# Reforming State-Owned Enterprises:

## *Past experiences and challenges ahead*

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In recent months, State-Owned Enterprises (SOEs) have consistently made headlines – mostly for all the wrong reasons. The Namibia Airports Company retrenched its staff against the explicit advice of the Ministry of Labour, paying retrenchment packages of about N$30 million and then re-hired them, sometimes at lower rates. At the same time, it reportedly paid over N$ 5 million to a consultant for 3 months' work without board approval (The Namibian, 23 March, 10 April and 7 August 2012). The Namibia Wildlife Resorts (NWR) company stands at the brink of collapse and accumulated huge debts while paying its 6 senior managers jointly over N$ 7 million a year and its board members large sitting fees. It also paid millions of dollars for renovations that were not done but the most astonishing move was that NWR paid its former managing director about N$ 5 million when he resigned (The Namibian, 21 May, 20 June and 26 June 2012).

Other recent headlines include that the Roads Authority (RA) owes contractors over N$ 47 million and that the National Housing Enterprise is violating its mandate of providing affordable houses for the needy (The Namibian, 3 April and 21 June 2012). More examples could be added but the overall the Namibian government has transferred N$ 15,2 billion to SOEs since 2001. The largest beneficiaries were Air Namibia, the University of Namibia (UNAM), NamPower, the Polytechnic of Namibia and the Development Bank of Namibia (New Era, 14 June 2012).

There is little doubt that the operations and structures of SOEs have to be reformed to achieve the desired outcomes. The question is rather which changes should be made and how? Before going into the details of the current challenges, it might be useful to briefly sketch some international and national experiences that could provide valuable lessons for Namibia's SOE reforms today.

Since World War II, many governments in the first and third world alike embarked on a programme of nationalising key and strategic industries in manufacturing, trade, transport, telecommunications, energy, and broadcasting. In the European countries and the US the drive to create corporations and parastatals was closely tied to their Keynesian macro-economic policy frameworks which advocated an expansive role for the state in regulating the economy and providing for the welfare needs of the population. In post-colonial Africa and south Asia, the establishment of state-owned enterprises (SOEs) was part and parcel of the independence process, in a sense being a strategy to secure and extend domestic (as opposed to foreign) ownership and control of their economies. In the post-colonial context, SOEs were also seen as having vital development objectives, providing impoverished citizens with access to education, health, transport, housing, water, electricity, and credit, as well as creating and sustaining employment (LaRRI 2002).

Beginning in the 1970s, and gaining momentum throughout the 1980s and 1990s, has been the global trend away from state ownership and control towards privatisation and commercialisation. The drive to privatise grew out of a two-fold process: (1) the realisation that many SOEs were inefficient, poorly managed, unable to sustain themselves, and a burden on the fiscus; and (2) the growing dominance of neo-liberalism as a model of economic development. This model has its roots in the Thatcherite (UK) and Carter and Reagan (US) regimes that dismantled their welfare states in response to a pending global economic crisis in the early 1970s (ibid).

Centred around the "Washington consensus" (the IMF, World Bank, and US Treasury), and spurred on by the demise of existing socialism in the 1980s, 'neo-liberal' economic philosophy has become so widespread and entrenched that its prescriptions were adopted by most government across the world. The global economic crisis of 2008 has shown that the neo-liberal model of development is not only unsustainable but also that it has failed to deliver socio-economic progress for the majority. However, its influence was visible even in Namibia's SOE reforms after independence.

## Namibia's SOE Restructuring in the 1990s

The first phase of Namibia's SOE restructuring has taken the form of commercialisation and contracting-out (i.e. the privatisation of service provision), although the sale of state assets and utilities was also envisaged as a future option. Corporatisation and commercialisation are commonly regarded as "first steps" in the privatisation of ownership. In order to privatise and attract potential private sector investors, the state must firstly restructure its utilities and services to make them financially viable. Contrary to popular perception, the private sector is not necessarily queuing up to buy up all the assets which governments are willing to sell. As Oestman (1994:18) notes, the private sector carefully assesses the opportunities for profit-making before buying state utilities. Hence profitable enterprises such as telecommunications tend to get fully sold off, while less profitable SOEs tend to be subject to "public-private partnerships" with the state retaining ownership while entering into some kind of service contract with a private company. Also, because privatisation is sometimes in contradiction with the national development goals of governments, they may be reluctant to completely sell off strategic utilities (like water and energy), and may instead choose to enter partnership arrangements with the private sector.

The performance of several SOEs in Namibia suggests that they are in crisis, spend too much on inflated management packages and perform poorly. This has led to calls for privatisation and downsizing. However, while this might relieve the Ministry of Finance, it won't necessarily improve service delivery, especially to the poor. In fact the opposite may happen. While one of the key (stated) objectives of privatisation is to improve service delivery, privatisation (and related downsizing and price increases) often worsens the plight of the poor. Given the high levels of unemployment, poverty and inequality in Namibia, any attempts to restructure the SOEs must ensure that basic services remain accessible to the poor. This aim cannot be sacrificed for commercial considerations.

The policy proposals of the first National Development Plan, NDP 1, proposed that government should change its role of being a basic service provider and instead should allow the private sector to play more of a role in service provision. In outlining the future role of government, the NDP1 states that:

- Government will continue to withdraw from activities that can be more effectively undertaken by the private sector;
- the ownership, management structure and pricing policies of existing parastatals should be reviewed;
- parastatals will become increasingly self-financing or more open to competition, or will be privatised altogether;
- the number of civil servants will be reduced;
- increasing use will be made of user charging to attain cost recovery (MWTC, 1998)

A similar set of policy proposals was contained in the proposal of the 1995 Wage and Salary Commission (WASCOM), which recommended that government should 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 administratively possible, subject to approval by Cabinet in each case" (Wage and Salary Commission Report, 1995:43). WASCOM further recommends that the process of commercialisation (evident in the establishment of Namwater, Namibia Wildlife Resorts, Airports Company etc) be accelerated, and steps should be taken towards privatising "some parastatals which have been around long enough to be privatised now" (Ibid).

Based on these policies and proposals , the Namibian government aimed reduce the size of the public service, to achieve improved efficiency and service delivery as well as an reduced need for subsidies to SOEs. One typical example of public sector restructuring in Namibia was the Ministry of Works, Transport and Communication (MWTC) which had about 10 500 employees at independence. The creation of commercialised SOEs (Telecom, NamPost, and TransNamib) resulted in a reduction of about 3000 employees by 1998. The MWTC 2000 project was then introduced to reduce the Ministry’s staff to about 300 and to transfer all other employees to independent operational entities to carry out maintenance of roads, government buildings, gardens, stores, airports etc. Security and printing services were also outsourced. The new entities received government contracts for a period of 3 years and thereafter had to compete for government jobs through open tenders.

Namibia Wildlife Resorts (NWR) is another example of SOE reform. The transfer of the management of resorts from the Environment and Tourism to the NWR grew out of the concern that the resorts were not being well run. The NWR was set up to run on a complete cost-recovery basis but received a working capital grant of N$ 20 million from government for initial capitalisation. The NWR was expected to be a profitable company and to generate dividends for government.

A further example of Namibia's commercialisation policy is the creation of the Namibia Water Corporation (Namwater) which was established as a wholly-owned government corporation following restructuring in the Ministry of Agriculture. Namwater took over the activities and services of the Department of Water Affairs (within the Ministry of Agriculture). The rationale behind its establishment in 1997 was to save the government money with the key tasks being to manage the country's water resources, to provide bulk water supply to customers, to provide facilities and lease rights, and to operate, manage and maintain the country's bulk water works.

Shortly after Namwater was launched, the company announced that it would increase the price of bulkwater by up to 20% annually for the coming 5 years. As a result, municipalities increased their tariffs to consumers accordingly resulting in large price increases for this basic commodity.

Namibia aimed to move towards less government interference in the operational decision-making of SOEs. Commercialisation meant that SOEs should be run on business principles rather than political principles. However, government continuously had to subsidise and bail-out SOEs, even some of those who were supposedly run on business principles like Air Namibia. Government expenditure on SOEs has increased over the past few years, from N$102.4 million in 1993 to almost N$ 500 million in 1997, reaching N$ N$ 2,8 billion in 2011-2012 (New Era, 14 June 2012). On the other hand, some SOEs like Namwater, NamPost and Telecom Namibia were able to pay small moderate dividends to government for the first time in 2001. Thus some SOEs were partially successful in cutting costs and achieving profitability but SOEs also need to be evaluated in terms of broader socio-economic terms such as employment and prices for services.

Namibia's commercialisation policy has resulted in large price increases at several SOEs, including Namwater, NWR, Telecom and Nampost. Consumer groups have questioned the managerial capacity of SOEs as many seem to water resources instead of delivering affordable services. The SOEs with the highest financial returns are those operating in (state-maintained) monopolistic or near-monopolistic environments. SOEs in this category include NamPost, Namport, Nampower and Telecom (LaRRI 2002).

Although not all SOEs are expected to show a high rate of return on investment due to their developmental role (for example educational institutions), some of the more commercially oriented SOEs have clearly failed and incurred massive debts. These include Air Namibia and TransNamib.

Overall, the SOE reforms during the first decade of independence have produced mixed results. One group that has already emerged as direct beneficiary from the commercialisation process are the managers at SOEs. Their salary and benefit packages are far higher than those offered in the civil service and at most private companies and are thus way above "market-related" remuneration. About 10 years ago, the Namibian government wanted to introduce performance-related contracts for SOE managers to link the (economic) performance of the company to the packages that the managers will be able to earn (Interview with H. Angula, cited in LaRRI 2002). This, however, seems not to have happened yet.

**The report on the SOE governance policy framework**

At the end of October 2001, a "Report on the Governance Policy Framework for State-

Owned Enterprises in Namibia" was presented to Cabinet by the Cabinet Committee on Economic Development and Parastatals (CCEDP). The report was prepared with assistance from Deloitte&Touche consultants and follows the logic of the market and paves the way for increased privatisation of SOEs.

The report reviewed SOE governance in Namibia and set out the proposed new framework for future governance of SOEs. The institution to oversee, regulate, monitor and restructure SOEs are the SOE Governance Council which is meant to act as the representative of the state and report to the cabinet committee. Furthermore, a Divestiture Sub-Committee was envisaged to implement the government's intended divestiture progamme (sale of assets). A Central Governance Agency (CGA) was proposed to be established within the Ministry of Finance to support the SOEGC and "to carry out pro-active governance initiatives on a day-to-day basis". The CGA's role was envisaged as monitoring and assessing SOE performance and advising the SOEGC on governance interventions required (GRN 2001).

The report categorised Namibian SOEs into "Regulatory SOEs" such as the Bank of Namibia, the Diamond Board, Meat Board etc. and "Service-Rendering SOEs" such as Namwater, Telecom and the Namibia Development Corporation (NDC). The service-rendering SOEs were further sub-divided into "potentially self-funding" (like Namwater, Telecom, TransNamib) and partially self-funding (like the NDC). The report stated that the "potentially self-funding SOEs are the most likely candidates for privates sector participation" (GRN 2001). In other words the provision of water, sanitation, electricity transport and telecommunication were meant to be (partly) privatised in the near future while SOEs that can only partly cover their costs (like the NDC and institutions of higher education) were likely to remain under government control. The former chairperson of the Cabinet Subcommittee on Public Sector Restructuring, Helmut Angula, said that "we recommend that money-making SOEs and those with the potential to make money should be opened for private sector participation. Also those who operate as a monopoly should be opened to other potential owners…SOEs of a social nature are not candidates for privatisation, e.g. the university and polytechnic. They will remain with the government under all circumstances because they have no potential of making money" (Quoted in LaRRI 2002).

**Recent proposals**

Today, there are 52 listed SOEs in Namibia while another 17 entities are about to be established. Most of them are either regulatory or service-rendering with some being self-funding while others are entirely reliant on state funding. They are now governed by the State-Owned Enterprise Governance Act (No 2 of 2006). As pointed out by Johannes !Gawaxab, the Namibian government currently plays a multiple role as SOE owner and shareholder, policy-maker and regulator. He proposed that SOEs need accountability and leadership by experienced and qualified directors and CEOs who can set up effective performance management systems. He warned that politically motivated appointments would undermine the performance of SOEs, thus hampering the fulfilment of their mandate. He therefore proposed that SOE Boards should be the centre of corporate governance. He pointed out that SOEs have an important role to play as they" were established to address market deficits capital shortfalls, to promote economic development, reduce mass unemployment and ensure national control over the overall direction of the economy" (New Era, 14 June 2012).

**Trade union proposals**

Although Namibia's labour movement has not systematically addressed the question of SOE reform in recent years, trade unions have made substantial proposals in the past. The National Union of Namibian Workers (NUNW), for example, prepared a presentation to the Cabinet sub-committee and then went to State House to address the Namibian President directly. The NUNW's proposed the establishment of a single controlling board for all SOEs consisting of representatives of all "social partners" to formulate policies to regulate SOE's, and to monitor and evaluate service delivery and performance. The federation emphasised the importance of safeguarding affordable services for the poor. It pointed out that the impact of commercialisation has been very harsh for the poor. "We have seen that recently with Telecom Namibia which increased local calls by 80%. Namwater increases the water price by 20% each year and NamPost increase its rate by over 40% recently. This means that the services of these companies become unaffordable for the poor." The NUNW thus proposed tariffs ceilings to be set by the overall controlling board according to the social goals (NUNW 2001).

The NUNW further proposed a system of cross-subsidisation from the wealthy to the poor at all SOEs involved in service delivery. It also suggested to group SOE's into different categories according to the functions they perform and the services they provide. "This will enable the drafting of guiding policies for each group of SOEs in terms of regulation, performance monitoring and service delivery. This is essential for the controlling board to ensure maximum public benefits from SOEs". Regarding management packages, the NUNW called for a review to make them sustainable: "Management packages need to be reduced while the management structures need to be streamlined… The packages need to be performance based and in line with the economic realities of our country" (ibid).

The union federation called for transparency and accountability as basic principles according to which SOEs should have to operate. Salary structures and financial reports of SOEs should be public documents and instead of seeing privatisation as the answer to the SOE challenges, the NUNW proposed "a thorough investigation to find out how the performance and efficiency of SOEs can be enhanced while retaining them under public ownership. Namibia cannot afford to leave socio-economic development to the market alone and we believe that it is government's responsibility to direct development in favour of the poor" (ibid).

**The SOE Governance Act**

The SOE Governance Act of 2006 established an SOE Governance Council, which is headed by the Prime Minister and has the Ministries of Finance, Trade and Industry, the Attorney General and the Director-General of the National Planning Commission as members. The Council has wide powers to determine common broad-based policies for all SOEs on corporate governance, investments as well as remuneration of CEOs, senior managers and board members. It is also responsible for developing mechanism to monitor their performance, to facilitate training for board members and managers on corporate governance and efficient management practices. The Council can lay down directives for SOE boards and managers. The Act further requires performance agreements to be entered into between the responsible Minister and the individual board members. SOEs are to be grouped into four broad categories, namely regulatory enterprises, service-rendering enterprises, economic and productive enterprises and general enterprises (Repubulic of Namibia 2006; The Villager, 16-22 July 2012). In August 2011, the SOE remuneration framework was gazetted to guide government and SOES when drawing up contracts (The Villager, 16-22 July 2012). Thus the legal framework for SOE reforms has been established but the political will to effect the necessary changes will be crucial to achieve success.

## Conclusion

It seems clear is that several of the key challenges of SOEs that were identified over the years have not been successfully addressed, and in some instances even seem to have become worse. SOE reforms today thus need to be tailored to address the specific problems while taking cognisance of the different roles and functions performed by different groups of SOEs. Those performing regulatory functions need to place emphasis on capacity and efficiency in their operations, including cost efficiency and the functioning of structures.

Those SOEs entrusted with delivering important services will have to be measured differently. They perform important developmental functions and should not be judged by commercial criteria only. Instead, "social efficiency" seems the more appropriate yard stick, that is the delivery of good quality services as cheaply as possible to make them affordable for all. In such cases, a subsidisation by government is not only justified but necessary. The enhancement of performance and efficiency as service-delivery SOEs can be enhanced while retaining them under public ownership. Privatising them would be tantamount to "throwing the baby out with the bath water" as private business operates on a profit motive which would *de facto* exclude the poor from receiving the services. A democratically elected government certainly has a developmental role to play and the provision of affordable services of good quality is part of that mandate.

International experiences have shown that privatisation under conditions of large socio-economic inequalities will create even bigger problems than what it may be able to resolve. In Zambia, for example, the Government and the World Bank presented the privatisation programme as a major success because it has reduced the government's budget deficit and brought in foreign investment. However, the programme also had a devastating social impact in terms of growing unemployment and poverty. This sends a warning to Namibia to carefully assess which type of SOE reform will increase efficiency while at the same time safeguarding employment and affordable service delivery for the disadvantaged majority.

The SOE Governance Council has wide-ranging powers to effect the necessary changes which should include the following:

- A gradual but systematic reduction of management packages and the introduction of a transparent performance-based remuneration system. The current practice of rewarding incompetent managers with huge remuneration packages and multi-million dollar severance pay is not only unjust but creates the impression that non-performance is actually rewarded.

- SOE managers and board members alike need to be chosen carefully, based on skills, performance and competence. They also need to be held to accountable for their action as government cannot be expected to just bail them out when they drive SOEs into ruin and still reward themselves handsomely in the process.
- In addition, SOE board members seem to be in need of governance training to effectively perform their oversight functions and to direct management without interfering in the day-to-day operations.
- SOEs need to be strictly monitored to avoid conflicts of interests and corruption. The recent case of the Namibia Airports Company (NAC) has shown how mismanagement and highly dubious practices have resulted in severe hardships for employees while a consultant was given more than N$ 5 million for about 3 months' work. This seems to have taken place without formal board approval and thus raises questions about vested interests involved.

Overall, many of Namibia's SOEs have failed to live up to expectations and certainly need to perform better. The type of intervention required may differ from one SOE to another, but there is no doubt that many of them have to play an important developmental role in terms of service provision or regulation. Privatising them as suggested by some SOE critics is unlikely to provide the solution because the private sector would be interested in those SOEs with good prospects for profitability while the eternally loss-making ones would certainly remain with government. It thus seems more beneficial to clearly identify the developmental potential and role of SOEs and to ensure that they achieve social efficiency and use their resources optimally. This will certainly require political will and technical competency – otherwise SOEs will continue to be plagued by serious problems for years to come.

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