Privatisation the Namibian way: from commercialisation to the sale of state assets

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In Namibia, privatisation has thus far taken the form of commercialisation and contracting-out (the privatisation of service provision), although the sale of state assets and utilities is envisaged in the near future.

Corporatisation and commercialisation are commonly regarded as 'first steps' in the privatisation of ownership (Brynard, 1995). To attract private sector investors, the state must first restructure its utilities and services to make them financially viable. As Oestman (1994) notes, the private sector carefully assesses the opportunities for profit-making before buying state utilities. Profitable enterprises such as telecommunications tend to get fully sold off, while less profitable state owned enterprises (SOEs), such as water, tend to be subject to 'public-private partnerships' with the state retaining ownership and entering into some kind of service contract with a private company.

In Namibia, the privatisation process takes place against the backdrop of an unemployment rate of 35%-40%, enormous levels of income inequality (a gini-coefficient of 0,70), widespread poverty (38% of Namibian household are considered poor) and slow economic growth (Hansohm *et al*, 1999; Nepru, 1999).

Policy

At independence, the Namibian Government inherited a civil service of 42 562 people, highly fragmented along ethnic lines and totally imbalanced (almost all management positions were occupied by white males).

The restructuring process which followed involved the creation of thousands of new posts, increasing the number of civil servants to about 70 000. This has resulted in huge expenditure on personnel as a proportion of total government current expenditure and a widely held perception that the Namibian public service is bloated and over-subscribed.

Namibia's first National Development Plan (NDP 1) suggested that the government reconsider its role as provider of basic services and allow the private sector to play more of a role in service provision.

A similar set of policy proposals came from the 1995 Wage and Salary Commission (WASCOM), which recommended that government deliver existing services within reduced budgets. Building on a 1994 Cabinet decision that "areas and functions within the public service need to be commercialised, privatised or deregulated", WASCOM recommended that such restructuring be done "as soon as

[1] This paper draws extensively on the research report of Andrew Murray (2000)

administratively possible, subject to approval by Cabinet in each case" (Wage and Salary Commission Report, 1995). WASCOM further recommended that the process of commercialisation be accelerated and steps should be taken towards privatising "some parastatals which have been around long enough to be privatised now".

Besides commercialisation and privatisation, WASCOM recommended the "contracting out of a number of services provided by the civil service" This is in line with its recommendation that, following the 1995/96 budget, government expenditure on personnel should decrease by 2% per year.
While the WASCOM recommendations on restructuring did not receive immediate attention, an important development has been the establishment of the Efficiency and Charter Unit, which is developing outsourcing policy and implementing WASCOM's recommendations concerning the improvement of efficiency and delivery in the public service.

Based on these policies, the Namibian government set out the following key objectives for public sector restructuring (see Murray 2000):

*** Downsize the public service -** This is perhaps the central objective behind the restructuring process. A commonly held perception within government is that the optimum size of the public service is 30 000, which means a 50% reduction. Outsourcing and commercialisation are the principal strategies to attain downsizing. Employees are being transferred to new undertakings on similar terms and conditions of employment. In a sense, government is deferring the responsibility for downsizing to these SOEs (and their boards of directors).

*** Reduce fiscal deficits -** Contracting out functions and activities to the newly established commercialised entities will reduce fiscal deficits to targets seen necessary for macro-economic growth.

*** Improve efficiency -** There is widespread concern that Government output (in terms of productivity and service delivery) does not justify the amount of (financial and human) resources which Government invests.

*** Improve service delivery -** Government believes that outsourcing and commercialisation will improve the delivery of basic services.

Implementation

A typical example of public sector restructuring in Namibia is the Ministry of Works, Transport and Communication (MWTC), which had about 10 500 employees at independence. The creation of commercialised companies (Telecom, NamPost, and TransNamib) resulted in a reduction of about 3 000 employees by 1998.

The MWTC 2000 project will reduce the Ministry's staff to about 300. All other employees will be transferred to independent operational entities to carry out maintenance of roads, government buildings, gardens, stores, airports etc. Security and printing services will also be outsourced. The new entities receive government contracts for a period of three years and thereafter will have to compete for government jobs through open tenders.

Namibia Wildlife Resorts (NWR) manages wildlife resorts like the Etosha National Park and other state-owned game parks and nature reserves on behalf of government. The transfer of the management of resorts to NWR grew out of the concern that the resorts were not being well run. Although the government is currently the sole shareholder, the company can link up with private companies in the management of Namibia's government resorts, either in partnership (as in a public-private partnership) or as part-owner of an NWR subsidiary company.

NWR will run on a complete cost-recovery basis. While it has received a working capital grant of N$20 million from government (for initial capitalisation), it is envisaged that NWR will be a profitable company and generate dividends for the government.

The Namibia Water Corporation (Namwater) was established as a wholly-owned government corporation following restructuring in the Ministry of Agriculture. Namwater manages the country's water resources, provides bulk water to customers and operates, manages and maintains the country's bulk water works. Municipalities now pay Namwater directly for their bulkwater supply, while the Ministry of Agriculture pays for water for rural communities. It currently recovers about 40% of these costs, but intends to move towards full cost-recovery.

Shortly after Namwater was launched, the company announced an increase in the price of bulkwater of up to 20% per year for five years. Municipalities increased their consumer tariffs accordingly, resulting in large price increases for this basic commodity.

Municipal services

Market principles and cost-recovery measures have also taken root in Namibia's municipalities. Over the past few years, municipalities have become increasingly cash strapped. Unemployment and poverty have resulted in high levels of non-payment for services provided. In some cases, this has led to heavy handed measures. In Tsumeb, which was hit hard by the closure of the TCL mine, the municipality was fast approaching bankruptcy. Hundreds of households have had their water and electricity cut and residents are also threatened with eviction.

In 1999, the Ministry of Housing and Local Government circulated a memo to town clerks advising them to consider partnership arrangements and outsource non-core activities. The Windhoek municipality has already taken this route. Services which are targetted for outsourcing include refuse removal and waste disposal, the bus service, parks and gardens, and cleaning. Security services and building maintenance have already been put out to tender.

A major partnership agreement has been signed by the Swakopmund Municipality and a subsidiary of the German water multinational, Bolina Wasser Betriebe. The five-year contract with Swakopmund Sewerage Operating Company (SWASOC) provides for the upgrading, extension and operation of the town's sewerage works (interview, 03 November 1999).SWASOC is not responsible for setting or collecting tariffs, but is paid a monthly management fee by the municipality. The contract will be renewed if it suits both parties. Bonner Wasser Betriebe are in the market for other municipal clients.

Consequences

Between 1993 and 1997, government expenditure on SOEs increased dramatically (from N$102,4 million to N$ 500 million). In 2001, the government had to bail out the national airline, Air Namibia, to the tune of N$ 400 million to prevent bankruptcy. On the other hand, some SOEs like Namwater, Nampost and Telecom Namibia were able to pay small dividends to government for the first time in 2001. In a narrow sense (cutting costs), the commercialisation of SOEs seems to be showing some results. What, however, are the social implications?

For rural communities, mostly subsistence farmers, the water tariff increases by Namwater are a threat to their very existence. Despite the good rains that were received in most parts of Namibia during 2000, Namwater still announced a price increase of 17%. In 2001, it increased tariffs by 18%.

Namwater claims to have adopted a cross-subsidisation system to safeguard the interests of poorer communities. However, the system has little practical impact in the rural areas. It is very difficult - if not impossible - to differentiate between the better-off and the poor, especially if a common water bill is sent to water users in a village to pay collectively. Communities have adopted a system where individual households pay according to the number of people in the household as well as the number of head of cattle they own. The poor are likely to have larger families, mostly without an income or adequate education. Communal lands have become private empires of the stronger farmers, including the traditional leaders, who can afford to erect private fences in what are supposed to be communal grazing areas.

The Minister of Agriculture recently stated that if a customer feels that a certain shop is charging exorbitant prices for its goods, than the customer must go to other shops. In the case of Namwater, there is no alternative. Communal farmers in the Okakarara, Otjituuo and Okamatapati districts, who all tap water from a major Namwater distribution pipe, were served with water bills of several thousands of Namibian Dollars. The bills date back to September 2001. Namwater is threatening to reduce the water flow and ultimately cut off the supply of water if communities do not pay.

At present, government is subsidising the rural water supply to the tune of 60%. It hopes to abolish all water subsidies by 2010 which will make water unaffordable for some communities, for example the Khoi-San.

Telecom Namibia has been given a monopoly to provide telecommunications services, although that protection will soon be over. In 2001, the company ‘rebalanced’ its tariffs system, resulting in an enormous increase in the cost of local calls. Tariffs for long distance and international calls, which are made by businesses and the middle class were lowered. The duration of local call units was gradually reduced from three minutes to one minute, making a mockery of the company’s motto “taking your communications seriously". Telecom has started to cut the telephone lines of users who do not pay their bills within two weeks.

Nampost, the SOE responsible for the national postal service under a relatively protected environment, has also announced an increase in the cost of its services. The cost of ordinary mail has gone up by 43%, while government and business mail has been increased by only 18% (Nampost, 2001). These increases affect ordinary people, who do not have access to email, telephones or fax machines, the most.

Effect on workers

Thus far, civil servants who have been transferred to commercialised entities have not lost out in terms of salaries and benefits. This could change as the SOEs accelerate their drive towards profitability.

Commercialisation and outsourcing, as well as the privatisation of municipal services, presents the following challenges to trade unions:

* **Organisation of work.** All 'non-essential' work is being eliminated in the public service. Necessary services and activities are being divided into 'core' and 'non-core'. Those classified as "non-core" will be outsourced, mostly to newly established SOEs. These SOEs run on commercial principles. Their key focus will be increasing outputs and decreasing operational (and labour) costs. This may result in retrenchments.

A similar restructuring process is happening within municipalities. 'Non-core' services (security, cleaning, refuse removal, parks and gardens) are being outsourced (through tendering) to private firms or small and medium sized enterprises (SMEs). Some workers may find themselves unemployed.

* **Terms and conditions.** Thus far, workers who have been transferred from the Public Service to commercialised SOEs have not suffered any decrease in their terms and conditions of employment. However, given the escalating levels of outsourcing in commercialised SOEs and the move towards increased competition, these workers will face high levels of job insecurity. This will increase if the SOEs resort to using casual labour to reduce costs.

* **Collective bargaining.** Workers who have been transferred from the Public Service to new undertakings are no longer protected by collective bargaining agreements.

Economic performance

Just as SOEs differ widely in their governance arrangements, so, too, are there vast differences in their economic performance.

The SOEs with the highest financial returns are those operating in (state-maintained) monopolistic or near-monopolistic environments. These include Nampost (although it has shown a significant drop in returns on investment over the past few years), Namport, and Telecom. Hermann Marais of accounting company, Deloitte and Touche, suggests that they have shown such exceptional returns that they should review their pricing and tariff structure.

Meatco is the only SOE which operates in a competitive sector to show high returns. Nampower is showing a medium to high return on investments, while most other SOEs operate at a loss. Air Namibia and TransNamib incurred massive debts over the past few years and are likely candidates for full-scale privatisation.
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Who benefits?

With the privitisation process still in its infancy, it is not possible to predict who will be the main beneficiaries. In all likelihood, however, Namibia will follow the pattern observable in other countries where transnational corporations (TNCs) are taking over SOEs, often replacing a public monopoly with a private monopoly that enjoys huge profit margins.

TNCs are set to enter Namibia's telecommunications market when Telecom Namibia's current monopoly comes to an end. Intensive lobbying is already taking place behind closed doors as TNCs try to gain political support to obtain a license from government.

It is also likely that local business elites will benefit. They are likely to enter into joint ventures with foreign capital. Developments along these lines have already taken place in Namibia's fishing industry.

The government strongly supports the idea of unions buying into privatised SOEs. This would have far-reaching implications for the labour movement. The National Union of Namibian Workers (NUNW)has been vocal in opposing privatisation. Buying into SOEs would severely damage the labour movement's credibility.

Managers at SOEs have been direct beneficiaries of the commercialisation process. Their salary and benefit packages are far higher than those offered in the civil service and at most private companies. The government now plans to introduce performance-related contracts for SOE managers.

Challenges

Following the commercialisation policies of the 1990s, Namibia is now entering its second phase of privatisation. The government seems to be determined to allow private shareholding in SOEs, including those that render essential services to the public such as water, electricity and telecommunications.

Namibia's trade unions are sceptical about the privatisation process. Opposing the initiatives will be an uphill battle. Commercialisation has given greater autonomy to company boards and executive management, who place commercial interests above social ones. The government is supportive of outsourcing and public-private partnerships in municipal service provision and now plans to move towards full-scale privatisation of SOEs.

The trade unions will have build a common vision among themselves and with civil society organisations whose constituency will be affected by the consequences of privatisation. These organisations will have to pressurise government not to renege on its fundamental obligations regarding service delivery to Namibia's impoverished majority.

International experience has shown that privatisation (in all its forms) under conditions of socio-economic inequalities will create even bigger problems than it may be able to resolve.

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