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Case study in Corporate
Governance: Industry
Focus - Electricity

Jane Kbaki

Nozayo Trading & Development, South
Africa





CORPORATE GOVERNANCE AT ZESCO, ZAMBIA

A RESEARCH CASE STUDY COMMISSIONED BY THE
DBSA

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JANE KABAKI

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Introduction and rationale

- Corporate governance arrangements define the responsibilities, authorities and accountabilities of owners, boards of directors, and executive managers of a company. Corporate governance in the SOE sector embodies processes and systems by which corporate enterprises are directed, controlled and held to account.
- The study examines the electricity utility in Zambia Electricity Supply Corporation Ltd (hereinafter called ZESCO Ltd) against the governance framework generally and the OECD principles in particular to assess impediments to reforming and improving the governance and ownership arrangements of the state owned enterprise.
- The rationale for the study is twofold:
 - the DBSA's long-standing relationship with Zambia Electricity Supply Corporation (ZESCO). Since 1998, the Bank has (together with other partners), through investment and extensive technical assistance, helped ZESCO overcome many challenges; the result being that today ZESCO is a commercialised utility looking to tap the commercial markets
 - Zambia has undergone a lot of transformation generally and there have been a number of remarkable reforms and these have reflected on ZESCO



Background of reforms

- After 1968, through the Mulungushi Reforms, nearly all the manufacturing industries were nationalized.
- from 1968 to 1991, the State became the major player in the economy, owning about 80 per cent of the enterprises in the country.
- However, because of the economy's bad performance during that period, along with external and internal pressures, the country had to undergo reforms to return the State-owned enterprises to private hands.
- The political change in 1991 provided the necessary environment for the reforms.
- The Government liberalized the economy and started privatizing the State-owned enterprises. So far, about 259 SOEs have been privatized out of a portfolio of 282



Background of reforms (contd)

- Privatisation in Zambia came about as a practical way to recapitalise SOEs which were consuming a lot of resources from the state in terms of investment requirements and subsidies
- A structured privatisation programme started in 1991 with the enactment of the Privatisation Act in 1992
- Specifically for ZESCO, the Zambian Energy Reform programme was launched in 1991 but the state rejected the outright sale of the energy utility and instead chose to corporatise and later commercialise ZESCO in 2003
- Under this commercialisation option the state would retain its full ownership of ZESCO while allowing it to operate in a purely commercial basis

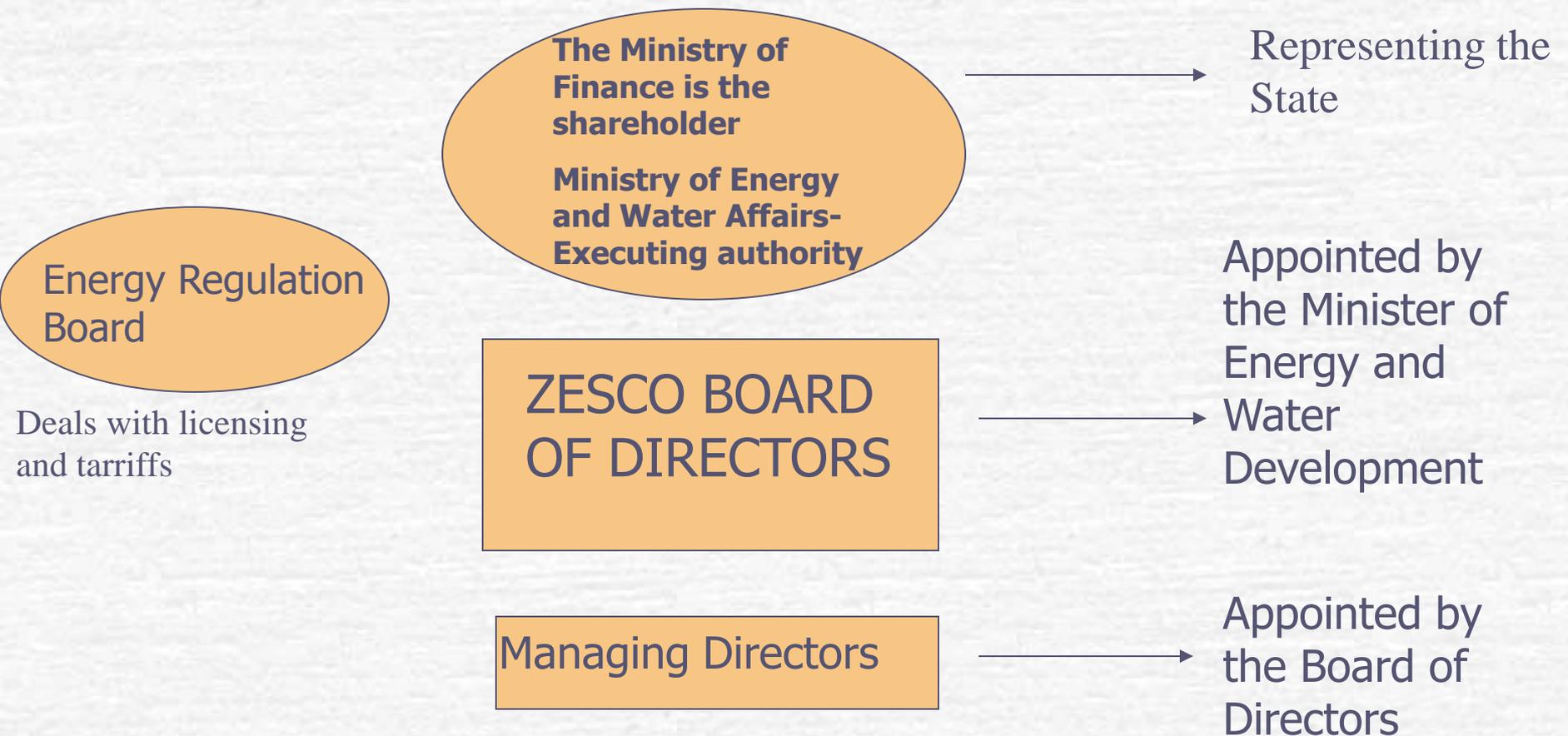


Legal and regulatory foundations

- ZESCO is incorporated under the Companies Act, cap 388 of the laws of Zambia as a company limited by shares in order to enable the corporation to declare profit
- The Companies Act provides for the incorporation, management, administration and winding up of companies.
- ZESCO 's memorandum of association defines its objects as follows:
 - To generate, acquire, transmit and supply electricity as a public undertaking in terms of the Electricity Act and to carry out related functions
 - Electricity Act also provides for tax exemption



Governance structure



Governance Structure Continued

Board of Directors: The ZESCO Articles of Association specify the composition, appointment, term and removal of Board members. Appointment has to be nominated from the following bodies:

- ☞ Zambia National Farmers Union (ZNFU)
- ☞ Zambia Institute of Chartered accountants
- ☞ Engineering Institute of Zambia
- ☞ Law association of Zambia
- ☞ Zambia Association of chambers of commerce and industry
- ☞ Permanent secretary in the Ministry of Finance and National planning
- ☞ Permanent secretary in the ministry of energy and water development

The mentioned organisations have to submit nominees to the Minister of Energy who takes them through the government vetting process and then announces the Board members

The new board members choose a Chairperson from their ranks but may not select either of the two government representatives as Chairperson



Governance structure (cntd)

- An important characteristic of the ZESCO Board of Directors is that only the Board of Directors has the power to appoint and remove the Managing Director. In many SOE's the state/government appoints the Managing director which can lead to external [political] interference. The principle of ensuring the Board appoints the Managing director is that he/she is 'protected from government or other external interference'.
- The Board of Directors is supported by three (3) committees;
 - Technical Committee; this is chaired by the Engineering Representative
 - Finance Committee; chaired by the Chartered Accountant representative
 - Customer Service Committee; Committee selects a chairperson which deals with customer service issues and general administration
- Each of the committees table their reports at the Quaterly Board meetings



Governance structure continued

- Management structure:
- The Corporation is headed by Managing Director who is the Chief Executive and is assisted by a Management executives comprising nine different directors who discharge the following functions;
- Generation and Transmission
- Engineering Development/Power rehabilitation project
- Distribution and Supply
- Customer Services
- Finance
- Human Resources



Performance and monitoring

- Ownership and regulation functions are separated;
- Ownership/oversight
 - The conditions of which are set out in a Performance contract which is reviewed annually
 - Through reporting to the responsible ministries (quarterly to Minister of Energy and annually to Finance through the annual report before it is published) and this includes the performance matrix).
 - Two of the senior most public servants from the respective ministries are represented in the Board



The End

Thank you very much
for your attention

