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## Services Sector Development and Impact on Poverty Thematic Working Group

Fostering Talent Movement in the  
SADC and ESA Region Does the  
Railway Sub-sector Contribute to  
Poverty Alleviation in Namibia?

**Jacob M. Nyambe, Beaven Walubita and  
Caschni du Plessis**

December 2009



indigenous growth

**Does the Railway Sub-Sector Contribute to Poverty Alleviation in Namibia?**

**Jacob M. Nyambe, Beaven Walubita and Caschni du Plessis**

**A Paper Submitted to University of Mauritius/SADRN on the Service Sector Development and Poverty Alleviation theme**

**December 2009**

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## **Executive summary**

Railway infrastructure is a key ingredient to economic development which could lead to poverty reduction in developing countries such as Namibia. The railway sub-sector in Namibia serves two different purposes, first commercial purpose and secondly poverty alleviation.

This paper seeks to analyse the status, issues and challenges facing the railway sub-sector in Namibia. However, the poverty reduction purpose is not forthcoming due to intricacies of the relationship between the government and Trans-Namib. However, basing our analysis on the opinions of key informants, we found one of the major outcomes of rail transport in Namibia which is that the railway sub-sector managed by Trans-Namib generates employment opportunities for the poor, resulting either from rail construction (as is the case with the northern railway project) and maintenance activities or from enhanced business opportunities where economic activity has increased. Therefore, employment opportunities are created during construction of new railway lines, maintenance of existing networks and through linkages to other sectors of the economy. The picture is not that rosy because Trans-Namib has not been paying its dividends on a regular basis. Its financial position has not kept in line with this obligation. Cost reduction is one of the benefits Trans-Namib should attempt to attain because this will facilitate the efficient movement of goods, reduce transaction costs, and improve income.

The railway lines and related technology is old and needs to be replaced. New investments are not coming on board unless Trans-Namib invests more in its infrastructure networks. Management of financial resources, human resource management and also marketing of the company's services requires to be turned around. There is a need t\for aggressive marketing to bring new service users on board. Legislation that governs road and rail transport should be reviewed to balance opportunities to all modes of transport. Road inspection has to be made to be strict so that law enforcement is improved especially on overloading on roads.

Inspecting train accidents should be a responsibility of an independent institution to avoid maintaining a conflict of interest. In other words Trans-Namib should not be left to investigate itself. By improving on the operations of Trans-Namib, investing in rail networks and recruiting more users of railway services would help the railway sub-sector to begin to pay its dividends to the government which will then contribute to poverty alleviation.

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## List of abbreviations

AIDS	Acquired Immune Deficiency Syndrome
ASANRA	Association of Southern African National Road Agencies
EPA	Economic Partnership Agreements
EU	European Union
HIV	Human Immunodeficiency Virus
MDG	Millennium Development Goals
NDP 3	Third National Development Plan
NEPRU	Namibian Economic Policy Research Unit
NHIES	National Household, Income and Expenditure Survey
PPA	Participatory Poverty Assessment
PRS	Poverty Reduction Strategy
PSO	Public Service Obligation
SADC	Southern African Development Community
SoE	State Owned Enterprise
SPSS	Statistical Package for Social Sciences
SWOT	Strengths, Weaknesses, Opportunities and Threats
Trans-Namib (TNL)	Trans-Namib Holding Limited

# 1. INTRODUCTION

## 1.1. Background

Namibia's transport system comprises of road, rail, water and air. Namibia largely depends on her road, rail and sea networks and those of the neighbouring States for the transportation of the bulk of her exports and imports. By road the country is connected to other Southern African Development Community (SADC) countries. To Zambia, Namibia is connected through the Trans-Caprivi highway and to Botswana and South Africa through the Trans-Kalahari high way. By water the country is connected to the world through the port of Walvis Bay and by air it is connected to the outside world through its international airports. The efficiency and effectiveness of transport links in Namibia are important for promotion of both domestic and international trade.

The Government of Namibia has committed itself to providing the necessary infrastructure to expand the domestic economy. The Government is also strengthening ties with the neighbouring countries to have Namibia serve as a gateway to Southern and Central Africa. Namibia's transport policies and strategies are based on, and are consistent with the SADC Protocol on Transport, Communications and Meteorology which came into effect in July 1998. Namibia is also a member of the Association of Southern African National Road Agencies (ASANRA) which was formed in March 2001 as one of the strategic transport sector associations. The main goal of ASANRA is to enhance regional policy coordination and enhance the management of the regions' road infrastructure.

Roads constitute the dominant mode of transport in Namibia and often it's the only accessible mode of transport to most communities in the urban and rural areas. Two distinct road networks exist in Namibia, namely the national road network which is managed by the Roads Authority and the urban roads and streets managed by local authorities. Road transport offers a number of economic advantages over other forms of transport, for example, door-to-door delivery obviates transshipment costs, reduces transit times and makes easier access to remote areas<sup>1</sup>. However, the social costs of road transport are greater than those of other modes. These costs include high accident rates resulting in fatalities and severe injury with consequent loss of production, air and noise pollution, and congestion costs.

Railways in Namibia describe the provision of rail service as a mode of transportation. The railway system is the next important mode of transport in Namibia. The Government of Namibia's policy is to expand it in order to connect isolated areas, correct inter-regional imbalances, and stimulate economic activities thereby helping to reduce poverty. The initial development of the rail transport in

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<sup>1</sup> African Development Bank

Namibia began during the colonial rule. The legal framework governing the railways in Namibia falls under the National Transport Services Holding Company Act (Act no. 28 of 1998) which became fully effective on 1<sup>st</sup> of April 1999<sup>2</sup>. Under this Act ownership of the railway infrastructure was transferred to the State which then authorised a State Owned Enterprise (SoE) called “Trans-Namib Holding Limited” to manage and operate this infrastructure. Under Act 28 of 1998 Trans-Namib Holding Ltd is to manage the railway transport system in the country with transportation of bulk and freight containers.

## **1.2. Problem of investigation and objectives**

As stated, it is known that railways in Namibia are considered inflexible and highly capital intensive. Although Trans-Namib fares better compared to other rail operators in some developing countries, Trans-Namib is however, still haunted by less than admirable results. In the past its huge capital requirements and operating costs have been known to benefit from the generosity of the government purse. Sustainability of the railway transport sub-sector is pertinent to the economy.. Although transport is central to economic growth in Namibia, it is not known as to what extent the railway transport sub-sector in Namibia contribute to the ideal of poverty alleviation. Adding to this is the fact that Trans-Namib has been battling to remain afloat as reflected in its failure to pay dividends back to the government. It is against this uncertainty that we pursue this investigation.

The objectives of this study are: firstly, to study the challenges that confront the railway sub-sector in Namibia. Secondly, to find alternative strategies of managing the railway sub-sector in order to ensure that it contribute meaningfully to the economy and thus impacting on poverty. Lastly, to recommend policy options that may add value to railway operations in Namibia.

## **1.3. Research design**

This is an exploratory study that targets key informants of the railway sub-sector in Namibia. Earlier on we envisaged to have service-users (companies) complete a questionnaire as part of the survey. However, the response rate was very poor due to companies being busy as the year was coming to an end. As a result we had to rely on key informants. Analysis is base on literature gathered and also on opinions of key informants. We also developed the Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis to present the challenges, as well as to be able to make informed policy recommendations.

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<sup>2</sup> NDP3

#### **1.4. Rationale**

In the era of negotiating Economic Partnership Agreements (EPA) with the European Union (EU), like other African Caribbean and Pacific Countries, Namibia is under immense pressure to marshal EPA's. Although the service sector is not yet on the EPA agenda it will be soon be considered. The service sector is critical at the advanced level of EPA. So far there is a state of panic in some countries on what to offer the EU for reciprocation. This is influenced by the potential that countries foresee in their service sectors. Namibia is no exception to this concern. The railway sub-sector falls under the area which should be opened up. Therefore, conducting a study in this area is essential to the future improvement of this sub-sector. The results of this project will go a long way in contributing to a valuable theoretical collection for both academic and policy purposes. Namibia, so far has not conducted a study of this kind, which places its focus on railways and how they contribute to poverty alleviation. Therefore, what this study seeks to produce is rare to find. On capacity development, researchers involved in this project have gained research experience in transport related services. Furthermore, the Namibian Economic Policy Research Unit (NEPRU) has strengthened its role in the collaborative programme in which other research institutions are also involved. The experience gained by NEPRU researchers has empowered NEPRU to be able to partake in other future collaborative research endeavours.

#### **1.5. Organisation of the study**

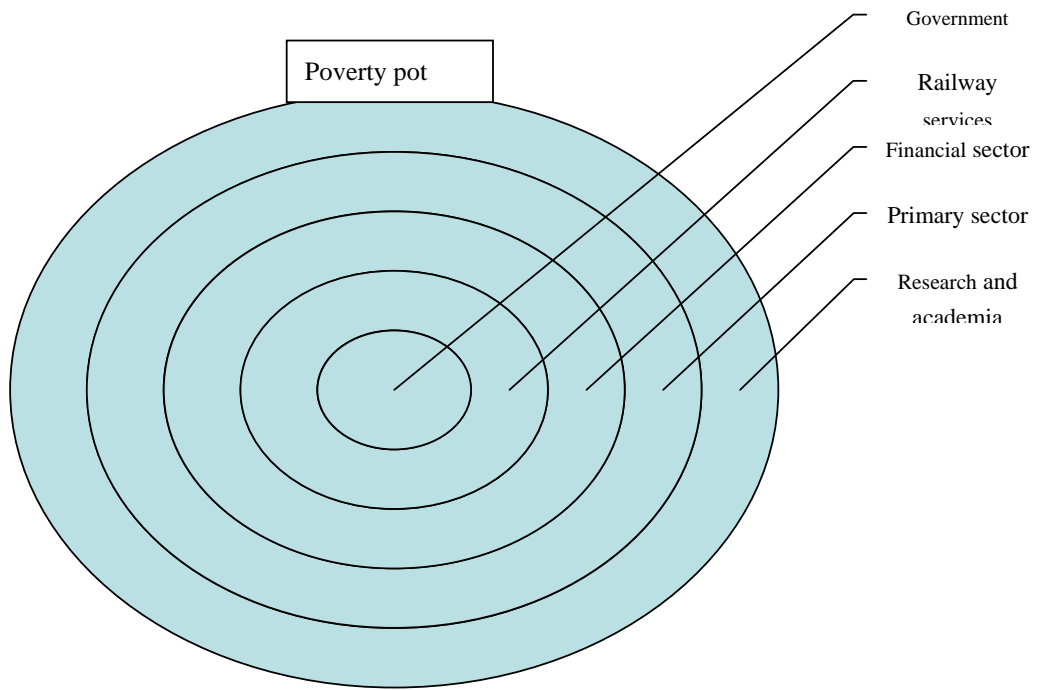
This paper consists of 6 sections. The first is an Introduction followed by Section 2 on Poverty and Poverty Alleviation Efforts in Namibia. Section 3 presents findings on the status of the Namibian Railway Services at present and by means of SWOT analysis shows the challenges that the railway sub-sector faces. . Section 4 gives the Conclusions and Recommendations that addresses the challenges of this sub-sector by outlining remedial action to issues raised and thereby adding extra value to the contribution of this sub-sector towards poverty alleviation and the economy in general. Bibliography is included at the end.

### **2. POVERTY AND POVERTY ALLEVIATION EFFORTS IN NAMIBIA**

#### **2.1. Envisioning the link between railway services and poverty alleviation**

Services are intangible and it can be argued that services are produced and consumed now and then. Since the focus is on railway services, we begin to tackle the link between this service and poverty. We do this by reflecting on the custodian of railway services in Namibia. Rail transport as a service offered by Trans-Namib in Namibia is analysed in this study as to how it impacts on poverty alleviation in Namibia. The contribution is not very direct and as such it is difficult to understand. We develop a conceptual framework that follows below. In this scenario, we attempt

to decouple this intricate relationship between Railway services and poverty alleviation.



**Figure: 1 Conceptual framework of the economy showing the relationship between railway services and poverty alleviation**



The economy is pictorially presented in Figure 1 as consisting of various sectors including government. In Figure 1, we assume there are external links between this economy and the external world and that exist through trade. In Figure 1, the government manages the political environment and it sets policies for the economy. Other sectors are also relevant but of interest is how the transport sector and particularly railway services impacts on the core area of the poverty port. All other sectors impacts in their own way hence they appear to touch various segments of the poverty pot. Railway services play a vital role of transporting bulk cargo to different regions of the country. These consignments may consist of industrial goods and other non-perishable food commodities.

Better railway transport facilitates an enabling environment for poverty reduction in a number of ways such as job creation, access to social services, new knowledge and information, and the facilitation of economic development. The railway system in Namibia contributes to economic growth and poverty reduction through facilitating the transport of production inputs (raw materials, fuels and labour) in a variety of economic sectors. One need only to look at the Trans-Namib client list to realise that production requiring inputs from different locations and delivery of goods to consumers and markets takes place because of the service the railway provides. It is common knowledge that the railway is the most cost effective method of transport for clients; reduction in transport costs stimulates trade, makes specialisation and economies of scale possible and thus helps widen markets promoting economic growth. An important role of the railways in poverty reduction is the extent to which it allows poor people access to goods and services that are strategic to their livelihoods at affordable prices. During construction of the railway, seasonal work is created but this is short term only. Hawkers also make income by selling their products at local camps. For every new facility that is open such as a station, there are one or two people recruited even though this is very small in terms of percentage. When new stations open new business are erected nearby and these business employ people to manage the businesses.

## **2.2. The role of Government**

As shown in Figure 1, the government is an important role player to the economy of Namibia. There is determination by the government to play a pivotal role in achieving its Vision 2030, the 3<sup>rd</sup> National Development Plan (NDP3), the Poverty Reduction Strategy (PRS) and the Millennium Development Goals (MDGs). However, 18 years after independence the country is still faced with challenges of income inequality, social exclusion, economic and social vulnerability.

The government in its policy document NDP3 adopted a theme aimed at accelerating rural development. The emphasis of development programs is on upgrading of rural areas. This process is meant to cater for, among others, poor transport infrastructure and related services. These investments will support physical, economic and social

infrastructure across a wide range of issues and are expected to reflect the priorities identified by the communities through the Participatory Poverty Assessment (PPA). The government outlined in Vision 2030, Namibia's future development possibilities to reduce poverty and become an industrialised country through producing new conceptual architecture which will enable the country to build the safe, efficient, accessible and convenient transport system. As the sole shareholder in Trans-Namib Ltd the government is obliged to use the company to establish a railway system which supports economic growth and poverty reduction while being safe, sustainable and environmentally friendly.

Act 21/87 governs the manner in which Trans-Namib operates and this Act stipulates that the company has carte blanche over the fashion in which it achieves its objective of providing rail services in the national interest. The part of the Government (as the sole shareholder in Trans-Namib) in achieving this objective is not clearly outlined. The Act outlines Trans-Namib's authority to set its tariffs and manage its services without Government manipulation. The Act endowed the owner of Trans-Namib with the power to approve the construction of additional rail lines and the responsibility to recompense Trans-Namib on its Public Service Obligations (PSO). Despite the fact that the company is owned by the Namibian people, public scrutiny has proved to be elusive. The company is cross-subsidised and this is negative for transparency. Challenges such as these were tackled by the Governments' "White Paper on Transportation in Namibia" which was approved by Cabinet in 1994.

### **2.3. Poverty, Inequality and Unemployment**

Namibia is endowed with rich natural resources, such as diamonds and other mining products, fish and tourism attractions yet high levels of poverty and inequality still prevail. Namibia is classified as a lower middle-income country by international standards with an annual per capita income of around US\$1 800<sup>3</sup> which masks the relatively high inequality in income distribution between previously advantaged and disadvantaged population groups, regions, rural and urban areas and educational attainment of household heads. The National Planning Commission has measured a Gini-coefficient of 0.64 for Namibia since 2003/04 (in the National Household Income and Expenditure Survey (NHIES)) and this is regarded as one of the highest coefficients recorded worldwide. According to the survey the top 2 percent richest households have an average per capita income of N\$147,838 that is more than 87 times that of the bottom 25 percent of the poorest households who have an average per capita income of N \$1,692.<sup>4</sup>

In 1998 the Government of Namibia adopted a Poverty Reduction Strategy (PRS) to set the direction for poverty reduction in Namibia. The Poverty Reduction Strategy rests on three main pillars, namely: fostering a more equitable and efficient delivery

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<sup>3</sup> 2000, UNDP, Namibia

<sup>4</sup> 2001 Population and Housing Census Report

of public services (in the context of decentralisation) for poverty reduction; accelerating equitable agricultural expansion, including consideration of food security and other crop development options; and exploring options for non-agricultural economic empowerment, with emphasis on the informal sector and self-employment options. Poverty in Namibia is defined in monetary terms of household expenditure. The expenditure aspect is benchmarked on the consumption of food. Therefore, if a high proportion of household expenditure is devoted to food, then very little is left to satisfy other essential needs. A household that spends at least 60 percent of its total expenditure on food is classified as relatively poor. Additionally, if a household spends at least 80 percent of its budget on food such a household is termed to be extremely poor.

Using the criteria above it shows that about 28 percent of households in Namibia were classified as poor and 4 percent were extremely poor in 2003/2004<sup>5</sup>. Like in many other countries world wide, poverty in Namibia is a rural phenomenon. There are significant differences in the incidence of poverty between rural and urban areas, between regions and among population groups. Thus, relative poverty in rural areas stands at 42 percent while that in urban areas stands at 7 percent.<sup>6</sup> A Participatory Poverty Assessment (PPA) that was conducted by the National Planning Commission recently revealed that the main causes of poverty in the country include among other things: the Human Immunodeficiency Virus and Acquired Immunodeficiency Syndrome (HIV/AIDS), unemployment, lack of or inadequate access to social services and if there is access the services are of poor quality, lack of or inadequate assets such as livestock and land (including poor soils) and poor transport infrastructure seem to be the major problems especially in rural areas.

According to the Ministry of Labour and Social Welfare the unemployment rate stands at 36.7 percent, and is high at 64 percent among the youth of 15-19 years. Unemployment among the female youth is at 43.4 percent whereas for their male counterparts is at 30.3 percent. Data also shows that unemployment is high in the rural areas and is estimated at 22.8 percent compared to urban areas with 20.7 percent<sup>7</sup>. Agriculture is the sector that provides livelihoods for the largest number of people. This sector alone accounts for 37% of all jobs in the country especially in rural areas. The country's largest employer is the government with about 80,000 public servants. The second largest employers are the wholesale and retail sectors, (including repair of motor vehicles) which employ about 53 000 people. The next largest providers of employment are private households, manufacturing sector and construction sectors. A number of laws, policies and programmes have been identified to remedy the problem of high unemployment, these include: the amended Labour Act of 1992, Affirmative Action (Employment Act no. 29 of 1998), Social

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<sup>5</sup> National Planning Commission, 2003/2004 NHIES

<sup>6</sup> Ibid

<sup>7</sup> Ministry of Labour, National Labour Force Survey, 2004

Security Act, National Youth Services Act and Investment Act, the National Employment Policies and Small Scale Credit Guarantee Scheme which is envisaged to culminate into a Small and Medium Enterprise bank.

#### **2.4. Settlement Patterns**

Namibia has an area of approximately 824.000 square km with a population of approximately 1.8 million<sup>8</sup>. The north-to-south length of the country is 1500 km, while the east-to-west width is around 600 km in the south and 1100 km in the north. Less than 1 percent of the country is estimated to be arable while almost two third is suitable for pastoralism. The population density is very low amounting to 2, 2 inhabitants<sup>9</sup> per km<sup>2</sup>. About 65 percent of Namibians are settled in the rural areas with subsistence farming as their main source of income. The majority of which are based in the northern part of the country where crop production is dominant due to good rainfall. The remainder live in the central and southern homelands in commercial ranching areas and the coastal area stretching along the skeleton coast. About 35 percent of the population live in urban areas mainly in the capital city of Windhoek and the coastal towns. Of the 13 regions in Namibia the railway serves towns in the following regions: Erongo, Hardap, Karas, Khomas, Ohangwena, Omaheke, Oshana, Oshikoto and Otjozondjupa including making stops in South African towns. Some of TransnNamib's clients are situated in the towns of: Khorixas, Maltahohe, Walvis Bay, Okahandja, Cape Town, Karibib, Henties Bay, Omaruru, Mariental, Otavi, Katima Mulilo and Outjo. Some of these towns are situated in urban areas where 35 percent of the population reside.

#### **2.5. Development of Infrastructure**

The Poverty Reduction Strategy (PRS) presents a long-term vision for development in Namibia and emphasises the importance of investing in infrastructure that promotes transport and trade across the southern African region and job creation in the manufacturing sector. What is important about this strategy is that it connects long-term economic development plans with programmes and services that are geared toward reducing poverty. In addition the priority for the 3<sup>rd</sup> National Development Plan over the next five years is to invest in regional infrastructure. The Plan sets out a strong framework for the promotion of regional development with a particular focus on critical and accelerated investment in the rural areas. The supply and quality of infrastructure plays a major role in economic development across the country. In order for rural areas to compete for inward investment and to compete nationally, they must have access to adequate transport infrastructure. Rural areas are

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<sup>8</sup> 2001, Population and Housing Census Report

<sup>9</sup> 2001 Population and Housing Census Report

expected to benefit from investment in transport infrastructure and railway transport in particular as envisaged in this plan.

## **2.6. HIV and AIDS**

The human immunodeficiency virus (HIV) or HIV/AIDS pandemic continues to pose a challenge to the development efforts in Namibia. The pandemic has resulted in increased orphan-hood and impoverishment of many households with a devastating impact on the nation's human capital formation and household food security. In 2008 15, 3 percent of the population between the ages of 15–49 were living with HIV/AIDS<sup>10</sup>. Namibia is one among countries that have high levels of HIV infections in Southern Africa and the impact is felt at community, family and individual levels. Data from the Ministry of Health and Social Services shows that national HIV prevalence stands at 17.8 percent and this figure is the same for urban and rural populations<sup>11</sup>. The railway sector is very important in this aspect as many people come into contact through transport within and outside the country and those within the sector are also at risk of exposure to infection. Transport interventions and construction of new transport infrastructure can exacerbate exposure to risk. Increased mobility may be associated with exposure of communities to new diseases through immobility of people across borders. In some of the worst AIDS-afflicted countries of east and southern Africa, the highest HIV prevalence rates are found on major transport routes (truck drivers, and sex workers, are frequently considered high-risk groups).<sup>12</sup>

## **2.7. Gender issues**

Gender equality is one among the top Government priority issues. Recently the Government has adopted the principle of gender mainstreaming in all its policies, programmes and projects through the National Gender Plan of Action. This will ensure that both men and women are accorded the same opportunities to develop and utilise their skills and talents and participate in decisions that affect their lives. In addition to the goal of reaching 30 percent of female representation in politics is a Southern African Development Community resolution that seeks to remove all forms of gender discrimination. In light of this and the political will that has so far been expressed, Namibia is likely to meet this expectation. So far, women constitute 45 percent of the members in local authorities and 27 percent in parliament. They constitute 33 percent of those in the public sector with the percentage of women in wage employment at around 44 percent<sup>13</sup>. Recent data show that the number of

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<sup>10</sup> Namibia 2<sup>nd</sup> Millennium Development Goals Progress Report 2008

<sup>11</sup> Ministry of Health and Social Services 2008

<sup>12</sup> Gender issues in Transportation, 1999

<sup>13</sup> NDP3

women employed in the public sector is slightly more than men but the opposite is true in the private sector. Poverty and inequality have a gender dimension; consumption in male-headed households is 40 percent higher than in female-headed households.<sup>14</sup>

Transport related issues such as access to jobs, markets and social/educational facilities all play an important, but under appreciated role in perpetuating women's disadvantaged position in society. Women are also more dependent on public transport than men, especially when they are in the lower-income group. The avoidance of harassment is a major concern for women public transit users. Women are especially vulnerable to violent attacks or sexual abuse when transporting heavy goods and accompanying children or the elderly particularly over long distances (all of these being tasks usually performed by women) and this can be a major deterrent for women to use public means of transport. It is often much more costly for women to get around, since they may have to pay numerous single fare tickets during a chained trip if they must travel by bus from one town to another. Railway transport in Namibia can make a big difference in increasing women's productivities and promoting gender equity. In addition to its contribution to economic growth, railway transport plays a crucial role in socially sustainable development by broadening access to markets, health and education services as well as employment. The passenger services provided by railways can make a contribution to the social empowerment of women by providing them with a means of transport which is safer than others and more cost effective when travelling long distances.

### **3. RESULTS AND ANALYSIS**

#### **3.1. Situational analysis of the Namibian Railway Services and linkage with poverty**

##### **3.1.1. Status of railway services**

TransNamib Holdings Limited operates railway services on business principles. Namibia's rail network consists of 2,442 route-km of tracks of 1,067 gauges, which transport both freight and passengers however; this number continues to increase as the rail infrastructure continues to grow. In 2007 a total of 1.1 billion net tonne km freight was conveyed by rail and 634,000 tonne by road. The company operates a long distance passenger service which transported a total of 92,458 passengers by rail in 2007<sup>15</sup>. Economic conditions have not been favourable to Trans-Namib in terms of opportunity for growth. The company is challenged by road transportation as a major

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<sup>14</sup> Namibia 2<sup>nd</sup> Millennium Development Progress Report 2008

<sup>15</sup> Trans-Namib Annual Report 2007

competitor. Apart from inflation rates being high and interest rates increasing, hikes in oil prices have deterred the company's growth. On a positive note however, the mining industry remains a strong supporter of the railway sector and this is not expected to change.

The principal railway line finds its way into Namibia through the town of Upington, entering the country nearby the border station of Nakop. From Nakop the main line runs onward for 865 km connecting with the Mariental and Keetmanshoop. A branch line runs from Nakop to the harbour town of Luderitz. The country's capital city, Windhoek, is adjoined to this system by another principal line continuing via Usakos to Swakopmund and extending its reach from Windhoek to Namibia's major port of Walvis Bay. Another branch line extends the network eastward from the capital, linking Windhoek with Gobabis. The line of rail from Walvis Bay connects itself with the main line from the south via the Kranzberg/ Usakos junction and runs north by way of Otjiwarongo to Outjo, Grootfontein and Tsumeb. A new section of rail from Tsumeb to Oshivelo was opened in 2005; it consists of roughly 89 km of track. Then in 2006 Ondangwa station was opened for freight. An exciting opportunity to access trade possibilities has presented itself through the establishment of a rail connection between Namibia and Angola. It is planned to construct a connection running from Oshikango, near the border, to Cassinga, on Angola's southern railway system on the branch from the southern system at Dongo. Furthermore Namibia envisages having its first electrified railway line and it being the longest electrified railway line in Africa. The multi-billion-dollar project which encompasses building a 1600km long railway line from Morepule Colliery in east central Botswana, through Aranos in Namibia and a harbour at Shearwater Bay which is 30 km south of Luderitz was originally planned to be operational by end 2009.

### 3.1.2. Investments in railway network

Among other things, Trans-Namib needs to upgrade its infrastructure. In 2007 "N\$95,315 million was added to the asset base of the company, N\$86,568 in rolling stock, N\$3,605 in vehicles, N\$3,182 in equipment and N\$1,024 in works per way. In 2005 Trans-Namib received a loan from the Government of the Republic of China via the Import Export Bank of China with security provided by the Namibian Government. The loan was used to purchase rolling stock assets (17 new locomotives, 152 open top wagons, 30 fuel tankers and 25 barrels of sulphuric acid transport) from Chinese industries". The 17 locomotives acquired from China reportedly performed indifferently as a result of not being suitable for the domestic conditions in Namibia. The line to Luderitz is also part of this rehabilitation project with Chinese help. The 332km line from Kranzberg Junction to Tsumeb is included in the project to rehabilitate infrastructure.<sup>16</sup>

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<sup>16</sup> Trans-Namib Annual Report 2007

Trans-Namib does not benefit from having a monopoly in the rail sector and the company receives no direct assistance from the government. The passenger service provided by the company is run on a non-profit basis. The trend in passenger transport has continued on a diminishing trend. In 2005 Trans-Namib opened the Omugulu Gwombashe Star passenger service between Oshivelo and Windhoek. The line is currently inactive. In 2007 Starline Services carried 1691 less passengers than in 2006. Trans-Namib would have to set aside large sums of money annually in order to improve its operations by means of purchasing new equipment because the company relies heavily on reserves and working capital. The biggest obstacle facing Trans-Namib is “the underinvestment in human and physical capacity and maintenance which led to railway and equipment not meeting acceptable international safety and reliability standards and where some processes and systems were lacking”. The company has seen its fair share of financial turbulence over the past years. In 2007 financial year turnover decreased marginally by around 2.2% and costs increased to 2.9%. As a result the company experienced an operating loss of N\$40,391 and a net loss of N\$34,406, both of which were substantial decreases of the 2005/6 figures which showed a profit of N\$12,566 in 2006.<sup>17</sup>

### 3.1.3. Logistical challenges

Overall Trans-Namib has experienced a fall in freight tonnage although container traffic has shown a growth in volume. Trans-Namib failed to capitalise on an opportunity presented by an increased demand in the bulk liquid (fuel) and mining sectors due to capacity limitations in terms of rolling stock and locomotives. Still the dilapidated locomotive fleet has taken its toll on the rail performance indicators as illustrated by the table below.

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<sup>17</sup> Ibid



Table 1: RAIL OPERATIONS (2003-2007)

	2003/2004	2004/2005	%Dev	2005/2006	2006/2007	%Dev
Route Kilometres	2 192	2 290		2 290	2 442	6.6%
Locomotives	45	51		51	51	
Locomotive Kilometres	4 785 574	4 758 618	0.6%	4 488 762	4 244 034	5.5%
Nett Ton Freight	1 960 662	2 069 703	5.3%	2154117	2004624	6.9%
Nett Ton Kilometres	1 247 410 869	1 262 190 060	1.2%	1 212 795 135	1 118 910 822	7.7%
Starline Passengers	112 033	96 489	13.9%	94149	92458	1.8%
Nett Ton km per loco km	261	265	105%	270	264	2.2%

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Source: Trans-Namib Annual Report 2007; Trans-Namib and Annual Report 2005<sup>18</sup>

<sup>18</sup> Trans-Namib Annual Report 2005

Trans-Namib experienced a drop in total operating revenue by 2.21% from N\$ 447,023m to N\$437,144m in 2007. Revenue from passenger services increased by 2.32% and Dessert Express was the biggest contributor. TNX and OPX reported an increase in revenue of 7% over this period. Tonnage declined in this period by 7.81%. A large decrease in tonnage in Building material was recorded (27.87%) and General freight (46.63%).<sup>19</sup>

As part of Trans-Namib's efforts to contribute toward the realisation of Vision 2030, the company's paramount goal is to meet the expectations of its shareholder through contributing to the ideal of industrialisation. In order to achieve this Namibia must create a transportation system that "supports economics growth while still being safe, secure and environmentally friendly". Trans-Namib claims to be working towards this through the "efficient usage of capital, labour force and innovative technologies". The construction of the railway line from Tsumeb to the North is to be accounted as evidence of TransNamib commitment to the goal.<sup>20</sup> In 2005 the Government of Namibia embarked on a new project (the northern railway extension) to expand the railway line from Tsumeb to Oshikango (on the border between Namibia and Angola) in order to facilitate transport of goods and services to and from Angola, Democratic Republic of Congo and Zambia. According to the Ministry of Trade and Industry the railway line forms a vital link to the new Namibia-Lubango-Oshikango-Walvis Bay Development Corridor. This corridor serves as a development chain to promote development, economic growth, eradication of poverty and the creation of employment possibilities in southern Angola and north-central Namibia. The Northern Railway Extension is also expected to provide benefits such as: Creating business opportunities in Angola by using the link in rail connections with the Angolan system near Chamutete from Oshikango.

The need to reduce government deficits combined with a general trend toward making competition fair have made restructuring of paramount importance the world over. In deciding how these inevitable changes will be translated into the Namibian railway pattern it has to be observed that Namibia is quite unique from other African railways.

The following keynotes are valid:

- Ratio: Length of railway/population is one of the highest in the world: 2442 km for 1,8 million inhabitants;
- Technology wise the Namibian railways are unique: One employee per each kilometre of railway network kilometre ( $2304/2442= 0.94$ );
- Namibia's economy of scale is a setback; Namibia's strength is in service provision, not in manufacturing (Namibia as a transit country);

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<sup>19</sup> Trans-Namib Annual Report 2007

<sup>20</sup> Ibid

- Overloading on roads is not well policed resulting in unfair advantage to roads in competition with rail mode but equitable and full road user pricing was introduced in Namibia in 2006 which made competition more fair;
- Freight contributes more to railway profit than passenger transport;
- Because Namibia has such a small population there is close cooperation between clients and service providers and agents from different actors from different transport modes.<sup>21</sup>

Although Trans-Namib Rail operates well and efficiently in general terms, there are nevertheless areas which do not function optimally, primarily in the areas of business management, strategic planning and financial transparency.” The "White Paper on Transport Policy" does not recommend any basic change in the Trans-Namib Limited (TNL)-Act (Act 21/87). But the following change of policy viz. a viz. Trans-Namib Limited is envisaged: More information to the owner (maybe in form of performance contracts) is required. The accounting practices have to be streamlined (clarified) to clearly separate financial results for each TNL-Unit (including allocated Group Administrative Expenses-costs). A medium to long-term development/financial plan based on realistic traffic forecasts has to be submitted to the owner. The owner should be fully informed about present and expected performance of Trans-Namib Limited. The Government should know in advance about any compensation for loss-making segments of the rail system (Public Service Obligation "PSO"). Any PSO has to be clearly defined. Special agreements for each PSO have to be concluded. The target of Trans-Namib Limited could vary from earning profits to providing public services in Namibia, - Transport as social function and not only as economic function.”<sup>22</sup>

In summary, Namibia’s restructuring exercise for her railway system boils down to the following key points as stated by the late Klaus Dierks (2004):

- Cost reduction by increase in productivity
- Increased attractiveness as function of improved performance
- Market driven pattern
- Safety
- Environment
- Interoperability

The basic idea is to create a company that transports freight and passengers and not to create a "railway company". It is therefore clear that change is unavoidable. Railways, including the Namibian railways have to be flexible to change. “But it’s also clear that the Namibian railways can be expected to operate as a self-sufficient financially viable and market-driven business enterprise and optimise their performance in the future only if they are re-structured on above mentioned lines.”<sup>23</sup>

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<sup>21</sup> Klaus Dierks, Ministry of Works, Transport and Communication- Memorandum, 2004

<sup>22</sup> White Paper on Transport Policy (1994)

<sup>23</sup> Klaus Dierks, Ministry of Works, Transport and Communication-Memorandum, 2004

### 3.2. SWOT Analysis

Table 2: SWOT analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• 100% ownership by the government</li> <li>• The only railway company in Namibia</li> <li>• 95% of the revenues come from transport services</li> <li>• More reliable compared to road transport</li> <li>• With more users, tax revenue may accrue to the state and thus be utilised in processes of poverty alleviation.</li> <li>• Creates job opportunities when new rail networks are erected and during maintenance periods</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Namibian towns are distant from each other and thus railway services are more economical for bulk goods.</li> <li>• Opening-up of mines requires this haulage for capital equipments</li> <li>• Minerals requires a reliable and cost effective railway transport service to be transported to Walvis Bay for export</li> <li>• Better chances of usage of rail transport by government and oil companies</li> </ul>
<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Failure to invest in high quality infrastructure</li> <li>• Sustained low profit margins</li> <li>• Un-resolved and dragging legal contestations with former employees</li> <li>• Slow for passengers compared to road transport</li> <li>• Judge and jury on inspecting train accidents</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Dilapidated infrastructure is a deterrent to new investments</li> <li>• Bad management</li> <li>• Frustrating and costly bargaining matters with unions.</li> <li>• With lack of tangible investments in rail infrastructure, road transport may take away potential clients</li> </ul>

Trans-Namib is owned by the Government and it is entrusted to provide socio economic services to the Namibian people. The company was established to provide transportation services to the Namibian nation at affordable costs. Part of the expectation is for this SoE to generate revenue and contribute to the development of the Namibian economy through job creation. Most of Trans-Namib's revenues are generated by rail transport services. However, Trans-Namib has not been able to generate cooperate profits and has not paid any dividend to the government since 1999.

The main transportation items include mining equipments and parts, fuel, cement and other building materials as well zinc exported to South Africa. Despite the failure to pay dividends to the government, the company has been doing well and has often relied on its own revenues. It is only in 2009 that Trans-Namib asked for government bailout due to an untimely consequence of a non expected staff strike. The bailout amounted to N\$14 Million.

The contribution of the rail sub-sector to poverty alleviation is real but tricky. It is tricky in that it goes through fiscus contributions that Trans-Namib suppose to be making and only little comes out directly. Judging on how Trans-Namibia which manages the railway transport sub-sector contributes to poverty alleviation leaves us with an understanding that through employment creation, low transport fees that are charged on passengers have so far been the main ways it has contributed. What prevents us from going beyond this point to mention other contributions is the existence of an opportunity cost that has not been realised since 1999. In general if that contribution could be realised, Trans-Namib will be contributing more than now. Therefore, the current way it contributes leaves more unfulfilled expectations.

More so are the fees charged which are based on market values in order for the company to be sustainable. However the company is working towards achieving the objectives of vision 2030 and the National Development Plans (NDPs). Keeping this in mind, the company is trying to balance between providing services that are affordable to the poor so as to contribute to poverty reduction and at the same time ensuring that it stays in business by operating in the global market through continuous improvements on its efficiency whilst advancing its technological usage.

The railway system in Namibia uses old infrastructure that need to be replaced. By maintaining old infrastructure, Trans-Namib is loosing out on new investment opportunities because Trans-Namib cannot accommodate new investments with outdated technology. In addition lack of aggressive marketing has contributed to the drop in demand for rail services. In terms of the financial woes facing Trans-Namib it must be seen that the company needs investment but access to finance is also a problem. The Government is still responsible for making funds available to the company's railway system but most of the revenues generated by the company come from the cargos, bulk commodities (fuel, agricultural products, chemicals, mines building materials etc.)

The key to poverty alleviation is found to lie in maximum usage of rail by investors as this would increase investment in Trans-Namib which can then be ploughed back into the economy. The means by which Trans-Namib can maximise usage of the railway is to enforce strict limitation on the tonnage which may be carried on roads. This will succeed in reducing maintenance cost spent on roads and these resources can better be invested elsewhere. In addition rail transport is much cheaper and safer for passengers. On the other hand the sector produces employment opportunities, which helps to reduce unemployment and poverty.

By delivering goods to distant areas, railway services facilitate trade for the poor to become involved in the economy. Railway services are known for providing cheaper or affordable tickets for passengers. The poor are usually the ones that use slow but cheaper trains. Railway services create job opportunities to unemployed job hunters especially in the engineering and also in the unskilled areas of job requirements. Railway transport is usually a reliable mode of transport for liquid and flammable products. By transporting such products, poor people in remote areas can manage to access transport using road transport that benefits from fuel transported by trains.

The importance of the railway in Namibia is that it is utilized to initiate and support the development of the country's resources and the economy whilst carrying the responsibility of providing jobs for the population. Rail transport is part of the logistics chain which facilitates international trade and economic growth. It is capable of high capacity and is energy efficient. Like in other developing countries management of railways in Namibia has proved to lack flexibility and is capital intensive. The intensity of capital requirements demands high efficiency and financial support.

One of the challenges facing the railway sub sector is the scattered population in the country. The railway is not fully utilised by passengers because people prefer to use road transport in that it is faster. Upgrading of rail infrastructure will require huge financial investments which the company does not have.

The Railway Management Agreement and the Railway Act need to be amended to include the safety of locomotives. Since the Minister of Works and transport is accountable for the safety of this industry, there should be a clear separation of the inspectorate and the operator thus there is a need to establish an inspectorate division within the Ministry that will ensure that safety of the railway industry is enhanced. At the moment Trans-Namib conducts its own investigation after an accident, it's not fair because it acts as the judge and the jury at the same time.

## **5. CONCLUSIONS AND RECOMMENDATIONS**

Any transport link in a country forms part of the logistics chain which supports and facilitates the development and growth of the economy. The railway system is no less important than any other mode of transport when it comes to achieving national goals and economic development. The direct link of rail transport to poverty

alleviation is however, elusive as transport does not make a noticeable impact on poverty indexes but it does impact on poverty through economic growth which increases incomes and creates jobs. Seeing that rail transport is not contributing much to poverty alleviation as would have been expected, we recommend that the maximum usage of railway be considered because it generates income for the company and to Government. This income could then be ploughed back into the economy to create job opportunities.

By expanding transport links to connect Namibia to the rest of SADC this will enhance regional integration. The rail system in Namibia has proven that rail business is littered with hiccups. The rail system has not responded well to changing times. Improvement in rail infrastructure and its maintenance and procurement of rolling stock can improve the condition. Trans-Namib has embarked on a turn around strategy to save the future of the railways but this may be easier said than done. The railway requires a magnificent investment in assets to revamp the system. It would be too costly to uproot the entire system and rebuild, so a project to rehabilitate infrastructure is exceedingly important. In its attempts to achieve this, the railway requires financial support as well as managerial and policy driven support.

The railway sub sector should consider investing in acquiring a new fleet of trains and rehabilitate the existing and dilapidated railway lines in order to enable faster movements of trains. The old locomotives need to be disposed in one way or another. In some instances the old railway lines hampers the performance of the newly acquired locomotives. Namibia is one of the countries in Southern Africa still relying on this old rail system. Other countries in the SADC region have moved from the current 'narrow gauge' railway system to the modern 'standard gauge' system which requires modern type of trains which are faster.

To redeem itself Trans-Namib would need to improve the accounting practices it has employed and formulate realistic medium and long-term development/financial plans. The limit on maximum tonnage allowed on the road system should be strictly policed and vehicles conveying loads in excess of the maximum mass should be adequately punished to balance the playing field fairer. Heavy loads should be transferred to the rail system to allow maximum usage of the rail resources. This in turn will ensure that the human and capital investment in the rail system is epitomised giving its investor maximum returns. The railway would also benefit from a more market driven approach to service delivery. In addition the railway sub-sector needs to be marketed as a reliable and efficient transport mode to attract users. The government should clearly stipulate its role in the managing of Trans-Namib, the financial responsibilities the government has toward the company and also the way in which PSO's will be dealt with. The trade-off between running Trans-Namib as a profit making institution and an institution with an economic function as a service delivery business must be re-evaluated.

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