Public Enterprise Governance: An Economic Perspective

Presentation by Robin Sherbourne

23 November 2023

Who said the following and when?

”In fact some powerful and financially sound parastatals, such as NamPower and Telecom, have indicated their readiness to be listed on the Namibian Stock Exchange.”

Minister of Finance Nangolo Mbumba in 1999/00 budget speech

Public Enterprise Creation and Reform

- 1990s creation of many new SOEs
- 2001 Deloitte report on Governance Policy Framework for SOEs
- 2003 Central Governance Agency
- 2006 SOE Governance Act and SOE Governance Council
- 2010 Cabinet approves new guidelines on SOE remuneration
- 2015 Ministry of Public Enterprises created
- 2017 Public Private Partnership Act
- 2019 Public Enterprises Governance Act and hybrid governance model
- 2020 High Level Panel on the Namibian Economy and Holding Company
- 2020 Liquidation of Air Namibia
- 2022 Creation of Ministry of Finance and Public Enterprises

Do we still have a problem?

NamPower FY21/22	**Namibia Wildlife Resorts FY21/22**
MTC FY21/22	**Namibia Airports Company FY19/20**
Namibia Post FY21/22	**TransNamib Holdings FY20/21**
Namibia Ports Authority FY21/22	**Namibia Industrial Development Agency**
Telecom Namibia FY20/21	**Epangelo Mining Company FY20/21**
Namibia Desert Diamonds FY22/23	**Luderitz Waterfront Company**
Namibia Water Corporation FY19/20	**National Fishing Corporation FY16/17**
Roads Authority*	**Henties Bay Waterfront**
Meat Corporation of Namibia FY22/23	**Roads Contractor Company**
National Petroleum Corporation FY21/22	**Zambezi Waterfront**

The four least welcome words in the English language

- I
- Told
- You
- So

The Economics of Public Enterprises

- PEs vary and are different in economic character – no one size fits all
- Commercial Public Enterprise
- Politics vs business
- **Competitive markets** best at delivering most goods and services
- **Market failure** in some cases especially natural monopolies
- **Moral hazard** and “too big (or important) to fail”
- **Adverse selection**
- Government with “strategic stakes” often **player and referee**
- Private companies seek to maximise profit for shareholders and can move quickly to adjust to new market conditions (listed and privately held)
- Public enterprises don’t have a share price and owner is often distant, distracted, and in fiscal distress
- Public enterprises often politicised (owned by government), asked to pursue non-commercial strategies (“development objectives”), sets uneconomic prices (can’t set economic price), overmanned (can’t reduce staffing), undercapitalized (can’t build balance sheet), underinvestment (can’t afford to invest)

Public Enterprise Governance Questions

- How are PE boards selected?
- How is PE senior management selected?
- How do boards relate to business plans?
- How is the performance of boards and senior management assessed?
- How are boards and management remunerated?
- Understanding of legal responsibilities?
- Understanding of PE business model?
- Understanding of the term “commercial”?
- Understanding of financial statements?
- Can commercial PEs respond to changes in market demand?

Public Enterprise Governance Reform Ideas

- Open recruitment of board members and senior management
- Up-to-date database of potential candidates and expertise (and introduce ratings?)
- Use of outside expertise in selection
- Use of retirees
- Harnessing (national and international) private sector experience
- Standard and rigorous probation periods for senior management
- Ongoing training for boards and senior management
- Integrated Strategic Business Plans
- Independent evaluation of performance
- Publish investigations into mismanagement
- Require business cases, financial costs and benefits, and cost-benefit analysis
- PE management placements in private sector companies (and vice versa?)
- Huge challenge for regulator (MFPE)
- OECD corporate governance guidelines of SOEs

Improving governance is not enough!

Public Enterprise Reform

- Sell some PEs or close altogether
- Encourage other PEs to establish strategic partnerships including equity partnerships
- Encourage private players into the market and regulate for level playing field

The prize for more substantial reform and getting things right is huge in terms of the drain on the fiscus and the boost to wider economic dynamism and growth

NICG Public Enterprise Governance Rankings

Marks out of ten for ten criteria for success:

1. Information
2. Profitability
3. Tax
4. Dividends
5. Subsidies and budget support
6. Investment performance
7. Changes in senior management
8. Changes in board members
9. Mismanagement and corruption
10. Other issues