6th Meeting of the SOE Network for Southern Africa

Recent SOE Reforms and Monitoring
Implementation of the Guidelines

24-25 November 2015
Elephant Hills Resort - Victoria Falls, Zimbabwe
Recent SOE Reforms and Monitoring Implementation of the Guidelines

SESSION 1

24-25 November 2015
Elephant Hills Resort - Victoria Falls, Zimbabwe
The Shareholder Executive and the management of State-owned Enterprises

A presentation by Nigel Smith (Vice-Chair, WPSOPP) to OECD WPSOPP Southern African Network

24 November 2015
Areas covered

• Role of the UK Shareholder Executive (ShEx)
• Recent developments
• Overview of UK SOEs
• Governance of ShEx SOEs
• Legal basis of SOEs
• Shareholder governance principles
• Asset shareholder framework
• Asset Board management
• Asset – shareholder relationship
• Asset portfolio reviews
• ShEx model against OECD guidelines
Role of The Shareholder Executive

A Brief History of The Shareholder Executive

- Established in the Cabinet Office in September 2003
- Relatively independent directorate within Department for Business, Innovation and Skills, with significant involvement and relationships with HMT, Cabinet Office and Other Government Departments
- Current remit covers a portfolio of around 20 businesses spanning a number of departments across Whitehall
- Major provider of specialist corporate finance advice across Government
- Now, to merge with UKFI and move to GovCo status owned by HMT. Role unchanged but greater operational flexibility and pools common skills

The Shareholder Executive’s Role in Government

- Ensuring that Government is an effective and intelligent shareholder in government owned businesses
- Managing Government’s interventions to secure best value for money for the taxpayer
Recent developments…

On 20 May 2015, Chancellor George Osborne announced that Shareholder Executive (ShEx) and UK Financial Investments (UKFI) would merge to create UK Government Investments (UKGI).

“If we want a more productive economy, let’s get the Government out of the business of owning great chunks of our banking system – and indeed other assets that should be in the private sector. To help that happen I can tell you that we’re merging UK Financial Investments and the Shareholder Executive into one organisation, to return government investments back to the private sector.”

Rationale

- To make it easier for government experts to work together in order to deliver value for money sales of a wide range of publicly-owned assets in a way that secures good value for money for taxpayers
- To help the Government achieve its aim to run large, publicly-owned delivery bodies more efficiently

New structure: (Spring 2016)

Benefits for ShEx include:

- Greater operational flexibility through the use of a GovCo model
- A Board with full fiduciary responsibility
- Stronger sponsorship from Treasury while retaining independence to allow us to operate with other Government Depts
- Scope for increased working between ShEx and UKFI
Overview of UK SOEs

- UK today has a limited number of SOEs
  - Thatcher era privatisations in the 1980s and 1990s include telecoms, electricity, water, gas, airports, airlines, aerospace, oil, steel, railways

- UK does not have a unified, comprehensive approach
  - Looks at SOEs on a case-by-case basis
  - Common denominator of remaining portfolio = complexity

Merger announced

Shareholder Executive
- Commercially Focused SOEs

HM Treasury
- Banks

Other Departments
- All other SOEs
### Overview of UK SOEs – Overview of ShEx’s Portfolio

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<th>Department for Business, Innovation and Skills</th>
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<td>Royal Mail</td>
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<td><strong>UK Export Finance</strong> <em>(Ministerial Dept. sharing BIS SoS)</em></td>
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<td>Nuclear Liabilities Fund (NLF)</td>
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<th>Department for Work and Pensions</th>
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<td>Working Links</td>
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Legal Basis of UK State Owned Enterprises

The Public Bodies Landscape: working at varying levels of arm’s length

- Ministerial Department
- Non-Ministerial Department
- Executive Agency
- NDPBs
- Public Corporation

Key Issues

- Governance
- Commercial Focus
- Employees
- ONS Classification
- Funding and Ability to Borrow
- State Aid
- Tax
- Procurement
Legal Basis of UK State Owned Enterprises (cont’d)

- **Executive Agencies and Trading Funds**
  - **Overview:** Part of Government but defined as a business. Has a CEO and Board, carries out executive functions, has policy set by Ministers and may provide services to Government.
  - **Legal Basis:** Same legal body as parent Department. Trading Funds can also accumulate reserves, but they must have authorisation over how to spend these.

- **Non-Departmental Public Bodies**
  - **Overview:** Carries out commercial, regulatory or technical functions at arm’s length from Government.
  - **Legal Basis:** Own legal identity, but can be “Crown” body.

- **Non-Ministerial Departments**
  - **Overview:** Government Department with or without its own Minister. Non-ministerial may be headed by a statutory Board.
  - **Legal Basis:** “Crown” body.

- **Public Corporations**
  - **Overview:** Undertake commercial functions, owned by Ministers. Includes commercial partnerships.
  - **Legal Basis:** Central Government or market body, set up as conventional Companies Act companies.
ShEx shareholder governance principles

For its SOEs (assets), ShEx seeks to ensure:

- Clear articulation of purpose and objectives
- Appropriate model to deliver purpose and objectives
- Appointment of high quality Board to deliver purpose of organisation
- Board to have real roles and responsibilities within agreed context
- Open, clear asset-shareholder relationships – “no surprises”
- Appropriate shareholder levers

Shareholder

- Ownership ultimately lies with Secretary of State (SoS)
- ShEx performs shareholder role for SoS

SOE (asset)

- Managed / run by Board of Directors on day-to-day basis
- Business carries out purpose intended by Government
Asset-shareholder framework

Asset-shareholder operating framework:

- Govt. policy for organisation
- Legal status (adopt “right” model)
- ONS classification
- Central Government Controls
- Other controls (e.g. Budgetary)
- FRC Corporate Governance Code
- Sponsor support agreement
- Govt. policy, in general (i.e. Best practise)

Governance framework / documentation covers:

1. Legal constitution, e.g.
   - Company structure
   - Board structure and directors’ powers
   - Shares

2. Asset-shareholder relationship, e.g.
   - Government’s objectives
   - Shareholder role
     - Responsible for Chairman, CEO and Shareholder director appointments
     - Specific approval rights inc. strategic plan, changes to capital structure, significant transactions
   - Role of Board, specifically Chairman and CEO
   - Strategic plan and performance measurement
   - Management and financial framework

Organization’s governance framework / documents

Purpose and objectives
Requirements / constraints
Guidance / principles
Unique operating framework/ mandate
Assets’ Boards

• Appointment of high quality Board to deliver purpose of organisation is key

• How SOE’s Boards typically operate in the UK:
  – aligns with UK Corporate Board structure

Chairman performance review – annually by shareholder
Board effectiveness reviews - regular (external as well as internal) review of Board performance, covers:
• Board composition
• Chairmanship
• Effectiveness of Board roles and committees
• Board relationships and dynamics
• Relationships with stakeholders
• Strategy alignment
• Management and the Board
Asset-shareholder relationship in practice

Relationship with asset is a Board-level relationship, primarily conducted through:

- **Shareholder Board seat**
  - ShEx typically has a full NED Board seat and attends all Board meetings
  - Receives all Board papers
  - Possible conflict between shareholder and customer considered at outset

- **Formal shareholder meetings “QSMs” – typically quarterly**
  - Business performance update
  - Opportunity for management and ShEx to discuss any ad hoc concerns

- **Meetings with management**
  - Regular informal contact with Chairman, CEO and CFO

- **Chairman performance review**
  - Objectives set out at beginning of term or annually
  - Performance review undertaken by ShEx on annual basis

- **Provision of financial and business information**
  - Regular updates, typically through Board papers
  - Some assets have additional arrangements
  - Business plan
Asset portfolio reviews

• All ShEx assets are subject to internal review
  – In-depth annual reviews and interim updates
  – By peers and Head of Portfolio Unit

• Provides ShEx team opportunity to
  – Discuss key issues
  – Review top priorities
  – Review shareholding relationship
  – Exchange experiences across ShEx portfolio
  – Agree objectives as shareholder for coming year

• Helps ShEx maintain a “best practice” and consistent approach to its shareholder role across the portfolio

Investment review presentation

• Financial performance
  – Inc. trading update

• Operating performance
  – Vs targets
  – Opportunities, risksts

• Board and management
  – Strength of team
  – Performance targets and achievements
  – Incentivisation plan
  – Board performance review

• Performance against objectives

Traffic light analysis

• Shareholder relationship
• Implementation of shareholder model
• Quality of management and Board
• Strategy
• Financial performance
• Balance sheet and risk
## ShEx model against OECD guidelines

<table>
<thead>
<tr>
<th>OECD Guidelines</th>
<th>ShEx model</th>
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<tbody>
<tr>
<td>I. Rationales for state ownership</td>
<td>Public policy delivery; complexity; regular review of ownership need.</td>
</tr>
<tr>
<td>II. State’s role as an owner</td>
<td>Strategic, not day-to-day management; independent Boards; single ownership entity; QSMs.</td>
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<tr>
<td>III. State-owned enterprises in the market place</td>
<td>Operate commercially; EU state aid rules; scrutiny of central funding; procurement competition.</td>
</tr>
<tr>
<td>IV. Equitable treatment of shareholders and other investors</td>
<td>All but 2 are 100% Govt. owned; none listed apart from 2 banks.</td>
</tr>
<tr>
<td>V. Stakeholder relations and responsible business</td>
<td>Monitored through Board positions and QSMs.</td>
</tr>
<tr>
<td>VI. Disclosure and transparency</td>
<td>Annual Reports; Board remuneration published; ShEx Annual Review.</td>
</tr>
<tr>
<td>VII. Responsibilities of the Boards of state-owned enterprises</td>
<td>Chairs letter; independence; NED representation; no Ministerial Board positions; Chair/CEO separate; subcommittees; Board evaluation; Chair evaluation.</td>
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16
Session 1: Contemporary Reforms and Best Practices:

2015 Revisions to the OECD Guidelines on Corporate Governance of SOEs

Ann Low
U.S. Department of State
Deputy Director
Office of Investment Affairs
(Vice-Chair, WPSOPP)
Revisions to the OECD Guidelines on Corporate Governance of SOEs

- SOE Landscape
- What didn’t change?
- Process - negotiations
- What changed?
  - Structure
  - Content – 3 highlights: maximizing value; competition; Responsible Business Conduct
- U.S experience - decentralized
Revisions to the OECD Guidelines - SOE Landscape – progress

- Strengthened state ownership policies
- Centralizing ownership function
- Aggregate reporting on SOE performance
- Professionalized SOE board practices
- Promoting Competitive landscape
Revisions to the OECD Guidelines: SOE Landscape – Increased FDI

Share of FDI outflows by group of economies, 1999-2013 (Percentages)

Revisions to the OECD Guidelines: SOE Landscape – Increased FDI

Figure 1. Developing economies: FDI outflows and their share in total world outflows, 2000-2014
(Billions of US dollars and per cent)

Figure 4. Top 20 investors, 2014
(Billions of US dollars)

Purpose:
1) Professionalizing state ownership;
2) Promoting efficiency, transparency and accountability in SOEs operations
3) Promoting a level playing field when competing (or potentially competing) with the private sector.

Approach:
* Outcomes-based
* Aspirational
* Commercial focused
* Firewall b/w ownership and regulation
- 34 OECD members & 13 non-Members participated
- EU, World Bank, and stakeholders provided input
- U.S. side – interagency input: DOS, USTR, Treasury, DOC, DOJ and SEC
- **END RESULT** – supported by Business (BIAC) and Labor (TUAC) communities; a new global gold standard
New sections and chapters

Applicability and Definitions - *clarity*

1. Rationales for State Ownership – new - *explain annually*
2. The State’s Role as Owner
3. *SOEs in the Global Market Place* - 2005 Guidelines’ Chapter 1 plus
4. Equitable Treatment of Shareholders and Other Investors
5. Stakeholder Relations and Responsible Business - *SOEs actions should be guided by international standards and best practices*
6. Disclosure and Transparency
7. Responsibilities of the Boards of SOEs
Revisions to the OECD Guidelines: What’s new? Content

* Governments; SOE Managers; General public
  * Expert management of SOEs
  * Serve the public interest

New sections and chapters
Applicability and Definitions - *clarity*
Rationales for state-ownership - *explain annually*
SOEs in the market place – *fair competition*
Chapter 1, Paragraph A: “The ultimate purpose of SOEs should be to maximize value for society, through an efficient allocation of resources.”

- Firewall between regulators and SOEs.
- Good corporate governance – attracts talent, spurs innovation
- Structured for success? Consider alternatives.
2) Fair Competition in the Marketplace

- Legal and regulatory framework for fair competition.
- Fair access to debt and equity financing.
- “Competitive Neutrality: Maintaining a Level Playing Field between Public and Private Business”
  - Best practices on fair competition from OECD member countries.
- SOEs combining market activities with public policy objectives – Transparency! Disclosure! Vigilance!
3) Responsible Business Conduct (RBC)

* The *OECD Guidelines for Multinational Enterprises* is the global gold-standard for RBC.
* SOEs should serve the general public and maximize value for society.
* U.S. National Action Plan on RBC.
Good corporate governance is good policy.

Implement the OECD Guidelines on Corporate Governance of SOEs

The OECD Working Party – a resource to

provide advice and share experiences

Efficiently allocate resources to benefit the public
GER.co: How user-friendly is your government’s website?

Make Business Registration Easy, Everywhere

Join in the effort to improve online business registration processes and help entrepreneurs register their businesses around the world.

Entrepreneurs, Find Where To Register Your Business! Begin here

Online Single Windows (2)

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<td>Rwanda</td>
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Information Portals (36)

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<td>Benin</td>
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17 U.S. Government Corporations = established by Congress to **perform a public purpose**, which provide a product of service intended to produce revenues that meet or approximate expenditures.

1st Government Corp’ established 1791: Bank of the U.S.

Congress establishes in response to need, each unique

Oversight by agency with expertise; Ownership function by congressional committee with subject expertise

Annual audits by external independent auditor and public disclosure of financial reports – norm
Recent SOE Reforms and Monitoring
Implementation of the Guidelines

SESSION 2

24-25 November 2015
Elephant Hills Resort - Victoria Falls, Zimbabwe
Presentation to the 6th Meeting of the OECD SOE Network for Southern Africa, held in Victoria Falls, Zimbabwe

By:

Minister of Public Enterprises (MPE), Namibia

Date: 24-25 November 2015
Contents of Presentation

1. Corporate Governance in Namibia, an overview on PEs
2. Response by Shareholder to Corporate Governance in PEs
4. Reform Process
5. Public Enterprises Governance Amendment Act
6. Urgent Measures Required
7. Progress on the implementation of SOE Governance Guidelines
Corporate Governance in Namibia, an Overview on PEs

- After independence, 21 March 1990, GRN established a number of public enterprises, most of which were Government departments.

- Objectives of State Ownership:
  - For Better Governance,
  - Improved Efficiency,
  - Improved Fiscal Control,
  - Enhanced Efficient and Effective Service Delivery
  - Job Creation

- State (through GRN) is the Owner of SOEs (100% GRN owned)

- The Triangle of PEs’ main challenges

- The actual picture after 2005
Triangle of PEs Challenges

- Poor performance of PEs: Associated to Mismanagement and Bad Corporate Governance.
Response by Shareholders/GRN: SOEG Act

- Promulgation of SOEG Act, Act 2 of 2006 (“the Act”)
- SOEGC was established, with the mandate and the responsibility of providing oversight in respect of all PEs. The SOEGC-S was an administrative wing of the Council
Objectives of the Response to Poor Performance of Public Enterprises

- To come up with overarching legislation for PEs
- To Provide Resources to PEs (as required)
- To establish an Institution to act as Watchdog over PEs
- To provide and Facilitate Uniform Guidelines and Frameworks for Governance and performance in PEs
- To Monitor Affecting Events in PEs and Institute Remedial Actions
- To Reward Positive Performance and Admonish Poor Performance in PEs

NB: The ultimate aim was not for the State to run those institutions/PEs, directly, but rather to lay down general guidelines, legislation and frameworks for boards, management and portfolio Ministries.
Dual Governance Model

- There are still major challenges—due to dual governance or multi-decision role players and this creates gaps in accountability.
- Some role players in PEs capitalize on the administrative/managerial gaps that resulted in major governance challenges.
- GRN has since undertaken various reform initiatives to improve on the governance and best practices in public enterprises in Namibia and these include:
  - Remuneration Framework for CEOs/MDs, Executive Managers as well as Board Directors;
  - In 2014/2015, a study on the “Transformation of the SOEGC into a Ministry of Public Enterprises” was facilitated through the engagement of consultants.
Reform Process

• The study proposed some modalities necessary for the establishment of the (new) Ministry of Public Enterprises.

• The Ministry of Public Enterprises was established on the 19\textsuperscript{th} March 2015.
  
  - To investigate better (a) operational model(s).

• Together with the staff of MPE, the Corporate Reform Advisory Unit (CARU) will soon embark on major reform/restructuring exercise (to be done in collaboration with portfolio Ministries, PEs and Other Stakeholders.)
Reform Process

- After the establishment of the Ministry of Public Enterprises, it was necessary to designate the functions assigned to the SOEGC, currently, for them to become the responsibility of the Minister Responsible for Public Enterprises to enable him/her to carry out the mandate, in line with the Public Enterprises Governance Amendment Act (No. 8 of 2015)
Public Enterprises Governance Act
(No. 8 of 2015)

The amendments to the SOEG Act have provided for the following matters:

- The substitution of the Council with the Minister responsible for public enterprises;
- The incorporation of the Secretariat of the Council into the Ministry of Public Enterprises and the provision of incidental matters.
- The PE Governance Act covers all PEs, being they statutory bodies or companies registered in terms of the Companies Act.
- PE Governance Act no: 8 of 2015 has direct bearing on PEs’ operational mandate including all Public Enterprises which fall (directly) under the different O/M/As.
Public Enterprises Governance Act
(No. 8 of 2015)

• MPE has been conferred (through the PE Act 2015) powers to determine/establish common or broad based policies and frameworks for all PEs on: corporate governance, remuneration frameworks/directives for CEOs, board members and senior managers; how to handle investments; the method of reporting on annual (financial) reports etc.

• The Minister is responsible for developing common policy frameworks regarding the operations of PEs in line with provisions of the relevant Act and best international practices.

• Develop means and mechanisms to monitor performance of PEs

• Lay down all policy directives to PE boards, CEOs and senior managers.

• The Act places strong emphasis on performance and governance contracts and performance measurement (evaluation) for PEs
Public Enterprises Governance Act (No.8 of 2015)

- Minister may classify PEs into the following categories:
- Regulatory enterprises
- Service rendering enterprises
- Economic and productive enterprises
- General enterprises
- The Act also gives powers to the Minister of PEs to differentiate categories of PEs
Minister has the power to determine the composition of boards, in relation to section 14 (1) of the Public Enterprises Governance Act, No. 8 of 2015 and request the relevant portfolio Minister on:

- Number of board members to be appointed to (a) board of PE(s)
- Number of persons to be appointed as executive members on board of PE, when required;
- Qualifications, experience or skills on eligibility for appointments as members of the board
- Term of office of the members in holding a particular position on the board
- Removal of any member of the board from office (on the ground of the establishing Act, Companies Act, memorandum of association)
The legislation further requires that governance and performance agreements be entered into between the Minister and the individual members of the board.

The guidelines/directives are necessary for the effective discharge of the mandate of the Minister and to ensure enforcement of good corporate governance standards amongst PEs.
Urgent measures as we are embarking on a new journey

- All Governance and Performance Agreements for PEs will be requested to be finalized as a matter of urgency.
- Financial and Business Plans for PEs have to be furnished within 90 days.
- Outstanding Annual Reports will be addressed and all PEs will be required to summit them within 3 months.
- The Ministry is at an advanced stage to finish compiling a complete database for compliance by all 87 PEs.
- Board Remuneration Policies will also be requested and, once that has been evaluated, it is expected that they will ensure a synchronized practice which is in line with the existing directives.
Urgent measures as we embark on a new journey

- The Ministry has done all that can be done to have the Corporate Advisory Reform Unit (CARU) experts in place, with the PSC supporting the Ministry’s move.
- The Ministry is expected to come up with a monitoring system, as soon as all the feasibility studies have been completed.
- The Ministry is in the process of beefing up the staff of the Ministry in terms of members qualifications and experience.
- In line with its assignment/mandate, the Ministry will work towards nurturing good working relationship (through appropriate networking) with and within PEs and to encourage cooperation and team work among stakeholders and collaborators.
- We are envisaging as many awareness activities as possible, i.e. to inform and consult stakeholders (PEs), Portfolio Offices/Ministries/Agencies, the Public, etc., on good corporate governance and best practices.
- The Ministry is also working on adopting a single governance model (as opposed to the current dual governance model).
**Progress on the implementation of SOE Governance Guidelines**

- After, the official launching of the SOE Governance Guidelines last year in Lusaka, Zambia, the delegate from Namibia prepared a report.
- The report was shared with key stakeholders mainly SOEs.
- A meeting with key stakeholders was convened, to discuss and get inputs on the implementation process of the SOE Governance Guidelines.
- The meeting resolved that a copy of the SOE Governance Guidelines be circulated to all SOEs for their perusal and inputs. Thank you
Progress Cont......

- Following our Reform into a fully-fledged Ministry of Public Enterprises, a cabinet Agenda, has been written with recommendations that the Government of Namibia adopts the SOE Governance Guidelines.
- The outcome of the discussion on this matter from Cabinet is expected to be out soon.
- This will pave way forward for the implementation of the SOE Governance Guidelines and it will be communicated to this platform in the next meeting.
Thank You
Executing Critical Reforms in State Owned Companies

Presentation to the 6th Meeting of the OECD SOE Network for Southern Africa
24 – 25 November 2015
Contents

• Developmental State Orientation
  – Governance Framework
  – Themes of the 2012 Presidential Review Committee on SOCs
• Criticality of SOCs
  – Size and contribution of SOCs
• International Trends
• Key priority areas
Developmental State Orientation

Characteristics of a Developmental State

1. Shared developmental vision
2. Develop skills and innovation
3. Partnership with the private sector
4. Improve infrastructure
5. Increase economic growth
6. Improve service delivery
7. Improve quality of life
8. Strengthened democracy
The shareholder has specific powers and responsibilities in the SOC governance system.

Overarching policy framework as defined in the MTSF

Presidency
Performance Agreement of Minister of Public Enterprises

Parliament
Transparency and accountability

Shareholder Representative
Executive Authority

Shareholder Management
Defines powers and responsibilities of Shareholder Representative viz a viz the Board and Management

Companies Act & PFMA establishes relationship

Board
Accounting Authority

Management Agreement
Board cascades delegations and performance expectations down to management

Management

NB: In March 2013, Cabinet accepted the Report of the Presidential Review Committee and work towards the implementation of the PRC recommendations is gaining traction.
THEMES OF PRC FINDINGS & RECOMMENDATIONS

• The PRC arrived at 31 recommendations to respond to its 21 Terms of Reference

• The recommendations are clustered according to the following areas:

  i. SOC Strategy
  
  ii. Enabling environment for SOCs
  
  iii. Performance of SOCs
  
  iv. Capacity of the State and its SOCs
Criticality of the SOCs

• State-owned companies (SOCs) are large contributors to the economy, accounting for 20 percent of capital formation.
• State-owned companies are expected to invest R362 billion over the medium term, contributing significantly to gross capital formation.
• According to the 2015 Budget Review, In 2013/14, the major SOCs had revenue streams of R260bn compared to government’s revenue of R810bn.
• In this same period, their total asset value stood at R1-trillion with net asset value of R374bn.
• The National Development Plan and MTSF target infrastructure investment and private-sector partnerships. SOCs are ideally positioned to support this initiative.
• In building a capable and developmental state, a critical objective of the NDP is to ensure clear governance structures and stable leadership at SOCs.
• According to the NDP, this will assist the SOCs achieve their developmental potential.
• This is in recognition of the fact that well-managed public assets can promote economic growth and social development.
• There is also a growing realisation of the gap between the country’s aspirations for the SOCs, and their ability, in their current state, to deliver on these aspirations.
Relative size of the SOCs

- Revenue streams $\approx$ R260 billion vs. Governments revenue $\approx$ R810 bil.
- Interest bearing debt $\approx$ R320 billion vs. Governments debt $\approx$ R1.4 tril.
- Infrastructure spend R110 bil. vs. Governments R104 bil.
- Total asset value $\approx$ R1 005 tril.
- Net asset value $\approx$ R374 bil.

Source: National Treasury
Global trends and comparison with other countries

Source: Team analysis
Recommendations approved on the SOC reforms

**February 2015 Resolution**

- In February 2015, 12 recommendations were approved on the strengthening of SOC
- The recommendations are focused on creating an institutional framework that will support the advancement of the National Development Plan outcomes
- The SOCs reform is essential for the achievement of the developmental state goals

**Work in progress**

- The performance of SOCs remains a concern and warrant the acceleration of the reforms
- The economy is vulnerable and SOCs must contribute towards the recovery of the economy and drive investment in the economy
- Progress on the implementation of resolutions is receiving heightened attention by Government

**Focus on three key areas**

- **Part 1**: reflect on the state of State’s portfolio and risk to the fiscal sustainability
- **Part 2**: Outline the approach and key principles that must drive the reforms taking into account the current economic context
- **Part 3**: Outline a clear plan on the execution of the reforms

Source: Team analysis
Four key principles have been identified to guide the SOCs Reform

1. **Realise benefits in the short (and long) term**
   The State has significant exposures through the guarantees that have been provided to SOCs and the poor performance of SOCs threatens fiscal sustainability.

2. **Enhance the capacity of the developmental state**
   The transformation of the South African economy requires continued investment led by the SOCs and crowding in private sector investments.

3. **Eliminate inefficiencies**
   Ensure that the duplications that currently exist in the state’s portfolio are eliminated.

4. **Prioritise SOCs and focus the use of state resources**
   Focus on aligning the activities of the priority SOCs that have the most significant impact on the economy and directing the state’s resources where it is most needed.

The reforms must result in more productive and financially sustainable SOCs.

Source: Team analysis

Confidential
Four Phased Strategy for SOC Reforms to ensure that benefits are realised in the short term while legislative reform gains traction

**Objective**
Improve the financial and operational performance of the SOCs

**Key interventions**
- Implementation of the SOC specific interventions
- Standardised approach to SOC Board appointment
- Linking remuneration of directors to performance
- Clarify funding of the developmental mandates

**Critical decision point**
South Africa

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**Objective**
Improve collaboration between the SOCs to maximise impact on the economy and eliminate duplication

**Key interventions**
- Establishment of the Inter-Ministerial focused on promoting alignment between the priority SOCs
- Establishment of identification of joint projects to support the turnaround of the economy focused mainly on delivery of key infrastructure

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**Objective**
Optimise the State’s participation in the economy through the rationalisation and consolidation of SOCs

**Key interventions**
- Clear shareholder policy for ownership of SOCs
- Framework for disposal of non-strategic assets to direct resources to critical areas
- Private participation framework to leverage private capital and expertise
- Rationalisation of SOCs where there is duplication

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**Objective**
Improved governance of the SOCs under a single piece of legislation

**Key interventions**
- New shareholder management legislation
- Well resourced shareholder oversight institution/s
- Enhanced coordination and interface between the policy, shareholder and regulator functions

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Optimised portfolio of SOCs leveraging synergies within public and the private sector
THANK YOU
CONTENTS

1) ZH
2) OPERATING ENVIRONMENT
3) CASE STUDY 1 – PREPAID METER PROJECT
4) CASE STUDY 2 – DEBTORS SECURITISATION
5) CASE STUDY 3 – RAISING COUNTERPARTY FUNDING FOR KSE
6) OBSERVATIONS ON REFORM
7) CONCLUSION
ZH IS A SOE WHICH IS THE DOMINANT PLAYER IN THE ELECTRICITY SUPPLY INDUSTRY (ESI)

ZH COMPRIZES 4 SUBSIDIARIES

ZPC – POWER GENERATION

ZETDC
  • POWER TRANSMISSION AND MARKET OPERATIONS TO BALANCE SUPPLY & DEMAND
  • POWER DISTRIBUTION

POWETEL – TELECOMMS

ZENT – MANUFACTURING

TURNOVER IN EXCESS OF $1 BILLION

ASSETS IN EXCESS OF $3 BILLION

SECTOR REFORM IN ZIMBABWE HAS DEREGULATED THE ELECTRICITY MARKET & ITS RECOGNISED THAT COMPETITION CAN BE INTRODUCED AT THE POWER GENERATION LEVEL & IN DUE COURSE, AT THE RETAIL END.
OPERATING ENVIRONMENT

- **ELECTRICITY SHORTAGE** – NEED TO INVEST IN SECTOR ASSETS
- **UNAVAILABILITY OF LONG TERM CAPITAL** (DEBT & EQUITY)
- **HUGE DEBTORS BOOK**
- **WEAK BALANCE SHEETS** (NO SAVINGS)
- **LIQUIDITY CRUNCH**
- **TARIFFS NOT COST REFLECTIVE**
- **WORLD ECONOMY IN RECESSION** (LOW COMMODITY PRICES)
- **UNEMPLOYMENT**
GOAL: ATTAIN INVESTMENT GRADE RATING

- OBJECTIVE: IMPROVE REVENUE COLLECTION BY CONVERTING ALL POWER USERS TO PREPAID FROM POST PAID
- SCOPE (PHASE I): INSTALL 550,000 PREPAID METERS
- IMPLEMENTATION STRATEGY: (PHASE I)
  - PROJECT WAS MADE TURNKEY
  - SUPPLIERS WERE REQUIRED TO INSTALL THE METERS REPLACING THE CONVENTIONAL METER
  - SUPPLIERS WERE PAID FOR INSTALLED METERS
  - DEBT ON POST PAID BILLING WAS TRANSFERRED ON TO THE PREPAID PLATFORM
  - A DEBT RECOVERY RATE SET AT 20% OF PURCHASES WAS APPLIED USING THE PREPAID PLATFORM
- RESULT:
  - 42% OF INCOME IS NOW PREPAID
- SCOPE: INSTALL SMART PREPAID FOR BIG POWER USERS
- IMPLEMENTATION STRATEGY: PHASE II
  - SAME STRATEGY AS PHASE I WILL BE EMPLOYED
- RESULT:
  - 90% PREPAID INCOME TO BE REACHED BY H1 2016
DEBTORS SECURITISATION

Problem: Debtors collectable over a long time frame.

Objective: Realise PV of debtors book

The process:

a) Installation of prepaid meters
b) Transfer balances from billing system to PPAID platform
c) Agree payment plan with customers (30% of purchase)
d) Essentially make the debt bankable
e) Demonstrate clear cashflow stream
f) Create a security (loan) using the prepaid debtors

Zh & Goz provided guarantee

- Securitisation enabled us to monetise $150 million
- More to be securitised in line with increased debt redemption rate
- PV enhanced by collection method, reducing risk & cost of capital
- Enabled us to enjoy the PV of our money yet extended payment terms for customers
- Low interest on the loan is single digit
- Proceeds were used to retire short positions

Thursday, December 17, 2015

SOME CASE STUDIES OF ZESA HOLDINGS
RAISING COUNTERPARTY FUNDING FOR KSE

PROJECT: EXTEND KARIBA POWER STATION BY 300 MW
OBJECTIVE: RAISE US$150 MILLION TO FUND EQUITY FOR KSE

- a) TOTAL COST: US$520
- b) EPC COST: $320 MILLION
- c) CHINESE EXIMBANK: $324 MILLION
- d) ZPC EQUITY: $208 MILLION
- e) ZETDC CREDIT STATUS: JUNK
- f) ADDITIONAL 15 YEAR PPA WITH NAMPOWER
- g) SECURITISE PPA INCOME STREAM TO RAISE $150 MILLION (STANDARD BANK)

Thursday, December 17, 2015
OBSERVATIONS ON REFORM

- ZIMBABWE HAS MADE SIGNIFICANT PROGRESS WITH ELECTRICITY REFORM
- EMERGING MARKET DEVELOPMENTS TO DRIVE REFORM
  - CONSUMERS BECOMING PRODUCERS
  - CUSTOMERS ASSUMING ROLE FOR ENSURING RELIABILITY
  - DISTRIBUTED GENERATION
  - SMART TECHNOLOGIES
- VIBRANT MARKETS WILL USHER IN NEW OPPORTUNITIES THAT WILL HAVE POSITIVE EFFECT
- REGULATORY INDEPENDENCE IS A PREREQUISITE FOR SUCCESS OF REFORM
- GOOD REGULATION & GOVERNANCE REQUIRED FOR SECTOR VIABILITY AND SERVICE DELIVERY
- PRIVATISATION IS NOT A NECESSARY NOR SUFFICIENT CONDITION FOR ATTAINMENT OF EFFICIENCY
- PRIVATE SECTOR MARKET PLAYERS SHOULD HAVE A ROLE TO PLAY
- DIFFERENT PLAYERS GOOD FOR IMPROVED BENCHMARKING
- LEGAL FRAMEWORK FOR PPP & JV A MAJOR BOOST
- GOOD ETHICS A NON NEGOTIABLE FACTOR
- THERE IS NEED TO UNBUNDLE TRANSMISSION FROM DISTRIBUTION TO GIVE CONFIDENCE TO OTHER MARKET PLAYERS, ESPECIALLY IN POWER GENERATION
- RUN BUSINESS ON A P/L BASIS DOWNTO THE MOST DISCRETE LEVEL
There are many cases of very successful SOEs in China, South Korea, France, Norway, etc. In all these cases the distinguishing factors are market reforms, good corporate governance, management autonomy, etc.

Eskom in South Africa grew to become one of the biggest five utilities in the world! SOEs in the region, given the same circumstances, can also deliver world class and return a dividend to the shareholder.
THANK YOU!!!
The SOE Governance Reform Seychelles

Presenter: Mr. Roland Marengo
Public Enterprise Monitoring Commission
## SOE Reform

<table>
<thead>
<tr>
<th>Reform of the Legal &amp; Regulatory framework</th>
<th>Completed Divestures (PEMC)</th>
<th>Planned Restructuring</th>
<th>Rational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation</td>
<td>Prior to PEMD/PEMC Act</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Entities</td>
<td>67</td>
<td>2013 → 2015</td>
<td></td>
</tr>
<tr>
<td>Entities</td>
<td></td>
<td>2016 →</td>
<td></td>
</tr>
<tr>
<td>Comprised of 9 SOE's and 58 Parastatals &amp; budget dependent entities <em>(Profit making or not)</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some liquidated, Privatised, others report under the PFMA (Budget dependent)</td>
<td>Fully subsidised 4  Semi-Commercia 11  Commercial 6</td>
<td>Registered under Company Laws 13  Body Corporate s 10</td>
<td>Assess Body corporates generating significant revenue. Separate their regulatory &amp; commercial functions. To establish a consistent &amp; coherent Legal framework (Company Laws)</td>
</tr>
<tr>
<td>Ownership Policy</td>
<td>Fully Decentralised</td>
<td>Dual Ownership</td>
<td></td>
</tr>
<tr>
<td>Entities were under full control of Line Ministries. PEMD had oversight &amp; performance monitoring role</td>
<td>Began the move toward a more centralised model <em>(MOF is shareholder, technical advisor &amp; responsible for performance monitoring</em>(PEMC)</td>
<td>Centralised</td>
<td></td>
</tr>
<tr>
<td>National SOE guideline</td>
<td>No</td>
<td>YES</td>
<td>Establish a new National Governance Guideline</td>
</tr>
</tbody>
</table>
Key Challenges

1. Implementation
   - Political Interference
   - Difficulty in obtaining TA
Thank you
Recent SOE Reforms and Monitoring Implementation of the Guidelines

SESSION 3

24-25 November 2015
Elephant Hills Resort - Victoria Falls, Zimbabwe
OVERVIEW OF THE CURRENT REFORM PROCESS - BOTSWANA

PRESENTED BY

MR ONTIRETSE KGAREBE – PEEPA
THE BOTSWANA SOE LANDSCAPE

- There are currently 61 SOEs in Botswana
  - Cross sectoral presence

- Definition of SOEs very broad, encompasses entities with mandates that are:
  - Commercial
  - Socio developmental
  - Regulatory

- Established as Statutory Corporations or under the Companies Act

- Highly decentralised ownership structure (line ministries)
  - SOEs distributed across 10 government Ministries

- Oversight is devolved to Boards of Directors and control to Executive Management.
ISSUES

Several challenges have been experienced within the SOE sector including :-

- inadequate performance
- poor resource management
- slow adoption of corporate governance practices
- inadequate coordination in the delivery of services
- maladministration
- ethical issues etc.
- Weak oversight exercised by Government
KEY TRENDS IN THE SOE LANDSCAPE

1. There has been sustained growth in the Number of SOEs

Cumulative Growth in Number of SOEs

- Pre 2000: 25
- 2001 -2005: 34
- 2006 - 2010: 43
- 2011 - 2015: 60

Number of SOEs
KEY TRENDS IN THE SOE LANDSCAPE

2. There has been change in the composition of SOEs

Pre 2000

- Commercial: 68%
- Regulatory: 8%
- Social Dev: 24%

Recurrent cost = 2% of GDP

2015

- Commercial: 40%
- Regulatory: 27%
- Social Dev: 33%

Recurrent cost = 5-6% of GDP (est)
KEY TRENDS IN THE SOE LANDSCAPE

3. Institutional arrangements in the exercise of oversight have evolved

- 2011 Adoption of Corporate Governance Frameworks for SOEs
- 2012 Formal Guidelines on exercise of shareholder oversight
- 2015 Approval of concept paper to formulate Ownership Policy
CURRENT FOCUS

Main aim of the guidelines include:-

- Establishing measures for the enhanced exercise of shareholder oversight
- Effective monitoring and evaluation of the performance of parastatals
- Promotion of the overall performance of parastatals
- Promotion of accountability in the management of parastatals
- Strengthen support structures for Parastatals
- Facilitate strategic alignment of Parastatals with line Ministries
IMPLEMENTATION FRAMEWORK

- To take a phased approach with immediate term to medium and long term interventions

- Immediate term- Focus on compliance issues
  - Strengthening of systems of PE internal control
  - Strengthening SOE Board effectiveness
    - Adoption of Board Charters
    - Director selection and development

- Medium term- Focus on Performance issues
  - Performance contracting (shareholder compacts)
  - Board performance evaluation
  - Structured and mandatory performance M&E for SOEs

- Long term
  - Formulation Adoption of a Parastatalal Ownership Policy
OWNERSHIP POLICY

- To provide clear guidance & position on a number key issues affecting the exercise of ownership, oversight and governance of parastatals

- Will ensure that the governance of parastatals is carried out in a consistently transparent and accountable manner,

- Consistent and integral to national public sector reform programme for “reinventing Government”
SCOPE OF THE POLICY

1. Define Governance arrangements
2. Define Oversight Practices
3. Principles/Objectives for Ownership
OWNERSHIP PROVISIONS

- Clear definition of what should constitute a Parastatal
- Government’s objectives for owning or investing in Parastatals
- Methods of establishment of Parastatals (Companies, Statutory Corps etc.)
- Establishment of supporting legal and regulatory frameworks
OVERSIGHT PROVISIONS

- Treatment of social objectives
- Monitoring and evaluation of performance
- Co-operation and collaboration with other Government Departments
- Domicilia and investment in other countries
- Appropriation, transfer and use of SOE assets
- Involvement in Corporate Social Responsibility (CSR)
GOVERNANCE PROVISIONS

- SOE Board appointment and constitution
- Appointment of key personnel
- Remuneration of key personnel
- Expectations in terms of rate of return, dividends and reporting (Commercial SOEs)
BENEFITS OF ADOPTING THE POLICY

- Will allow Government to balance the commercial sustainability of with its strategic objectives of owning these enterprises

- Can provide guidance on appropriate capital structures and dividend policies (commercial SOEs)

- Will ensure that SOEs operate within the overall national policy and legal framework

- Will ensure that SOEs do not receive more favourable treatment from Government than private sector peers

- Will provide for a system of compensation for involvement in social and other developmental objectives
BENEFITS II

- Will allow for harmonisation of governance and oversight practices across the parastatal landscape

- Will institutionalise appropriate reporting systems including regular monitoring and assessment of performance

- Will allow SOEs effective operational autonomy to achieve agreed objectives
  
  • Will also facilitate for SOEs to have independent, efficient and well functioning boards with the required skills mix & competencies

  • Will provide a framework for board and management remuneration arrangements that foster the long term interest of the organisation and attracts and motivates the right skilled professionals
KEY CONSIDERATIONS

- Development will be based on extensive stakeholder consultations and international benchmarks
- Create corporate governance capacity in government and SOEs
- Progress more likely to be incremental
THANK YOU
Corporate Governance of State Owned Companies – (Transparency and Disclosure)

Presentation to the 6th Meeting of the OECD SOE Network for Southern Africa
24 – 25 November 2015
Contents

• Portfolio of SOCs
• Combined Assurance Model
• Disclosure of 2015 Audit Outcomes
• Transparency of Key findings
• Shareholder Interventions
DPE Portfolio
The Combined Assurance Model ensures accountability at each level

**Management’s assurance role**
- **Senior management** – take immediate action to address specific recommendations and adhere to financial management and internal control systems
- **Accounting officers/authority** – hold officials accountable on implementation of internal controls and report progress quarterly and annually
- **Executive authority** – monitor the progress of performance and enforce accountability and consequences

**Oversight’s assurance role**
- **National Treasury/ DPSA** – monitor compliance with laws and regulations and enforce appropriate action
- **Internal audit** – follow up on management’s actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
- **Audit committee** – monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans

**Role of independent assurance**
- **Oversight (portfolio committees)** – review and monitor quarterly progress on the implementation of action plans to address deficiencies
- **Public accounts committee** – exercise specific oversight on a regular basis on any report which it may deem necessary
- **National Assembly** – provide independent oversight on the reliability, accuracy and credibility of National and provincial government

Source: AGSA
Public enterprises portfolio: Disclosure of Audit Outcomes tabled in Parliament (public accountability)

- Irregular, as well as fruitless and wasteful expenditure: 86% (2014-15) vs 44% (2013-14)
- Procurement management: 57% (2014-15) vs 33% (2013-14)
- Quality of submitted financial statements: 29% (2014-15) vs 33% (2013-14)
- Strategic planning and performance management: 14% (2014-15) vs 22% (2013-14)
- Asset and liability management: 14% (2014-15) vs 33% (2013-14)

Source: AGSA
Continuous improvement the regulatory and governance framework

• Currently the Department is in the process of reviewing its shareholder management practice tools and frameworks, for example:
  – SOC Reform of the Government Shareholder Management Model (Concept proposal to Minister)
  – Protocol on Corporate Governance in the Public Sector and the Board Induction Toolkit
  – Remuneration Standards

• The Minister has requested Boards to put measures in place to ensure irregular, fruitless and wasteful expenditure is avoided and to hold employees accountable when found guilty.

• DPE has monthly management meetings with some SOC and attends quarterly review sessions with SOC.

• SOC must report on quarterly basis on progress made in addressing the findings and recommendations of the AGSA.

Key outcome

• Introduce a culture of discipline which will build public confidence on the SOC and support the attraction of competent people
• Improving the performance standards for all the SOC
• Clear accountability framework that will recognise good performance and address non-performance
THANK YOU