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The *IJG* Business Climate Monitor for June 2002

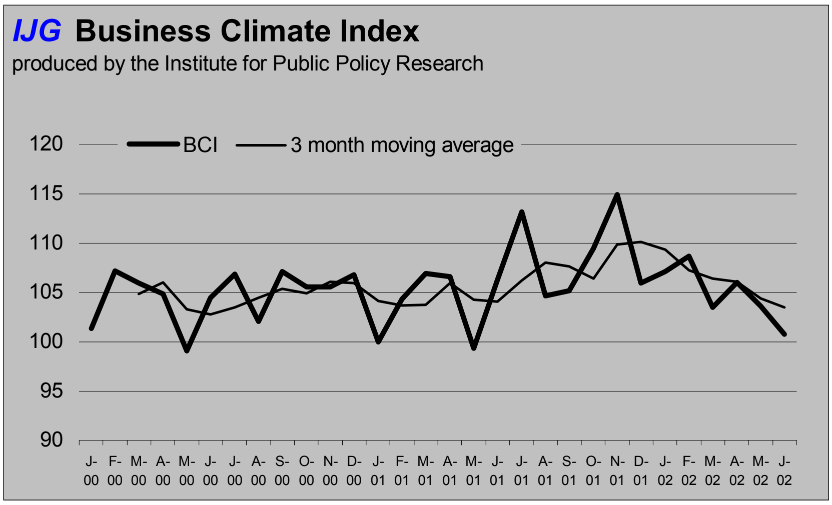
produced by the Institute for Public Policy Research

- **The IJG Business Climate Index fell again in June as prime rates rose for the third time this year. The outlook for investment and consumption worsened but the outlook for exports improved. The emerging longer-term picture is that IJG Business Climate Index rose over the course of 2001 to a peak in December after which it steadily declined.**

- **The IJG Business Climate Survey continues to show a majority of firms view prevailing business conditions as positive in contradiction to the declining IJG Business Climate Index.**

- **TransNamib is likely to provide a severe test of government's new approach to parastatals. The omens are not good that the company can be turned around.**

The IJG Business Climate Index for June 2002



The ***IJG Business Climate Index*** fell by 3 points from May to June suggesting that, following the third rise in prime rates this year, the overall business climate has further deteriorated. The smoothed 3-month moving average continued to decline steadily from its peak in December 2001. Increases in commercial vehicle sales and business credit were not enough to stop the Investment Index falling due to higher interest rates, far lower levels of corporate registrations, and an NSX Local Index which seems stuck at the lowest level since the IJG BCI started. Higher interest rates also helped push the Consumption Index lower despite higher passenger vehicle sales. Stronger white fish and metal prices combined with a further improved outlook for the economies of the OECD helped push the Export Index up.

		June	May
Business Climate Index	▼	100.8	103.7
Investment Index	▼	102.3	110.9
Consumption Index	▼	91.4	93.4
Export Index	▲	112.6	106.7
Leading Indicator	▲	114.6	111.5
Coincident Indicator	▲	97.3	96.7

The IJG Business Climate Survey for June 2002

The *IJG* Business Climate Survey asks 50 top businesses in Namibia to reply to four questions on revenues, employment, investment and prevailing business conditions. In addition to this sample, members of the Namibian Manufacturers Association (NMA) are also included in the survey. This month the survey received 45 responses in total of which 15 were from manufacturers. Results here are reported for the whole sample and for all manufacturers.

Q1: How do you expect your revenues to change over the next 12 months?

Businesses expecting revenues to increase outnumber those expecting revenues to stay the same by 50%.

Firms were given a choice of three responses to the question on revenues: revenues could decrease, stay the same or increase. This was the first month since the IJG Business Climate Survey started in which no companies expected revenues to fall. Out of 45 responses, 18 expected revenues to stay the same while 27 expected revenues to increase. Manufacturers gave exactly the same response to this question, with 6 stating that their revenues were likely to stay the same and 9 stating that they would increase.

Q2: How do you expect your workforce to change over the next 12 months?

Over half the respondents expect their labour forces to stay the same.

Firms were given a choice of three responses to the question on employment: either they expected to shed labour, or their workforces were expected to remain the same, or they expected to take on labour. This month 5 firms stated they expected to shed labour while 23 expected their workforces to stay the same and 17 expected to take on labour. These results are similar to last month's responses. While 3 manufacturers expected to shed labour, 7 expected their workforces to stay the same and 5 expected to take on labour.

Q3: Do you intend to invest in new plant and equipment (not inventories) over the next 12 months?

Almost three quarters of respondents intend to invest in new plant and equipment.

Firms could respond either that they intended to invest in new plant and equipment or that they did not intend to invest. Out of the 46 respondents who replied to this question, 33 stated that they intended to invest in new plant and equipment while 12 replied that they would not. A total of 6 out of 15 manufacturers did not intend to invest, a lower proportion than for previous months.

Q4: How do you find prevailing business conditions for your business?

More than 4 out of 5 responding firms continue to view prevailing business conditions as either positive or very positive.

Firms were given a choice of four responses to the question on prevailing business conditions: very negative, negative, positive or very positive. Out of 45 responses, only 7 viewed prevailing business conditions as negative and of these 4 were manufacturers. A total of 37 viewed business conditions as positive and one viewed conditions as very positive.

Although the IJG Business Climate Index suggests business conditions have generally deteriorated in the last month, the IJG Business Climate Survey shows businesses are paradoxically more upbeat than they were last month. Investment decisions do not appear to have been negatively affected by the rise in interest rates.

Commentary for June

Table 1: Highlights from TransNamib's post-independence history

1987	Founding act of the corporation passed (Act 21 of 1987) changing from government department to transport services group with government as sole shareholder
April 1995	TransNamib ceases harbour operations with handing over of Lüderitz harbour to the Namibian Ports Authority.
July 1995	Cabinet appoints Independent Task Force to review operations of TransNamib.
October 1995	Government replaces board of TransNamib. Seven new directors appointed. Willie Klein becomes chairman of board.
April 1996	MD Francois Uys leaves TransNamib and replaced by former board member and ex-PS of Ministry of Works Dr Peingondjabi Shipoh.
September 1996	Cabinet accepts recommendations of Independent Task Force.
April 1997	TransNamib restructured into three autonomous companies, each operating under its own board and executive management. Ownership of three companies Air Namibia, TransNamib Transport, and TransNamib Properties placed in new holding company TransNamib Holdings.
November 1998	Willie Klein resigns as chair of board. Replaced by Vivienne Graig-McLaren
March 1999	Incorporation of TransNamib Holdings. Disposal of airline division to Air Namibia (Pty) Ltd.
January 2001	Consortium of consultants led by Deloitte & Touche appointed to investigate TransNamib's business strategy.
2001	Presidential Commission of Enquiry into the Activities Management and Operations of TransNamib launched headed by Otto Herrigel. Later extended to Air Namibia.
August 2001	MD Dr Peingondjabi Shipoh resigns. Board of Directors sacked and replaced by members of Presidential Commission of Inquiry.
September 2001	Deputy Minister of Works John Sheatonhodi appointed as acting MD.
June 2002	John Sheatonhodi appointed as MD. Klaus Dierks appointed as board chairman. Cabinet instructs Minister of Finance to table annual reports for 1999, 2000, 2001 in Parliament.

Table 2: Highlights from TransNamib's income statements 1990-99 (N$m)

At 31 March	***90***	***91***	***92***	***93***	***94***	***95***	***96***	***97***	***98***	***99***
Turnover	230.5	279.8	318.1	342.8	380.5	426.1	479.8	517.7	507.6	572.9
Operating costs	179.1	286.5	298.5	330.1	364.2	409.2	454.0	599.9	574.8	797.2
Operating profit/(loss)	26.9	(34.2)	(10.8)	(20.6)	(18.5)	(16.4)	(10.8)	(82.2)	(67.1)	(224.3)
Government contribution*										172.3
Net profit/(loss) before tax	61.0	7.2	16.3	15.8	13.5	27.9	14.2	(68.7)	(50.2)	12.6
Taxation	0.00	0.94	(0.94)	0.012	0.006	0.013	0.132	(21.7)	(23.4)	(14.3)

*The Government of Namibia undertook to pay as a "non-refundable contribution" N$172.3 million in four equal annual cash instalments of N$43.075 million from 1 April 2000.

Three months ago in his budget speech the Minister of Finance seemed to promise that there would be "no bale outs" for loss-making parastatals. It looks as if **TransNamib** will be one of the Minister's first tests. June saw former board member and deputy minister John Shaetonhodi appointed as CEO. Shaetonhodi first became a board member of TransNamib in 1993 and served until October 1995 when the entire board was replaced following the recommendations of an Independent Task Force appointed by government. As Tables 1 and 2 show this change of board marked the end of a period of marginal profitability and the beginning of a series of substantial losses by the company. During the first six years after independence under the management of Francois Uys, its road, rail, and harbour operations generally made modest operating profits. Its air operations made operating losses in 1991, 1993, 1994, and 1995 but turned in a profit in 1996. In 1997 TransNamib was restructured into three autonomous companies, each operating under its own board and executive management. Ownership of three companies Air Namibia, TransNamib Transport, and TransNamib Properties was placed in a new holding company TransNamib Holdings. Profitability declined and a series of substantial losses were recorded during 1997, 1998 and 1999. The company has not published a full annual report since 1998. According to Minister Helmut Angula's report on State-Owned Enterprises (SOEs), TransNamib's top five managers received average total packages of N$564,000 in 2001, above average for managers of "potentially self-funding" SOEs.

Part of TransNamib's problems have undoubtedly stemmed from the severe problems at Air Namibia. Although Air Namibia was disposed of in 1999, TransNamib required a substantial infusion of government money to meet the debts its subsidiary had run up in the period since 1997. In the absence of financial statements it is impossible to assess the present position of TransNamib now that Air Namibia should no longer be negatively affecting performance. However, the obvious question for most outsiders is why TransNamib should continue to make losses at all given that other similar parastatals generally cover their costs or make money. The explanation for the company's poor performance probably lies in a mixture of increased competition, the problems inherent in state owned enterprises that are considered "strategic", political interference, and the structural problems of delivering transport services to a small and dispersed population. Other parastatals such as Namwater, Telecom and Nampower are not exposed to competition in the same way and have not been the subject of similar special task forces.

The new CEO has a tough job on his hands. We suspect that, at best, TransNamib has the potential to become a marginally profitable operation while it remains in state hands. There is little justification for the state to own commercial entities that can be provided by a competitive market. Regulation or direct subsidies to private providers can be used to promote social goals if these are considered necessary. As a natural monopoly the rail network presents a rather different problem.

Whether the turnaround can be achieved within three years with the northern railway line extension and the new CEO's claim last October that the company should be managed "as a parastatal" without reducing the workforce is open to question. TransNamib is going to provide a severe test not only the Minister of Finance's "no bail out" policy but also government's new governance policy on parastatals. The omens are not good considering that TransNamib is already obliged under existing legislation to publish an annual report and submit a performance agreement.