Annex 4: Three Comments made at Workshop on 7 of March.

1. Comments by Mr. T.N. Shaanika, CEO: NCCI on Resource Paper 2

Mr. Moderator
Authors of the paper under discussions
Fellow participants

Thank you for the opportunity to make few comments on the paper that was just presented. I hope I will be objective or seen to be objective in my comments considering the fact that all the companies under discussions are members of NCCI and I serve on the Board of Directors of at least one of them. But having said that, let me express my hope that my comments will be seen as independent and as those from an outsider's perspective.

The study rightly identified the result areas to be measured, namely:

- Economic performance
- Financial Performance and
- Factors driving SOE performance

and I want to concentrate my comments on these result areas.

Economic performance:

Key indicators in the assessment of economic performance included operating self-sufficiency, ability to fund capital expenditure and payment of taxes and dividends. It is clear from the study that Telecom, NamPost, NamPort and NAC have maintained self sufficiency since their commercialization and did not require Government subsidies for their operating income. If one of the objectives of commercialization was to reduce the size of the civil service by separating the functions of policy making and operations without additional spending from the fiscus, then this objective has by and large been achieved.

However, the report is silent about major changes that were made in the corporate structure of Trans Namib and the de-linking of Air Namibia from Trans Namib both of which could have serious bearing on the operational efficiency of Trans Namib prior to and after Air Namibia was de-linked. Cross subsidization of Trans Namib subsidiaries could have affected the operational efficiency of the company.

When it comes to the indicator number 2 (ability to fund capital expenditure) the report rightly indicated that Telecom, NamPost and Namport have demonstrated their ability to fund their respective capital expenditures through retained profits and/or their ability to raise external finance. Although the report highlighted the fact that Telecom and Namport benefited from sovereign guarantees for some of the finance they raised to fund capital expenditures, it did not go further to determine if the two companies managed to service and indeed pay off such loans without Government assistance and whether Government guarantees were the primary consideration of financiers. This would have given an indication as to whether Telecom and Namport had commercially viable propositions for financing and if this could be convincing enough if their financiers were prepared to take more risks. In my view, the report should have interrogated the primary reasons for sovereign guarantees and the conditions of the loans in order to determine if the companies concerned were totally unable to raise financing without sovereign guarantees.

The report was right in concluding that Trans Namib and Air Namibia were not able to fund capital expenditure from retained earnings because the two had not made profit for some time. However, it should be pointed out that Trans Namib did eventually make a profit in 2004/5 Financial Year and funded some of its capital expenditure from retained profits during the last Financial Year.

On the payment of taxes and dividends (3rd indicator), the report is right with regard to tax deferments. However, the low dividends declared as contained in the report should be justified by the infrastructure development in which the SOEs invested heavily. Looking at the performance of these SOEs purely from the numbers on their Financial Statements at the expense of the investments in infrastructure development could give a wrong perception about the benefits that the country got from commercialization.

Customer services impacts

While Telecom's services levels to customers are said to have only improved marginally, one can actually argue that there has been noticeable growth in telephone line coverage in rural areas in line with the vision of the shareholder. This coverage is pursued by Telecom even when it would appear less commercially viable by a typical private operator.

I would concur with the study that service levels for NamPost, Namport and NAC improved since the respective establishments of these entities. However, it would have been interesting to consider the profitability levels of these companies in comparison to the improvements in service levels. Unlike Telecom, these companies did not seem to have conducted customer satisfaction surveys.

In my view, the study should have also looked into the issue of service costs to consumers to determine accessibility to services. It can be argued that accessibility to services of some of these companies could have been impacted upon by the costs of services on offer.

Operating efficiency

It is acknowledge in the report that the ratio of 14 employees per 1,000DELs reported in 2001 for Telecom is high and may have a bearing on operating efficiency. Telecom could therefore be more profitable if this ratio was much smaller. However, the rise in the average nominal cost to company per employee could be compared to the average rise of such costs in general in Namibian and the need to attract and maintain qualified and experienced staff to ensure competitiveness.

I concur with the conclusions made by the enquiry that

Financial Performance

It is worrying that with the exception of NAC, the profitability of SOE under scrutiny did not seem to correspond to the growth in their turnovers. One would have expected profit to grow proportionally to the turnover under normal circumstances. However, I would also like to emphasise that commercialization of state departments the world over have not always necessarily brought about efficiency and higher profitability as opposed to privatization for example. The reason being that private entities would primarily aim for high profits and return on investments in monetary terms while SOEs usually have to consider Government's overall vision and the wellbeing of the societies within which they operate. If Telecom for example only had to invest in the most profitable projects, rural telecommunication infrastructure development could have been neglected. The increase in prices could also be easily justified by the need for the rich to subsidies access of the poor to telecommunication services although this access may mean little if services are unaffordable to consumers.

I agree with the analysis of the report that NPTH needs to be unbundled and allow for competition in the telecommunication sector. Higher efficiency will be difficult to achieve without opening up this sector for competition. It may also prove to be a wise thing to do in the assets of NPTH were to be distributed amongst its subsidiaries because it may improve the balance sheet of these companies and increase their chances of getting funding for capital expenditure.

TransNamib and Air Namibia

The review should have looked at the impact of combining Air Namibia and TransNamib and then separating them. The report is silent on the current improvements in the financial performance of Trans Namib and its potential for full recovery. It is also silent about the business plan currently being implemented by Air Namibia and determine if set targets are achieved or are at least achievable.

2. Comments on current legislative framework for State-Owned Enterprises in Namibia by Ms. I Visser, Chief Legal Advisor, Central Governance Agency

The Deloitte & Touche's Report on a Governance Policy Framework for State-Owned Enterprises in Namibia, as adopted by Cabinet during October 2001 and the National Assembly during February 2002. This Governance Policy Framework set in motion the establishment of the State Owned Enterprises Governance Council (SOEGC), with its Secretariat, the Central Governance Agency (CGA). Cabinet instructed that the CGA, with the necessary core competencies, skill and general expertise, be established to serve as the technical arm of the SOEGC and mandated the Council to draft legislation, to accord the Council and the CGA juristic powers over the SOEs.

According to the adopted Governance Policy Framework the CGA is proposed to act in an executive technical capability to carry out proactive governance initiatives on a say-to-day basis on behalf of the SOEGC. The functions of the CGA should include the following:

1. monitoring and approval of performance related information, as submitted by SOEs;
2. assessment of SOEs' performance related information;
3. advice to the SOEGC on governance interventions required;
4. sourcing of a panel of individual for appointments as SOE directors;
5. facilitation of the formulation and presentation of training and development programs for existing and potential SOE directors;
6. ongoing monitoring of the need for amendments to SOE governance policy; and
7. executive management of the State's initiative to promote private sector participation, e.g. through privatization, divestiture, etc.

The SOEs Bill was subsequently, crafted over a period of three years. During this time, extensive consultations were held with stakeholders, such as trade unions, SOE executive management and the Office of the Attorney-General. Unfortunately, the Bill eventually submitted and passed by the National Assembly deviated substantially from the guidelines, as laid down by the Governance Policy Framework for State-Owned Enterprises in Namibia.

Criticism

- Part III of the original daft Bill, which contained the provisions relating to the establishment and functions of the CGA, as a technical secretariat to the Governance Council, was entirely deleted. This effectively renders the effective and efficient functioning of the Governance Council technically irrelevant. It defeats the original purpose of Cabinet's decision to have a proficient technical secretariat, accountable and answerable to the Governance Council. The Bill currently only provides for a secretariat, staffed with administrative personnel to assist the Council in fulfilling its functions.
- The functions of the Council, provided for in the Bill are extremely intrusive on the autonomy of the Board of Directors. In terms of good governance and international best practice principles the shareholder should by no means be involved in the day-to-day operations of any SOE. That is the responsibility of the Board of Directors and they are the ones to be held accountable when the SOE non-performs.
- Also, in terms of the Bill, various portfolio Ministers are responsible for approving the annual budget of the SOEs. The question that arises is, whether the relevant portfolio Minister will also be held liable and accountable if things go wrong.
- Investment. Approval of the relevant portfolio Minister and Minister of Finance.
- Appointment of Board Members. Portfolio Minister appoints. Elaborate process in the Bill, but effectively will not change the status quo.

We need more political will and buy-in of the shareholder to implement principles of good governance and international best practice, if this nation is going to succeed in turning the SOEs around.

3. Comments by Robin Sherbourne on Resource Paper 2:

1. Economic theory

Are the goods or services rival? Are they excludable?

		Rival?	
		Yes	No
Excludable?	Yes	Private good Air Namibia TransNamib	Natural monopoly Namport NAC Nampost Telecom MTC
	No	Common resource	Public good

Economic theory suggests there is little reason for public ownership of Air Namibia and TransNamib. A competitive market can deliver air and road services more efficiently.

Economic prescription - privatisation

NamRail, Namport, NAC and Nampost are natural monopolies. There is little chance of creating a competitive market since one firm can deliver services at lower cost.

Economic prescription – state ownership or private ownership with regulation

Telecom and MTC have traditionally been seen as natural monopolies but this is changing as technology changes and competitive markets can be created.

Economic prescription – privatisation with regulation (but see example of Somalia in *The Economist* December 24th 2005 – January 6th 2006)

If economics is so clear why the lack of progress?

2. Political economy

Why are we stuck in the present “low level equilibrium”? Wasn’t the assumption to go on and privatise?

State ownership allows greater political patronage throughout economy

State ownership allows promotion of “national champions”

State ownership allows taxation via back door

State ownership promotes indigenous black management and business leadership

Privatisation could mean selling strategic companies to South African and other foreign companies

Privatised companies would cherry pick lucrative markets and ignore service delivery to the poor (perhaps danger only in telecoms)

Process of privatisation problematic and seems to have ground to a halt

Little belief in private solutions since so little experience with indigenous private successes

3. Business growth

SoEs have greatest potential to expand outside Namibia

Private shareholders would incentivise companies and make them more efficient

Partnerships between government and “strategic partners” could offer way forward (e.g. MTC)

Realistically, there will always be moral hazard with key “strategic” services (even with a “private” company such as Ongopolo)

Potential to reap benefits of greater regional partnerships

Challenge to find long-term BEE and other investors

4. Regulation and accountability

Transparent, understandable and credible – SOEs cannot be allowed to measure themselves!

Conflict of interest for government who acts as shareholder and regulator

(Monopoly) profits as well as losses should be of concern to economists

Lack of independent credible information and analysts with an interest in analysing progress – listing on NSX would help

Cascade of regulators (Cabinet, OPM, CGA, NCC, ECB, etc) adds costs without benefits

OPM Governance of SOEs N$13.4 million of which CGA N$8.8 million in 2005/06
ECB N$14.2 million 2005/06

NCC can’t find anything on website! (hasn’t produced an annual report since 1995!)

Try getting hold of SOE annual reports!