REPUBLIC OF NAMIBIA
MINISTRY OF WORKS, TRANSPORT AND COMMUNICATION

Participatory Review and Evaluation of Co-operation between Namibia and Sweden in the Transport and Communications Sectors

- Resource Paper 2 -

Co-operation between Namibia and Sweden in the Transport and Communications Sectors - Commercialisation of Namibian Transport and Communications Operations-

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Preface

This is the second of three resource papers prepared as part of the closing of the Swedish support to transport and communications in Namibia in 2006. The support was originally initiated in 1988.

The first paper provides a background to the support, an overview of its contents and identifies some issues. The emphasis is on support for policy, and institutional reform and restructuring in the two sectors.

This, second, paper covers the commercialisation of the operations in the two sectors and the third the reform of the road sector.

The author is alone responsible for the contents of the paper, including presentation, analysis and possible recommendations. They do not necessarily represent the views of the Ministry of Works, Transport and Communication (MWTC) or the Swedish International Development Cooperation Agency (Sida).

Glossary of terms

AN	Air Namibia
CCEDP	Cabinet Committee on Economic Development & Parastatals
CGA	Central Governance Agency
DOPAT	Department of Posts and Telecommunications
GDI	Gross Domestic Income
GRN	Government of the Republic of Namibia
MTC	Mobile Telecommunications Namibia Ltd
NAC	Namibia Airports Company Ltd
Namport	Namibia Ports Authority
NamPost	Namibia Post Ltd
NPTH	Namibia Post & Telecom Holdings Ltd
SOE	State-owned Enterprise
SOEGC	State-owned Enterprises Governance Council
Telecom	Telecom Namibia Ltd
TNL	TransNamib Holdings Ltd
TransNamib	TransNamib Holdings Ltd

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PRE RESOURCE PAPER 2

Commercialisation of Namibian transport and communications operations

> “Requiring bureaucrats to oversee businesses better handled by private entrepreneurs places a heavy toll on bureaucracies in developing economies, diverting attention from problems that only governments can address. Bureaucrats typically perform poorly in business, not because they are incompetent (they aren’t), but because they face contradictory goals and perverse incentives that can distract and discourage even very able and dedicated public servants. The problem is not the people but the system, not bureaucrats per se but the situations they find themselves in as bureaucrats in business.”[i]
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> *World Bank.1995.Bureaucrats in Business.*

1 INTRODUCTION

1.1 Background to the document and its purpose

Namibia and Sweden have had a long-standing partnership in the transport and communications sectors, starting before the independence of Namibia. It was decided between the National Planning Commission of Namibia, MWTC and Sweden to carry out a review and evaluation of this bilateral co-operation in 2005/06. The preparation of this resource paper, focusing on the commercialisation of Namibian transport and communications operations, was initiated with a view to assist in informing the process of review and evaluation. The paper is to be considered in parallel with two other papers, one focusing on the background and context to the Namibia/Sweden cooperation and one on the reform of the road sector of Namibia.

1.2 Concepts and scope

Terms such as “commercialisation, “corporatisation”, “privatisation” and “divestment” are sometimes used interchangeably or interpreted differently. In this paper the following definitions apply:

- **Commercialisation:** The process of government entities adopting the management practices of private sector businesses operating under competitive market conditions;

- **Corporatisation:**[1] A process of transforming the structure and organisation of government departments and statutory authorities into distinct legal entities as companies or structures resembling companies;
- **Privatisation or divestment:** A process whereby government disposes of ownership to the private sector, partially or as a whole.

The paper focuses on the following commercialised entities:

- Telecom Namibia Ltd ("Telecom") - Telecom Namibia was established in 1992 in terms of the Posts and Telecommunications Companies Establishment Act, No. 17 of 1992. Telecom is a company in terms of the Companies Act.
- Namibia Post Ltd ("NamPost") – NamPost was established in terms of the same establishment legislation referred to for Telecom above and is also a company in terms of the Companies Act.
- NamPost & Telecom Holdings ("NPTH") – NPTH, which owns 100% of NamPost, Telecom and the cellular operator MTC, was introduced in terms of the same establishment legislation as referred to for Telecom and Nampost above. While it is effectively a controlling structure for its three subsidiaries, it was established as a property development company which provides property facilities and custodial services to its subsidiary companies. NPTH is a company in terms of the Companies Act.[2]
- Namibian Ports Authority ("Namport") - Namport came into operation at the time of the reintegration of Walvis Bay into Namibia on 1 March 1994. It was established in terms of the Namibian Ports Authority Act, No. 2 of 1994. Effectively, the operation in 1994 could be seen as a continuation of the previous Portnet operation. Portnet is a division of Transnet Limited, the government-owned transport parastatal in South Africa. Since 1995, Namport also controls and operates the port of Lüderitz.
- Namibia Airports Company ("NAC") - This company came into operation in early 1999, when it took over the assets and operations of the eight major airports in the country. These airports were previously operated by the Directorate of Civil Aviation in the Ministry of Works, Transport and Communication. The company was established in terms of the Airports Company Act (No. 25 of 1998). The company is a Companies Act company.

Some attention is also given to TransNamib Ltd ("TNL") and Air Namibia ("AN") but with less emphasis.

The paper assesses the performance of commercialised SOEs within the transport and communications sectors, and as such, it aims to stimulate insight into the factors that drive performance of the entities, and to identify lessons to be learnt from the Namibian experience as well as the implications thereof for future policy development.

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[1] This is sometimes used interchangeably with commercialisation. In US literature corporatisation is used to convey the meaning of what is defined in this paper as commercialisation.

[2] The Cabinet Memoranda accompanying the establishment of NPTH made it clear that the underlying rationale for its formation was to facilitate cross-subsidisation of NamPost by Telecom as it was then believed that NamPost would take considerable time before reaching a financial break-even point. Also see separate analysis in Section 5.

1.3 Methodology

The conceptual framework for defining and assessing the "performance" of the SOEs concerned is discussed in section 2 below. Data on which the analysis and findings of the paper are based, have been gathered through a select number of interviews with SOE representatives, the author's accumulated experience in working with Namibian SOEs over several years, as well as a review of the following documents in the SOE and public domains:

- Annual reports;
- Performance Agreements and reports thereon;[3]
- Research reports published on individual SOEs and their respective sectors.

A bibliography is provided at the back of the paper.

1.4 Constraints & qualifications

It should be noted that no primary research of either an empirical or qualitative nature was undertaken for purposes of this paper. While care was taken to establish the credibility of sources, the accuracy of information collected by others cannot be vouched for. Personal interviews were used, where possible, to gain insight into the issues raised by analyst reports. Accordingly, the paper should not be read as a formal audit of performance, but rather as a perspective to stimulate informed discussion and possibly further research. Comments received from SOEs on earlier drafts of this report are acknowledged with appreciation and have been processed within the constraints of time and SOEs' responses to requests for clarification. To the extent practical, further processing of these comments will be undertaken prior to the participative work session at which this resource paper will serve as discussion document.

[3] A Performance Agreement is a document in the nature of a 'quasi-contract' (memorandum of understanding) that specifies the financial, operational and other relevant performance objectives and targets that a SOE and the GRN as its owner have agreed upon with regards to a specific multi-year period.

2 THE OBJECTIVES OF COMMERCIALISATION AND THE FRAMEWORK FOR ASSESSING THE PERFORMANCE OF SOEs

In Namibia, commercialisation strategies were adopted with a view to achieving certain institutional and sectoral objectives of mainly economic and financial nature. This differs from many other countries were commercialisation, usually as precursor to privatisation, occurred as an outflow of a change in national economic ideology. In these countries commercialisation often took place against a backdrop of “de-nationalisation” of industry. In Namibia, the general objectives associated with commercialisation can be summarised as:

- Stimulation of economic growth and development through the entities’ role in infrastructure development, trade and industry development and employment;
- Better services at lower cost to users than before commercialisation;
- Generation of increased revenue for national priorities through reduced SOE dependence on the fiscus and the payment of taxes and dividends.

In the specific context of the transport and communications SOEs under review here, the following key policy objectives associated with their commercialisation can be distinguished:

- To organisationally separate policy making and regulation from operations so as to achieve a clear role division between actors in the transport and communications sectors, better accountability and improved strategic control;
- To introduce equitable user charges and mechanisms for cost recovery;
- To facilitate the long-term financial planning associated with the infrastructure intensive operations concerned – such long-term financial planning has proved to be difficult to execute in the traditional government financial management context where shorter (one to three years) financial planning horizons and cash-based accounting prevail;
- To improve the efficiency of the operational activities concerned by bringing them closer to the disciplines and measures of an entity run on business principles and exposed to competition;
- To achieve better services for consumers at lower cost from an overall perspective.

For purposes of the discussion in this paper, the performance of the transport and communications SOEs are described and analysed in the following two categories:

2.1 Economic performance

- *Reducing the fiscal burden*: the extent to which the entities have become less dependent on the fiscus, including the extent to which they have become contributors to the fiscus through the payment of taxes and dividends, as well as the extent to which they have become less dependent on loans from or guaranteed by government;

- *Improving the extent and quality of services to users*: Information from SOEs' customer satisfaction surveys (where available), annual reports and analyst reports were used for this purpose;
- *Operating efficiency*: Where available, statistics on unit costs are used as a basis for commenting on internal efficiencies. Ratios of production volumes to numbers of employees are used as staff productivity indicators, with the ratio of cost of sales: employees used as a crude proxy in one case. However, explicit efficiency reporting by or regarding the SOEs concerned is limited, constraining meaningful analysis without original, empirical research;
- *Changes in tariffs and prices*, relative to inflation and price structures prior to commercialisation were used as indicators of the extent to which the cost/price reduction objectives of commercialisation were achieved.

2.2 Financial performance

The assessment of the SOEs' financial performance was conducted by way of an analysis of certain key financial ratios, calculated from the annual financial statements of the entities concerned:

- Growth as measured in revenue increases;
- Profitability in terms of net profit margin, return on equity and return on assets managed;
- Financial leverage expressed in terms of long term debt as a percentage of capital employed – a measure of financial risk as well as of soundness of capital structure;
- Liquidity expressed in terms of the so-called "current ratio", i.e. current assets: current liabilities – an indication of the entities' ability to meet their near term financial obligations;
- Asset productivity expressed as the ratio of total sales: total assets.

2.3 Factors driving SOE performance

Certain factors have been identified internationally as key drivers of SOE performance. The presence and effectiveness of these factors in relation to the Namibian transport and communications SOEs are accordingly considered in this paper, in addition to the economic and financial measures of actual performance:

- *Competition* – the extent to which the entities are exposed to competition for customers and resources;
- *Regulatory frameworks* – the extent to which effective regulation compensates for the absence of competition in the case of monopolies or near-monopolies as well as ensuring level competitive playing fields in the event of market liberalisation;
- *Corporate governance* – the mechanisms made use of to ensure that management and employees strive to do what is in the interest of the organisation and its stated objectives;
- *The human factor* – the levels of competence and orientation (e.g. goal-orientedness, motivation) of management and staff in the context of commercialisation.

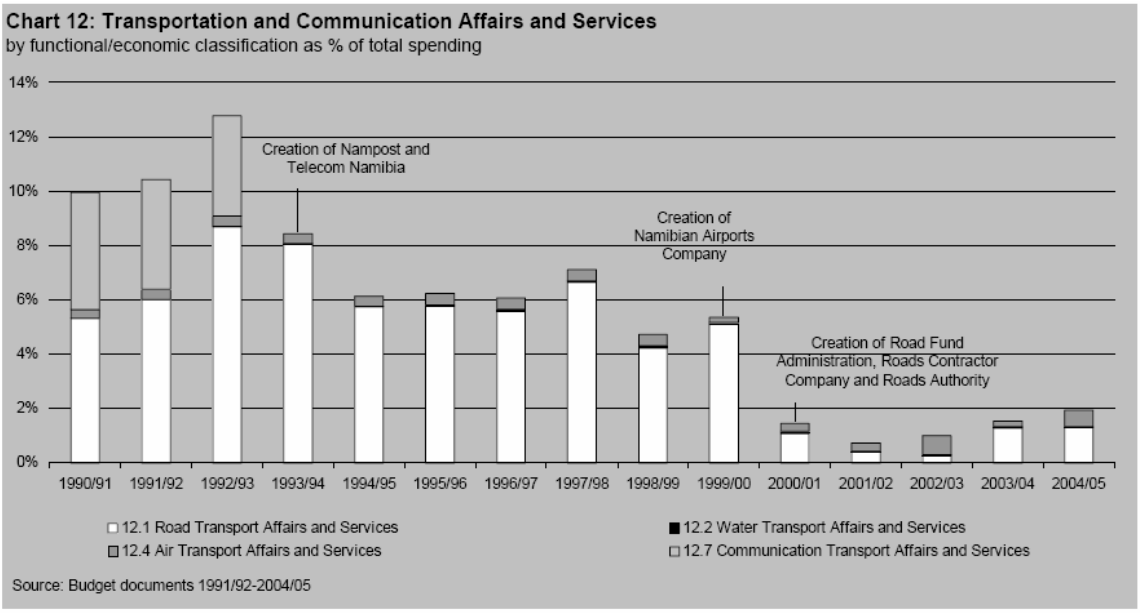
3 ASSESSMENT OF ECONOMIC PERFORMANCE

3.1 Reducing the fiscal burden

3.1.1 Operating self-sufficiency

While not comprehensive, the following graph demonstrates some of the impacts of commercialisation on direct MWTC expenditure (the graph does not reflect changes in the relevant revenue streams concerned):

Figure 1: [Chart 12] Transportation and Communication Affairs and Services



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It can be seen from Figure 1 how, for example, MWTC direct expenditure on communications decreased from the time of the creation of Telecom Namibia and NamPost (1993/4). The same cannot however be said of the other relevant expenditure item illustrated in the chart, namely Air Transport Affairs and Services. This item does not appear to have reduced in any consistent manner since the creation of NAC in 1999/00. This can probably be ascribed to the fact that a number of airport related activities of the state such as its involvement in smaller airports, air navigation services and regulation were not transferred to NAC.

The following table (completed on the basis of available data) adds further perspective on the operating self-sufficiency of the entities concerned, a ratio of 1 and above indicating a surplus of annual income over expenditure (this analysis is drawn from the annual financial reports of the entities concerned and does not provide for inconsistencies in accounting methods):

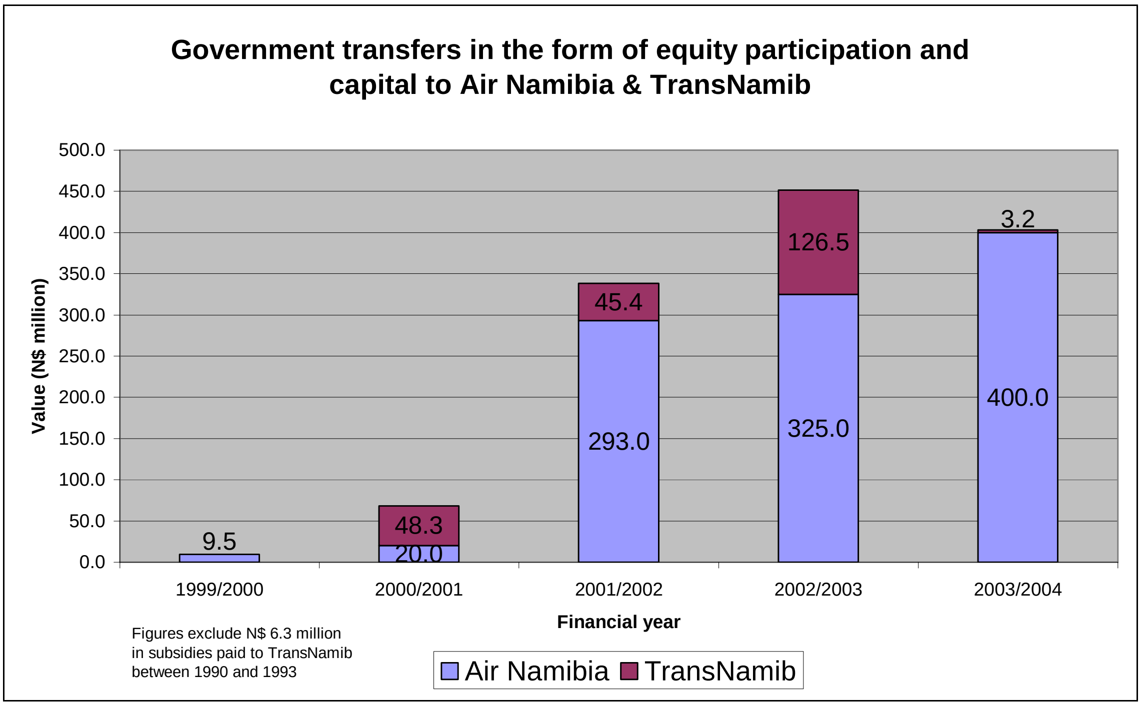
Figure 2: Operating self-sufficiency of SOEs

	1996	1997	1998	1999	2000	2001	2002	2003
NAC					1.36			
NamPost	1.17	1.15	1.04	1.05	1.02			
Telecom	1.28	1.28	1.23	1.28	1.18	1.15		
TransNamib	1.09	0.88		0.72	0.93		0.84	0.98

Considering the above and other available information it can be said that Telecom, NamPost, Namport and NAC have demonstrated their operating self-sufficiency through maintaining a surplus of operating income over expenditure. NamPost's continuing ability to maintain this performance appears to be under threat, given its net losses in recent years (subsequent to the period depicted in the above table).

However, an opposite picture emerges in the case of TransNamib and Air Namibia. The following graph summarises continuing government transfers on a material scale to these two entities in order to fund operating losses, as based on analyst reports. (The graph does however not reflect a financial turnaround that appears to have occurred at TransNamib since 2003.)

Figure 3: Government transfers to TransNamib and Air Namibia (1999-2004)[iii]



The above positive comments regarding the operating financial viability of Telecom, NamPost and Namport have to be tempered with the following perspectives:

- As indicated by Figure 4 below, the then Department of Posts and Telecommunication (DOPAT), precursor to MWTC, generated material and increasing surpluses prior to the commercialisation of Telecom, NamPost and

NPTH. Even allowing for government's cash based accounting method where investments are expensed as they are incurred, it is not clear to what extent the overall financial situation for the fiscus has improved to date through commercialisation.

Figure 4: DOPAT Revenues and Expenditures (R 000)

Financial Year	Budget				Actual				
		Expenditure				Expenditure			
	Revenue	Capital	Running	Total	Revenue	Capital	Running	Total	Net
1979/80	21 177	7 017	22 587	29 604	18 123	5 495	22 111	27 606	(9 483)
1980/81	27 261	10 009	24 024	34 033	28 018	7 768	26 131	33 899	(5 881)
1981/82	30 870	7 246	24 944	32 190	31 631	6 892	27 183	34 075	(2 444)
1982/83	37 472	7 692	30 959	38 651	37 480	6 386	35 481	41 867	(4 387)
1983/84	47 355	11 989	39 630	51 619	46 652	8 667	39 964	48 631	(1 979)
1984/85	52 070	15 205	44 137	59 342	52 438	13 533	44 241	57 774	(5 336)
1985/86	59 660	19 370	47 425	66 795	60 331	18 925	47 617	66 542	(6 211)
1986/87	68 465	14 397	54 546	68 943	74 230	11 089	55 243	66 332	7 898
1987/88	82 625	14 054	60 700	74 754	89 392	14 136	63 230	77 366	12 026
1988/89	88 500	12 604	66 386	78 990	109 939	11 051	66 670	77 721	32 218
1989/90	113 415	15 682	86 926	102 608	—	—	—	—	—
1989/90*	124 715	14 567	91 238	105 805					

* Including additional appropriations

Sources: Central Revenue Fund: Estimates of Revenue and Expenditure, Auditor-General Reports on the Accounts of the Central Revenue Fund, and DOPAT.

- Namport came into being as an SOE in 1994 through the transfer of the Port of Walvis Bay from South African control to Namibia. As such, it had no financial implications for the Namibian fiscus prior to its creation.

3.1.2 Ability to fund capital expenditure

Telecom, NamPost and Namport have demonstrated their ability to fund their respective capital expenditure programmes through retained profits and/or their ability to raise external finance. However, both Telecom and Namport have also benefited from sovereign guarantees for some of the finance raised by them.

NAC has received grant funding of more than N$18 million over the period 2002-2004, assumedly for the part funding of its capital expenditure programme. This would exclude donor funding that was also used for feasibility studies and capital expenditure. For example, the upgrading of airports at Hosea Kotaku International, Eros, Walvis Bay, Lüderitz and Ondangwa was financed by the Ministry of Finance and an international development agency to the value of €32 million between 2002 and 2004.

As indicated in Figure 3 above, TransNamib and Air Namibia were not able to fund capital expenditure from retained profits, nor would these entities have been able to raise external finance without sovereign guarantees.

3.1.3 Payment of taxes and dividends

As the only entities with continuity in their profit histories, Telecom, NPTH, NamPost, Namport and NAC have been tax contributors. However, these entities are able to defer tax payments under certain conditions, resulting in potentially reduced tax revenue, or increased risk of receiving these payments, from a fiscus perspective. For example, Telecom's income statements for the period 2001-2004 reflect taxes payable of N$133 million, of which only N$6.2 million was in fact paid. Even TransNamib was exonerated from its tax liability for a considerable period since its inception.

Only Telecom, NPTH and Namport have to date declared dividends in substantial amounts. However, even in these instances, dividend declarations have been low, often lower than 10% of after-tax profits and primarily declared but not paid. NAC will declare a dividend of N$2 million for the 2004/2005 financial year, which comprises a small percentage of grant funding received.

None of the SOEs have paid material dividends. Telecom, the 'best' dividend performer, paid a total of N$30.5 million on turnover of N$3660 million, for the period 2001-2004.

3.1.4 Conclusion

From the above analysis, it is apparent that even though the Telecom-Nampost cluster and Namport have demonstrated their operating self-sufficiency, they are still benefiting from sovereign guarantees. Whether the net operating situation has improved when compared with the surpluses generated in the latter years of the DOPAT dispensation, remains open to debate. As has been noted above, Namport has no pre-commercialisation legacy organisation in Namibia for purposes of comparing fiscal implications.

The objective of commercialised SOEs becoming contributors to the fiscus through taxes and dividends has not been achieved in a material sense at all.

3.2 Customer service impacts

Customer service is discussed with reference to two primary aspects – firstly service accessibility and, secondly, service quality:

3.2.1 Telecom

Telecom's service performance has been reviewed on the basis of a report by an analyst on the entity's performance against the service aspects of its Performance Agreement applicable to the period 1994-1997 and further on the basis of a report by Telecom itself against the 2002/03 and 2003/04 years of its 2003-2006 Performance Agreement, as signed in 2004.

Service Accessibility

Growth in direct exchange lines: Growth in the number of direct exchange lines (DEL's) has been generally in excess of Telecom's 5% growth per annum performance target. While 17% and 4.6% were respectively achieved in the years 1994/95 and 1995/96, 5% and 6.8% were respectively achieved in the years 2002/03 and 2003/04. These growth indicators are mirrored by a reported increase in Namibian teledensity (number of DEL's per 100 members of the population) from 4.5% in 1993 to 6.4% in 2001.

Post-application waiting time for new connections: Telecom appears to have difficulty in meeting its Performance Agreement standards for such waiting times. In 1994/95 only 50% of new connections were installed within the targeted 15 days and this dropped to 35% in 1995/96. In 2004/05 the average installation took 8 days against the target of 14.

Waiting list reduction: The number of applicants waiting for new services diminished from 5,685 in 1994/95 to 4,798 in 1995/06 and to 2,571 in 2003/04. However, this is only slightly less than the waiting list of 2,727 in 1990/91, the first year for which data is available.

Introduction of new services: International network connectivity between Namibia and the rest of the world via INTELSAT satellites have been introduced as well as toll-free services, ISDN, video-conferencing and voice-mail services.

Service quality

Fault clearing: In 1995/96 an 85% success rate was achieved against the targeted average fault repair time of 2 days, while an 80% success rate was registered in 2003/04.

Fault rates: Telecom appears to be able to keep the number of yearly faults per 1000 DEL's within the targeted range of 450, considering achievements of 439 in 2002/03 and 370 in 2003/04.

Service availability: Telecom has been able to maintain both its national and international network availability (availability of national and international telephone services) close to the respective annual targets of 99.71% and 99.95%.

Customer satisfaction ratings

Telecom makes periodic use of customer satisfaction surveys administered by an independent consultant. The following table summarises recent ratings achieved:

Figure 5: Telecom ratings

Rating dimensions	2002	2003	2004	2005
Overall satisfaction rate for consumer services	82%	78.55%	69%	73.7%
Payphones satisfaction rate			76%	81.8%
Telecom Multimedia satisfaction rate			75%	75.6%

Conclusion

Telecom's general service levels to customers appear to have only improved marginally over the review period. Customer satisfaction surveys suggest a weakening in service levels since 2002.

3.2.2 NamPost

As in the case of Telecom, NamPost's service performance was reviewed with reference to an analysis of its achievements against its 1992-1996 Performance Agreement. Similar information could not be found with regard to NamPost's performance against latter Performance Agreements. Apart from a brief ten-year review in its 2002 Annual Report, very little meaningful reporting of a non-financial nature emerges in this annual publication on business development and service delivery. Reference therefore had to be made to performance related information disclosed in an *ad hoc* manner in the entity's annual reports.

Service accessibility

NamPost's Performance Agreement over the period 1993-1994 requires that no service points be reduced without prior consultation with the local community concerned and that post boxes shall be immediately available on application subject only to physical availability. NamPost has reported that it maintains all post office branches, irrespective of viability, given the requirement to do so in its Performance Agreement.

Over the period 1991-1997, the total number of service points increased from 179 to 243 (this comprises post offices, counter points, postal agencies and post box kiosks). The 74 post offices, 15 agencies and 3 mobile points inherited in 1992 were expanded to 84 post offices, 10 agencies (a contraction) and 21 mobile units. By 2000 there were 100 service points countrywide and by 2004, the number of service points (excluding freestanding post box kiosks) numbered 121 compared to the initial 92.[4] As NamPost does not deliver to the door of addressees (except in the case of courier services), its supply rate of mail boxes is critically important. As part of the ten-year review of NamPost's commercialised operations in 2002, it was recorded that new post boxes provided between 1992 and 1996 totalled 31,400 and in following years this increased by 2,550 (1998), 1,400 (1999), 600 (2000) and 1,300 (2002).

NamPost's Performance Agreements are silent about standards for the non-mail services of the organisation. It should however be noted that the NamPost Savings Bank hold the most savings accounts of all financial institutions in Namibia, a growth

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[4] Reporting on postal infrastructure since 1992 is inconsistent in terms of nomenclature and types of outlets. NamPost operates post/ branch offices, postal agencies, mobile units and post box kiosks. The distinction is based on the extent of services provided (only post offices provide full services and a select 45 were computerised as part of a Counter Automation Project between 1999 and 2002) and the location (counter points are established within established retail and other environments) and agencies and mobile units are established particularly in remote areas. Reporting tends to be in total or graphical location maps, but these do not always differentiate between types of service offerings and types of outlets.

from 65,000 to 225,000 in its first ten years, and with a deposit book in 2004 of N$420 million.

Service quality

NamPost's performance agreements state that:

- At least 95% of domestic mail shall be delivered within 3 days;
- At least 99% of mail within the Windhoek area shall be delivered within 1 day;
- At each post office, the average queuing time during peak hours shall not exceed 10 minutes.

Postal delivery times (for deliveries within 3 days) improved from 85% in 1993 to 98% in 1998 to 98.9% in 2001, while the GRN in its 10-year review reported that average queuing times decreased from 8.6 minutes in 1993 to 4.8 minutes in 1998 and in 2001 it was reported to be "within the required 10 minutes". By 2001 NamPost appears to have been meeting the standard for Windhoek deliveries on a sustainable basis as well (98.1%). However, information on NamPost's performance against this standard has not been found for later periods. While the requirement to deliver within these timeframes is acknowledged, no explicit measurement results are provided. The typical reporting during later years is rather illustrated by a reference in the 2000 annual report that "this standard has been tested regularly during the year under review, and has been achieved constantly."[iv]

From a service innovation perspective the introduction of Hybrid Mail during 2003/2004 could be noted. This service aims at providing an integrated sender-to-receiver service comprising physical mail, email, printing services, combined with electronic bill presentation and payment and is aimed predominantly at the corporate market.

Conclusion

Assuming that NamPost has managed to sustain its pre-2000 service performance levels during the years thereafter, it would appear that the organisation has maintained and improved its services to customers since its inception in 1992.

3.2.3 Namport

From a service accessibility point of view, Namport's draft[5] Performance Agreement envisages continuous availability of port service at the Walvis Bay and Lüderitz ports. From a service quality perspective, the Performance Agreement envisages standards in terms of:

- The number of containers handled per 24 hours per ship in port;
- Ship turnaround time for container ships;

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[5] Namport would not provide a final version of its Performance Agreement to this review, hence a draft version had to be relied upon.

- Average container dwell times;

Specific information on Namport's Performance Agreement standards, or on its performance against such standards, has not been made available to this review by Namport due to its argued confidentiality. A Namport Performance Agreement was first introduced via the Namibian Ports Authority Amendment Act, No. 12 of 2000. Considerable information is made available in Namport's annual reports on volumes handled and related achievements, but these are not linked to specific performance targets. However, from a general perspective the following service interventions and outcomes can be noted:

- Between 1994 and 2000, Namport invested N$160 million in the upgrading and supply of new port facilities and equipment. This included the operationalisation of a syncrolift at the Port of Walvis Bay;
- The Port of Walvis Bay was upgraded with a modernised container terminal including handling and marine equipment;
- The expanding of storage facilities at Walvis Bay harbour was done to address the need for storage of transit cargo and the anticipated demand for storage requirements for cargo imports to the Zambian, Zimbabwean and DRC markets;
- At the Port of Lüderitz a 500m quay was constructed to service the mining, oil and fruit industries;
- The deepening of Walvis Bay from 10m to 12.8m draft to accommodate a wider range of vessels was planned and implemented;
- A process to increase container throughput in Walvis Bay was launched. Namport handles more than 2,5 million metric tonnes of cargo annually;
- Namport was rated the "Number One Port in Africa" by the Africa Competitive Report 2000 and holds an ISO 14001 certification;[v]
- An initiative to expand the Port of Walvis Bay's dry-docking facilities through the introduction of a floating dock in partnership with the private sector is currently under way.[vi]

Against the above background, it would appear that Namport has introduced material improvements in its service accessibility to customers and by infrastructure improvements over the review period. Considering its ISO accreditation and its positive competitiveness rating, Namport can arguably be said to have improved the quality levels of its services as well.

3.2.4 NAC

NAC's draft Performance Agreement[6] refers to its services in the areas of:

- The arrival, surface movement, parking or departure of aircraft;
- The servicing of aircraft, including the supply of fuel and lubricants;

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[6] Delays in the finalisation of Memoranda of Understanding between NAC and the various stakeholders that provide services or perform official duties at airports have hitherto prevented the signing of the Performance Agreement.

- The handling of aircraft passengers, baggage or cargo on the premises of an aerodrome, including the transfer of such passengers, baggage to and from aircraft;
- Commercial services which complement the above mentioned services financially, economically or operationally.

Specific service level standards are only set with regard to passenger and cargo related services, namely:

- All arriving passengers are to be cleared within 45 minutes and 30 minutes of disembarkation for international and domestic flights respectively;
- The clearance time for departing passengers should not exceed 60 minutes and 45 minutes between presentation and the scheduled departure time for international and domestic flights respectively;
- All airport users to have access to vehicle parking facilities at all airports;
- Clearance of all cargo not requiring more than normal inspection at international airports shall commence within four hours form presentation of proper documentation.

Presently NAC does not report specifically on the above mentioned service performance measures. Some information on a survey of passenger satisfaction levels regarding their airport experience was made available, but was found containing too little information to substantiate material conclusions.

The following infrastructural improvements introduced by NAC can however be noted:

- Extensive infrastructure upgrades were implemented at all airports, including a renovated control tower building and construction of an air cargo terminal at Eros Airport and baggage handling infrastructure at Hosea Kutako airport;
- Since 1999, 742 projects have been launched aimed at infrastructure and business improvements, ranging from maintenance related contracts to capital-intensive infrastructure projects. To date, over 85% of these projects have been completed;
- Increased safety measures were introduced at all airports;
- Storage facilities at Rundu airport were upgraded to harness the frequency of charter flights and the proximity to the Angolan border for trade;
- The enhancement of Keetmanshoop Airport capacity to act as an alternate airport for Hosea Kutako Airport was completed.

Against the above background, NAC can be said to have at least substantially improved the infrastructural platform from where its services are to be delivered. For the lack of evidence on actual service performance levels, it is not possible to substantiate a finding on this aspect.

3.3 Prices & tariffs

3.3.1 Telecom

Viewing the period 1994 to 2002, three distinct phases in the development of the Telecom domestic tariff scenario can be identified, as also demonstrated by the graph below:

- During 1994 through 1997, modest increases in real prices occurred;
- During 1997 through 2001 aggressive increases in the tariffs of most calls occurred;[7]
- From 2000 and 2001 a gradual reduction in real prices of most calls started to occur as prescribed by Telecom's Performance Agreement. However, the real price of local calls still increased up to 2002 as this tariff was benefiting decreasingly from cross-subsidisation of other call categories;
- The net result of the above is that, over the years 1994-2002, the consumer price of local calls increased in real terms by a factor of 20 while other domestic calls became between 1.4 and 3.3 times more expensive. Calls to South Africa more than doubled in price. This development stands in stark contrast with the rest of the developed world where fixed line telecommunications prices to consumers have generally decreased in response to competition from rivals and substitute technologies. The continued monopoly status of Telecom Namibia is regarded as a key factor preventing reduced tariffs.[vii]

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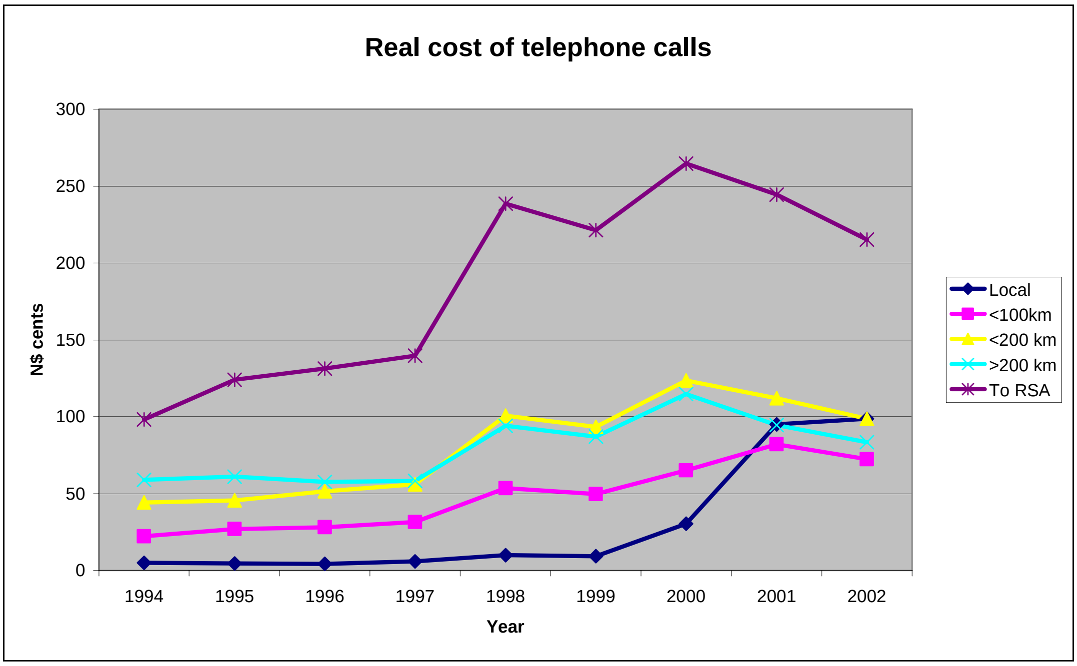
[7] In commenting on an earlier draft of this report, Telecom disputed the statements regarding price increases in excess of the inflation rate during the period 1994 – 2002. However, no conclusive information to the contrary was received by the reveiw either prior or during the consultative workshop. Telecom also pointed out that tariff increases should be viewed, *inter alia*, in the context of its responsibility at the time to fund the replacement and updating of outdated telecommunications infrastructure and provide service access in formerly under-serviced rural areas.

Figure 6: Comparative Costs of Telecom calls



Source: Telecom Namibia (as reflected by IPPR Briefing Paper 25 November 2003): Prices are 1993, deflated by the Windhoek CPI

While increases were lower in absolute terms, Telecom tariff increases continued to rise at a rate higher than CPI during 2003 and 2004. For example, the nominal cost of local calls increased by more than 8% in 2003/04 compared with a CPI of approximately 4% during that year. Namibia's local and international call costs have in 2004 been found to be second highest in a sample of Sub-Saharan countries.[viii]

3.3.2 NamPost

During the 1990's NamPost appears to have been able to keep its mail prices within competitive limits, keeping its annual price increases generally below the CPI as demanded by its Performance Agreement. The general increase of 1992/93 is an exception in this regard. However, 2001 saw an escalation of 43% in the price of ordinary mail and 18% in the case of business/ government mail. Prior to the 2001 price adjustment, the Namibian postal charge for both standard domestic and foreign letters appeared low, in most cases less than 50% of the international comparable charges.

3.3.3 Namport

Namport provides a wide range of services to its different customers, each at a tariff set out in the Namport 'tariff book'. In order for a statistically coherent tariff comparison to be made over time, access to some composite Namport price index would be needed. Such an index has not been available to date. However, the following table summarises changes in Namport tariffs for certain key services over the period 2000-2004:

Figure 7: Namport nominal tariff changes[ix]

Namport Tariff Category (Port of Walvis Bay)	1999 tariff charge (N$)	2000 tariff charge (N$)	2001 tariff charge (N$)	2003 tariff charge (N$)	2004 tariff charge (N$)	% change (1999 – 2004
Wharfage base tariff: imported fish and fish products (per 1000kg ton)	10.85	10.85	11.70	13.90	14.50	33.64%
Containerised cargo within the SACU region (per 6 meters)	176.15	193.00	208.00	225.00	243.00	37.95%
Containerised cargo within the SACU region (per 12 meters)	352.35	386.00	417.00	450.00	486.00	37.93%
Hire of cranes (lifting capacity up to 100 ton)	1,500.50	1,643.00	1,775.00	2,109.00	2,278.00	51.82%
Landing charges (abnormal cargo, per ton)	24.50	26.50	28.60	34.00	36.70	49.80%
Site rent (per week, per square meter)	1.50	1.60	1.75	2.10	2.30	53.33%
Inside storage of cargo landed (per harbour ton, per day)	8.00	8.80	9.50	11.30	12.20	52.50%

It would appear that, on an annual basis, tariff increases have been generally in line with a CPI indicator of between 4-10% per annum over the same period.

3.3.4 NAC

No information could be obtained from NAC with which to substantiate the development of prices and tariffs over its period of existence from 2000.

3.4 Operating efficiency

3.4.1 Telecom

Telecom's Performance Agreements during the period concerned reflect a general objective that the average unit costs of its products should not increase in real terms. However, Telecom's actual performance has been radically different during the period concerned:

- The average operating cost per DEL increased from N$2,400 in 1993 to N$6,500 in 2001. This unit cost increase occurred despite the large infrastructural investments made, digitisation and network expansion effected during the period, which should have brought about economies of scale and resultant unit cost reduction. This unit cost is well above relevant world benchmarks – an analysis during the 1990's showed that even then Telecom's operating costs per line were 5-10 times higher than the per line cost of comparable smaller networks in other developing countries.

- From an employee productivity perspective, Telecom maintained a ratio of 34 employees per 1,000 DEL's during 1991 while this ratio improved to 14 employees per 1,000 DEL's during 2001. Even at this improved level however, Telecom's performance is well below several developing country benchmarks, for instance in Africa and South East Asia where staff also had to work with less modern equipment.

One possible clue to the lack of overall efficiency at Telecom would appear to be sharp increases in staff remuneration. While total full-time employee headcount reduced from 2,300 in 1993 to 1,600 in 2001 and 1,439 in 2004, staff costs kept increasing. For example average nominal cost to company per employee rose by 14% in 1995/96 and by 34% over the period 2001-2004.

3.4.2 NamPost

Consistent information on unit costs at NamPost was not available to this enquiry. Using the ratio of cost of sales added to overhead costs divided by revenue as a crude indicator of efficiency at NamPost, the following series results for the period 1999-2004:

Figure 8: NamPost efficiency

Year	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Cost of sales & overhead costs/ revenue	113%	107%	102%	101%	114%	120%

The above time series suggests that, after an improvement from 1999-2002, efficiency has again deteriorated over the 2002-2004 period. The efficiency ratio shown above indicates management's apparent inability to keep costs in check, which under NamPost's circumstances is important as revenue growth prospects appear modest.

3.4.3 Namport

Namport's draft Performance Agreement requires, with regards to operating efficiency, that the cost per cargo tonne handled will not rise in real terms on a year to year basis, similarly no real increase in the average cost per employee should occur.

No consolidated information on the above mentioned unit and staff costs were available to this enquiry. Similar information was also not available to a review of Namport's performance during the mid-nineties. It can however be noted that, over the period 1999-2004, the annual rise in total employment costs have ranged between 9% and 25%, while annual increases in staff numbers have been below 7% for four of the five years. In the absence of clarifying information, this inverse relationship raises questions regarding employment and remuneration practices at Namport.

3.4.4 NAC

NAC's draft Performance Agreement requires it to operate at an efficiency level comparable to relevant international benchmarks for commercial airports. However, no specific benchmark information was obtainable from NAC, nor does the organisation appear to report specifically against such targets.

From a staff productivity point of view, it can be noted that staff costs as a percentage of total costs decreased from 55% in 2000 to 34% in 2003.

3.5 General Conclusions regarding Economic Performance

Based on the above review and mindful of the limited extent of analysis possible in the course of this enquiry, the following conclusions are submitted for discussion during the participatory review process:

- Noteworthy improvements have been made to customer services by the four entities concerned during the review period;
- The cost at which the above mentioned improvements have been effected, manifesting in real price increases to the users of such services, raises doubts over whether there has been a net benefit to the users;
- The efficiency objectives associated with the origination of the commercialisation process have not been achieved on a sustainable basis as yet;
- Commercialisation objectives in terms of reducing these entities' demands on the fiscus and to turn them into contributors of taxes and dividends have not been achieved on any substantial or sustainable scale;
- Considering the analysis of trends in staff numbers and employment costs in the sections above, employees appear to be the one stakeholder category who have benefited materially from commercialisation through substantial remuneration increases – this conclusion corresponds with that of a 1997 Sida commissioned, evaluation of the performance of Telecom;[x]
- From an overall perspective, the economic objectives associated with the commercialisation of these entities appear not to have been achieved as yet.

4 ASSESSMENT OF FINANCIAL PEFORMANCE

4.1 Methodological approach to assessing financial performance

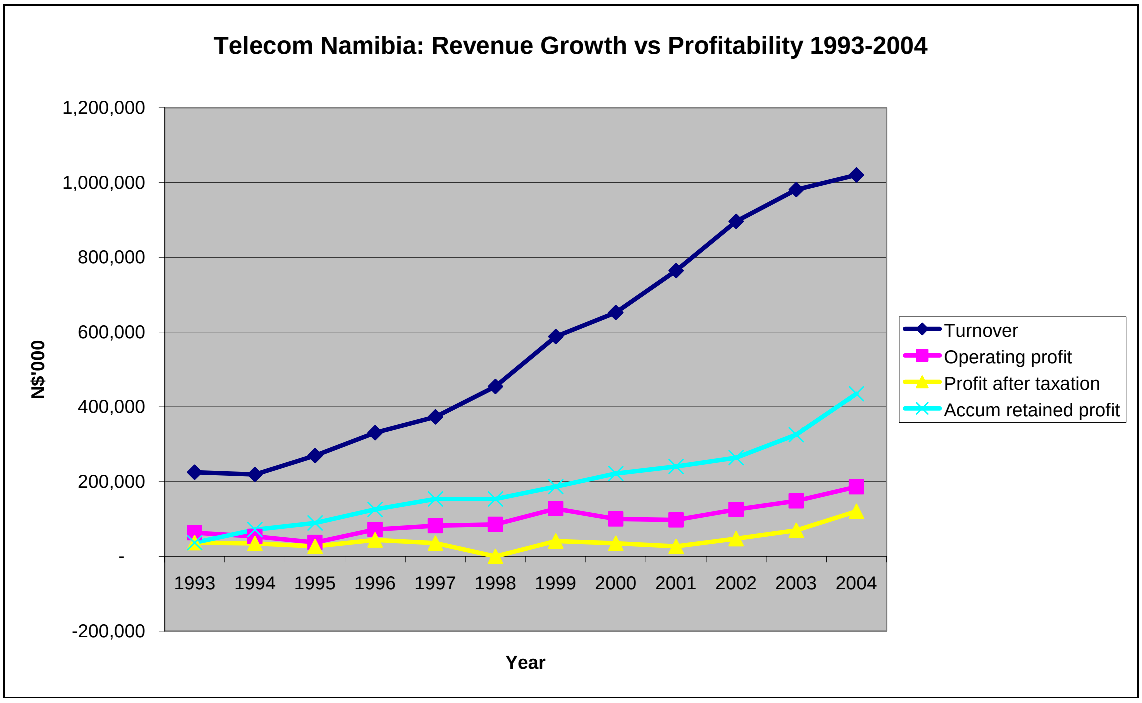
The audited annual financial statements of the entities concerned have been used as the information base with which to probe their financial performance, together with reviewing the comments contained in analysts' reports. As explained in Section 2.2 above, the focus of the financial performance review is on:

- Growth;
- Profitability;
- Financial leverage;
- Liquidity;
- Asset productivity.

4.2 Telecom

As the following graph illustrates, Telecom has experienced healthy *turnover growth* since 1993 but operating *profit* and net *profit* have not followed accordingly until 2001 when Telecom's profits started to track its revenue line more closely. As remarked in the above analysis of economic impacts, a significant part of Telecom's top-line growth has been the result of sharp price increases at the expense of customers. Whereas turnover has grown more than five times since the corporatisation, installed DEL's have merely doubled over the same period. Continuing inefficiencies have eroded Telecom's margins:

Figure 9: Telecom revenue and profitability



Telecom's return on equity and return on total assets have respectively averaged 13% and 11% after tax.

Over the period 2001-2004: While this represents an improvement over the previous five year period, it is still below the entity's likely cost of capital, resulting in the continuing destruction of shareholder value. When adjusting for CPI, the return on total assets drops to 5.41% for the 2002/03 financial year and to 8.83% for 2003/04 – this is below the 2003-2006 Performance Agreement's target return of 10%.

The *financial leverage* of Telecom (measured in terms of long term debt as a % of total capital employed) decreased from 46% in 2001 to 35% in 2004. It can be argued that this gearing level is low for a utility enjoying a near-monopoly status and predictably strong cash flows, thereby unnecessarily increasing its weighted cost of capital and reducing the return on owner's equity.

From a *liquidity* perspective, Telecom has maintained a current ratio of more than 1 but less than 2 since 2001. The conventional norm is a current ratio of 2.

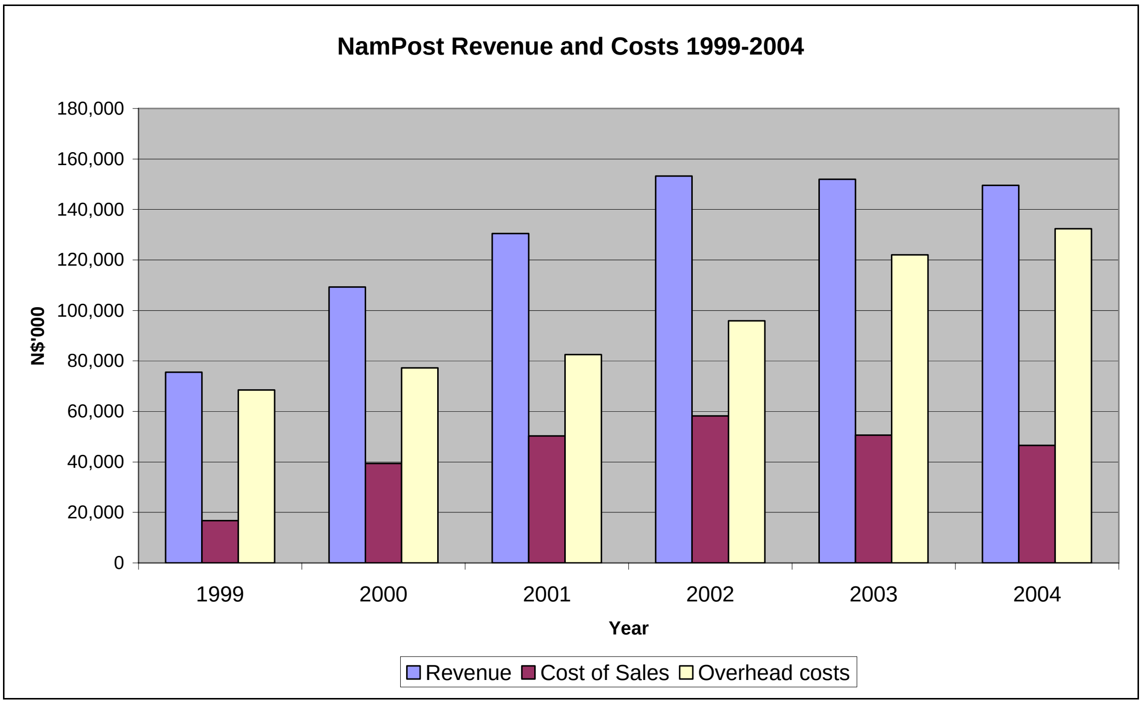
As far as *asset productivity* is concerned (measured in terms of turnover: total assets), Telecom has marginally improved from 0.70 in 2001 to 0.73 in 2004.

4.3 NamPost

NamPost *grew* its business from a turnover of N$26 million in 1992 to a turnover of N$150 million in 2004. However, closer analysis shows that a material part of this growth can be attributed to real price increases by NamPost as volumes did not grow similarly over the period concerned. It should also be noted that NamPost's turnover stagnated since 2002 at the N$150 million level.

From a *profitability* perspective, NamPost achieved a promising start after achieving a net profit in 1994/95, materially earlier than anticipated at inception. It achieved a 14% operating profit margin in 1995/96 and also declared a dividend in that year. However, in latter years, NamPost's profitability worsened materially. It has registered operating losses in 2003 and 2004. The following graph demonstrates drivers of this worsening situation – stagnating growth and a continuing rise in overhead costs. A financial turnaround appears to have started in 2004. However, from the information available to this review, it is not yet possible to comment on the sustainability thereof, especially given the remaining situation of very thin profit margins.

Figure 10: NamPost revenue and costs



NamPost's *financial leverage* remains very low (3.4% in 2004) implying questionable application of sources of capital.

As far as *liquidity* is concerned, NamPost's ratio has worsened to 1.04 in 2004, raising questions as regards the entity's ability to meet short-term obligations such as creditors in the absence of growth in cash flow from operations.

With regards to *asset productivity* it can be noted that the ratio of sales: total assets have deteriorated from 0.41 in 2002 to 0.31 in 2004.

4.4 Namport

From a *growth* perspective, Namport has increased its turnover from N$68 million in 1996 to N$100 million in 2000 and N$210 million in 2004. It has maintained *profitability* throughout its period of establishment, but its profit margins have decreased of late, registering 11.4% in 1999 and only 5.8% in 2004. This declining profitability co-incides with substantial investments made in port infrastructure, the anticipated positive impact of which on revenues and profits will only be felt in future years.

Namport's *financial leverage* has lately ranged between 40% in 2000 and 37% in 2004. Arguably Namport could prudently absorb even more debt, given the certainty of its revenue streams, thereby increasing the return on owner's equity. Such a financial strategy would however necessitate better profitability than that which Namport achieved in recent years.

Liquidity at Namport is reflected by a current ratio ranging between 1.75 in 1999 and 1.25 in 2004. Given the cash generative nature and profitability of the business overall, there should be no near term concern over liquidity at Namport.

Namport's *productivity of total assets* was 0.21 times in 2001, improving to 0.26 in 2002 before weakening to 0.18 in 2003 and 0.21 times in 2004, reflecting the significant increase in Namport's assets during that period.

4.5 NAC

Since its inception in 2000, NAC has *grown* its revenue base from N$31 million in 2000 to N$84 million in 2004. It has also been able to remain *profitable* with operating profit margins ranging between 7% and 26% over the five years, averaging 16.5%. NAC appears to be the only SOEs under review able to achieve returns approaching its cost of capital. It has however to be kept in mind that NAC has to a certain degree been the recipient of government and donor grants, totalling approximately $18.5 million over the period 2002-2004 for purposes of part funding its capital expenditure programme.

The organisation has maintained a *financial leverage* of around 25% over the period, indicating that higher levels of debt can be absorbed given the predictable nature of its revenue streams.

NAC's *liquidity* in terms of its current ratio averaged 2.95 over the period, the best of all the entities under review.

Asset productivity in terms of the ratio sales: total assets weakened from 0.56 in 2000 to 0.13 in 2004, reflecting NAC's escalating asset base as investments in airport infrastructure were being made.

4.6 General Conclusions regarding Financial Performance

With the exception of NamPost and mindful of the role that real price increases played, the four SOEs under review have achieved satisfactory growth trajectories. However, with the exception of NAC, profitability has been lagging, with losses recently occurring at NamPost. Returns generated on assets managed have generally been less than the entities' likely cost of capital, resulting in a destruction of shareholder value.

Financial leverage is generally low, indicating ‘lazy’ balance sheets that could absorb higher levels of debt, especially if one considers the mostly predictable nature of the entities’ revenue streams. However, correcting the capital structure in this manner would have put further pressure on their already weak profitability.

Liquidity seems to be generally within plausible limits, with the exception of NamPost, which has to monitor its current liabilities closely.

Asset productivity has been weakening in most cases, reflecting investment levels as well as the operational inefficiencies commented on in 3.4 above.

Overall, the financial performance of the entities under review leaves much room for improvement.

5 NAMIBIA POST & TELECOMS HOLDINGS LTD (NPTH)

While NPTH is directly associated with the operating companies NamPost and Telecom discussed above, it is discussed separately here as its structure and functions do not warrant an evaluation of economic and financial performance in a similar manner as in the case of the operating companies.

NPTH, which owns 100% of NamPost, Telecom and the cellular operator MTC[8], was introduced in terms of the establishment legislation for NamPost and Telecom, the Post and Telecommunications Establishment Act, No. 17 of 1992. While it is effectively a controlling structure for its three subsidiaries, it was established as a property development company which today provides property facilities and custodial services to its subsidiary companies.

In terms of Cabinet memoranda of the time, it is apparent that the need for NPTH as a vehicle for facilitating the commercialisation of NamPost and Telecom was viewed as of a temporary nature with a probable lifespan of 5 years. In particular, NPTH had to facilitate the cross-subsidisation of NamPost which was expected to take longer than Telecom to break even.

NamPost demonstrated its profitability potential earlier than anticipated and all three NPTH's subsidiaries over time have developed capabilities and assets in the areas of NPTH's originally envisaged functions. It has for some time been difficult to imagine valid reasons for NPTH's continued existence, as evidenced by the initiation of Cabinet level enquiries already in 1998 into the possible unbundling of NPTH's operating companies. It has been pointed out that NPTH is unnecessarily duplicating cost structures and that it presents a 'value trap' considering that it has been paying dividends to government subsequent to its subsidiaries declaring their own dividends. Analysts have indeed pointed out that the continued delays around the unbundling of Telecom, NamPost and MTC is holding back the logical competitive development of the telecommunications industry of Namibia.[xi]

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[8] Prior to May 2004 NPTH owned 51% of MTC. Due to a strategic refocusing by the original Swedish technical partners, their 49% shareholding has for the interim reverted back to NPTH, until new partners are identified. This process is currently underway and indications are that the minority MTC shareholding might in future be split between a technical and broad-based BEE partner.

6 TRANSNAMIB AND AIR NAMIBIA

The terms of reference for this resource paper calls for a discussion of TransNamib Ltd, the national road and rail transporter as well as of Air Namibia, but with less emphasis than in the case of the four SOEs analysed above.

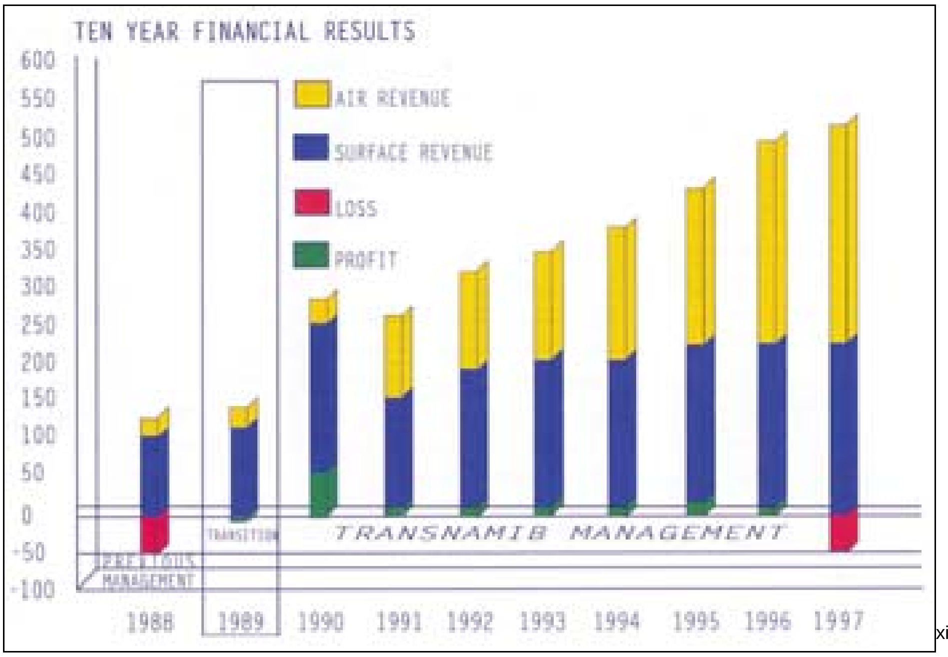
These two entities arguably represent the worst in terms of performance, relative to the other organisations discussed. This reality has been echoed by the numerous commissions of enquiry, investigations and rescue plans that both entities have attracted over the years. These include a Presidential Inquiry into Air Namibia, the airline's catalyst role in initiating a government review of remuneration of SOE managers and directors in 2000, the Special Task Force established in 1995/96 to assess TransNamib's operations, a 2001 Presidential Commission of Inquiry into the Activities, Management and Operations of TransNamib established to again review TransNamib's failing business and the resignation of the Air Namibia chairman in 2004 following accusations of government interference in the business matters of the airline.

From an economic impact perspective:

- Both have been recipients of government financial support rather then becoming contributors of taxes and dividends – over the period 1998-2004 TransNamib absorbed N$250 million of government transfers. Air Namibia has incurred substantial financial losses since inception: N$346 million was provided in the 2001/02 supplementary budget to recapitalise it and an additional N$250 million was provided for in the 2002/03 budget. With the announcement of the national carrier's partial privatisation, the GRN committed itself to taking over the airline's N$1.4 billion debt for a majority shareholding as part of an as yet inconclusive process. Over N$1 billion has to date been provided in financial support to Air Namibia by Government, and while operating losses dropped from N$196 million in the 2001/02 financial year to N$149 million in 2003/04, there is no imminent sign of recovery.
- While information on customer service levels at Air Namibia was not available to this enquiry, available information on the situation at TransNamib indicates substantial room for improvement;
- Operating efficiencies at both organisations are low by both developed and developing country standards.

Financial performance at both entities has been more than disappointing. In the absence of government support, the extent of operating losses since initial corporatisation in 1988 would have been more evident than suggested by TransNamib's annual financial reports. The figure below outlines TransNamib's financial performance for the ten years following corporatisation and prior to the unbundling of the two entities in 2000 (as presented by the 1997 TransNamib Annual Report). It is evident that although revenues improved, no significant value was added to the shareholder given the government support provided to TransNamib during this period. It has in fact been estimated that the net worth of TransNamib reduced by approximately 50% during this period.

Figure 11: TransNamib financial results: 1988 – 1997



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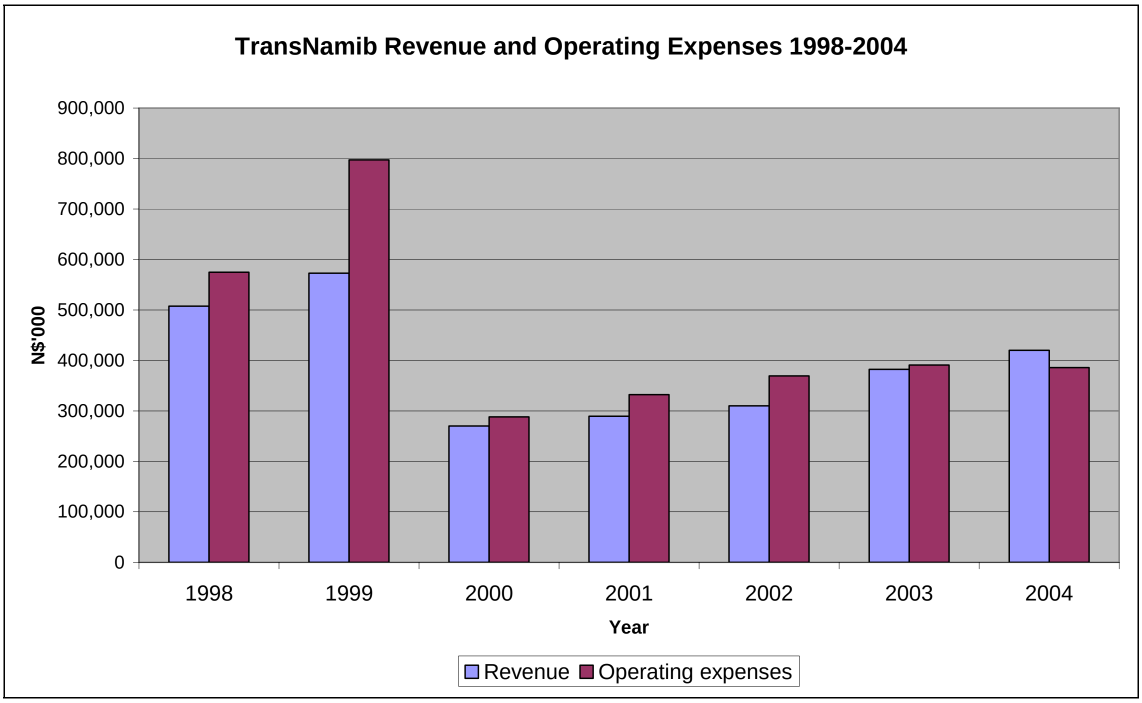
When a positive bottom line was registered it was mostly due to asset realisation. Even after Air Namibia was unbundled from TransNamib in 2000, the surface transporter continued to register operating losses. As can be seen below, in 2004 TransNamib, for the first time in seven financial periods, generated sufficient revenue to cover operating expenses.

Figure 12: TransNamib Revenue



During the period 1998-2003, net cash flow from operating activities was negative in TransNamib - N$307 million cash was utilised by core operating activities. This cash utilisation was financed by large cash inflows from Government totalling N$250 million and other non-core activities, such as disposal of assets, totalling N$340 million. A specific payment as contribution to airline losses (incurred prior to Air Namibia's unbundling from TransNamib) was paid in 1999 totalling N$177 million, forming part of the above mentioned N$250m In 2005, TransNamib received an additional N$204 million as part of a government-backed loan from the Export Import Bank of China to replace its aging locomotive fleet.

Whether the remarkable financial turnaround in TransNamib's fortunes during 2004 (net increase in cash & cash equivalents of N$68 million) is sustainable, remains to be seen.[9]

The doubtful economic impact and mounting financial losses at TransNamib and Air Namibia have for some time pointed to the need for a radical reconsideration of the business models of both entities.

The report of the Independent Task Force to Review TransNamib Ltd (1996) highlighted poor financial performance, especially of Air Namibia, and expressed doubt in the ability of the entity to become self-financing over the medium-term. A lack of strategic management was highlighted as a compounding factor in the SOE's performance and the following was proposed:

- A level playing field should be created between rail and road;
- A division of labour is required between the state and the railway operators, with the state funding developments of a social nature;
- The pursuance of competitive niches by TransNamib Rail;
- The implementation of cost reduction strategies;
- The need for introducing new technologies;
- The conception of the rail transport strategy as a more general surface transport strategy;
- A focus on regional routes by Air Namibia and the continuation of international routes only if a strategic alliance with a major carrier was established;
- The progressive divestment of TNL from state ownership by following a broad-based empowerment approach.

In 2001 a separate independent review of TransNamib's operations suggested an urgent need for attention to aspects such as:

[9] Prior to the finalisation of this report, an invitation had been extended to TransNamib to elaborate on the drivers of the apparent financial turnaround at the company since 2003.

- Rationalisation and 'right-sizing' of the organisation in terms of physical assets and human resources to bring its cost levels in line with realistic revenue prospects in a constrained, highly competitive market;
- The introduction of more sophisticated, activity based, cost management;
- Customer relationship management;
- Improvement in safety management practices.

An additional aspect to take into account with regard to TransNamib is the Maintenance Agreement on railway infrastructure. The National Transportation Services Holding Company Act, no. 28 of 1998 transferred the railway tracks and related infrastructure to the state and makes TransNamib responsible for the costs incidental to the maintenance of thereof, including any re-investment required to maintain any line of the railway. This annual maintenance cost cannot be covered by TransNamib in its present financial situation. In practice government is funding this cost but there is a concern that the significant development cost of the Northern Railway[10] to government will put at risk the availability of adequate funding for future maintenance as well as the necessary infrastructure upgrades of the overall rail network

The above mentioned funding model related to the Infrastructure Maintenance Agreement illustrates a wider question over whether certain rail services in Namibia should be approached and funded at arm's length as a social service rather than a business venture. The market for rail transportation in Namibia is small and shrinking in light of competition from road transport. The vast distances and small population means passenger services are not a viable source of income for TransNamib, with trade corridors and associated logistics providing the only real opportunity for business growth. Questions accordingly arise about the economic and financial sustainability of a passenger rail service in Namibia and the financing thereof.

Against the above background rail safety also comes into focus. While government has de facto assumed financial responsibility for maintenance of rail infrastructure, TransNamib appears to be self-regulating as regards the safety of rail passengers. This division in public safety related roles is concerning.

[10] The Northern Railway Extension Project is a government initiative to increase trade between Namibia and Angola by extending existing rail infrastructure from Tsumeb to Oshikango in Angola, thereby linking not only Namibian hubs, but also its two harbours, to a regional infrastructure network.

7. FACTORS IMPACTING ON SOE PERFORMANCE

Certain factors have internationally been identified as drivers of performance at state owned enterprises. The situation regarding the entities under review, relative to these factors, is discussed in this section of the paper.

7.1 Competition, divestment and regulatory frameworks

7.1.1 Points of departure

Economic and business experience have taught that organisations functioning under competitive market conditions tend to be more responsive to demand signals and to make more efficient use of scarce resources than organisations functioning in a monopolistic situation. Therefore, these organisations tend to achieve better economic and financial results. This effect is generally ascribed to the behavioural influence of the risk of failure arising from a mismatch between the organisation's offering and prices on the one hand and the preferences of consumers with choices on the other hand.

In the case of state-owned entities it is generally accepted that the positive (potential) influence of the risk of failure is further accentuated by transferring ownership to the private sector as such entities are then forced to compete for capital in the open market without access to government funding or guarantees. It is further generally believed that divestment to the private sector promotes efficiency through the introduction of modern management techniques, product/ service innovation and general exposure to the dynamics associated with private ownership.

Regulation and competition goes hand in hand. In the case of both public and private monopolies, regulation often has to substitute for competition, providing scrutiny, incentives and disincentives to promote effective and efficient operations at entity level. To mention one example – regulation of monopolies should encourage profitability commensurate with cost of capital but not to the extent of accommodating excessive customer pricing by such SOEs. In the case of market liberalisation, regulation remains necessary to ensure a level playing field between incumbents (often previously or remaining state owned entities) who have developed dominant market positions and new market entrants.

7.1.2 Telecom and the telecommunications sector

Telecom currently enjoys a statutory monopoly for the provision of fixed line communications and MTC for the provision of cellular communications. It can be assumed that, similar to other countries, the original monopoly mandate of Telecom was driven by a belief that a national telecommunications network represents a natural monopoly. However, worldwide technological diversification in telecommunications, investor appetite and divestment experience have clearly shown that vast potential exists for promoting competition in national and international telecommunications markets.

In 1992, the Namibian Communications Commission (NCC) was established, later in the same year taking on responsibility for regulating the telecommunications market. The current version of the NCC is, however, not responsible for regulating Telecom Namibia. Furthermore, the NCC only regulates entry into the sector but does not regulate prices and/ or quality of services. This has resulted in what has been called “a *de facto* regulatory vacuum” with regard to Telecom Namibia.[xiii] This situation implies inadequate scrutiny of and control over Telecom’s prices, service levels and financial results. This lack of a proper regulatory framework for the largest telecommunications operation implies in turn a similar lack of regulation to facilitate a level competitive playing field in the event of market liberalisation.

The 1999, the Telecommunications Policy and Regulatory Framework recommended the liberalisation of the Namibian telecommunications market by 2004, in particular by paving the way for a second mobile communications provider in the market. In 2002 the draft Communications Bill was introduced, which aims to create a single regulatory body – the Communications Authority of Namibia (CAN), to regulate the whole communications industry (including Telecom) and to become the official issuing body for telecommunications licenses. In the absence of a unifying body, the Namibia Communications Commission (NCC) was nominated in 2000 to coordinate the application and tendering process for a second cellular license in Namibia, but it was later realised the NCC did not have the authority. This led to the amendment of the NCC Act (No. 75 of 1992) in March 2004 to retrospectively provide it with the necessary powers, and it was also granted the authority to prescribe fees for any postal service licence and the conditions under which such a licence may be issued. The Communications Bill, ushering in the envisaged new dispensation, is still to be enacted.

For the proposed CAN to effectively facilitate competition in the Namibian telecommunications sector, it would have to particularly demonstrate its ability to:

- Monitor and regulate the interconnection agreements between operators, especially given Telecom’s current network monopoly;
- Regulate the pricing of value added services, especially given that Telecom operates as both network provider and provider of value added services;
- Develop the necessary technical and analytical capacities with which to assert its powers vis-à-vis the operators.

The policy objectives and envisaged regulatory focus areas of the Communications Bill appear to be in keeping with international best practice. However progress with finalising the Bill has been slow. Already two important deadlines could not be met – 2004 for the granting of a second mobile operator license and 2005 for the granting of a second fixed line network operator license. This is not good for either industry development or investor confidence.

7.1.3 NamPost

NamPost enjoys statutory monopoly rights for the provision of standard mail services. Traditionally, standard mail services would be viewed as the domain of a natural monopoly. However, standard mail services are today effectively exposed to competition from substituting technologies such as electronic mail and other forms of communication. In the non-standard service areas such as courier and banking, it is exposed to competition from commercial rivals.

There does not appear to be a near term need for change in the regulatory framework pertaining to NamPost's core mail service. However, there has for some time been debate about whether the operations of NamPost's Savings Bank should be brought within the regulatory ambit of the Banking Institutions Act. Now that the Savings Bank has become an important and growing part of NamPost's business portfolio, with an increase in net operating income from N$4 million in 1995 to N$25.5 million in 2004, compared to the total N$150 million of revenue earned by NamPost for its postal operations in 2004, this regulatory modification should probably receive its due attention.

6.1.4 Namport

Namport constitutes a natural monopoly as regards the port infrastructure, given the limited number of viable port locations on the Namibian coast and the risks associated with investing in port infrastructure. At present Namport provides both "public interest" functions, including infrastructure and safety and environmental regulation, as well as commercial functions such as dry-docking, including a syncrolift.

The regulatory framework under which Namport operates, could be described as largely self-regulatory. This is achieved through consultative processes (established by convention) between Namport and its stakeholders as well as port user representation on the Namport board.

As far as the promotion of competition is concerned, two comments could be made:

- Namport appears not to be adhering to the original intention as expressed at its inception in 1994 to gradually withdraw from commercial activities on the surface of the port infrastructure it is providing. This is evident from the fact that Namport is still operating the syncrolift and from the fact that it envisages to be a shareholder in new commercial investments such as the envisaged introduction of a floating dock.
- Should it be considered to privatise Namport, which is not inconceivable given its profitable status, its public interest functions, especially regulatory in nature, would have to be transferred to government within a more robust overall regulatory framework.

7.1.5 NAC

NAC enjoys monopoly status for the provision of airport infrastructure and related services in Namibia. Given the relatively low intensity of commercially viable air travel in the country, this can probably be regarded as a natural monopoly.

NAC is largely self-regulatory. A range of Memoranda of Understanding is being developed between NAC and its various stakeholders for the proper articulation of reciprocal rights and obligations and to facilitate user insight into the core business of NAC.

7.1.6 TransNamib and Air Namibia

TransNamib's rail and road services are exposed to competition from private road carriers. However, as pointed out in 6 above, TransNamib's self-regulating status as regards public rail safety is cause for concern.

As far as international passenger and air freight services are concerned, Air Namibia is operating in a highly competitive global airline industry. Regionally and domestically, anecdotal evidence exists regarding protection of Air Namibia, for instance through the closure of Eros Airport for regional jet aircraft.

7.1.7 Competition, divestment and regulation: General Conclusions

It remains critically important for Namibia to bring the envisaged liberalisation and better regulation of its telecommunications markets to conclusion and implementation.

The regulatory situations regarding the core businesses of NamPost, Namport and NAC do not warrant serious attention in the near term, unless divestment becomes relevant.

In keeping with the globally established principle that commercialisation's objectives are ultimately best fulfilled through divestment, a process of actively promoting a shortlist of divestment opportunities associated with the SOEs under review should be initiated.

Apart from fulfilling the above-mentioned general objectives of commercialisation, a concerted divestment drive would enable the SOEs concerned to make meaningful further contributions to black economic empowerment. There is little doubt that the activities of the SOEs under review have generally contributed to black economic empowerment through facilitating a more equitable distribution of infrastructure and services than that which was inherited from the country's past. At the organisational level, SOEs have since independence been able to tap into a demographically broader pool of talent than was the case before independence in these organisations, as well as in the private sector. Black professionals' increased access to senior functional and executive positions in SOEs have broadened the skills pool of the national economy, to the benefit of both SOEs and private business organisations. However, the same cannot be said about black economic empowerment at business ownership level. The SOEs under review offer a range of opportunities in areas such as: unbundling, outsourcing and divestment opportunities that could be suitably structured for black participation, accelerating black economic empowerment.

7.2 Governance

As outlined above, corporate governance is viewed in this paper as those mechanisms used to ensure that the organisation's management and employees strive to achieve the stated objectives of the organisation.

When reviewing the existing corporate governance practices at the SOEs under review, it becomes apparent that most of the classical governance measures are present to some degree. However, the effective implementation of these governance measures appears to be lacking in several cases. Highlighting the following recurring themes does not suggest that they apply in equal measure to all entities but rather that these shortcomings are widespread enough to be emphasised:

- Boards of directors often lack the depth of business experience, corporate leadership exposure and independent orientation required for being able to give effective guidance to management in the context of these rather large and complex organisations. Had this not been the case, the shortfalls in economic and financial performance highlighted in this paper would in more cases have prompted director interventions than have been the case in practice to date. Practical experience suggests that political and/or civil service allegiance too often outweighs relevant competencies in the selection and appointment of SOE directors;
- Government does not fulfil its ownership role effectively from a performance governance perspective. The Performance Agreement, articulating the owner's expectations of the SOE's performance and its related reporting, is the main mechanism in this context, however, in practice the following problems occur:
  - The definition of performance objectives can be refined;
  - Formalisation of Performance Agreements have to date only occurred at NamPost, Telecom, NPTH and Namport, with significant delays often experienced in the finalisation and signing of updated versions;
  - Following through on the owner-entity interactions envisaged in Performance Agreements, such as through the timeous presentation of business plans and active engagement between the parties on such plans do not occur consistently;
  - Reporting against Performance Agreements appear to be piece-meal and *ad hoc*, frustrating the potentially positive accountability impacts of such reporting, had it occurred comprehensively in the public domain such as in annual reports. The absence of such reporting in any consistent format makes public monitoring through fora such as the National Assembly, the media, websites and the like impossible, leading to a wholesale lack of transparency regarding the performance of the SOEs concerned;
  - The 'hardening' of SOE budgets to bring financial performance in line with Performance Agreement targets and to trigger consequences in the event of non-compliance, does not receive sufficient attention.
- Strategic and business planning have become routine activities at the SOEs concerned. However, practical experience in working with these entities suggests that a disconnect arises too often between such plans and the day-to-day operational management practices and reports of the entities concerned. This

implies that the potential of these planning activities to galvanise the intentions and activities of management and staff towards corporate priorities becomes diluted.

- From a risk management perspective, external and internal audit processes appear to be well entrenched. A practice of proactively identifying and prioritising corporate business risks has also started to spread among the entities under review. However, as in the case of strategic and business planning, a disconnect often arises between these "risk diagnostics" and the operational practices of the entity.

One of the tenets of successful commercialisation recognised worldwide is the extent to which managerial autonomy is maintained. Directors and managers that enjoy day-to-day autonomy within a robust strategic and governance framework agreed with the shareholder, tend to act more consistently in line with business principles than directors and managers who anticipate frequent interventions from their shareholder. In the latter instance, directors and managers start to second-guess the preferences and decisions of their political masters and behave accordingly. Unfortunately, too many instances of political intervention in the board and executive sphere have become evident in Namibia over recent years. Government may with good reason argue that its interventions became necessary because of weak corporate governance. Government may however well achieve more lasting results through first fixing the governance and regulatory frameworks than through individual, entity focused interventions.

Initiatives are afoot to improve the corporate governance situation at Namibian SOEs, which will also impact on the entities under review. The SOE Bill, expected to be enacted towards the close of 2005, is anticipated to be the catalyst. The Bill envisages to improve the quality of boards and their functioning and especially to empower government as owner-shareholder to interact with boards in a more informed manner, based on regular scrutiny of SOEs' plans and performance. It is worrisome however that the SOE Bill has not seen enactment despite the preceding policy processes already commencing in the mid-1990's. Considering the above mentioned weaknesses that have appeared in the implementation of the existing, even simpler governance mechanisms, answers would have to be found on questions such as the following before the SOE Bill could claim credible prospects of adding value to SOE governance:

- Whether the political will actually exists to effectively implement the new dispensation;
- The original version of the SOE Bill envisaged a Central Governance Agency (CGA) as a technocratic entity to execute government's centralised governance interactions with SOEs. The latter version of the SOE Bill dropped the concept of this enabling mechanism in favour of concentrating the mandate for such SOE interactions with a committee of Ministers – will this be effective given the wide spectrum of technical, financial and governance issues associated with the diverse range of SOE sectors?
- Whether the SOE Bill and its measures will be introduced as complementary to and not substituting public disclosure of SOE performance information, competition, proper regulation and divestment. Certain secrecy clauses in the Bill *inter alia* raise concern in this context.

7.3 The human factor: management and staff

Global organisational development experience has shown that changes in organisational and staffing structures of the nature and magnitude implied by the commercialisation of Namibian SOEs should go hand in hand with strategically focused human resource development interventions. Such interventions should be aimed at the facilitation of technical, managerial and leadership skills as well as the effective incentivisation of managers. Such programmes should ideally also support the management of change and diversity in the organisation concerned. While participation in conventional off-site course programmes appears prevalent, evidence of programmes focused on capacity development and change management that are directly workplace-related, remains far and few between in the SOEs concerned.

In designing and implementing capacity development interventions of the kind suggested above, the potential for skills transfer from the broader SADC and international pool of business and industry experience should be kept in mind and encouraged.

It goes without saying that training and development should be preceded by selection and appointment on the basis of merit and suitability. Questions can be asked over the extent to which political acceptability from time to time outweighs merit-based criteria in the case of senior management appointments in SOEs.

8.OVERALL CONCLUSIONS AND THE WAY FORWARD

Against the background presented by this paper, the following overall conclusions are submitted for discussion during the participatory review process:

- The economic objectives of commercialising the entities concerned have not yet been achieved in a material sense;
- Financially, the performance of the respective entities have been disappointing with few exceptions.

Similar to the conclusions reached by the 1997 Sida commissioned review of Telecom's commercialisation it is evident that while services have improved, this has occurred at the expense of consumers paying higher real prices. Employees of the SOEs concerned appear however to have benefited materially through higher remuneration levels.

The main reasons for the 'performance gap' can be found in the extent to which internationally recognised 'performance drivers' are as yet absent or insufficiently developed in the case of the SOEs under review. This situation may be reflective of a misplaced belief that merely changing the institutional form of these entities would bring about the desired behaviour and performance. The performance drivers, if correctly applied, represent the stimuli that could assist in bringing the commercialised *form* as envisaged alive in *substance*:

- Insufficient exposure of the entities to competition for customers and resources through market liberalisation and divestment, whether partial or wholly;
- Insufficiently developed regulatory frameworks to substitute for competition and to ensure a level competitive playing field in the event of market liberalisation;
- Governance frameworks that are present in form but that lack substance and teeth in implementation;
- Insufficient focus on empowering SOE managers and staff, through management and leadership development experiences that are truly connected to the decisions and actions characterising their work environment.

Given that the 'output' objectives of the commercialisation drive have only been met partially, does this imply that the exercise should be written off as a fruitless investment? This paper submits to the contrary. While there is every reason for frustration with progress it should be kept in mind that, when these entities were part and parcel of the public service prior to commercialisation, it was simply not possible to isolate and evaluate their economic or financial impacts, whether positive nor negative, in any meaningful manner. Commercialisation has made informed management and orchestration of these entities and their activities possible in principle. The experience of the past 10 – 12 years have shown the way forward, which from the perspective of this paper is to be found in fixing the 'performance drivers' referred to above:

- Acceleration of competition focused initiatives through market liberalisation, proper regulation and judicious divestment;

- Giving more substance, including teeth, to SOE governance frameworks that emphasises specific performance objectives, hard budgets and real consequences in the event of either success or failure;
- Remaining mindful that, in the final analysis, it is the behaviour of the people in the system that makes the ultimate difference - their behaviour remains dependant on the extent to which they are empowered and motivated through knowledge, training and development, authority, incentivisation as well as the risk of failure.

This paper opens with a quote from the World Bank's "Bureaucrats in Business". It is perhaps fitting to close with a further reference from this document in which the Bank argues for three key conditions to be present when reforming state-owned sectors: **political desirability**, **political feasibility** and **government credibility**. Five components that have been found to be common among successful SOE reform programmes, all of which have bearing on the Namibian situation, are:

- Successful reformers divested more;
- Successful reformers introduced more competition;
- Successful reformers hardened SOE budgets;
- Successful reformers reformed the financial sector through improved regulation;
- Successful reformers changed the state-SOE relationships with oversight bodies, performance agreements and managerial autonomy.[xiv]

All five of these remain relevant to Namibia and all have to some extent been addressed in discussions, speeches, submissions, policy statements and even draft legislation. However, the degree of success with which they are implemented remains open for debate.

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ATTACHMENT A: SERVICE COVERAGE OF SELECTED SOEs

Figure A: Telecom optical fibre network (2001)

The figure below illustrates Telecom's optic fibre network distribution in 2001 with primary exchanges indicated by circles, remote line exchanges by triangles and ultraphone linkage points and coverage also included.

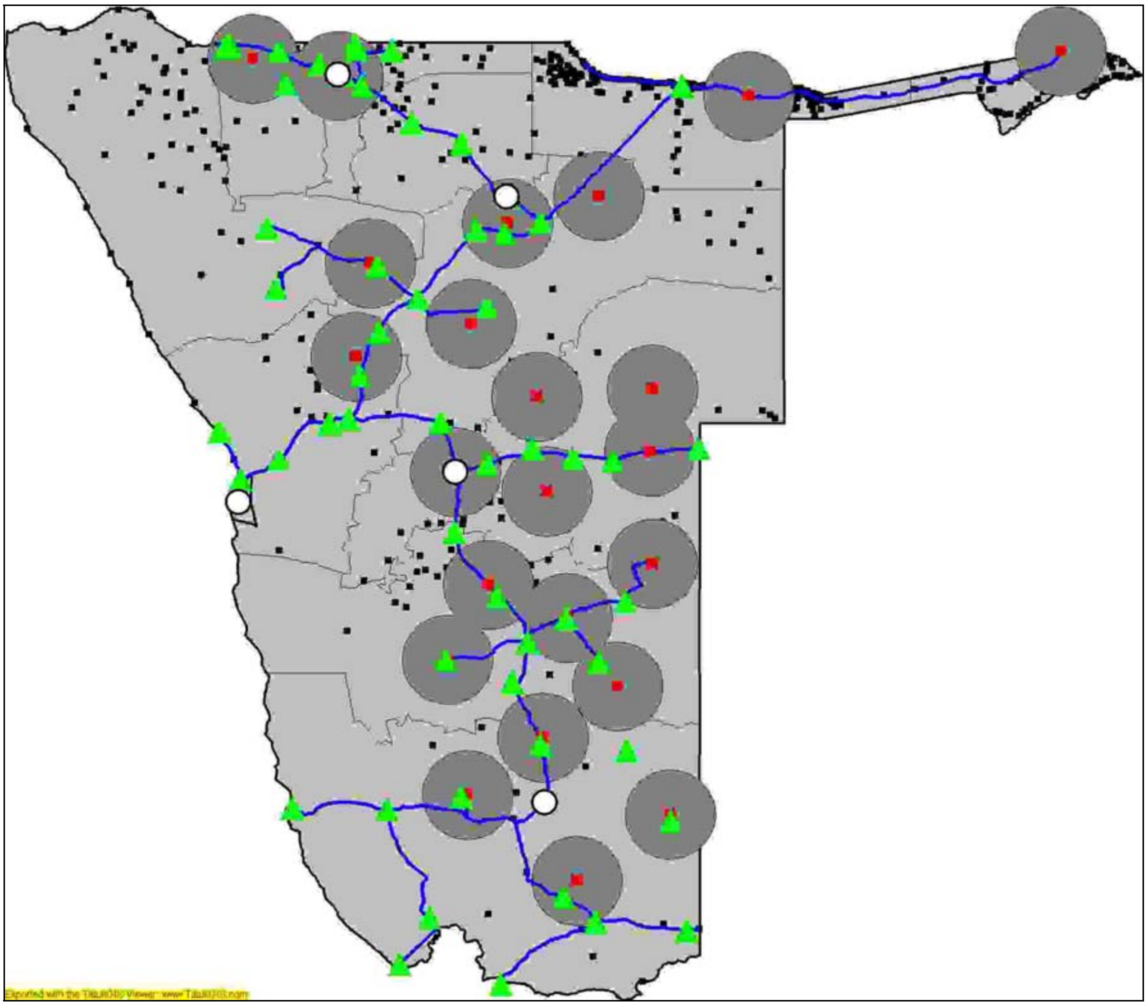

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Figure B: NamPost services geographical distribution (2001 est.)

As the figure below illustrates, by 2001 NamPost covered most geographical areas, with different types of services points present in the places indicated.

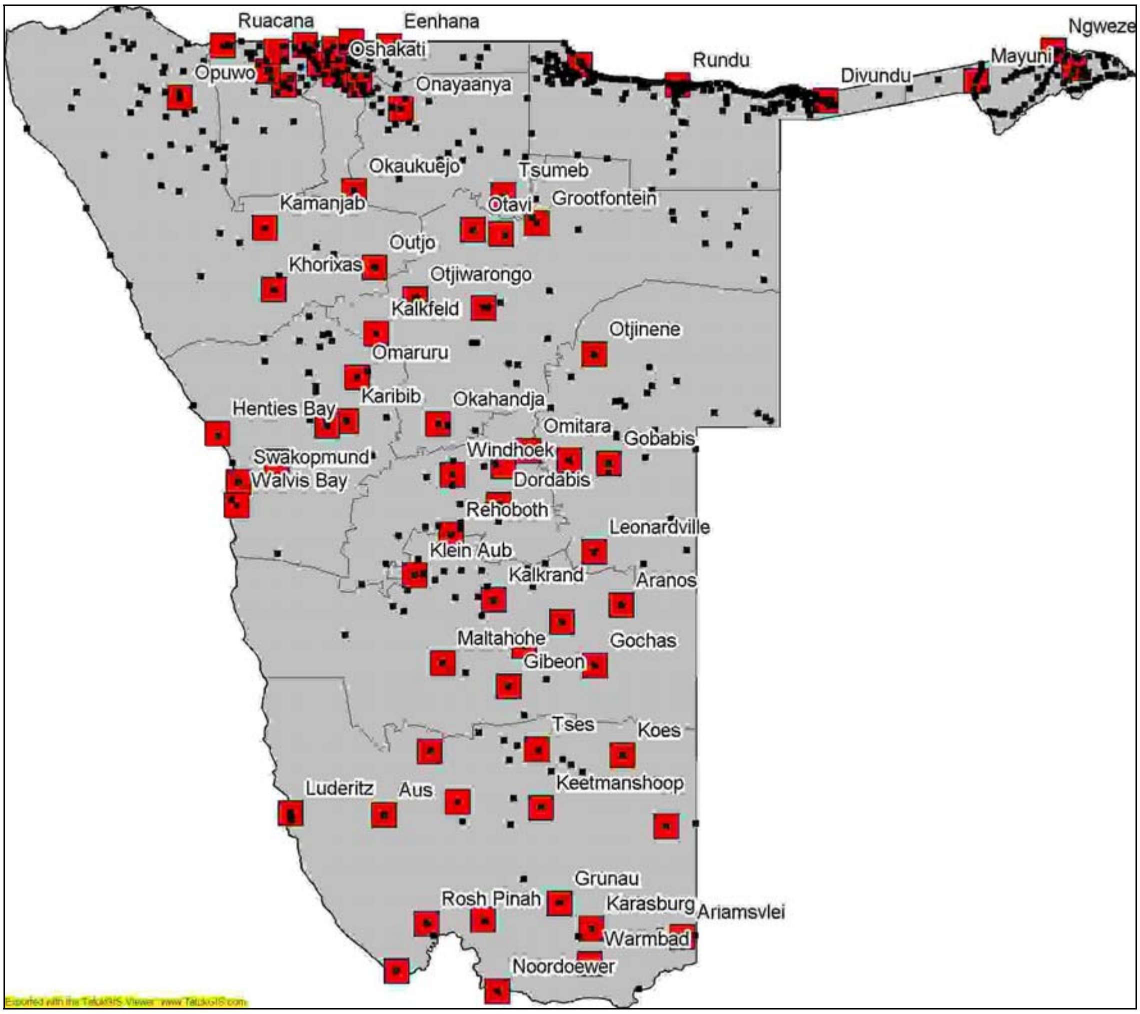

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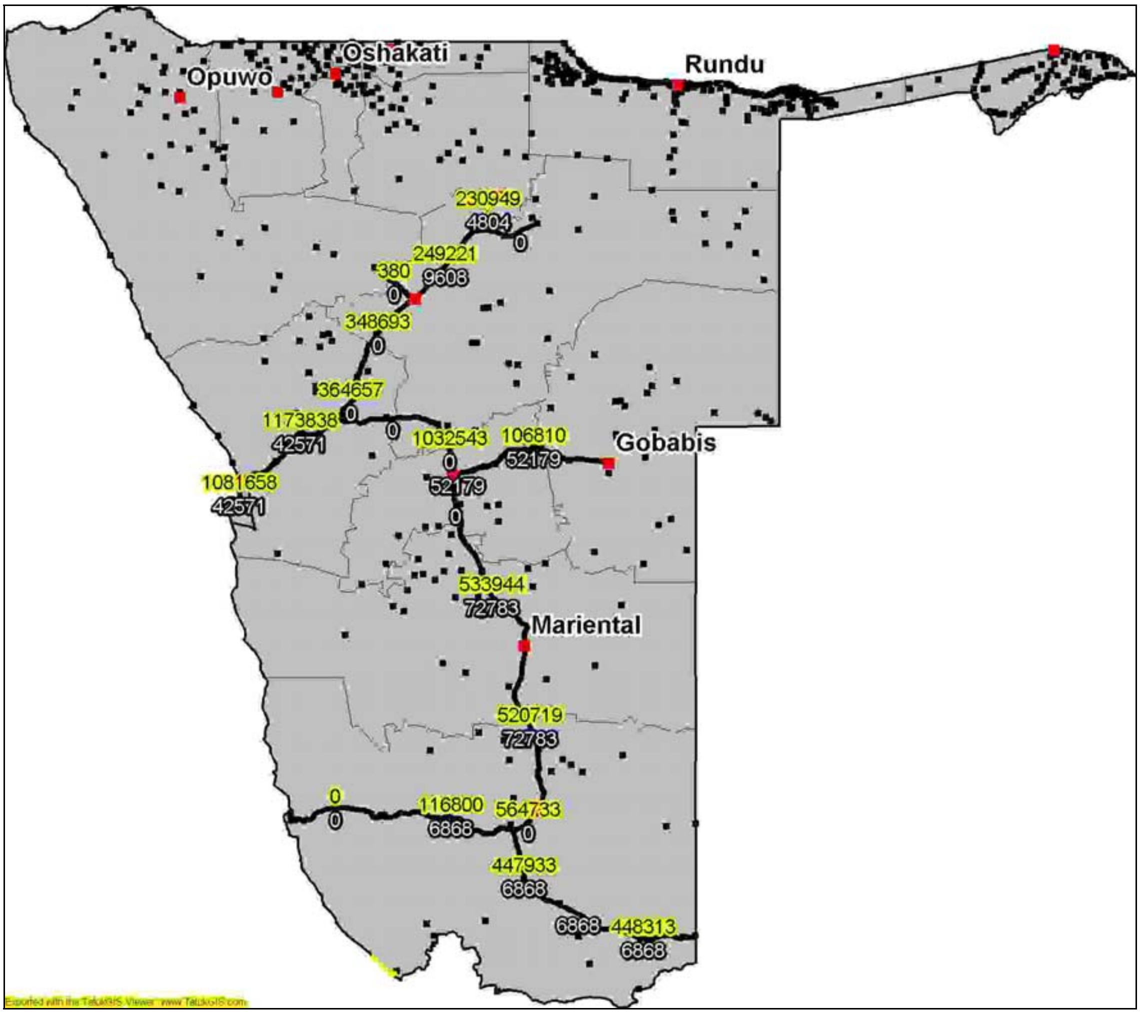
Figure C: TransNamib rail coverage (2000)

In terms of national coverage, TransNamib through its rail division, historically covered major centra in the centre and south of the country, with expansion to Angola only undertaken in 2002. By 2000, the railway network and freight (black text) and passenger volumes (white text) looked as follows:



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