The critical questions or arguments, which need to be debated are:

- Does the move towards commercialization and eventually privatization constitute an effective instrument to address the increasing government budget deficit?
- Does that move mean that government has failed to solve the economic problems of the country?
- What are the objectives of the commercialization or privatization process in Namibia?
- What are the criteria for the commercialization or outsourcing programs?

- Does the private sector have the capacity to take over and are the employers ready to change their attitude towards employment?
- Who will be the winners and losers in the process?
- Is it worthwhile to substitute public monopolies with private monopolies?
- Will a change in ownership involve new productive investment opportunities that will create additional employment or will it deteriorate the already high rate of unemployment?

However, in taking forward this process it is also important to take into consideration the crucial factors in the Namibian economy such as:

- Employment level
- Socio-economic inequality
- Economic empowerment
- Affirmative action

The Namibian government has already declared its intention officially to engage in the process of change and its commitment to reform the public service in Namibia. In his budget presentation in April 1998 the minister of finance announced that outsourcing, commercialization and eventually privatization are undoubtedly key policy instruments in pursuing the reform process. These instruments will be used to reduce the wage bill that is currently standing at 44% of total government expenditures and to reduce the size of the public service which is estimated to be approximately 60 000 employees.

In this regard a number of policy documents and other initiatives have come forth since 1995. Among these are:

- The Public Expenditure Review which looked at government expenditure and suggested ways and means of improvement. This document addressed the issue of downsizing the public service through rationalization and early retirement.
- The Wage and Salary Commission Report (WASCOM), which studied the public sector as a whole and recommended measures on how to reform the public sector, improve performance and efficiency as well to improve and streamline the salary structure of public service employees.
- Central initiatives of the Efficiency Charter Unit
- Decentralization policy
- Outsourcing policy
- Job creation fund

Despite all these activities however, debate still rages on over the impact of both commercialization and privatization, how much to privatize, how to do it, at what pace and even whether to do it or not. Another challenge that faces Namibia is how to define commercialization and privatization in our own context.

1.2 Privatization – Definition

Privatization can generally be defined as any measure resulting in the transfer of ownership or control of assets or activities from the public sector to the private sector. However, a more broad definition would require that the transfer would be enough to give private owners substantive independent power.

Some studies see privatization as a process that involves not only the taking over of public owned enterprises by the private sector but the material reduction of government services through strategies such as sale of government owned assets.

Privatization is an open concept. It is up to individual countries to define it, taking into consideration their own environment and economic situation.

David Heald defines that "Privatization is just one set of instruments within packages of policy reform".

He argues that privatization should not be seen as a free standing policy but rather a process of aligning the local economy towards being more open to the world economy and distinguished internally by a reasonable degree of competition (Heald, D, 1990, p.12).

Brynard on the other hand emphasized that privatization may also occur in three stages. Starting with corporatization followed by commercialization and then privatization. He defines the stages as follows:

Corporatization – creation of state owned corporations out of departments listed for privatization. This occurs through promulgation of the necessary legislation;

Commercialization – the infusion of the profit motive, which is commonly associated with private sector management principles, values, and practices into a corporate's vision and mission while government retains full control and ownership; and lastly,

Privatization - which he defines as the total transfer of public responsibility in own areas of appropriate functions and activities, as well as control and ownership to private concerns (Brynard, P, 1995, p.29-30).

However, the three stages elaborated by Brynard are not the only stages that are involved in the privatization process. There is no universal agreement on how many stages should be involved; all is dependent on the objectives set up for the privatization program in a specific country.

Privatization is a complex and demanding reform. Every stage requires a high level of administrative capacity and different people have defined Privatization in different ways. From a Namibian perspective the Efficiency Charter Unit in their outsourcing policy document defines privatization as a “process whereby government partially or totally transfers ownership, generally by sale of a specific activity or function, to the private sector”.

The paper also emphasizes that privatization is mostly appropriate to non-monopoly activities (Outsourcing Policy, 1998, p.22).

Whilst in total agreement with most of the above definitions on privatization. I will define privatization as being the transfer of state economic assets or functions by selling them in their entirety or parts of their controlling shareholdings to private companies or individuals with the aim that they will be operated on the commercial business principles of profit making. The question of ownership is thus central to the privatization process.

1.3. Commercialization – Definition

According to the Efficiency Charter Unit publication of 1998, Commercialization is defined as a process whereby an activity or function carried out by government is developed along business lines rather than as a pure government organization subjecting it to competition as far as possible (Outsourcing Policy, 1998, p.7). Wilfried Ndongko defines commercialization as a process whereby public enterprises are divulged to the impetus or discipline of competitive price system. Commercialization can be effected partially or in full. Full commercialization occurs when a public enterprises is run as a full commercial entity, which sets its commercial policy so as to operate as a profit making enterprise (Ndongko, W, A, 1996, p.109).

According to Ndongko, a fully commercialized enterprise cannot be subsidized, as it will generate its funding through money and capital markets. On the other hand partial commercialization is a process whereby a state owned enterprise (SOE) is expected to cover at least its operating expenditure from its own operation and other expenditure will still be provided for by the state. Matundu however, defined Commercialization as:

“The transfer of government services or activity to a private company, but with government continuing to shoulder part of the expenditures of the commercialized activities” (Matundu, O- k, 1997).

I tend to differ with Matundu’s definition for the following reasons: firstly, commercialization doesn’t at all mean transferring the activities of government to a private company.

A commercialized entity is not a private company due to the fact that it remains a 100 % state entity. In the case of Namibia, commercialized entities are run either according to the performance agreement between the entity and the government or in line with an Act of Parliament, which established them.

In conclusion, I would define Commercialization as a process whereby government transfers its specific operational functions to an entity, which is then expected to operate it on commercial, profit making principles at arm's length from government. The main purpose is to ensure efficient administration, better management, quality services and reduction of bureaucracy. The issue of competition is another matter. How will a commercialized entity survive in a competitive market system and at the same time continue to give affordable services to the community? This could be the reason why most of the commercialized entities are given monopoly status for their first two or three years of existence so that they can establish themselves in the market and be able to compete. The type of activities the entity is involved in will determine the level of competition.

CHAPTER 2: REVIEW OF THE NAMIBIAN ECONOMY

Chapter 2

2.1 Introduction

“Nobody denies that clean living is the best way to good health, but this is really not sufficient to deny that it is something necessary to take medicine”, C. Meier

The study in this chapter analyses the role of government in the economy as well as the main features of the Namibian economy. It is an attempt to understand the main problems and needs of the Namibian economy and how commercialization and privatization can contribute to the development process. State intervention in the economy whenever necessary is at times a good medicine. But the real question is then how far can state intervention in the national economy extend, which economic sectors and activities should be covered and what degrees of freedom it should leave between and within other economic sectors and activities.

2.2 The Role of Government

The traditional role of government is to devise policy and to regulate the society's activities. The main roles of government are therefore:

- To provide internal and external security for the population
- To provide a framework of laws and regulations to enable justice for citizens and facilitate trade
- Ensure that provision of economic infrastructure such as roads and electric power is guaranteed

- To facilitate economic development of the country
- To ensure the provision of an adequate social infrastructure i.e. schools, hospitals, and
- To provide the necessary regulatory framework and ensure adequate protection of the environment.

Social objectives i.e. skill shortages, protectionism, economic hardship, and lack of funding have forced many governments to re-evaluate their policies of government interference in the economy. There is general realization that government's role is to provide conditions through economics, trade and other policies for an environment where the private sector, small or large can prosper and grow. Universally however, the role of government is really not clearly defined. Many voters are in fact still divided on the proper role of government.

2.3 Economic functions of Government

Market systems sometimes produce inefficiencies (externalities), inequalities and suffer from monopoly and pollution along with unemployment and inflation. In response to those flaws in the market mechanism, government intervenes in order to correct the market failures. Government may do this in several ways i.e. by owning and operating economic enterprises, regulating business, taxation, and the use of fiscal and monetary policies to promote economic growth. What are the major economic functions of governments in the so-called mixed economy?

The four main functions are to:

- Establish a legal framework for the market economy
- The allocation of resources to improve economic efficiency
- Establish programs to improve the distribution of income and
- Develop macro-economic policies in order to stabilize and stimulate the economy.

2.3.1 Legal framework

The legal system is at the center of making businesses legal and responsible for their actions and products. One of the economic functions of government is therefore to set an appropriate legal framework, which establishes the rules of the markets. These rules include defining property, rights and laws of contracting labor and management. Although the source of laws and legal custom originates from government, the framework may be different from one country to another. The legal framework strongly influences the economic activities of a country and its attractiveness to investors.

2.3.2 Allocation of resources

Government has a social responsibility to meet some of its social and political obligations; one of the central functions is to ensure the efficient allocation of resources. The policy on resource allocation differs from one country to another depending on the socio-economic priorities and political philosophies of a particular country. Some governments prefer a hands-off or 'laissez-faire' approach, others lean towards heavy government regulation or ownership of businesses in which production decisions are taken by government.

2.3.3 Distribution of Income

This activity is the second economic function of government and it is one of the challenging economic functions of any government. It can only be achieved if there is a serious commitment from government.

In developing countries where unemployment, high illiteracy, and absolute poverty exist, it is extremely difficult for governments to fulfill this task. But most governments are trying their best to live up to this challenge. They have developed programs or policies to re-channel the resources from the haves to the have-nots. Welfare states are quite advanced with these functions.

2.3.4 Macro-economic policy

Government's main weapon for controlling economic fluctuation is to promote economic growth through monetary and fiscal policy.

2.4 The Structure and Performance of the Namibian Economy

The Namibian economy is arranged in accordance with Article 98 of the Constitution of the Republic of Namibia which states that the economic order will be based on the principles of a mixed economy with the objective of securing economic growth, prosperity and life of human dignity for all Namibians. The constitution further states that the forms of ownership will be based inter alia on: public, private, joint public/ private, co-ownership, and small-scale family models/forms (Namibian Constitution, Article 98, 1990, p.53).

2.4.1 The Main Features of the Namibian Economy

The Namibian economy is characterized by a preponderance of the primary sector, which consists of three sub-sectors, namely mining, agriculture and fishing. The secondary sector includes manufacturing, electricity and water, and construction. The tertiary sector comprises trade, transport, retail and repairs, communication, social, and personal services, finance and government services.

2.4.2 Sectoral Developments for the past eight years

a) Agriculture

The agriculture sector is the most dominant sector of the economy in terms of employment. In accordance with the National Agricultural Policy (NAP), about 70 per cent of the Namibian population depend on agriculture for their livelihood. The sector is divided into commercial agriculture, which employs modern methods of production and subsistence or traditional agriculture. Subsistence agriculture involves about 95 per cent of the farming households. However, although commercial agriculture is dominant in terms of total agricultural production and export, it only involves about 5 per cent of the farmers (NAP, 1995, p.10).

The agricultural output has been sluggish and its contribution to GDP has fluctuated for the past eight years because of the poor rainfall and consistently severe droughts. In 1994, the agricultural output increased by 19 per cent, the following year it declined by about 9 per cent, and in 1996 it increased by 6.1 per cent (Bank of Namibia, Annual Report 1994,1995 and 1997).

This development shows that the contribution of the agriculture sector to the GDP has not been satisfactory for various reasons: severe droughts, dry weather conditions, lack of improvement in subsistence farming or communal agriculture, lack of access to land and general poor climatic conditions.

b) Fishing

Before independence the fishing sector in Namibia played an insignificant role in the economy. But with the restoration of the Namibia Exclusive Economic Zone (EEZ), the fishing sector has become an important partner to the economy. In 1990 alone the value added by the fishing industry was R103 million as compared to 32 million in 1989.

Total catches doubled from 400 000 in 1990 to 800 000 in 1997. Although the fishing output was low in 1993 and 1994 respectively because of the shortage of oxygen in the sea and other oceanic conditions, it has however improved substantially in the last three years. In 1995 the fishing output increased by 7 per cent, 11 per cent in 1996, and about 13 per cent in 1997(Central Statistics Office, 1996/97).

c) Mining

The mining sector is one of the sectors which is influenced by the external economic environment especially the international commodity prices, world demand and supply. The mining sector declined gradually due to recession in the industrialized countries and the drop in the world prices of both diamonds and uranium during the early years of this decade.

But apart from that, it has recovered in the last five years. In 1994 the mining output increased by 11 per cent and 6 per cent in 1995. However it went down in 1996, 1997 and 1998 respectively (ODC, Annual Report, 96/97).

d) Manufacturing

The manufacturing sector is dominated by the food and beverages industry followed by wood products (furniture and joinery works). The textiles and leather industries are still largely undeveloped and play an insignificant role in the total manufacturing output. This sector has shown negative growth since independence. Apart from the increase in output by 9 per cent in 1994, it continuously declined by 17 per cent in 1995 and 8 per cent in 1996 respectively. The decline was attributed to poor performance in the fish-processing sub-sector, which accounted for 68 per cent in 1994, 60 per cent in 1995, and 43 per cent in 1996. The situation has greatly improved during the last two years and fishing output is expected to increase by 30 per cent in 1998 (Economic review, Ministry of Finance, 1996 p.5)

e) Government Services

The government service is the dominant sub-sector in the tertiary sector. The government service's contribution to GDP accounts for 26 per cent of the sector's 54 per cent in 1996. Judging from the government services contribution to the GDP, it indicates that government involvement in the economy is substantial. The service sector has been growing for the past six years i.e. the tourism industry has shown positive growth. In 1996, a total of 417,502 tourists visited Namibia compared to 330,400 in 1995. Telecommunication is also doing well after the commercialization of Telecom and NAMPOST in 1992 (ODC, Annual report, 1996/97).

In terms of employment, the government service sector has contributed greatly to employment creation. The government service sector needs to seriously review its performance and improve its service and increase efficiency.

f) **Employment and Wages**

It is quite difficult to assess trends in the employment sector because of lack of employment data in Namibia. According to the Central Statistics Office (CSO) Census of 1991, the labor force was estimated at 434 638, which is 58 % of the adult population. The labor force was then broken into unemployment (19%), income earners (63%), and unpaid family workers (17%). A classification of employed persons was done and they are indicated in the table below.

Table 1 below shows the classification of employed persons by status

| status | % of total employed |
|-------------------------------|----------------------------|
| Employee private | 38 |
| Own account Worker | 21 |
| Employer | 20 |
| Unpaid Family worker | 19 |
| Employee by government | 2 |
| Total | |

Source: 1991 population and housing census

After eight years, these figures have changed tremendously. Recent statistics show that the unemployment rate in Namibia is getting higher and higher.

It has risen from 19 per cent in 1991 to 32.9 per cent in 1993 and to 36 per cent in 1997 (NEPRU, Quarterly report, 1998, no.18). Against this background, it is evident that Namibia faces an uphill battle to reduce the backlog of unemployment.

The negative growth of the economy for the last three years and less contribution to employment creation from other sectors (i.e. manufacturing) and slow progress in the public service reform process are the underlying causes of the high unemployment in the country.

Lack of information on wages is even more severe than data on employment. Apart from the WASCOM report, which highlighted the wage structure of the public service in Namibia there is limited scope on wage data.

Except the ten per cent salary increment granted to workers in 1995, there has only been a general increase for some occupational classes in the civil service, in particular to the lower paid groups. It was against this background that cabinet decided to set up WASCOM in order to review the public pay services. WASCOM found that the pay service was trailing and recommended a uniform pay service based on performance. For the first time Namibia has uniform service pay for all the employees in the public service.

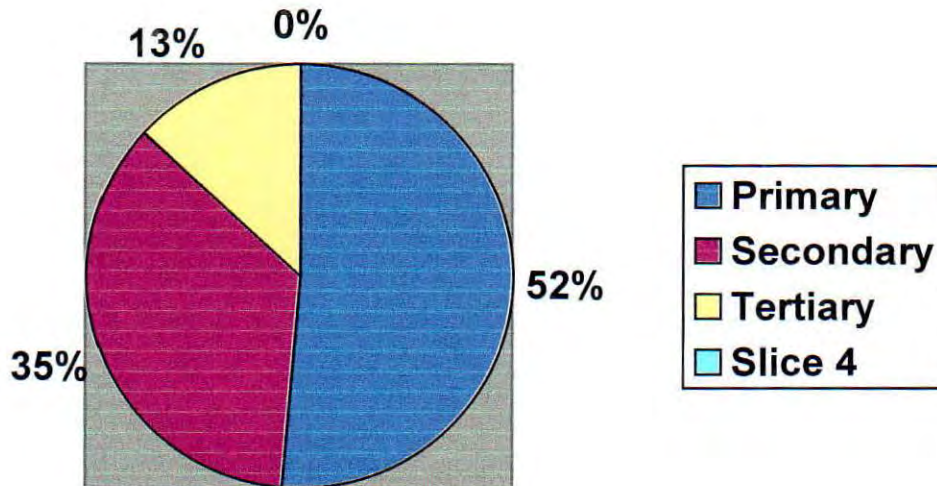
2.5 The Problems and Needs of the Namibian Economy

Having examined the main features of the economy, it is important to point out the main problems facing the economy:

2.5.1 Dependence on the Primary sector

The Namibian economy is dominated by the primary sector in terms of its contribution to GDP, employment opportunities and foreign exchange. As a result, Namibia's economic performance is constrained by its dependence on this sector. The chart below shows that 52% of the Namibian economy is dependent on the Primary sector as compared to 35% of the secondary sector (Bank of Namibia, Annual report 1995).

Chart 1 below shows the contribution of each sector to employment



Source, Bank of Namibia, 1996

The problem is that the primary sector is influenced by exogenous external factors, which are uncontrollable. The mining sub-sector, which contributes the highest to GDP and is the main exporter, is influenced by international commodity prices and world demand and supply forces. The agriculture sub - sector, which is the main contributor to employment, is dependent upon natural conditions and the fishing sub - sector is controlled by oceanic conditions. All these factors are beyond human control and put the economy in a difficult position. In conclusion, if the expansion of the country's economic base is to be met, there is a need to promote and improve performance of the manufacturing sector, attract investment and promote economic diversification.

2.5.2 Poverty and Unemployment

The burning problems facing Namibia are poverty and unemployment. The magnitude and extent of poverty is reflected in the very low per capita GDP for the majority of its population and its extreme inequality of income distribution. The table below shows that in 1998 more than 50 per cent of total population were living in absolute poverty. The per capita GDP falls below the poverty line based upon US \$75 per capita. These figures have not changed much during the past eight years. Since 1990 the average increase in income per head advanced only by a mere 0,2 per cent per annum until 1996 (Minister of Finance, Budget Statement, 1995). This means, in essence, that only a slight improvement in the standard of living of the people has been achieved.

Table 2: GDP % and per capita % by sector in 1988

| SECTORS | % GDP | %POPULATI ON GDP | PER CAPITA GDP |
|--|-------|------------------|----------------|
| White modern | 71.2 | 5.1 | 12839 |
| Non – white sector | 28.8 | 94.9 | |
| Non – white supported by modern economy | 25.4 | 40 | 585 |
| Non – white supported by traditional economy | 3.4 | 54.9 | 55 |
| Total | 100 | 100 | 921 |

Source: UNDP, Population and National Accounts of Namibia, 1989

Another related problem is the high level of unemployment. The ILO in 1991 estimated that the economically active people in Namibia numbered 55 000, growing at 3 per cent per annum. This implies that the labor force will get an additional 16 500 new entrants every year. But this could not happen because of the constrained capacity of the country to create employment opportunities and provide adequate wage employment.

It is clear that poverty and unemployment are two serious and interrelated problems. For the economy to overcome this there is an urgent need to create employment and improve the living standard of the poor. This can only be done if growth of the economy is reactivated and resources are redirected to alleviate poverty.

To achieve that, a high level of investment is needed. The table below shows the international investment position main aggregate as from 1990-1997 in N\$ (millions). The value of foreign liabilities has moved from N\$ 5.2 in 1990, N\$ 6.7 in 1995, and N\$ 8.6 billions in 1997. This is a clear indication that there were no major increases in direct international investment in the Namibian economy since independence.

Table 3: Investment position main aggregates 1990 – 1997 (In millions)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997(a) |
|--|--------------|--------------|--------------|------------|-------------|-------------|-------------|--------------|
| Foreign assets | 5399 | 6411 | 6914 | 8746 | 10484 | 12388 | 9814 | 9758 |
| Direct investment abroad | 204 | 269 | 249 | 277 | 311 | 345 | 61 | 69 |
| Portfolio investment | 413 | 459 | 443 | 401 | 447 | 482 | 603 | 612 |
| Other assets | 4577 | 5542 | 6070 | 7614 | 9007 | 10737 | 8244 | 7858 |
| Reserve asset | 205 | 171 | 152 | 454 | 719 | 824 | 906 | 1219 |
| Foreign liabilities | 7292 | 7748 | 8584 | 8011 | 8928 | 9788 | 10495 | 11394 |
| Direct investment in Namibia | 5245 | 5802 | 6540 | 5629 | 6067 | 6705 | 6987 | 11394 |
| Portfolio investment | 565 | 501 | 561 | 759 | 889 | 1012 | 1035 | 1195 |
| Other liabilities | 1482 | 1445 | 1483 | 1623 | 1972 | 2071 | 2473 | 2495 |
| Net foreign position at the end of the year | -1893 | -1307 | -1670 | 735 | 1556 | 2600 | -679 | -1632 |

Source: Bank of Namibia annual reports, 1995 and 1998. (a) = Provisional

Therefore creating a favorable investment climate is an urgent necessity. The study recognizes several efforts made by the government in this regard and it applauds government for its commitment to this process (Investment Promotion). In order to curb the above-mentioned problems, the government should review its international investment promotion strategy. What the economy needs is the continued flow of foreign resources for development, which in return requires some degree of proficiency, well designed projects and good management to secure the efficient allocation of resources.

2.5.3 High domestic consumption and low domestic saving rates

Namibia's consumption level is high. In 1994 total consumption proportionate to the GDP was approximately estimated at 90 per cent, compared to its ratio in 1980 of 61 per cent. This trend has been spiraling at an increasing rate.

The problem is also aggravated by the low increase in private investments over the last three years and by low per capita income and inequality of income distribution. As a result the gap between savings and investments has widened since 1990, worsening the economy.

2.6 Fiscal policy

The main role of government in the economy is to develop fiscal and monetary policy, facilitate trade, control, monitor expenditure and promote economic growth. Since 1990 government has tried its best to develop fiscal policy measures in order to increase revenue and promote economic growth. It is crucial to state here that because of Namibia's membership in the Common Monetary Area (CMA) its monetary role is limited.

This also applies to its trade and industrial policy through membership in SACU. Because of the above limitations, fiscal policy is the only full instrument that government can use to intervene in the economy.

As part of the fiscal policy measures, the government uses the budget as an instrument for allocating, redistributing resources and for stabilizing the Namibian economy. In 1995 the government set out a clear economic and fiscal policy in its white paper "Towards sustainable fiscal policy". The main objectives of the white paper are among others:

- To strengthen macro economic stability
- Reduce income inequality
- To generate adequate jobs
- To reduce the budget deficit not to exceed 3 per cent of GDP

- Increase per capita income and
- To achieve a sustainable fiscal position within the macro economic framework (Toward a sustainable fiscal Policy, White paper, 1995).

These functions are also stated in the First NDP 1 for the period of 1995 to the year 2000. However, Government has not been able to achieve all the above objectives because of the following constraints:

- Poor weather conditions leading to regular droughts
- Weak performance of the fishing and agricultural sector in the last three years
- Lack of effective measures to collect revenue
- High personnel expenditures
- Lack of financial discipline among government ministries and agencies and
- The depreciation and regular fluctuation of the South African (Rand) currency to which the Namibian Dollar is linked.

Consequently several efforts and policy measures have been taken towards addressing the current economic problems but many efforts and government commitment is still needed with regard to financial discipline and public service reform initiatives.

Much work has already been done i.e. the WASCOM report made more than a hundred recommendations on how to reform the public sector. What is lacking are actions and the political will to engage in the sensitive and daunting process of change.

2.5 Government Revenue and Expenditures

The government revenue has been increasing steadily over the past eight years, registering an annual average growth rate of 10 per cent during the 1993/94 and 1995/96 fiscal years. The growth of the revenue is attributed to the tax revenue collection which increased from N\$ 2 975 million in 1995/96 to 5 390 million in 1997 (National Account report, 1995, 1997). The table below shows total revenue and grants as from 1992 up to 1997. The revenue is divided into revenue tax, indirect tax, and non-tax revenue. The total revenue has increased since 1994. The increase emanated from all major tax revenue and is largely attributed to the improvement in tax collection methods.

Table 4: Revenue (N\$ million)

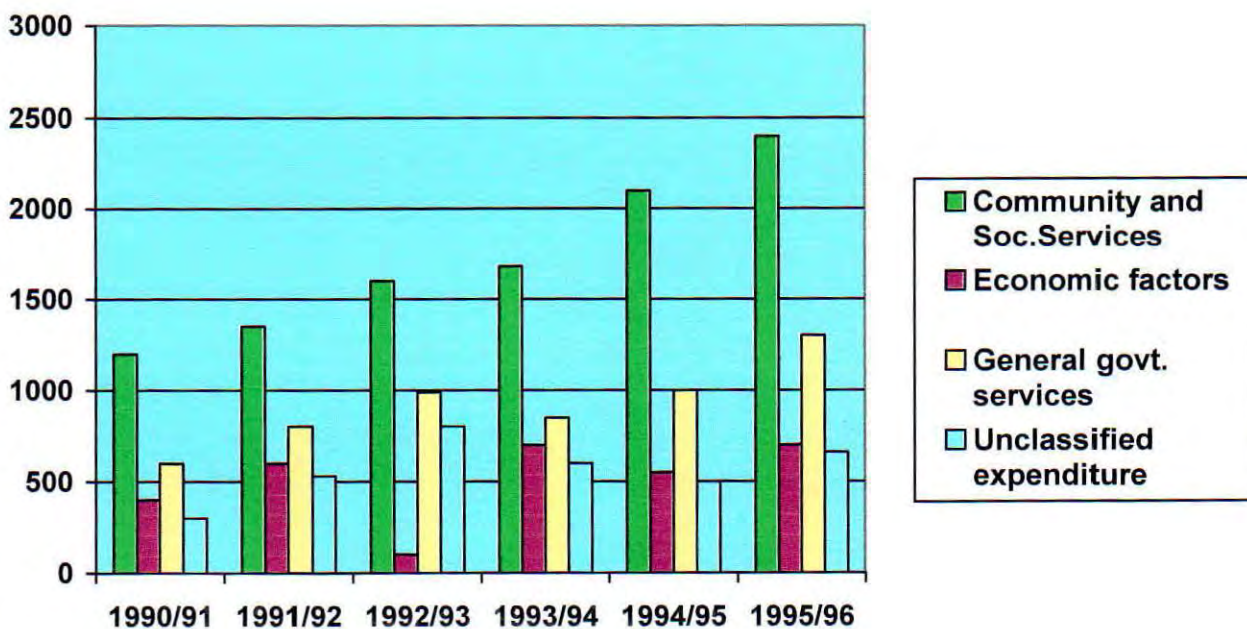
| | <i>1992/93</i> | <i>1993/94</i> | <i>1994/95</i> | <i>1995/96 revised</i> | <i>1996/97 budget</i> |
|--|----------------|----------------|----------------|----------------------------|---------------------------|
| Total revenue and grants | 3024.5 | 3116.2 | 3448.3 | 4069.7 | 4523.4 |
| Tax revenue | 2455.2 | 2775.7 | 2974.9 | 3548.2 | 3987.4 |
| Taxes on outcome and profits | 804.6 | 930.2 | 1000.5 | 1080.7 | 1192.4 |
| Personnel taxes | 506.4 | 518.5 | 560.0 | 625.0 | 695.6 |
| Company taxes | 251.2 | 369.2 | 415.0 | 427.0 | 458.0 |
| Other taxes on income and profits | 47.5 | 42.5 | 25.5 | 28.7 | 39.4 |
| Indirect taxes | 1650.6 | 1845.5 | 1974.4 | 2467.5 | 2795.0 |
| Domestic taxes on goods and services | 800.4 | 906.6 | 1023.1 | 1234.8 | 1360.0 |
| Tax on property | 14.2 | 27.7 | 28.0 | 40.0 | 47.0 |
| Tax on international trade and transactions | 829.0 | 896.0 | 903.3 | 1156.7 | 1360.0 |
| Others | 7.0 | 15.2 | 20.0 | 36.0 | 40.0 |
| Non Tax Revenue | 480.3 | 274.7 | 432.8 | 469.5 | 490.0 |
| Entrepreneurial and property income | 241.7 | 74.6 | 220.2 | 220.2 | 293.9 |
| Fines and forfeiture | 4.8 | 5.9 | 8.0 | 6.0 | 10.0 |
| Administrative fees and charges | 233.8 | 194.2 | 204.6 | 243.3 | 186.1 |
| Return on capital | 15.6 | 11.0 | 10.6 | 9.6 | 11.0 |
| Grants | 73.4 | 54.8 | 30.0 | 42.4 | 35.0 |

Source; Ministry of Finance, 1996.

To date the government total expenditure and net lending as a share of GDP is standing at 46 per cent. Over the last three years government expenditure has increased rapidly leading to the budget deficit of 676 million by 1998 and ratio of the deficit to GDP has risen from 3.9 to 4.3 per cent.

The additional budget of 1998/99 has risen from 3,9 to 4,3 per cent of the Gross Domestic Product (Budget Speech, 1998). The total expenditure, which was nine per cent in the fiscal year 1991/92, picked up a splendid increase of 35 per cent in 1996/97(Account report, 1996/97,Ministry of Finance).

Table 5 below shows government expenditure for the past seven years.



Source Bank of Namibia, Annual report, 1997

The increase in government expenditure has been dominated by personnel expenditures, which have increased from 40 per cent in 1992 to 57 per cent in 1996/97. These increases are of concern to the people and it has been received with a lot of criticism. However, the Finance Minister defended the budget deficits by stating that the deficit is occurring because the government is injecting more resources into the economy than it is recovering from the economy.

CHAPTER 3: ARGUMENTS FOR AND AGAINST PRIVATIZATION

3.1 Introduction

The aim of this chapter is to examine the pros and cons of both the commercialization and privatization process in more detail. From the foregoing the study looks at the practice of privatization worldwide, and common reasons why some countries chose it. An in-depth look into the criteria for privatization and whether Namibia meets those criteria is provided for in this chapter. Apart from the above, the reason why this study prefers commercialization to be pursued in Namibia for the time being rather than outright privatization is clearly put forth.

It should be borne in mind that this study is not against privatization per se, but given the situation of the Namibian economy at this time, a gradual process towards the privatization process is the best option for Namibia. However, it is clear that the needs for an active economic policy for Namibia towards redressing the inefficient public sector, even if only indirect means were to be employed can hardly be denied. It is therefore urged that a more rational and acceptable answer can be found in the commercialization of government owned enterprises as an alternative to outright and complete privatization.

3.1. Privatization

Privatization is now a fact of life almost everywhere. With more than 10 000 enterprises privatized worldwide, some 2,000 are in developing countries (Viravan, A, 1991, p. 8). The major motivation for current privatization efforts in developing countries lies in the pervasive dissatisfaction with the performance of public owned enterprises. Thousands of public enterprises were created in many developing countries.

During the mid-1960s and early 1980s Government created PES for many reasons. They were believed to be appropriate instruments of economic growth and public revenue generation in the case where private sector investment was inadequate.

During the early 1980s, public owned enterprises accounted for an average of over a quarter of gross fixed capital formation. Their performance in many developing countries was generally poor and less satisfactory, albeit with certain important exceptions. Although some were well managed and profitable, most lost money or they did not make as much money as they should have. What are the reasons for the poor performance of public enterprises? According to Nicolas van de Walle, (De Walle, N, 1990, p.7) common reasons are:

- unclear, multiple and contradictory objectives
- bureaucratic meddling
- overly centralized decision making
- inadequate capitalization
- managerial ineptitude, and
- excessive personnel cost and high labor turnover.

In order to address the continuing difficulties of public enterprises, governments in developing countries increasingly have turned to privatization as a panacea to solve these problems. To date a number of sales have taken place. Since 1980 more than 4,000 state enterprises have been privatized in developing countries (Ibid. P 8). Despite all these activities however, the debate still rages on over the socio – economic impact of privatization, how much to privatize and whether it is really the answer and the panacea to all the economic problems of developing countries. Most arguments so far have been vivid at best, ideological at worst and looking only at one aspect, that of profit and productivity but not at the whole picture.

Attempts have been made to measure the impact of privatization but no rigorous attempts have been made to measure it extensively. Proponents of privatization always argue about the outcome of privatization without concentrating much on the inputs and they focus more on the successful example than on the reasons for the failure of privatization in many countries, especially developing countries. The pragmatic situation is that in low-income countries where markets are distorted and the economy is in transition it is tremendously difficult to implement privatization (Galal, G & Shirley, 1994, p. 24).

Privatization can be hard to accomplish but it can be achieved provided that it is carefully planned. If Namibia is to engage in that process in the near future, we need to be clear about what privatization is expected to achieve.

3.2 Objectives of Privatization

Various governments and nations privatize their enterprises for many different reasons. Privatization is bound to mean different things to different people and in different parts of the world. In the West and Japan, privatization is something of a luxury that is well affordable in terms of both funding and time.

In the East and Latin America, it is a vital necessity and affordable given the skill and the will. In Africa it is desirable but funds are desperately short.

Universally there is common understanding of the objectives of privatization and these are to:

- promote economic efficiency i.e. by increasing competition
- increase direct investment flows into the domestic economy

- generate budget savings
- reduce government deficit
- enhance the welfare of the population
- improve efficiency
- utilize modern technology
- reduce bureaucracy
- wider shares ownership
- ensure effective corporate governance
- raise government revenue, and
- promote the local private sector

3.3 Forms of privatization

Privatization can take different forms. It can be the whole or partial sale of assets. The entire public enterprise can be put up for sale to private investors or it can sell assets through stock offerings or to a private group. Other forms or methods of privatization are:

- Liquidation
- Partnerships
- Leasing or management contract
- Outsourcing, and
- Deregulation.

3.4 Principles and Requirements for a successful privatization

There are some important criteria that need to be met before privatization can succeed. It is important for any country to first meet at least some of the requirements before embarking upon the privatization process. The context in which privatization occurs will vary from country to country and priorities are highly country-specific. However there are several principles that should be taken into consideration throughout the reform process. These criteria are not universally adopted, but they have been widely discussed through studying some views and ideas from several academics, most importantly, Professor Nicolas Van de Walle and they are discussed as follows:

3.4.1 Government commitment

First, and perhaps most importantly, privatization needs strong government commitment and dedication. This is not only a principle but also a condition of success. Without it, it will be difficult for any government to deal with all the problems and at the same time succeed with the process.

3.4.2 Objectives of privatization

The importance of having clear and definite objectives cannot be accentuated. Although the objectives may differ depending on the context, promoting economic efficiency and increasing competition should be given the highest consideration. The objectives of privatization need to be understood by all stakeholders and it is the responsibility of government to pronounce its objective very clearly.

3.4.3 Public transparency

The principle of public transparency is very important in this process. It is important to have an open process and a well-advertised competitive bidding procedure, straightforward criteria for assessing bids and disclosure of the winning bid and buyers. Full transparency is imperative, as it will minimize the fear and wrong perceptions of the process and as a result public accountability abuses are likely to be less and political opposition is likely to decrease.

3.5 Conditions for Privatization

There are at least five prior conditions in my view that have to be present before privatization can actually be embarked upon. The World Bank has advocated these conditions in their publication and presentation worldwide and they are highlighted as follows:

The first condition is that an appropriate macro- economic framework and competitive market must exist. If the markets are distorted and if there are monopolies or if the aim is to give power to certain enterprises over the whole markets then it is not worthwhile to take the trouble to privatize. Therefore it is very important to make sure that before privatization is embarked upon, the right conditions of competitions are in place.

The second condition is government administrative resources. Privatization is a very complex process and it requires a high level of administrative capacity and technical advice. It is highly essential that the government must have the capacity, resources, and the skills to implement its privatization policy to the country's advantage. It means that within government structures there should be a unit which specializes in privatization, carries out studies on the value of the enterprises that are to be sold and where such a unit does not exist, people should be trained to acquire such expertise.

The third condition is that the enterprises, which are to be privatized, should be fit for privatization not only politically and psychologically, but also materially, economically and their financial condition should be viable at the time of the transactions. If the enterprise to be sold is in ruins then it is very difficult to get a fair price. Studies have to be done for every enterprise to determine market value and indicate whether the enterprise has a future.

The fourth condition is that a well-designed program should exist to reinforce the adverse social affects privatization may have on employees who may lose their jobs and become redundant. A program either on how to reward new employers who take the risk of employing more or on how to provide other employment or training to these individuals needs to be put in place prior to the process.

The fifth condition is that there should be acceptable buyers to the general public and government. A process of scrutinizing true investors has to be put in place.

However, these conditions are not the only conditions, there are many conditions that I am sure need to be met before privatization.

Some of these conditions were discussed at the workshop held in Dakar, Senegal in 1989, which was attended by senior government officials from Mali, Madagascar, Mauritius, Niger, Rwanda, Senegal and the former Zaire. The workshop was organized by the Economic Institute of the World Bank with the aim to provoke a debate and to exchange experiences on privatization programs and the concrete problems encountered in implementing privatization in Africa.

3.6 Privatization –The Namibian Case

The immediate question that arises is whether these prior conditions exist in Namibia. In my opinion none of the five prior conditions do exist in Namibia. But the argument is not that they cannot be established.

Until such a time that government seriously brings about these conditions and sets up a clear privatization agenda, it will be immature for Namibia to start the privatization process without proper preparation. Apart from that, the objectives of privatization have not yet been clearly spelled out. All that is known is that government is not yet ready and is hesitant to engage in the privatization process. Without really describing how the privatization process should be carried out in Namibia, there are certain key points that need to be considered:

- Ownership – at the moment the economy is concentrated only in the hands of a few, which is 5% of the population. The privatization process should aim to address this issue of ownership very seriously.
- NDP1 - the privatization process should take into consideration all the macro economic targets outlined in the NDP1, that of achieving macro economic growth, income redistribution, poverty reduction and employment creation.
- The attitude of the private sector – it has been argued that the private sector in Namibia has a negative attitude towards employment creation and affirmative action. This has to change immediately if the privatization process is to succeed in Namibia.
- Questions of partnerships between government and the private sector - the government have been accused of not being committed to private sector development. The unions have also accused government of bypassing them and consulting them only when decision have already been taken. Trade Unions are important partners in this process and they deserve to be involved. These issues need serious attention from both sides through smart partnerships.
- The method of privatization, should it be effected partially or in full? Government in consultation with stakeholders has to take a decision on what methods of privatization would be embarked upon.

It is obvious that we cannot run away from the process. We can get away from it now but sooner or later it will catch up with us. What is needed now is to bring all the interested parties together, develop a clear policy on commercialization, the objectives and types of enterprises for either commercialization or privatization and outsourcing.

3.7 Arguments for and against privatization

Proponents of privatization argue that tinkering with internal reforms in these Public Enterprises is inadequate and argues that the more enduring solution is to sell to the private sector those that can be sold. However for those, for which no buyer can be found, one should go further and close or liquidate them.

The other argument is that the state is a poor entrepreneur, because even if they are making some returns on capital, they believe that resources, which produce modest return in public enterprises, could produce a higher return elsewhere. This argument assumes that the only alternative to use resources wisely is the private sector.

However, this can only go well in a country with a strong indigenous private sector. Unfortunately this is not the case in Namibia and even in most developing countries.

In addition, more committed advocates of privatization go on to assert that states should attempt to sell off, not only public enterprises that are losing but also those profitable operations which presumably could earn a higher return outside of public ownership. This argument noted that the state should not in any case be involved in any business activities.

However, there is no reason to believe that the replacement of an inefficient public monopoly by a poorly unregulated private sector monopoly would add greatly to the country's economic welfare. Unless proven otherwise, the new private sector monopolies will invest their earnings in a more productive manner than government monopolies.

It is often true that the factors which contribute to poor public enterprises such as improper macro-economic policy environment, lack of information systems and corruption are the very same factors which weaken the states capacity to regulate large multilateral and private sectors firms. Nevertheless, most governments are turning towards privatization out of desperation, in an attempt to reduce their budget deficit and reduce the size of their large public sectors, without really knowing what problems they will encounter.

Even though privatization has been receiving a lot of attention and is the subject of many debates, the pros and cons within Africa are still that it has not produced satisfactory results. Most of the enterprises lose their markets after privatization or never produce at a rate sufficient to cover costs or suffer some technical reversal which causes them to reduce production or stop production altogether. In most countries there was reluctance to change due to political sensitivities. Today divestiture has not been widely used as a public enterprise reform measure in sub-Saharan Africa.

However, the case for or against privatization has not yet been made conclusively. There is no universal evidence that privatization leads to greater efficiency. For example, British economist Richard Pryke, (1982) after examining the data on privatization in Britain concluded that public enterprises have a poorer

performance record than those in the private sector (Pryke, R, 1982, p.68-70). But in 1988 another British economist, Robert Milward, reached the opposite conclusion. After a careful examination of the performance of public and private sector enterprises, he found no evidence of major differences in the productivity of the factors utilized in public and private enterprises (Milward, R, 1988, p.4). In 1987 the same conclusion was reached in Tunisia after a very sophisticated analysis was conducted on the performance of 53 public and 25 private enterprises. In Kenya, the textile industry factories in the public sector performed poorly while those in the private sector performed well.

In contrast, private owned sugar mills in Kenya perform poorly while the public owned counterparts perform well. The argument put forth here is that there is no evidence to justify either a preference for or condemnation of public enterprises. The reality is that it is not automatic, as is always preached, that privatization is going to make enterprises more productive and efficient.

3.8 Commercialization as an alternative to privatization in Namibia

Because of considerable limitations of privatization in Namibia like low savings, less control over monetary policy, risk of enabling foreign investors to buy off the best of these corporations, non-existence of strong indigenous entrepreneurs, high unemployment and the high social costs, this study considers commercialization as an alternative to outright privatization.

Commercialization can rationalize and restructure the public sector so as to reduce the predominance of unproductive investments, and improve the overall efficiency of public enterprises. It will also ensure that appropriate public sector investments make positive returns and reorientate certain parastatals that should be operating commercially on their own, generate funds internally and raise any shortfalls on

their revenue from the capital and money markets (UN, 1989, p.21). If commercialization can bring about the above, then it can also appease those who are opposed to privatization on the basis of being viewed as impositions from the World Bank and the International Monetary Fund (IMF). It could also be an acceptable alternative and abate the fear that privatization will transfer what belongs to all, to the few privileged individuals in our society.

Experience elsewhere has shown that where companies were deregulated and subjected to market competition, the performance of the companies improved tremendously (Ibid. p .41). What the Namibian government needs to do, is to encourage market competition. For internal restructuring to be meaningful and successful, a strategy on how to come up with a system of incentives to reward improvement in productivity and efficiency has to be developed. This would require the government to allow where possible for private firms to compete with public enterprises. Making public enterprises compete in a fair and ideal competitive environment will ensure that management improves in order to stay in business. If an enterprise cannot respond to competition by making changes, and improve its performance in order to achieve its goal, then it should disappear while the public will continue to be served by the surviving competitors.

The commercialization of airport services will serve as a good example in this regard. For the Airport Company to remain in this business which is highly competitive, it will have to work hard, improve productivity and its performance or it will fail completely.

3.8.1 Requirements for successful Commercialization

There are important requirements that need to be met before any commercialization processes can succeed. The most crucial is the government's commitment to create an ideal competitive environment for public enterprises. The importance of having clear and definite objectives and a program for commercialization cannot be overemphasized. There are many requirements that need to be met in order to ensure an effective competitive environment.

Wilfred Ndongko has studied or developed more than ten requirements but for the purpose of this study I have chosen to discuss only five which fit the Namibian context. They are discussed in detail as follows:

a) No Government barriers to Entry and Exist

Fair and honest competition between public enterprises and private enterprises would require that government remove the protected status of monopoly enjoyed by most of the public enterprises. This would enable them to compete on an equal basis with private sector companies. It would force them to adopt improved management styles in order to stay in the market. This also means that laws should protect even natural monopolies.

b) Fair enforcement of contracts

If public enterprises are introduced to competition then they also have to honor their contracts. Where they fail to do so, they should be subjected to punishment. In Namibia, sometimes the State is to be blamed for non- payment of bills to the enterprises. In order to render public enterprises competitive, the State should pay its bills on time.

c) Freedom to hire and fire

For the manager of the public enterprises to do a better job, it is important that they must be given the power of hiring and firing workers. They should not be subjected to bureaucratic processes that the government follows. A proper application of this freedom can result in a well-chosen, well-motivated and productive work force. However, to avoid abuse and imperious exercise of this practice which could result in a poor quality work force, low morale and poor organizational performance, managers must follow the legislation in place or certain guidelines i.e. the Affirmative Action Act and the Labor Act, etc.

d) Partnership

The most important requirement is partnership and good relations between the trade unions, government, and the private sector. It is very crucial that the trade unions are not only informed but also involved in the whole process of commercializing government institutions. This is necessary to make them feel part of the process and to own it. An example of this exercise is practiced in the MWTC 2000 project and so far the project has the blessing of the relevant trade union.

3.8.2 Limitations of Commercialization

Although this study prefers commercialization as an alternative to outright privatization, commercialization is not an easy process. The difficulty lies in being able to strike a balance between introducing or subordinating public enterprises to the motives of the market place in order to ensure profitability and the need for public ownership. This is very crucial because the rationale for creating public enterprises as stated in chapter two is for government to intervene in the economy with confidence so as to overcome the major socio-economic problems.

The other limitations are lack of administrative capacity, lack of funds and resistance to change. The maximization of efficiency and output, through the commercialization of public enterprises depends on a host of conditions such as perfect competition. Correct and transparent information about present and future price must be available. In conclusion, it should be pointed out that the policy of commercialization is to foster efficiency not equity.

Therefore the foregoing limitations to commercialization should not be interpreted as a sweeping condemnation of the price system as an efficient resource allocation mechanism but commercialization should be viewed as a means of achieving national economic development objectives for Namibia. Consequently, it is also important that the commercialization process in Namibia should be pragmatic: if public enterprises are performing well one should leave them alone; if they are not one should intervene. Finally, commercialization should be given the benefit of the doubt that indeed it can be successful at the end of the day.

3.9 Review of commercialized enterprises in Namibia

Commercialization of public enterprises is not something new to Namibia. Several enterprises have been commercialized before and after independence. They can be divided into three categories; incorporated companies; parastatals and state organizations.

i) Incorporated companies

These are limited liability companies, which conform to the 1973 Companies Act requirements. Amongst them is NAMPOWER, formerly known as SWAWEK, TRANSNAMIB Limited, Namibia Post and Telecom Holdings limited and National Fishing Corporation of Namibia Limited. The commercialization of NAMPOWER and TRANSNAMIB was done before independence and the

shareholding was transferred to the Namibian government as part of the agreements relating to independence from South Africa. Their Boards of Directors although appointed by the line minister through cabinet have a substantial degree of independence. These companies are run strictly on commercial principles and for the past years have produced positive returns. So far these entities are performing very well and their commitment to efficiency and improved performance is undeniable.

ii) Parastatals

Parastatals form the second group of public entities that are run on business principles. These entities have independent auditors and they produce their own annual reports to cabinet, but the minister has a direct control over their functions. This is done in accordance with Article 40 of the Namibian Constitution dealing with duties and functions of the minister, which states that “ the member of cabinet should direct, coordinate and supervise the activities of Ministries and Government Departments including parastatal enterprises”. The government funds most of the parastatals. The parastatals in Namibia include Namibia Development Corporation (NDC); The National Housing Enterprise (NHE); New Era Publications and NAMPA. The performance of these enterprises has been slothful and as such most of them are heavily dependent on government subsidies.

iii) State Organization

The third group comprises organizations which carry out Government functions, but which are run on a more commercial basis. These organizations are governed by an act of parliament, which spell out their functions and limitations and the line of authority between them and the line ministries.

They produce trading accounts and operate their own bank accounts. They are exempted from the treasury rules but their books are subjected to audits by the Auditor General. The bulk of their funding comes from government but they are empowered to generate their own income. Examples of these enterprises are the Namibian Broadcast Corporation and the Development Brigade Corporation. These state organization enterprises have not been performing well and although expected to generate their own funding they have failed to do so. Government seriously needs to review this state of affairs and reconsider whether it is still in the interest of the society to keep them.

Of all the above-mentioned organizations, one of the most successful financially commercialized enterprises is Post and Telecommunications. Their success is highlighted in the next chapter. The success of most of the commercialized entities is attributed to the following:

- All the organizations are liable for taxation and they pay dividends if profit is declared. This mean they contribute greatly to the revenue fund and taxpayers are gaining substantially from these bodies.
- Skilled staff are retained and the unskilled are trained
- Highly competitive and market related salaries
- Performance contracts between government and the management of the organization which clearly spells out the quality of services expected from the organizations and makes management accountable for agreed targets in terms of financial and efficiency measures.

However, there are still a lot of problems within the public enterprises. Among them are inefficiency in service delivery, nepotism, malpractice and lack of transparency.

CHAPTER 4: SOCIAL IMPACT OF COMMERCIALIZATION

Chapter 4

4.1 An analysis of the commercialization process of the Namibian Postal Services (NAMPOST)

4.1.1 Pre – Independence

Namibia Post limited trading as NAMPOST today, came in existence about 108 years ago. It operated under the then Department of Posts and Telecommunications during South African rule and was run by a postmaster. The company never operated as a profit making organization because it was wholly subsidized by the then Government of South Africa. Although Post Offices were established country wide, the company was geared more to the benefit of Whites. No efforts were made to provide posts and telecommunications to Blacks especially those living in remote rural areas.

The company was a white dominated institution with 60% white employees, 30% colored and 10% blacks in which most of the blacks occupied operational positions i.e. laborers or clerks. No efforts were made to provide training to blacks or to employ blacks in management positions. On the other hand, its services were not customer focused or client oriented.

4.1.2 Post – Independence

Two years after Independence, in 1992, the Namibian Parliament passed an Act on Post and Telecommunications. The Act provided for the Department of Post and Telecommunications to be transformed into three separate and independent companies in which Government was to still be the sole shareholder.

As a result Namibia Post Limited trading as NAMPOST started operating as an independent, autonomous mail transport and mail service organization with its own Board of Directors as its highest body. Today NAMPOST's corporate structure consists of a Board of Directors, Managing Director, and 10 Departments. The corporate structure is as follows:



This corporate structure was established in April 1995 in order to be in line with the company-stated mission of providing fast, reliable and readily available postal, savings bank and money transfer services.

5.2 Reasons for commercialization

The reasons for commercializing the two companies of post and telecommunication as stated by the Minister of Works, Transport and Communication at that time, Minister Marco Hausiku, was to provide efficient and economic services. The Minister stressed that “commercializing the post and telecommunication services was to place such ventures in the management with a sound business sense”. Other reasons were to encourage open competition and service expansion.

4.3 NAMPOST after the commercialization

After the enactment of the NAMPOST Act, the company started to prepare for the challenges ahead. This was not an easy process. To spearhead the process of change, the Government of Namibia appointed Mr. Len Moule who was seconded from New Zealand Post as Managing Director of NAMPOST for a contract period of three years. Mr. Moule was appointed to play a role in the strengthening and restructuring process of NAMPOST. The process of change was as follows:

4.3.1 Organizational Structure

After 1992, the company's organic structure consisted only of six departments. Thus at the onset it became clear that there was a need to change and organize the organic structure of the institution. As a result three departments were established. These are Marketing, Public Relations, and Internal Audit functions. In addition to that, three commercial postal regions were also established, namely South, North and Central Regions. This was done with the aim to minimize bureaucratic practices and to move the organizational structure from a hierarchical structure to a flatter structure, which is more responsive, participatory and customer orientated. Today NAMPOST has 10 departments all headed by a manager.

4.3.2 Internal changes within certain departments

Having explained the organizational structure, it is of utmost importance to analyze the internal changes within certain departments. The internal changes were necessitated by the need to improve services and management, increase productivity and the performance of the company, to enable it to compete both locally and internationally. The internal changes are as follows:

i) Postal Operations

The main responsibilities of this department include overall management of international mail relations and local postal operations. The postal services have improved a lot. In 1994 the postal network consisted only of 74 post offices, 15 agencies and 3 mobile units.

During the past three to four years more than 15 post offices were constructed with the financial assistance of the Swedish International Development Agency (SIDA) which also includes mobile postal units. In addition, 31,400 new private boxes have been installed since the incorporation. This means the company has tried its best to extend its services to all corners of the country including the far remote areas.

ii) Savings Bank

NAMPOST Savings Bank is a semi-commercial bank. Its aim is to provide attractive savings and money transfer services to the lower and medium income earners especially those in rural areas where commercial bank services are not available. The saving service is available at all post offices countrywide. The NAMPOST savings bank is counted as one of the best in Namibia with a 12% interest rate. Its aim is to encourage lower income Namibians to save their money. However, the banking system is outdated and efforts have been made to computerize the counters at larger post offices. Customers however complain of long queues in rural Post Offices and plans are on the way to improve the problem in the years to come.

iii) Philately

The philately department looks after the printing, design and production of new stamps in the country. Previously the International Southern African Philatelic Agency in South Africa managed the philately bureau.

Recently NAMPOST took over its own philatelic bureau. NAMPOST now has its own philately manager and philatelic material is now available at all major post offices in Namibia. The production process of new stamp issues is also managed from Windhoek and the NAMPOST Stamp Advisory Committee has been established. This is an achievement for NAMPOST and as a result we have Namibian stamps reflecting either Namibia's rich natural resources, its peoples or its vegetation.

iv) Human Resources

The human resources department is one of the new establishments. The department's main responsibilities are to train the company's employees and equip them with all the necessary skills. An agreement with the Government of the Netherlands was signed in 1996. The Government of the Netherlands has helped NAMPOST in designing its training programmes. The department of human resources has a key role to play in the restructuring of NAMPOST especially that of changing an organization from a racial culture to a multi-racial corporate and team working organization rather than adopting a "do it alone" policy.

5.4 How did NAMPOST change its organizational culture?

Looking at all the departments and the changes they have embarked upon there is no wonder that such an organization can improve its culture. The shift in its organizational culture was the first priority of NAMPOST. With a background of a white dominated culture it was very difficult for employees to change. However, the management cadres were committed to this process and the first approach was affirmative action to make sure that more blacks and females were brought into the organization. As a result of this commitment, three women are in the management cadre of which one is a young black woman. This process received a lot of resistance and many people resigned, but management was committed to the process and decided to go ahead.

The second step towards changing the organizational culture was decentralization. Three commercial postal offices were established in the three regions, which are South, Central and North. These post offices are each headed by a regional manager and are given authority to make decisions.

The third step was a move towards team building and participative leadership. As a result all ten managers became members of the executive management team. This was an ideal opportunity to bring all the managers together, which had not been done before. In this case the managers come together to plan, share ideas and experiences. Managers are also required to involve their employees in the decision making process and give regular briefings and feedback.

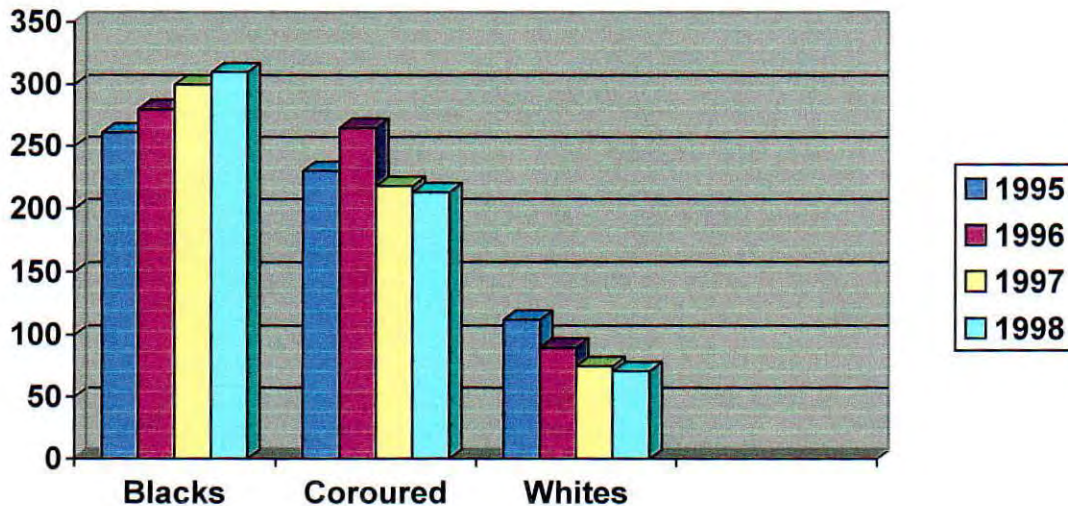
NAMPOST has also shifted to the culture of customer focus and customer care. They now believe their customers are the reason why they exist. Several training lessons were conducted on customer care with the aim of achieving a change in a culture so that the company and its employees appreciate and value its customers. As a result, a customer survey to establish the perceptions of Namibia Post and its services in the market was done. The company also committed itself to improving delivery performance, increasing the availability of private boxes, reducing the time customers spent in queues and to expanding services and products.

5.5 The social impact of the commercialization of Post and Telecommunication

The commercialization of NAMPOST has made a positive impact in the Namibian economy. First of all it has contributed to employment creation, by expanding its operations countrywide. It has also managed to contribute an increase in the government revenue. NAMPOST made a profit of N\$ 9.1 million before tax deductions in 1995 and 9.904million profit in 1996. As a result it has been able to pay its dividend to its parent company, Namibia Post and Telecommunications Holding, an amount of N\$ 2,532 million.

Apart from the above the company has also managed to implement the affirmative action policy which many private companies are failing to implement. The table below shows a remarkable improvement and recruitment of employees from all races in Namibia.

Table 6: Break down of NAMPOST employees



Source: Nampost Public Relation's Office

The company has practically changed itself from a non-profitable, centralized organization to a profitable, viable, decentralized and customer centered organization. NAMPOST has committed itself not only to providing mail service, savings banks, etc, but also to contribute to the welfare of Namibian society. The company has managed to meet some of its social obligations in many ways. They sponsored the "Drop of Water" campaign, by preparing 365 000 letters and fact sheets on Namibia and these were sent to Swedish households as part of the second " Drop of Water" campaign in Sweden. They have assisted both the Cancer Association and the Michelle McLean Trust. They also gave sponsorship to the National Symphony Orchestra. They have also assisted smaller communities in various ways and as a contribution to the development of Namibia, NAMPOST donated a postal box to the organizing committee for Namibia's participation in EXPO' 98.

CHAPTER 5: EXPERIENCE FROM OTHER COUNTRIES

Chapter 5: Experiences from Other Countries

5.1 Introduction

Although the processes of privatization vary from one country to another, there are also some similarities that exist especially in the countries of the same continent. This chapter looks at the experiences of the privatization processes in two countries in Africa namely: Zambia and Uganda

6.2 Privatization in Uganda

In order to fully understand the privatization process in Uganda, it is important to first understand the history of the parastatals sector over the past two decades. During the years 1969 to 1986 when the National Resistance Movement came to power, several political events shaped the Ugandan parastatals sector and caused it to expand inter alia:

- In May 1970 government nationalized several enterprises. During Amin's regime from 1971 numerous Asian enterprises were also forcefully nationalized.
- In 1977 after the collapse of the East African Community the government established national parastatals to take over a number of activities, in particular railways, airlines and Post and Telecommunications.

It is against this background that the parastatals in Uganda have expanded over the years. Due to the system of government at that time, the parastatals were not run on business-like principles but rather on the political bias. Efficiency and productivity issues were never part of the system. Until 1986, the parastatals in Uganda were amongst the most corrupt organizations in the country.

5.2.1 The Reform Process

In 1983, the new government came to power in Uganda under the leadership of President Yoweri Museveni. First of all, the government's need for privatization was prompted by its recognition that the parastatal sector was in desperate need of reform and consolidation. As stated in the above, most of the enterprises became part of the sector accidentally and logically they do not belong there. There was a serious need to correct the mistakes made in the past.

Consequently, in 1989 the government organized a privatization conference. The aim was to publicize the government's desire for a mixed economic strategy and its commitment and support for the divestment of state enterprises. In conjunction with the World Bank, a Public Enterprise Project was established. The project's main objectives were to reform Uganda's parastatals through divestitures, rehabilitation, improved supervision and management. The project was coordinated by the Ministry of Finance.

The Public Enterprise Project, as part of their terms of reference contracted merchant bankers, a private consulting company and the accounting firm, Deloitte Haskin & Sells to undertake a divestiture study. The aims of the study were to advise the government on the feasibility of a privatization program, identify a short list of privatization candidates, assess key constraints which government may face when implementing the program and to suggest recommendations on how to overcome the constraints which might arise.

5.2.2 Actions in Privatization

The study began with a thorough analysis of the government's objectives for the divestment of enterprises, which were made public. Taking into account the government's objectives the privatization process took the following phases:

a) Company screening

The process started with a pre- screening exercise of 166 state owned enterprises, which was used to select enterprises and categorize them. The enterprises were classified into eight categories namely: unsuitable candidates, non- operational companies, strategic and social importance, social development, private sector major shareholdings, potential private sector interest in capital investment and retention. Enterprises were categorized as unsuitable candidates for privatization for the following reasons:

- They failed to satisfy the government's privatization objectives
- They were identified by government as fulfilling important social functions and therefore retained
- They had ownership problems
- They were already majority owned by the private sector
- They had little commercial potential
- They needed substantial capital investment to become commercially viable (Rutega, S, 1993, p.210).

Following the initial screening, twenty companies were selected for detailed analysis and cabinet approved fifteen of them for further evaluation.

b) Analysis of enterprises

A comprehensive review took place in respect of all the fifteen companies or enterprises selected for further analysis. This included a review of the company's history, financial and operational performances. It also highlighted each company's main problems and their capacities.

c) Buyer Interest

Each of the fifteen companies were classified into a divestment category which included: immediate divestment, financial restructuring, long-term stabilization, and liquidation or total restructuring. This resulted in eight of them being recommended for immediate divestment. But since there were not many indigenous people who could afford to buy off the companies, the divestment study design recommended that three funds should be set up to help fund the process. As a result two privatization investment funds (Loan and Equity Funds) were established under the Privatization Task Force.

d) Privatization Investment Funds

The aim of the privatisation investment funds was to facilitate the Ugandan Shilling equity investments in privatised enterprises. The Loan Fund was used as a source of Ugandan shillings either to lend or donate to organisations. Entrepreneurs and company employees wishing to hold equity investment could apply for this fund to finance their investment. The Fund only assisted those individuals who proved that they had the necessary management expertise to run the company concerned. But they would first submit their long-term business plan to the Fund. The Loan Fund held shares purchased as security and gradually released them to the borrower as the loan was repaid. A percentage of the company's profits were dedicated to repaying the loan.

6.2.3 Problems Encountered with the Privatization Process in Uganda

As with any privatization program, the Ugandan privatization process was a tough and difficult process. The main problem was financial constraints. Due to the limited availability of foreign exchange in Uganda it was very difficult to purchase foreign exchange in order to rehabilitate the parastatals sector. The other common problems that government experienced were:

- Unpredictable methods of company taxation
- Lack of buyers interest in the enterprises that had a huge debt
- Inconsistency and lack of standardized accounting practices
- Few capital markets institutions
- Resistance of businessmen to enter into joint ventures with government
- Non availability of sufficient local management expertise.

Finally, the approach of the Ugandan government was to start with the divestment program immediately and deal with problems as they arose rather than to wait until the solutions were found. The program started off well but got stuck in the middle when the problems became too many.

5.2 The Privatization process in Zambia

5.3.1 Background of the public Service

The history of the Zambian economy for the past three decades has been a state controlled economy. This is not unusual, as many governments in Africa have responded to the popular and increasing demand for social services that they were denied by the colonialists. To resolve these problems new institutions were created. This was also the case in Zambia.

The Zambian public service was one of the biggest public services in sub-Saharan Africa. In 1990, the numbers of employees in the public service were approximately 140 000 and by 1993 the recurrent expenditures was K75 billions (Mtonga, J, 1993, p.24). Apart from that the public service was very much politicized, inefficient and corrupt (Mataka, R, 1992, p.60).

5.3.2 Efforts to Reform the Public service in Zambia

Over the years because of both external and internal pressure, the government has repeatedly and consistently expressed its desire to reform the public service in order to reduce the size and improve the performance. But no effective reforms were done until 1991 when the new government came into power.

In 1991, the government of Zambia embarked upon a structured plan to privatize over 315 state owned enterprises. To speed up the process the privatization act of 1992 was passed. The privatization act called for the establishment of the Zambia Privatization Agency (ZPA) to spearhead the reform process.

As a result the ZPA was formed in 1992 to plan, manage and control the privatization of state owned enterprises. The ZPA created a fully empowered independent agency to direct a one-stop shop.

5.3.3 Progress with the Privatization program

The privatization was initially slow to take off because of many teething problems. But as at August 1997, the ZPA had managed to privatize more than 209 companies. The privatization process in Zambia is one of few in the world that managed to cover all its cost out of direct proceeds. Despite the teething problems the program has been very successful and the World Bank labels it as a model for Africa. (SADC, Trade and Investment Review, 1998, p.48).

CHAPTER 6: SUMMARY AND RECOMMENDATIONS

Chapter 6

6.1 Summary and Recommendations

Having analyzed the pros and cons of both privatization and commercialization, it is fair to conclude that both processes are implementable and can work in Namibia. But after examining the main features of the Namibian economy, the problems and needs of the economy and the experience of other African countries which have been carrying out privatization, it has become very clear that Namibia needs to take a gradual process towards privatization. It has also become clear in the study that the process of privatization is a complicated process, which needs to be planned and executed carefully and not just rushed into.

The process of privatization of public assets is a very sensitive and emotive issue as it involves the transfer of assets from the public domain, whereby the state owns it on behalf of all citizens, to the private domain where they are owned by private individuals or groups, to their own benefit. Another lesson to be learned is that in developing countries there are quite a number of constraints when it comes to outright privatization. Amongst these are:

- Lack of indigenous (local) entrepreneurs with the necessary capital which can buy the state enterprises which is a factor that pens up doors for foreign business to buy-up the companies targeted for privatization and thus retarding the process of empowering local businesspeople or entrepreneurs.
- The lack of transparency of the privatization process is also a cause for concern for many local people who see it only benefiting certain sectors of the society and evokes accusations of self-enrichment of political office bearers.

- Government bureaucrats and their cronies are also bound thus rendering the process suspect.

On the other hand it has also become clear in the study that the commercialization of state owned enterprises has its own advantages which are:

- Retention of ownership by the state of the enterprises whilst they are transformed to be run in accordance with business principles and are geared towards making profit.
- The companies, which are commercialized, are made more accountable to the public through the presentation of audited financial statements to parliament.
- The dividends which they declare are ploughed back into the state coffers thus contributing to increased government revenue which can be used to help with development in other areas such as education, health and other social services.
- It also helps to prepare a level platform for the future privatization of the commercialized entities, which is of great benefit to the nation and can help with the empowerment process.

It is clear from the study that there is an urgent need to reform the Public service. The study therefore recommends that government speed up the reform process and more specifically reforming state organizations.

It is time for government to review the performance of all its enterprises and take relevant action. A study on the performance of public sector enterprises should therefore be conducted in order to advise Cabinet on what appropriate measures can be taken. As in the case of Uganda and Zambia, it is also recommended that an agency must be set up to coordinate the overall reform process of all public owned enterprises and it must be empowered by Cabinet to do all it can. The study strongly supports an integrated approach to this process.

6.2 Bibliography

1. Adamolekun, Ladipo "A report on the symposium on Privatization in Africa", World Bank publication, 1996.
2. Ahmed, Galal and Mary Shirley "Does Privatization deliver"?, highlights from a World Bank Conference, Washington, D.C 20433, USA
3. Anjali, Kumar, "State Holding Company: Issues and Option", World Bank Discussion paper, 1992.
4. Bank of Namibia, Annual Report, 1990
5. Bank of Namibia, Annual Report, 1991
6. Bank of Namibia, Annual Report, 1994
7. Bank of Namibia, Annual Report, 1995
8. Bank of Namibia, Annual Report, 1997
9. Bavu, I .K "State Control and Management of Public Enterprises", Ljublyana, July 1982
10. Berg, E "Changing the Public Sector", IMF, Washington, D.C, 1989.
11. Brynard, P. "Privatization in South Africa", Edited by C.A Theunissen, Pretoria: Unisa, 1995
12. Budget Statement, Ministry of Finance, 1995
13. Central Statistics Office, National Planning Commission, 1996/97
14. De Walle, Nicolas, "Planning for Privatization", EDI working papers New York: St Martin's Press, 1993
15. Dedeji, A "Industrialization of African Economies," Hutchinson University, London, Oxford University Press, 1990
16. Economic Review, Ministry of Finance, 1992
17. Economic Review, Ministry of Finance, 1993
18. Frank, A C "Crisis in Third World Countries", Addison Wesley Publishing Co. London, 1981.

19. Heald, D "The relevance of Privatization to developing economies", University of Aberdeen, Oxford University Press 1990.
20. Ipangelwa, L, "Privatization and Commercialization", Economic newsletters the Economic Newsletters of the Economic Working group, Windhoek, 1997
21. Jones Leroy, "Winners and Losers in Privatization", Occasional discussion paper for the World Bank, Washington, D.C 1992
22. Karunga, E C "Privatization in Zambia", a paper presented for the launch of the public reform programs, Lusaka, 1994
23. Lawrence S. Summers, "A changing course toward privatization", 1992, Treasury Department, USA
24. Mackenzie ,G. A., " The macro economic impact of Privatization", IMF, working paper, Washington, Nov. 1997
25. Mataka, R, The Public Reform Programme, Cabinet Office, Lusaka, 1993
26. Matundu, Omu-kakujaha, "Commercialization and Privatization", Economic Newsletters of the Economic Working group, Windhoek, 1997
27. Milward, R, "Measured sources in inefficiency in the performances of public and private enterprises", New York: St Martin Press, 1988
28. Ministry of Finance, Toward a sustainable fiscal Policy , white paper, 1995
29. Ministry of Agriculture ,Water and, Rural Development, National Agricultural Policy, Windhoek, 1995
30. NAMPOST, Annual Report, 1992
31. NAMPOST, Annual Report, 1994
32. NAMPOST, Annual Report, 1996
33. Ministry of Agriculture , Water and, Rural Development, National Agricultural Policy, Windhoek, 1995
34. National Account Report, National Planning Commission, 1996

35. Ndongko, W, A "Commercialization as an alternative to privatization: Prospects and problems", African Books Collective Ltd. Oxford, England
36. Nellis, John R "Public Enterprises in Sub-Saharan Africa", World Bank Washington D.C. 1986
37. NEPRU, Quarterly Report, No. 18 ,1998
38. Office of the Prime Minister, Outsourcing Policy, Efficiency Charter Unit, 1998
39. Office of the Prime Minister, Wage and Salary Commission Report , Windhoek, 1996
40. Offshore Development Company, Annual Report,1996
41. Pryke, Richard, "The comparative Performance of public and private enterprise in Britain, London, 1982
42. Rao, B, C "Privatization principles and practice", London, 1990
43. Rutega, Samuel B "Privatization in Uganda, Kampala", 1989.
44. Rutledgex, S "Selling State Companies to Strategic Investors", World Bank, Washington, D.C 1995
45. SADC Trade and Investment Review, Southern African Marketing, Botswana, 1998
46. Shirley, M "Methods and Practices of Commercialization and Privatization", World Bank Publication, 1992
47. Stuart Bell, "Sharing the Wealth: Privatization through road based Ownership Strategies", PSD Department, World Bank, 1995
48. Viravan, A, "Financial Choices and Opportunities', ICS Press, San Francisco, California 1991