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More Openness Plus Accountability: The Missing Calculus of Financial Sustainability Within Namibian Parastatals

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Parastatals play an important role in national economic development. They represent the extended arm of government providing key goods and services to the economy that would otherwise not be served by private enterprise as well as playing an important regulatory role. As a result they are set up with state funds – monies we are learning may be misallocated because of the lack of timely reporting, monitoring, and scrutiny and often due to the limited enforcement of basic corporate governance principles. The IPPR has recently established a database on parastatals in an attempt to gauge and monitor their degree openness and financial performance. This paper reports on some results from this database. There are many gaps in the database because of the paucity of public data on parastatals as only a limited number produce annual reports on a regular basis. From now on the IPPR will publish regular reports on parastatal performance.

Introduction

The Deloitte and Touche report that was submitted to Cabinet in October 2001, which dealt with corporate governance within parastatals, cites the draft State Finance Bill of 2001 as defining parastatals as:

- A corporate body established under any Act other than the Companies Act of 1973 (excluding local or regional authorities) and;
- A company registered under the Companies Act in which the government controls the composition of the board of directors, controls more than 50% of the votes and controls more than 50% of the issued shares.

Thus, parastatals are companies or institutions in which the state has a complete or controlling shareholding. Generally, we refer to these institutions as public sector enterprises and more commonly as state-owned enterprises (SOE's). Parastatals are quite common around the world with most governments around the world owning companies, some wholly funded by the state. However, countries such as the UK have aggressively dismantled theirs during the Conservative administration of Margaret Thatcher (1979 – 1990) and John Major (1990-1997) (Pollitt, 1999) – a trend that has not been reversed by the subsequent Labour government.

Other countries are following suit as central governments are increasingly looking at ways and means to improve their own fiscal positions and enhance the delivery of certain key goods and services. For example, South Africa has started with the sale of some state-owned enterprises. In Namibia, like elsewhere in Africa, parastatals have been mushrooming since independence. Among the first parastatals created were the Bank of Namibia, Telecom Namibia, and NamPost. In most countries parastatals that can sustain themselves financially are eventually privatised. Indications are that Namibia intends following this route judging by the contents of the Deloitte and Touche report. This report advocates the creation of a

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Central Governance Agency (CGA) that would monitor the operations and performance of parastatals. Even though the creation of another parastatal to monitor existing ones does in no way reduce the number of parastatals, the creation of the CGA can be construed as a positive development if it results in the fundamental restructuring of parastatals in the long run.

As the title suggests, this paper is concerned with transparency among parastatals. How frequently do they prepare and submit annual reports and are these available for public scrutiny and dialogue? We also ascertain the extent to which these institutions generate self-sustaining income by looking at their financial sustainability. We argue that sound corporate governance and openness are at the core of any successful enterprise and can make or break an institution, irrespective of ownership as recent private sector scandals such as that of Enron and, more recently, the Italian giant Parmalat have shown.

The Economic Rationale for Parastatals²

What is the economic rationale for parastatals? In most economies, decisions regarding production and the use of the various factors of production are taken by the private sector. However, there are instances under which the market fails to provide certain goods and services and instead the state has to provide services.

The instance where the state provides services occurs where a particular service or good shows what is referred to as public good characteristics. These characteristics are: the *non-excludability* and *non-rivalry* in consumption. With public goods it is physically impossible or prohibitively expensive to prevent consumption by all consumers, particularly those that have not directly contributed – this is the so-called non-excludability characteristic. In terms of non-rivalry characteristic, the consumption of a good or service by one consumer does not affect the quantity available for consumption by others as in the case of street lighting. Once street lighting has been erected, anyone who walks along the lit street benefits from the light without affecting the quantity of lighting available for other pedestrians. Of course, technological advancements can make goods that previously had non-excludability characteristics excludable such as television broadcast. A good example is digital satellite television, which is only available to those that subscribe to the services. A pure public good has both characteristics whereas a pure private good has neither. However, many goods exhibit elements of one or other of these characteristics.

The presence of both these features of non-exclusivity and non-rivalry prevents the provision of such goods or services by competitive private firms, as they would be unable to operate profitably, unless they are natural monopolies. As a result pure public goods are typically provided by the state mostly through parastatals enterprises. However, it is important to note that not all goods or services provided by the state possess these two characteristics and are therefore not public goods in the pure economic sense. Therefore the competitive market could profitably provide some of the services currently provided by the state under monopoly regimes. A good example is telecommunications services (see Motinga 2003).

In theory, public enterprises are there to provide public goods in addition to complementary services that the state may opt to provide based on equity or equality considerations. Good examples of the latter type of service are public hospitals and basic education.

Parastatals in Namibia

In Namibia by the last count there were over 40 parastatals in existence providing services ranging from rail and air transport services to fishing. Over 90% of these bodies or companies were created between 1990 and 2002. Naturally, the question arises of whether all these services can be described as public goods or are provided by the state on equity grounds.

At independence there was indeed a need to create new institutions to emphasise new priorities. Among the first institutions created or re-engineered in 1990 were the Bank of Namibia, Namibia Press Agency and the National Broadcasting Corporation, which took over the activities of the SWABC. The Agribank that

² This section draws on Connolly and Munro (1999).



replaced the Land Bank and the University of Namibia, replacing the Academy, soon followed these institutions in 1991 and 1992, respectively. By the end of 1990 there were only 12 parastatals. However, by end of 2003 there were over 45 parastatals, excluding the Development Brigade Corporation that was dissolved in 2002.

Table 1: Parastatals in Namibia

Name of Company	Operating since	Ceased operations	Line Ministry
1. Meat Board of Namibia	1931		Agriculture
2. NDC	1969		Trade & Industry
3. Windhoek College of Education	1979		Higher Education
4. Namibia Agronomic Board	1985		Agriculture
5. MeatCo	1986		Agriculture
6. Development Fund	1987		Finance
7. Air Namibia	1990		Works
8. TransNamib	1990		Works
9. Namibia Petroleum Corporation	1990		Mines and Energy
10. NBC	1990		Information and Broadcasting
11. Namibia Press Agency	1990		Information and Broadcasting
12. Bank of Namibia	1990		Finance
13. Agribank	1991		Agriculture
14. Law Reform and Development Commission	1991		Justice
15. UNAM	1992		Higher Education
16. Ongwediva College	1992		Higher Education
17. New Era Publication Corporation	1992		Information and Broadcasting
18. NamPost	1993		Works
19. Telecom Namibia	1993		Works
20. Seaflower Whitefish Corp	1993		Fisheries
21. National Housing Enterprise	1993		Local Government
22. Development Brigade Corporation*	1993	2002	Higher Education
23. Namibia Bricks Enterprises*	1993		Subsidiaries of DBC
24. Patriot Construction*	1993		Subsidiaries of DBC
25. Star Protection Services*	1993		Subsidiaries of DBC
26. Caprivi College of Education	1993		Higher Education
27. Polytechnic of Namibia	1994		Higher Education
28. National Theatre of Namibia	1994		Basic Education & Culture
29. NamPort	1995		Works
30. Social Security Commission	1996		Labour
31. Rundu College	1996		Higher Education
32. Namibian Trust for Maritime and Fisheries	1996		Fisheries
33. Namwater	1997		Agriculture
34. Windhoek Machinen Fabrik	1998		Defence
35. NAMCOL	1998		Basic Education
36. Namibia Airports Company	1999		Works
37. Namibia Wildlife Resorts	1999		Environment and Tourism
38. August 26 Holding Company	1999		Defence
39. Premier Electric	1999		Mines and Energy
40. Roads Contractor Company	2000		Works
41. Road Fund Administration	2000		Works
42. Roads Authority	2000		Works
43. NamibRe	2001		Finance
44. Central Governance Agency	2002		Finance
45. NAMFISA	2002		Finance
46. Namibia Film Commission	2002		Information and Broadcasting
47. Development Bank of Namibia	2003		Finance

Source: Parastatal annual reports and government press releases at www.grnnet.gov.na.

Whilst the number of parastatals is rising, sound financial performance remains elusive for most. Of course, naturally not all parastatals are able to generate sustainable income or profits because of the nature of their role. However, aside from the occasional allegations of resource misappropriations followed by commissions of inquiry, there is indeed a lack of consistent and regular evaluation of parastatal



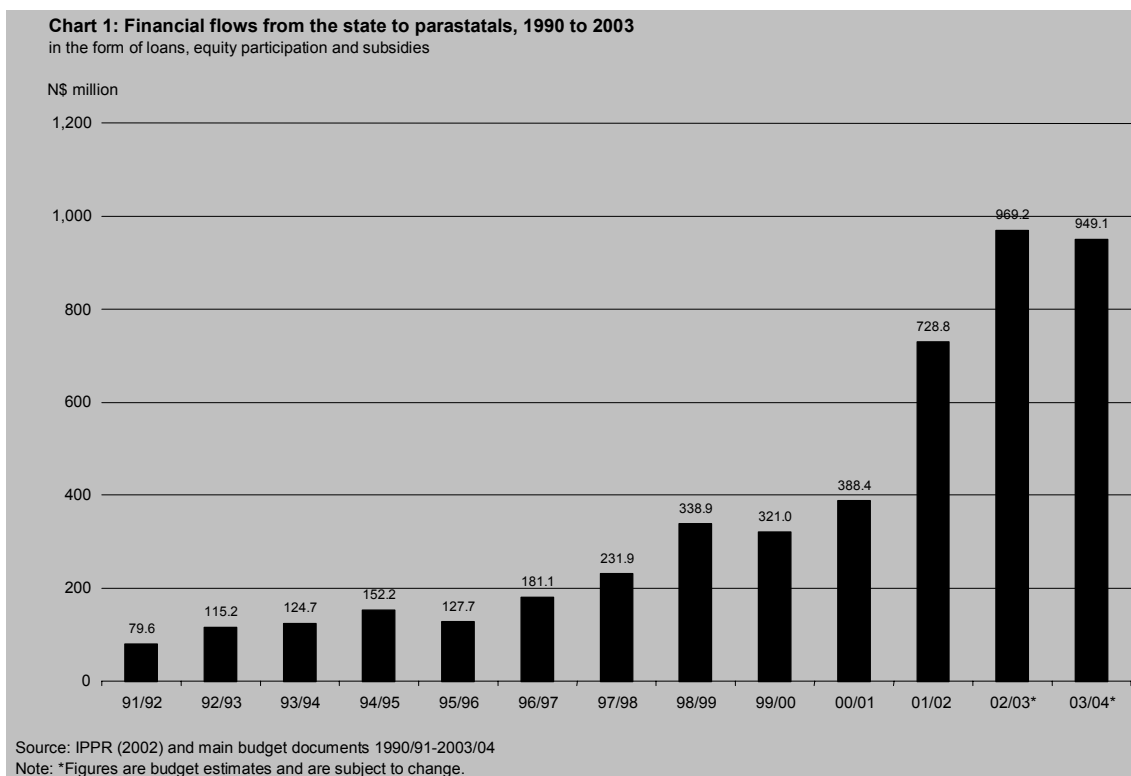
performance and service delivery in Namibia. This is rather surprising because one would expect that the owner, in this case the state, would have had a keen interest in its investments. Of course, sceptics may legitimately ask if things are likely to improve even with the formation of the CGA – the CGA will review business plans of parastatals as well as the monitor and evaluate their performance over time.

Parastatals should ideally perform functions that no private sector entity would and could therefore provide a crucial link in the production chain. As a result, their role can be crucial to most economic processes from making a phone call to preparing a cup of tea.

There are a variety of public enterprises in Namibia. On the one hand we have NamPower, the electricity utility, on the other we had the Development Brigade that was to provide much needed job opportunities for ex-fighters but was subsequently liquidated in 2002.

Central Government Transfers to Parastatals

Aside from the differential performance of these entities, what cannot be disputed is that lots of public resources have been and are being allocated to most of these public enterprises (see Chart 1 below). Between 1991 and 2003 the Government spent between N\$79 million in 1991 and nearly N\$1 billion in 2003 on parastatals. This has been either through subsidy for operations (through current transfers) or lending and equity participation.

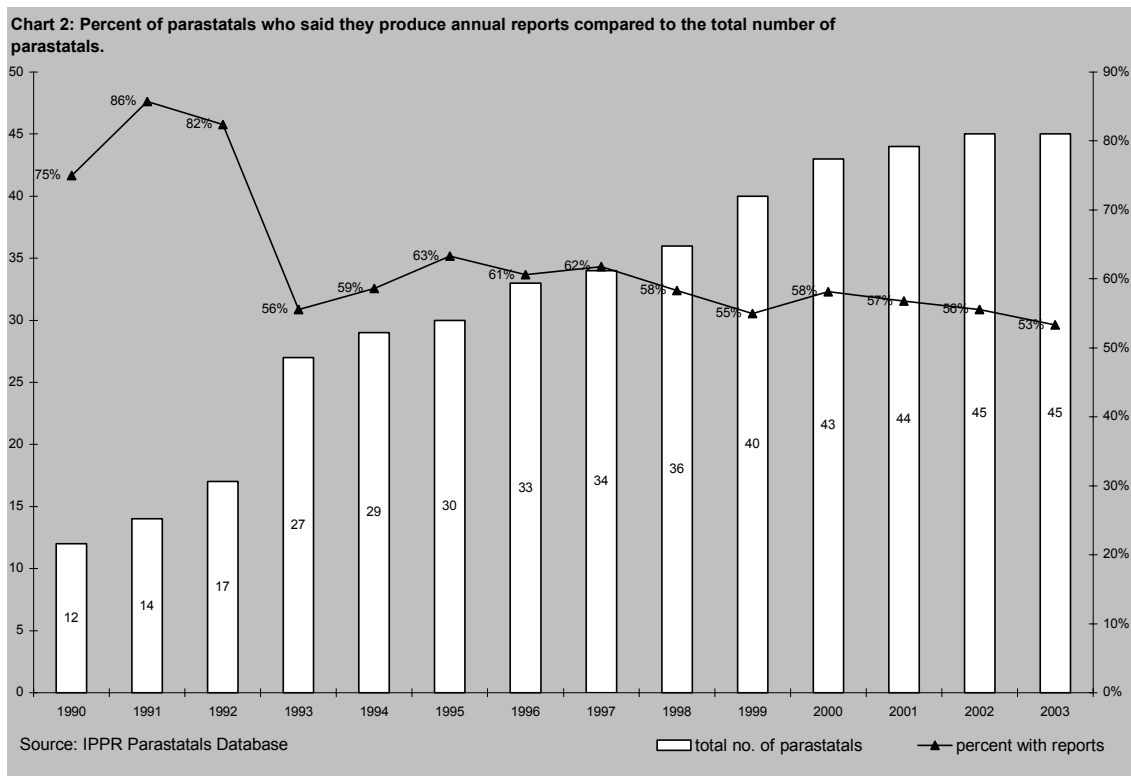


Are Parastatals Open?

Openness to shareholders and the general public (the consumers) determines the long-term financial sustainability of any enterprise, be they publicly or privately owned. A key element in achieving openness for any organisation is the publication of a comprehensive and accurate annual report. However, despite the fact that this requirement is contained in many parastatals' founding legislation, collecting the annual reports of Namibia's parastatals proved to be most difficult part in preparing this paper. Most parastatals do not archive past reports. In addition, the quality of reports differs very much from one year to the next both



in terms of the clarity of the report and the detail of information provided. As a result, the construction of time-series data based on these reports proved difficult if not impossible.



Since we could not trace most annual reports, we telephonically asked parastatals if they produced annual reports or financial statements since starting their operations. Most said they do. However, when we compared the proportion of public enterprises that telephonically confirmed that they produced regular annual reports with the actual number of public enterprise over time, it became clear that fewer and fewer public enterprises prepare annual reports regularly. In fact, Chart 2 shows that, as the number of parastatals increased, fewer reports got published. This is indeed puzzling. Between 1997 and 2003, less than 60% of parastatals produced an annual report. If this statistic is correct, how can anyone perfectly monitor what public enterprises are doing and if they are delivering at all if existing institutions such as the different line ministers and Parliament are not able to keep track of what is going on. There is chances that parastatals prepare “secret reports” that are only available to line ministers but this would go against the whole spirit of public openness and accountability.

Table 2: The distribution of financial years among parastatals

	28-Feb	31-March	30-June	30-September	31-Dec	31-Jan	Total
Count	3	20	2	3	3	2	33
Percent	9%	61%	6%	9%	9%	6%	100%

Source: Parastatal annual reports and financial statements and acts of parliament

By 2003, which covers the 2002/2003 financial year, only 24 of the 45 parastatals confirmed to us that they produced annual reports. However, we could only trace five annuals reports. How could we only trace five annual reports if 24 enterprises say they produced annual reports regularly and on time? Of course, some parastatals’ financial years only in end in December or January but these are typically in the minority. 33 out of 45 parastatals whose financial years we were able to confirm, only 5 have financial years that fall between December and January (see Table 2). Thus the majority of parastatals should be able to produce annual reports by October each year.



As part of the exercise of reviewing parastatal openness, we took the trouble to find out what each Act of Parliament for each parastatal stipulates with regards to the preparation of audited annual financial statements and annual reports. With the exception of one or two, most acts require that companies submit these reports to the line minister within six months after the end of each financial year or within such periods as the line minister may allow. Unless line ministers do indeed allow public enterprises to delay these reports, then one can assume that based on Table 2 at least 85% of the 2002/2003 financial year audited reports should have been available for public scrutiny by March 2003. This was clearly not the case. Furthermore, we find that very few parastatals have websites. Of the 45 parastatals only 47% had an accessible website by January 2004. However, most of the data on these websites were outdated which shows that very little effort is made to update websites and, furthermore, only a few parastatals are posting their annual reports and audited financial statements on their websites.

Reviewing Parastatal Financial Performance

Evaluating the financial performance of parastatals is problematic. On the one extreme, there are parastatals such as NamPower and Telecom that operate as monopolists and are making huge profits. At the other extreme there are parastatals that depend entirely on state transfers for their survival. Somewhere in between these two extremes are parastatals that make substantial losses each year. Therefore talking about parastatals profitability is tricky because how do you compare UNAM and NamPower. To get around this difficulty we compare the ratio between income and expenditure. For our purposes we are not interested in how the income or revenue is derived or generated. All we are interested in is whether parastatals are adhering to their budget constraint, i.e. is the income determining the expenses. Ideally, we are looking for a ratio of one, meaning expenditure is equal to income and therefore the budget constraint is binding. If the ratio is less than one then we can conclude that the budget constraint does not hold. We shall admit that is a fairly crude test of the moral hazard hypothesis with regards to cost minimisation within parastatals. The hypothesis states that state owned enterprises are almost always likely to overstretch their limited resources because the likelihood of being bailed out by the state is greater than the risk of going bankrupt. The implication is that in difficult times a typical private enterprise would cut costs to survive whereas a typical state enterprise is not likely to do so because it could always be bailed out or if it is a monopoly it could simply increase its prices and thereby increase revenue. The fact that a weakly monitored or regulated monopolist could increase income yearly by simply raising the cost of their goods or services and thereby balance income and expenditure is one limitation of this ratio analysis. We have only included the parastatals for which revenue and cost data were available between 1996 and 2003 (see Table 3 below).

A key prominent point from Table 3 is that most parastatals are just barely surviving looking at the revenue-cost ratio. Some are consistently achieving a ratio of less than one - for example the NDC, TransNamib and UNAM between 1997 and 2000. In fact, the NDC has consistently failed to balance income and expenditure between 1996 and 2002 with the exception of 1999. Naturally, we are only able to report this about NDC, as they are one of the few parastatals whose financial reports are available since 1993 in our database, in spite of its financial situation. If we consider 1998 for which we have the largest number of observations the following comments are warranted. These are:

- Of the 16 parastatals in the 1998 column only 5 have achieved a ratio of less than one and of these 4 (Air Namibia, TransNamib, UNAM and the NDC) have been in a similar position in the past. Three of these four are the largest beneficiaries of government guarantees and subsidies. (see Table 4 below for details).
- Of the remaining eleven parastatals, four are barely breaking even – just exceeding the ratio of one. Of these four, one fell below the break-even point the following financial year.
- Thus, roughly 50% of the parastatals for which we have data in 1998 seem to have shaky financial existence.
- Of the other companies that are not affected by the above discussion, only six consistently exceeded the cut-off point, namely, NamPower, Telecom Namibia, Agribank, NHE, MeatCo and

Bank of Namibia. Not surprisingly this group includes parastatals that are already paying dividends to the state.

Table 3: Do parastatals live within their means? (ratio of income to expenditure)

	1996	1997	1998	1999	2000	2001	2002	2003
Service providing and potentially self-funding								
Air Namibia	1.03	0.85	0.85					
August 26 Holdings Company								
Caprivi College of Education								
Meat Board of Namibia								
Meat Corporation of Namibia		1.09	1.21	1.13	1.11	1.10	1.17	1.08
Namibia Airports Company					1.36			
Namibia College of Open Learning				1.19	1.02	0.90	0.85	
Namibia National Reinsurance Corporation								
Namibian Wildlife Resorts								
Namport								
Nampost	1.17	1.15	1.04	1.05	1.02			
Nampower	1.89	1.72	1.84	2.08	1.59	1.36	1.21	
Namwater				1.14	1.12	1.24		
National Petroleum Corporation of Namibia	1.37	1.61	0.81	1.85	2.28	3.70	2.34	2.07
Premier Electric								
Roads Authority						1.01	1.00	1.00
Roads Contractor Company						1.27	0.99	1.17
Road Fund Administration								
Seaflower Whitefish Corporation								
Social Security Commission			1.01	1.07	1.05			
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
Development parastatals and subsidiaries								
Agribank			1.89	1.68	1.70	1.76	1.87	
Development Brigade Corporation								
Development Fund								
Namibia Bricks Enterprise								
Namibia Development Corporation	0.89	0.85	0.40	1.12	0.69	0.46	0.20	
National Housing Enterprise	2.20	2.38	2.24	2.19	2.21	1.96	1.76	
Patriot Construction								
Star Protection Services								
Education, culture and media institutions								
Polytechnic of Namibia	1.27	1.03	1.02	1.02	1.02	1.01	1.01	
Rundu College								
University of Namibia	1.05	0.92	0.86	0.80	0.94	0.98	1.06	
Ongwediva College								
New Era Publication Corporation								
Namibia Press Agency								
Namibian Broadcasting Corporation			1.02	0.97				
National Theatre of Namibia								
Namibia Film Commission								
Regulatory Enterprises								
Bank of Namibia			1.26	2.37	2.04	1.58	1.23	
Law Reform and Development Commission								
Namibian Agronomic Board	0.93	1.17	1.26	1.31	1.07	0.67		
Namibian Trust for Maritime and Fisheries								
Namibia Financial Institutions Supervisory Authority							0.10	
Central Governance Agency								

Source: Various parastatals annual reports and financial statements (various years).

Note: The classification of parastatals is borrowed from Deloitte and Touche (2001).

Table 4: Loans and other transfers from government to parastatals between 1990 and 2003 (N\$ million)

Parastatal	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03*	03/04*
Loans														
Namwater								30.0	16.0					
NWR									10.0					
Total								30.0	26.0					
Subsidies														
Academy/Unam	25.7		27.3	31.1	49.7	58.6	58.6	60.7	83.5	86.9	95.4	119.6	124.5	155.5
Bank of Namibia			0.4											
Polytechnic							27.0	35.2	41.7	47.3	51.8	66.2	68.7	80.0
Namcor				1.8					2.1		1.8			
SSC									10.0	5.0	7.4	5.7	8.5	10.0
NHE			3.1	2.9										
DBC					18.7	9.1			21.2				5.0	
Namwater							40.0	30.0	20.0	15.0	10.0	10.0		
NTB								9.4	11.4	14.9	20.3	12.4	12.6	30.0
DFN									22.0	20.0	3.5	40.0	11.0	
NAB														
NDC								2.4	15.0	7.9	7.4	8.2	8.2	3.2
MeatCo												0.5	0.5	0.6
Agribank				4.1	0.4	3.0				1.9	5.0	1.5		
NAMCOL									16.0	16.4	16.9	20.0	23.8	25.9
NBC	37.5	39.5	41.4	34.7	35.3	48.9	45.5	54.0	58.4	70.0	62.2	67.5	111.2	103.9
NAMPA			3.6	3.5	4.0	4.2	5.0	5.0	5.7	5.4	8.4	6.3	5.8	5.8
New Era			2.5	2.5	3.0	3.0	4.0	4.0	4.7	8.5	8.6	6.3	5.8	
NTN	1.0		1.0	0.9	0.9	1.0	1.1	1.2	1.3	1.4	1.4	1.9	1.9	
TransNamib	5.5		0.8											
Total	69.7	39.5	80.2	81.4	112.0	127.7	181.1	201.9	312.9	300.5	299.9	366.0	387.5	414.9
Capital														
Unam					10.0									
Nampower		22.4	12.0	16.8	6.2									
RA											6.2	5.94	5.2	6.0
NDC				2.0	1.0									
DBC				15.0	15.0									
TransNamib											5.3	2.4	5.5	3.2
NBC	6.2	6.0	8.0	9.5	8.0									
Total	6.2	28.4	20.0	43.3	40.2						11.5	8.3	10.7	9.2
Equity participation														
NAMFISA												8.5		
NamRe										11.0	9.0			
Bank of Namibia		7.1	10.0											
NDC		4.6	5.0											
Kalahari Express											5.0			
Air Namibia										9.5	20.0	293.0	325.0	400.0
TransNamib											43.0	43.0	121.0	
NWR												10.0		
DBN													125.0	125.0
Total	0.0	11.7	15.0							20.5	77.0	354.5	571.0	525.0

Source: IPPR (2002) updated with Budget Estimates of Revenue and Expenditure (various years).

Notes: *Figures are budget appropriations and estimates and are subject to change.



Naturally, some of these enterprises, such as NamPower, the Bank of Namibia and Telecom are indeed operating as monopoly institutions with regard to their core business and that could easily explain their profitability. These are also the enterprises according to Table 4 that receive relatively limited state subsidies.

Conclusions

This is the first in a series of papers that will be written by the IPPR on parastatal performance and governance as part of the recently established parastatals research programme. So there is more to come! We intend producing regular commentary on parastatal performance as annual reports are published which we hope to improve in the coming years.

This paper has shown that openness and financial performance among parastatals is highly limited. Very few parastatals produce annual reports and audited financial statements regularly and therefore the majority of parastatals are not open for public scrutiny. Most are often spending monies, which they do not have by consistently spending more than their income. As a result, the state is pumping lots of financial resources into these institutions some of which will most likely never become independent and self-financing.

Therefore we need to consistently evaluate the performance of parastatals in Namibia. The IPPR is a small research organisation which cannot force parastatals to regularly prepare audited reports nor can we as the IPPR instruct parastatals to make their reports available to policy makers and the general public. That is the prerogative of Parliament. Thus, Parliament has to demand greater openness and accountability from parastatals as they have the legal mandate to do so. We hope that the newly instituted Central Governance Agency will promote and entrench greater openness and transparency within parastatals.

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