

# SOE Network for Southern Africa

Maputo  
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Case study in Corporate  
Governance: Industry  
Focus - Electricity

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# **Case Study: Zambia Electricity Supply Corporation (ZESCO)**

**Presentation by DBSA to  
Second Network on Corporate Governance for SOEs  
in Southern Africa**

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# Background

- DBSA signatory to the CG Approach statement signed by DFIs in October Washington in 2006 by 37 international financial institutions
- DBSA regards corporate governance as a key criterion for investment in the region (mitigation of risk)
- DBSA CG case study initiative to profile SOEs demonstrating good governance in order to ensure a platform for the sharing of lessons of experience
- Long history of financial dealings with ZESCO together with other funders (World Bank, IMF, EIB)
- Since 2003 Govt of Zambia has implemented a number of key reforms as part of the commercialisation programme

# Government of Zambia as Shareholder

- 100 % owned by the Government
- Established as a corporate entity in accordance with the Companies Act and has been commercialised
- Has an independent regulator: Energy Regulation Board (ERB)
- Mandate of ZESCO is prescribed in the Articles of Association and the **board has authority** and has revised to align with commercialization objectives
- The GoZ has also established the Rural Electrification Authority funded by govt thus freeing up ZESCO to pursue commercial objectives
- **Implication:** unprofitable transmission & distribution (social obligations) will be excluded from ZESCO operations

# Methodology

- Review of corporate documentation, company policies and constitutional documents
- Interviews held with the Chairman of the board, Managing Director and select board members and management team
- Interviews with DBSA Investment officials
- Used guidelines of the OECD on Corporate Governance of SOEs

# ZESCO Board of Directors

- Board appointed by the Minister from prescribed sector or industry representative bodies (Articles of Association)
- There are different roles of chairman and MD / Chief Executive
- Chairperson not directly appointed by Minister as the board of directors has power to appoint its chairperson through a secret ballot
- Articles of Association allow for the dissolution of the board but provide protection for MD and provides for appointment of interim board to ensure continuity
- Has 3 board committees (Technical, Finance and Customer Service)

# ZESCO Board of Directors

- Permanent Secretaries of Energy and Finance serve on the board as the only government representatives
- Representatives from associations of Engineering, Law Society, Farmers, Accountants, Chamber of Commerce are nominated for appointment to board
- The concept of representative directors versus board collective responsibility & director fiduciaries
- Board conducts induction through IoD Zambia upon appointment
- Training focuses on the exposure to ZESCO business model in addition to the role of the board, chair and relationship between board and management
- Training is done in the presence of government representatives (PS)
- Decision-making is by majority and collective responsibility is emphasized

# Corporate Performance Reporting & Monitoring

- Board has agreed on a performance reporting matrix with the Ministry of Energy
- The Board has in turn developed performance indicators for the Managing Director which are required to be reported on at every meeting
- Board roles and areas of accountability have been agreed: strategy direction and MD is responsible for execution approved business plan
- Donor support and encouragement to operate at arms length
- ZESCO's first business plan has been reviewed by the World Bank which continues to monitor

# SOE Reforms Introduced

- Review of Legal framework: government reviewed the following pieces of legislation that were seen as contradictory :
  - Energy Regulation Act
  - Companies Act
  - Electricity Act
  - Environment Protection and Pollution Control
  - Investment Act
  - Water Act
- Review of Articles of Association to align with commercialization objective
- Involvement of private sector board members and limitation of government representation to 2 without a dominant role.
- World Bank has arranged capacity building in ERB and ZESCO management
- Liquidation of government debt and other government agencies

# SOE Reforms

- Adoption of ZESCO Business plan premised on technical performance, financial viability and service to customers
- World Bank arranged for debt swaps with central govt, Local Authorities, water utilities and other government agencies on debts owed to govt (US \$ 32 million in 2004)

# ZESCO Business Plan

- Plan based on corporate autonomy and capacity building
- Performance contracting introduced with government on short and medium term objectives:
  - I. Improving ZESCO's financial viability
  - II. Improve quality of supply
  - III. Improve customer service management
  - IV. Improve safety and health in the provision of electricity

# Key Corporate Governance Lessons for SOEs

- The Government as a shareholder to be clear up front of the objectives of SOE
- Interestingly we noted the establishment of Rural Electrification Fund to pursue the social obligations thus freeing up ZESCO
- The influence of lenders and financiers on the level and quality of corporate governance of SOEs
- The World Bank and IMF were critically involved in the commercialization and the adoption of the business plan
- Political will at the highest level to initiate SOE reform is a prerequisite

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# Some Reflections

- Democratization and public pressure or scrutiny over the performance of SOEs is very critical. We felt that that the public played a great part in bringing pressure to bear on Government
- Attempts to professionalise boards and curtail the level of influence of government representatives on the board can bear results
- We observed that the board was also empowered to take certain key decisions e.g review articles of association, appoint its own chairman and this process had the effect of political insulation
- We further note a trend where in most SOEs the government as shareholder still retains to hire and fire the CE/MD thus depriving the board a key competence for it to be effective

# Some Reflections

- We noted that board appraisal and evaluation of performance of directors was a challenge and could affect the good relations that existed in the board
- Agreement and discussion of performance milestones with government
- At the board level the discussion is always on performance and how the board can monitor performance.
- The board has reduced the performance contract into a set of indicators that the board monitors on a quarterly basis (dash board)
- Also noted the level of relationship between the board and management and thought that was also a good component.

# Some Reflections

- What was also interesting to us was that alongside the reforms introduced in ZESCO there were initiatives aimed at enhancing the capacity of the regulator (ERB)
- A structured process to adjust tariffs to ensure they are market related and also to monitor performance commitments of ZESCO
- Need for intervention at appropriate level for optimal impact (government policy formulation, board, management, staff)

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