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SOE GOVERNANCE IN NAMIBIA: WILL A HYBRID SYSTEM WORK?

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"SOEs are "enterprises where the state has significant control through full, majority or significant minority ownership"

INTRODUCTION

State-Owned Enterprises (SOEs) fulfil important functions in the Namibian economy. They provide vital services such as electricity and water to citizens, regulate various sectors of the economy, employ many Namibians, and raise revenue for the government. But these enterprises are also controversial: in many cases service delivery is inefficient or inept. Even the SOEs that were supposed to be commercially sustainable have too often relied on repeated government transfers to keep themselves afloat, while a long line of corruption scandals and tales of dysfunctional management have tarnished the reputation of the sector. Given the high stakes involved – the importance of the tasks SOEs carry out for Namibians and the amount of taxpayer money they receive – it is of utmost importance they carry out their mandates with efficiency and integrity.

Since independence, government has tried a variety of approaches to governing its parastatals, with major reforms in 2003 and 2006 failing to have the desired effect. Upon becoming President, Hage Geingob identified the reform of SOEs as a key issue of his administration, and created a Ministry of Public Enterprises to oversee the process of reforming SOEs. After more than a year of intense study, Minister Leon Jooste announced the creation of a new governance system in June 2016. This "game changer," as the Minister called it, centralises many SOEs under the new Ministry while leaving others under line Ministry control.

The implementation of this new system requires amendments to the Public Enterprises Governance Act, and presumably to the founding acts of many public enterprises. As these have not yet been finalised, some specifics of the new regime remain unknown. This report will analyse what we do know about the new system, and highlight issues that will need to be addressed under the new framework if the reform process is to be successful. Overall, this report finds that:

1. The proposed hybrid governance model is a step in the right direction. It follows an international trend of centralisation of SOE oversight, which can lead to better management of the sector.
2. However, the hybrid nature of this system means that better governance is not guaranteed. Many SOEs will still fall under line ministries, several of whom have failed at ensuring good governance in the past. Ensuring they also live up to high standards will be a difficult task.
3. Several specific governance measures should be included in the law, including language on conflicts of interest, asset declarations for certain SOE employees, and accounting practices.
4. Transparency will be key to achieving good governance in the sector. In the past, the public was kept in the dark about what happened at SOEs, an environment that allowed misconduct to flourish. Going forward, the public must know what is going on to rebuild trust in these institutions, and specific measures are recommended to ensure transparency is the standard going forward.

[1] PricewaterhouseCoopers, "State-Owned Enterprises: Catalysts for Public Value Creation?," April 2015, 8.

SOES: AN OVERVIEW

Virtually every state has some sort of involvement in the private sector. This involvement can go by a variety of names – parastatals, public enterprises, SOEs – and come in a variety of legal forms and levels of government ownership and involvement.[1] This report uses the Organisation for Economic Co-Operation and Development definition: SOEs are "enterprises where the state has significant control through full, majority or significant minority ownership,"[2] and uses various names for SOEs interchangeably.

SOEs have played a major role in many countries. In the second half of the 20th century, SOEs in France "were often at the forefront of modernization,"[3] and many other European countries had large and well-performing SOEs after nationalising key industries.[4] State-owned enterprises played an instrumental role in South Korea and Taiwan's economic transformation, with state-owned companies producing goods ranging from steel to semiconductors.[5]

Today, SOEs remain as relevant as ever: while in the first decade of the new millennium most countries saw a decrease in the share of their SOEs in the economy, a recent report found that the percentage of SOEs in the Fortune 500 ranking of the largest companies "has grown from 9% in 2005 to 23% in 2014."[6] This figure likely understates the size of the SOE sector, as the list only counts listed companies – and a significant proportion of SOEs are not listed.[7]

SOEs have increasingly expanded their operations outside their country of origin, many with global ambitions. Namibia has hosted SOEs from foreign countries, including French mining company AREVA, which developed the Trekkopje uranium project, North Korea's Mansudae Overseas Projects, which built the Heroes' Acre, the Independence Museum, and various projects for the Ministry of Defence, and Chinese companies in the construction and mining sector. Meanwhile, a few Namibian SOEs have made tentative moves abroad, though these efforts have often fizzled out. Telecom invested in Angolan operator Mundo Startel, but pulled out after heavy losses, and NamPower has made investments in Botswana.[8]

Governments establish SOEs for a variety of reasons. The most common one is perhaps the case of natural monopolies. Some industries – such as the provision of water, electricity, and telephone service – are such that there is usually only one supplier because barriers to entry, such as the high costs of building up infrastructure, prevent competitors from entering the fray. The company with the monopoly on electricity, for example, could charge any price it wants from consumers who need the product, and would likely refuse to roll out services to poor communities as they cannot expect profit from such a costly operation. While sophisticated regulation and service agreements can let governments keep prices low for consumers and ensure access, for many governments it is a preferable option to simply run the industry themselves.[9] Thus SOEs are often a vehicle for governments to ensure public access to services.

Governments may also invest in an industry because the private sector has declined to do so (such as when the South Korean government set up a massively successful steel company when the private sector thought this was unfeasible), to sustain sectors it believes are important to the economy and society, and to launch new industries where the start-up costs are significant.[10]

[2] Organisation for Economic Co-operation and Development, ed., Corporate Governance of State-Owned Enterprises: A Survey of OECD Countries (Paris: OECD, 2005), 11.
[3] Ha-Joon Chang, "State-Owned Enterprise Reform," National Development Strategies: Policy Notes (United Nations Department for Economic and Social Affairs, 2007), 9.
[4] Herbert Jauch, "Reforming State-Owned Enterprises: Past Experiences and Challenges Ahead," (Panel Discussion Speech, August 2012), 1.
[5] Ha-Joon Chang, "State-Owned Enterprise Reform," 9.
[6] PricewaterhouseCoopers, "State-Owned Enterprises: Catalysts for Public Value Creation?," 6.
[7] Ibid., 9.
[8] Robin Sherbourne, Guide to the Namibian Economy 2017 (Windhoek: Institute for Public Policy Research, 2016), 42
[9] Ha-Joon Chang, "State-Owned Enterprise Reform," 13.
[10] PricewaterhouseCoopers, "State-Owned Enterprises: Catalysts for Public Value Creation?," 14.

BEST PRACTICES FOR SOE GOVERNANCE

It is true that, as the OECD puts it, "SOEs face some distinct governance challenges."[11] Firstly, as is often noted, managers of SOEs know that if they fail, they can count on a bailout from the state, which can lead either to overly risky behaviour or shoddy performance. In addition, accountability is a problem: it is often unclear whom SOEs should ultimately report to among a whole array of bodies and ministries tasked with oversight, while their shareholders (i.e. citizens) have only indirect ways to hold them to account. This means management is either unclear on how to conduct itself or can make decisions based on self-interest rather than what is best for the enterprise of the public at large.

While it is true that many SOEs have experienced governance and performance problems, it is important to note that they are not doomed by their inherent nature. There are ways of structuring incentives that ensure good performance and methods of accountability that work, and many examples from around the world demonstrate that SOEs can be world-class competitive businesses. For example, South Korea's steel company became the most efficient in the world, and state-owned Singapore Airlines is considered one of the best airlines worldwide.[12] To address these challenges, the OECD published best practices for State-Owned Enterprises, which are summarised below.[13]

1. **Rationales for State Ownership.** According to the OECD, "the ultimate purpose of state ownership of enterprises should be to maximise value for society, through an efficient allocation of resources."[14] The state should develop an ownership policy that defines the reasons for state ownership, explains the state's role in governance and the roles of the government bodies involved in implementing the policy. Further governments should define the reasons for owning individual parastatals, and public policy mandates should be mandated and disclosed.

2. **The State as an Owner.** Among other suggestions, the state is supposed to "simplify and standardise the legal forms under which SOEs operate,"[15] while their operations should follow common corporate standards. Government should not interfere in the management of parastatals, and grant them independence – this goes especially for the boards of SOEs. Ownership rights should be concentrated in one entity, or carried out by a coordinating body. In terms of exercising its shareholder rights, the state should establish "well-structured, merit-based and transparent board nomination processes," monitor the implementation of targets, audit performance, develop a disclosure policy and a clear remuneration policy.

3. **SOEs in the Marketplace.** In establishing laws and regulations, the government "should ensure a level playing field and fair competition in the marketplace." To achieve this, the state should separate its ownership and regulatory roles, and SOEs should have to follow general laws and regulations – and receive the same treatment as private companies when it comes to accessing finance. SOEs with public policy objectives should have "high standards of transparency and disclosure regarding their cost and revenue structures;" these objectives should be funded by the state and disclosed. Finally, in procurement processes should be "competitive, non-discriminatory, and safeguarded by appropriate standards of transparency."[16]

[11] OECD, "OECD Guidelines on Corporate Governance of State-Owned Enterprises," 2015, 12.
[12] Ha-Joon Chang, "State-Owned Enterprise Reform," 8–11.
[13] The following section draws from OECD, "OECD Guidelines on Corporate Governance of State-Owned Enterprises."
[14] Ibid., 19.
[15] Ibid., 20.
[16] Ibid., 22.

4. **Equitable Treatment of Shareholders and Other Investors.** This set of guidelines is designed for situations where SOEs involve other shareholders aside from the government. That sort of situation is rare in Namibia at the moment – MTC is a notable case – but with government's stated desire to engage in more Public-Private Partnerships, these guidelines could be more important in the future and should thus be considered. Among other points, the guidelines suggest that all shareholders should be treated equally, especially regarding transparency and communication.

5. **Stakeholder Relations and Responsible Business.** Both governments and SOEs should respect the rights of all stakeholders, and SOES should distinguish themselves through high standards of ethical conduct. The government should publish its expectations in this regard. Larger SOEs should report on their relations with stakeholders, including details on affected communities, and all SOEs should have internal controls and ethics programmes, including anti-fraud and anti-corruption measures, based on country norms and in line with international commitments. Finally SOEs should not finance political activities, and should not contribute to political campaigns.

6. **Disclosure and Transparency.** Transparency is integral to a well-functioning SOE regime. Thus, "SOEs should report material financial and non-financial information on the enterprise in line with high quality internationally recognised standards of corporate disclosure."[17] This information should include: a statement on the objectives of the enterprise; financial and operating results; governance, ownership and voting structure; the remuneration paid to key executives and board members; the board selection process including diversity policies, qualifications of members and whether they have roles on other boards; any transactions with the state; any material risks; and anything else relating to stakeholders and employees. As a matter of course, financial statements should be based on a high-quality external audit, and whoever oversees SOEs should publish an aggregate report on SOEs. Finally, crucially, disclosure should include online methods to enable broad access.

7. **Board Responsibilities.** The role of boards should be made clear in law, and mandates and objectives should be clearly set by government and disclosed. The Board should be allowed to hire and fire the CEO and set appropriate remuneration. Board members should be qualified, and, where applicable, "free of any material interests or relationships with the enterprise."[18] Conflict of interest measures should be implemented.

"While it is true that many SOEs have experienced governance and performance problems, it is important to note that they are not doomed by their inherent nature."

A HISTORY OF SOE GOVERNANCE IN NAMIBIA

The post-independence Namibian government started with relatively few SOEs – 12 by one count in 1990.[19] However, this number soon increased as government devoted a lot of attention to the sector. The growth in parastatals in the first ten years was driven by a variety of factors. Firstly, some parastatals had to be established in the process of building the new state (the Bank of Namibia is a good example of such a non-negotiable institution). Secondly, government was keen on "commercialisation;"

[17] Ibid., 26.
[18] Ibid., 28.
[19] Frederico Links and Malaika Haimbodi, "Governance Challenges in the SOE Sector," Anti-Corruption Research Programme (Institute for Public Policy Research, December 2011), 1.

taking functions that had been performed by government and spinning them off into separate companies.[20] The very first National Development Plan states that government would "withdraw from activities that can be more effectively undertaken by the private sector."[21] A 1994 Cabinet decision stated that "areas and functions within the public service need to be commercialised, privatised or deregulated," and the 1995 Wage and Salary Commission agreed that commercialisation should be accelerated.[22] For example, the creation of Telecom, NamPost, and TransNamib reduced employment at the Ministry of Works, Transport and Communication by around 3000 employees.[23] Other SOEs born from this process of commercialisation include NWR and NamWater. In this first stage of SOE operation, each parastatal reported directly to its line ministry – the system was entirely decentralised.[24]

A decade into the life of the new country, widely-publicised cases of mismanagement, and the ever-escalating costs of subsidising SOEs that had failed to become self-sustaining, forced government to reconsider the governance of the sector. In 2000 Cabinet asked an external firm to compile a report on the governance of SOEs. The report found "worrying trends" across the sector: government was spending too much on SOEs which were increasingly unproductive while charging excessive prices and paying too little in tax. The report also noted that governance practices were not carried out consistently and that there was undue political interference.[25] The report suggested a new classification of SOEs (notably taking into consideration which ones could potentially be self-financed), and proposed a new governance structure, where a Central Governance Agency in the Ministry of Finance would monitor SOE performance while being overseen by a State-Owned Enterprise Governance Council at the Cabinet level. This Central Governance Agency indeed existed for a short while, between 2003 and 2006, though without enabling legislation and under the office of the Prime Minister, not the Minister of Finance.[26]

In 2006 government introduced the State-Owned Enterprises Governance Act, creating what has been called the "dual-governance model." In this model, oversight is shared between portfolio ministries, who are the shareholders of State-Owned Enterprises, and the newly-created State-Owned Enterprises Governance Council (SOEGC), a Cabinet committee chaired by the Prime Minister. The SOEGC was supposed to develop a framework for governance and determine how performance would be measured. The Council had to enter into governance agreements with SOE boards, and determined "number, eligibility, and term of office of board members."[27] Portfolio Ministers set remuneration for board members, and after a 2008 amendment to the Act once more took the power to appoint board members back from the Council.[28]

"After ten years of dual governance, the Minister of Public Enterprises concluded that "the failure of this model has become profoundly evident."

After ten years of dual governance, the Minister of Public Enterprises concluded that "the failure of this model has become profoundly evident."[29] The SOEGC secretariat was understaffed through its tenure and thus had little effect on SOE governance.[30] Line ministries controlled both regulation of a sector and the SOEs in it, creating a potential conflict of interest. According to the Minister of Public Enterprises, line ministries lacked the skills needed for proper oversight, while the "complex reporting and governance structure" made it easier to evade accountability.[31] Crucially, the act made no provisions to sanction SOEs for failing to

[20] Robin Sherbourne, Guide to the Namibian Economy 2017, 419.
[21] Herbert Jauch, "Reforming State-Owned Enterprises: Past Experiences and Challenges Ahead," 3.
[22] Ibid.
[23] Herbert Jauch, "Reforming State-Owned Enterprises: Past Experiences and Challenges Ahead."
[24] Leon Jooste, "Hybrid Governance Model for Namibian Public Enterprises," (Press Statement, June 21, 2016), 1.
[25] Robin Sherbourne, Guide to the Namibian Economy 2017, 420.
[26] Leon Jooste, "Hybrid Governance Model for Namibian Public Enterprises," 1.
[27] Robin Sherbourne, *Guide to the Namibian Economy 2017*, 421.
[28] Ibid., 422.
[29] Leon Jooste, "Hybrid Governance Model for Namibian Public Enterprises," 2.
[30] Robin Sherbourne, *Guide to the Namibian Economy* 2017, 422.
[31] Leon Jooste, "Hybrid Governance Model for Namibian Public Enterprises," 5–6.

comply with their requirements, and so many of them neglected their governance duties – including the requirements to submit reports and audits.[32]

SOE (MIS)GOVERNANCE: SELECTED CASES

In Namibia, SOEs have acquired a hard-earned reputation for **mismanagement**. Outright theft and misappropriation of funds do occur, and in several high-profile cases money has mysteriously gone missing after being invested with other companies (the notorious Avid, ODC, and GIPF scandals alone add up to almost N$700 million lost). More common is simple incompetence and mismanagement. After auditor findings that the SOE responsible for disbursing student loans could not account for 2.7 billion, and had difficulty tracing debtors who owed the fund N$400 million, the Minister in charge of oversight attributed the problems to a recent move of the office, claiming files could have been lost in the process.[33]

However, there seem to be few consequences for poor performance. Instead, many SOEs have relied on significant **state subsidies**. In a bitterly ironic turn, the worst offenders in this regard have been "commercial" SOEs that are actually supposed to raise revenue for government rather than draining its coffers. The government has spent billions on the national airline over the years, and Air Namibia received almost N$700 million in this year's budget, with similar yearly subsidies planned going forward. TransNamib received a bailout to the tune of more than N$300 million. NWR has been another candidate for regular bailouts, asking government to step in several times and still costing the taxpayer N$66 million between 2016 and 2019.

SOEs have also been characterised by **board dysfunction** and infighting among senior leadership. For example, at one point "the SSC board went to war with the company's CEO … because he refused to spoil them with luxuries such as Apple iPads," reports *The Namibian*. The board suspended the CEO for a year in a process costing the company N$3 million, while one board member pocketed more than N$170 000 for attending meetings during the disciplinary process.[34] Meanwhile, the Namibia Training Authority's board suspended its CEO for over two years in an apparent attempt to sideline her until the expiration of her contract – the Anti-Corruption Commission declared it "found nothing … that merits investigation" in the report detailing her alleged misconduct. Meanwhile the CEO of the Namibia Students Financial Assistance Fund (NSFAF) recently claimed the board had subjected her to "victimisation" and "harassment" in order to force her out in a messy dispute involving several Ministers.[35]

In the frequent battles between boards and senior executives, a popular method of getting rid of an unpopular leader is to offer them a "**golden handshake**," a massive payout for the termination of their contract. These highly unpopular deals have been struck with an alarming frequency, enraging the public as payouts are often granted to executives who have not shown their worth. Former Air Namibia Managing Director Theo Namases received a severance payment of more than N$3 million after being suspended for a year. Despite an audit report finding she had "contravened the Anti-Corruption Act and breached her employment contract," she was never brought before a disciplinary hearing.[36] Namibia Airports Company CEO Ben Biwa received a payout of around N$2 million,[37] while the Namibia Wildlife Resorts MD Tobie Aupindi walked off with N$5 million when he resigned.[38]

[32] Robin Sherbourne, *Guide to the Namibian Economy* 2017, 423.
[33] Denver Kisting, "NSFAF Lost Data While Relocating - Minister," The Namibian, June 27, 2016.
[34] Tileni Mongudhi, "ACC Clears Nangolo-Rukoro," The Namibian, August 9, 2015.
[35] Staff Writer, "Ugly NSFAF Battle Exposed," Windhoek Observer, October 21, 2016, http://www.observer.com.na/index.php/national/7143-ugly-nsfaf-battle-exposed.
[36] Ndanki Kahiurika, "Namases Talks on AirNam," March 7, 2015.
[37] Tileni Mongudhi, "Biwa Gets Golden Handshake," The Namibian, November 3, 2013.
[38] "Super Golden Handshake for Aupindi," The Namibian, June 26, 2012.

Some SOEs engage in projects of a massive scale, and often the **tendering** process has come in for critique. In the last year alone, the NAC was investigated for awarding a tender to a company that would charge twice as much as the company which scored the most points in the tendering process, and investigated for awarding a N$150 million project through a tender exemption without consulting management;[39] the President also cancelled a N$7 billion airport upgrade citing tender irregularities (the matter is currently in litigation). That one company alone courted so much controversy in one year illustrates that tender irregularities have become virtually endemic in the SOE sector.

THE SIREN CALL OF PRIVATISATION

Critics of SOEs in Namibia have often argued for a privatisation of ailing enterprises to unburden the taxpayer and force the businesses to run at a profit. This call has not been confined to private citizens: the National Development Plan noted that some SOEs should be privatised. This was confirmed by the Wage and Salary Commission in 1995 and Minister Helmut Angula argued in favour of some privatisation in 2002.[40]

However appealing this may sound in theory, there is a risk that in practice "privatisation may cause more problems than it solves, resulting in more corruption, a greater rich-poor divide, exacerbate social tensions, enrich a select few and create a system that defies future reform."[41]

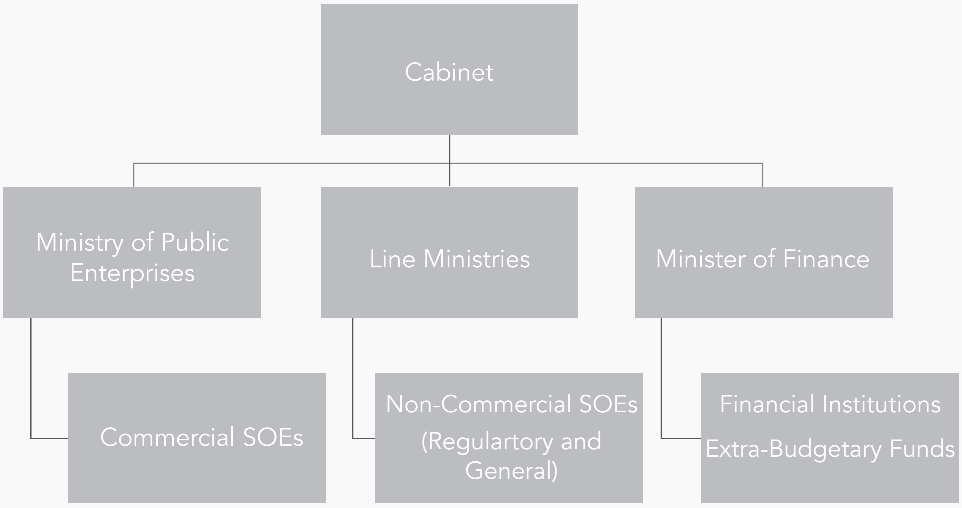
SOEs are assets of enormous value to the state, and thus the people. Take a business like NamPower: apart from the potentially enormous future earnings, the company has a significant amount of land, buildings, equipment, and other physical assets. To privatise such a business requires sophistication from the state in several areas: it needs to ensure that the business is sold at a fair price, and it needs to find a way – through service contracts, or through regulation – to ensure the business continues carrying out its mandate. Imagine NamPower being sold at a low cost, vastly enriching private investors who then refuse to bring electricity to areas that do not have it yet.

The privatisation of SOEs, in a climate where SOEs are not well managed SOEs, is worrying: "if a government has the capacity and capability to conduct a good privatisation, it probably also has the capacity to operate good SOEs; whereas, if a government does not have the capacity to operate good SOEs, it likely also lacks the capacity to conduct a good privatisation."[42] If Namibians think SOEs are mismanaged and corrupt, should they trust government to sell them off without individuals benefitting at the expense of the people? Examples from around the world caution against a rash privatisation.

There are compromises, such as partial privatisation. In fact, the Minister alludes to some forms of partial privatisation, such as listing companies and involving private partners, in our Q&A. But privatisation is always a very complex matter with potentially grave implications for the future of service delivery, and great care needs to be taken if it is to be attempted.[43] Privatisation can be a useful tool, but it is not a solution for poor governance. Government will have to find a way to fix SOEs without selling them off.

[39] Tileni Mongudhi and Ndanki Kahiurika, "Airport Tender 'Done Deal,'" The Namibian, June 13, 2014, http://www.namibian.com.na/index.php?id=124417&page=archive-read.
[40] "Minister on State Owned Enterprises," Republikein, July 16, 2016, https://www.republikein.com.na/nuus/minister-on-state-owned-enterprises.
[41] Ha-Joon Chang, "State-Owned Enterprise Reform."
[42] Ibid., 17.
[43] see Ha-Joon Chang, "State-Owned Enterprise Reform" for a checklist explaining the conditions under which privatisation can work.

THE HYBRID GOVERNANCE MODEL – "GAME CHANGER" OR BUSINESS AS USUAL?



The Hybrid Governance Model. Adopted from Minister Jooste's Press Statement, July 2016.

Several months before he was elected President, Hage Geingob announced his intention to create a dedicated Ministry for Public Enterprises. Newly-appointed Minister of Public Enterprises Leon Jooste dedicated the first year of his tenure to a comprehensive review of SOE governance in Namibia, and presented a new governance system in June 2016. This system splits SOEs into three categories: commercial SOEs, financial SOEs and extra-budgetary funds, and non-commercial SOEs.

Under the new system, the Ministry of Public Enterprise will become the full shareholder of all commercial enterprises, which are defined as those which "provide a product or render a service in the best interest of the public and [have] the potential to generate a sustainable profit while promoting economic growth and fulfilling its mandate."[44] The Ministry exercises full oversight, which includes appointing boards, enforcing performance agreements, reviewing business and financial plans, approving budgets and issuing directives on remuneration. The new system will also include "an incentivised remuneration system and a Performance Management System," though details have not been specified at this point. Meanwhile, portfolio ministries will still be responsible for regulating their respective sectors.[45] For example, while the Ministry of Public Enterprises will now oversee Namibia Wildlife Resorts, the Ministry of Environment and Tourism will still oversee tourism regulations.

The Ministry of Finance takes charge of "all entities of financial nature," such as the SME Bank, and extra-budgetary funds like the Road Fund Administration and the Motor Vehicle Accident Fund. The rest of the SOEs (termed non-commercial SOEs), which includes regulatory bodies, remain under their line ministries. However, the Ministry of Private Enterprises will issue "generally accepted common principles of good corporate governance and reporting" as well as remuneration guidelines, and include them in its oversight management system.[46]

"Under the new system, the Ministry of Public Enterprise will become the full shareholder of all commercial enterprise."

[44] Leon Jooste, "Hybrid Governance Model for Namibian Public Enterprises," 3.
[45] Ibid., 4.
[46] Ibid.

"There is still a lack of clarity over the classification of SOEs, as a full list has not been provided."

There is still a lack of clarity over the classification of SOEs, as a full list has not been provided. The table below shows that the Ministry's press statement and subsequent media coverage only account for 38 SOEs. In addition, the partial list supplied by the Ministry lists NBC and Namibia Press Agency as non-commercial enterprises. It is not necessarily wrong to classify them as such, but there is a case to be made that they could be viable as profit-making enterprises, and should be expected to carry their own weight rather than burdening the taxpayer. Similarly, a recent media report cited Minister of Mines and Energy Obeth Kandjoze as saying that newly established diamond trading company Namdia falls under his Ministry even though it is a commercial enterprise.[47] MTC has never been acknowledged as an SOE, despite the state owning a majority stake. Similarly, the status of Meatco remains unclear while it is unclear whether government exercises effective control and oversight over August 26 holdings.[48] Especially because government also regulates the sector, clarification is needed.

Classification of SOEs

Commercial Enterprises	Financial Institutions and Extra-Budgetary Funds	Non-Commercial Enterprises
• Air Namibia • Epangelo Mining • Henties Bay Waterfront • Lüderitz Waterfront • Namcor • Namibia Airports Company • Namibia industrial Development Agency • Namibia Institute of Pathology • Namibia Ports Authority • Namibia Wildlife Resorts • Nampost • NamPower • National Fishing Corporation • Roads Authority • Roads Contractor Company • TransNamib Holdings • Zambezi Waterfront • National Fishing Corporation	• **Banks** • **Road Fund Administration** • **Motor Vehicle Accident Fund**	• **Communications Regulatory Authority of Namibia** • **Electricity Control Board** • **Namibia Fish Consumption Promotion Trust** • **Namibia Press Agency** • **Namibia Statistics Agency** • **Namibia Training Authority** • **National Art Gallery** • **National Commission on Research, Science & Technology** • **NBC** • **UNAM** • Accreditation Board of Namibia • Diamond Board of Namibia • Fisheries Observer Agency • Karakul Board • Meat Board • Namibia Agronomic Board

SOEs in bold were announced directly by the Ministry, those in regular were mentioned in subsequent media reports

WILL THIS WORK?

The move to centralise oversight over SOEs forms part of a larger global trend: for example, Finland transferred the ownership of SOEs from ministries to a department in the Prime Minister's office.[49] There are several benefits to centralising SOE oversight: for one, it is efficient, which is useful in times of fiscal restraints. In

[47] Shinovene Immanuel, "Diamond Firm Takes off Secretly," *The Namibian*, October 14, 2016.
[48] Robin Sherbourne, *Guide to the Namibian Economy 2017*, 419.
[49] OECD, "State-Owned Enterprise Governance Reform: An Inventory of Recent Change," 2011, 7.

theory, a central body can also accumulate expertise and therefore provide better oversight. In presenting the new system the Minister further argued this new model would provide clarity in regards of ownership and mandate, and create more efficient communication and accounting structures.[50]

When it comes to commercial enterprises, the separation of regulation (line ministries) from the task of running the SOE (Ministry of Public Enterprises) is commendable, as it can act to reduce conflicts of interest. There is also some evidence that centralised oversight is more accountable: the OECD found that when aggregate reporting on SOEs is done "its depth and consistency is seen as higher in those countries that have a centralised ownership function".[51]

However, many questions remain about the new system. It is true that there is now much greater clarity regarding commercial enterprises, but it remains to be seen how the system works for SOEs that still report to their line ministries or the Ministry of Finance. In the new system, all SOEs have to abide by centrally set governance rules – but what will be the consequences if they do not? A major problem with the last system was that the law had no provisions for punishing SOEs for noncompliance. The new law should include meaningful, mandatory sanctions. The Minister has indicated that "failure to adhere [to performance agreements] may result in dismissal" (see our Q&A). It is also unclear who will enforce these rules. Will the line ministries, many of whom have failed comprehensively at providing oversight in the past, oversee enforcement? If so, what happens if they do not enforce the standards? If this is not clarified we could once more see ineffective governance, or even clashes between ministries.

What exactly will these overall governance requirements look like? Certainly, there needs to be very clear language on conflicts of interest – specific definitions, mandatory disclosure, and a set framework on how to deal with it. The Minister indicated that there will be language on the topic based on corporate governance codes. However, this is not enough: going forward, conflicts of Interest need to be regulated on a national level through comprehensive legislation. To pre-empt conflicts of interest, and to increase public trust in the leadership of parastatals, governance rules should include mandatory asset declarations for senior leaders in SOEs and anyone making decisions on significant spending amounts if the SOE is funded by the state – if taxpayers are footing the bill, they must be able to trust that their money is being well spent.

SOEs should follow commonly accepted best practices when it comes to accounting and auditing. Larger and more important ones should follow international standards such as IFRS or US GAPP, as the Development Bank of Namibia has done.[52] Board appointments have been a big issue in the past, with frequent accusations of nepotism in making decisions. The law should outline clear and specific guidelines regarding qualifications, and require a transparent process. In our Q&A, the Minister refers to a new performance-based remuneration system (see appendix). Guidelines for this should also be made public. The Performance Agreements promised in the new system are not new; the 2006 Act also prescribes them. This law should give details as to consequences for failure, and again the agreements should be made available for scrutiny by the public. Government should also publish an ownership policy outlining its reasons for owning SOEs and its role in running and regulating them.

It appears that in the new system, Cabinet ultimately oversees state-owned enterprises. There are downsides to this approach. In the past, the Cabinet-led committee was ineffective – partially because the secretariat was understaffed,

[50] Leon Jooste, "Hybrid Governance Model for Namibian Public Enterprises," 5,6.
[51] OECD, "State-Owned Enterprise Governance Reform: An Inventory of Recent Change," 47.
[52] Robin Sherbourne, Guide to the Namibian Economy 2017, 432.

but presumably also because Cabinet members tend to already have many responsibilities. An alternative arrangement would see Parliament act as the oversight body, perhaps through a subcommittee. Parliament can build and retain expertise, and this arrangement would have the added advantage of being more transparent than Cabinet, which tends to be secretive. If oversight remains with Cabinet, there should be a commitment in law to transparency – for example, major decisions as well as the reasoning for them should be publicised.

TRANSPARENCY IN THE NAMIBIAN SOE SECTOR

In fact, the level of transparency under the new system will be crucial in determining whether it succeeds or fails. State-Owned Enterprises should be held to extremely high standards in this regard – in fact, they should be "more public than public companies."[53] Private enterprises only have to answer to their shareholders. But SOEs answer to the general public, because they have a mandate to provide services – and because taxpayers are ultimately the shareholders of parastatals. As citizens need to access this information, "there is an increasing recognition by government of the need for improved disclosure and enhanced transparency and accountability among SOEs."[54]

Unfortunately, SOEs have in the past failed spectacularly at providing the sort of transparency Namibian taxpayers deserve. For a long time citizens did not even know how many parastatals they were supporting. For many years, various research publications relied on their own counts in the absence of official numbers.[55] A government gazette from 2013 put the number at 72.[56] In 2016, the official website of the Ministry of Public Enterprises seemed to take some time to clarify this, first saying there were "over 90" parastatals before changing the text to specify there were 98," although it listed only 43 as of early November 2016. If citizens do not even know how many companies they own – let alone their names, functions, and details on their performance – it is impossible for them to know how SOEs are doing.

According to the 2006 State-Owned Enterprises Governance Act, SOEs must produce annual reports that include audited financial statements, information on their performance as well as a statement detailing the extent to which they have met their targets. This annual report is then supposed to be tabled in the National Assembly so that it becomes a public document.[57] In the past, SOEs have failed almost entirely to follow these instructions. In late 2015 and early 2016, the IPPR attempted to track down SOEs' most recent annual reports. Out of 70 SOEs investigated, 35 had no annual reports on their website - half. Culprits included some of the most prominent SOEs, and several only had outdated reports online. Direct requests to SOEs without reports on their websites yielded only a handful of positive results, often severely outdated. Private researchers are not the only ones struggling to get information out of SOEs. In September 2015, Minister Leon Jooste addressed Parliament to complain about "the serious non-compliance of public enterprises" after he had written to them requesting information on their remuneration practices, and he indicates in our Q&A that annual reports will be included in performance agreements and subject to sanctions (see appendix).[58]

Going forward, there needs to be a significant change concerning transparency in the system. During the same appearance in Parliament, Minister Jooste said the Ministry was about to complete "a database to capture the status of compliance of public enterprises to assist us now and in future."[59] Presumably this database will a

[53] PricewaterhouseCoopers, "State-Owned Enterprises: Catalysts for Public Value Creation?," 20.
[54] Ibid.
[55] see Frederico Links and Malaika Haimbodi, "Governance Challenges in the SOE Sector"; and Herbert Jauch, "Reforming State-Owned Enterprises: Past Experiences and Challenges Ahead" for examples.
[56] Government of Namibia, Gazette No. 5213, 2013.
[57] Government of Namibia, State-Owned Enterprises Governance Act, 2006, 2006, sec. 26.
[58] Chamwe Kaira, "Jooste Hardens on Errant Public Enterprises," The Namibian, January 10, 2015.
[59] Ibid.

part of the "oversight management system" referred to at the announcement of the new governance system.[60]

There is no reason that a large proportion of this compliance data should not be available to the public online. South Korea has pioneered the way forward on this by establishing an internet-based platform that provides information about public enterprises to the public. SOEs are required to disclose operational data, including the number of staff, average salaries, executive remuneration, debts, and major performance indicators.[61] This does not have to be complicated: the Korean System has expanded its categories over time, and in Namibia some basic information should already be available. Asset declarations of senior staff should be published, as should performance agreements and details about SOE performance. Importantly, anything that is published – including SOE annual reports – needs to be online to broaden access, and this should be mandated in the law.

State-Owned Enterprises in Namibia have lost the public's trust. Namibians think SOEs are mismanaged or neglected at best, or vehicles for corruption and self-enrichment at worst. To change this perception, to regain the confidence of the people who ultimately own these businesses, government should commit to a radical transformation with regards to transparency. Transparency should not only be implemented in the future, but there should be a concerted effort to publish past data for SOEs. This may leave several parastatals embarrassed – but if the Namibian public is to regain trust, they will need to see the reality of the situation, with all faults exposed, to believe that the new commitment to good governance is backed by political will.

"To regain the confidence of the people who ultimately own these businesses, government should commit to a radical transformation with regards to transparency."

RECOMMENDATIONS

SOEs may have underperformed in the past, but they render important services to Namibians, while some even have the potential to add revenue to the state's coffers. Privatisation is no easy solution for these problems, and in any case is not feasible for all SOEs. It is thus vital that government manages to turn around the governance of the sector.

The new hybrid governance system has the potential to improve on the current situation. Its (incomplete) move towards centralised oversight and control follows the example set by well-performing countries, and can lead to more efficient and consistent governance of State-Owned Enterprises. To ensure this potential is fulfilled, the following steps should be taken:

- Government should clarify how many SOEs it owns, what its nature of involvement is, and how these SOEs are classified under the new law
- Following OECD guidelines, this could be done via a public ownership policy and ownership statements
- To make the new overall governance rules effective, the law should include clear penalties for non-compliance
- The new law should clarify who is ultimately responsible for enforcing governance rules, keeping in mind that line ministries have performed poorly in the past
- New governance measures should include common accounting standards, including international ones for large and important SOEs
- Placing ultimate oversight with Parliament should be considered, as this could enable more transparent governance
- The law should mandate transparent access to essential information about SOEs.

[60] Leon Jooste, "Hybrid Governance Model for Namibian Public Enterprises," 4.
[61] OECD, "State-Owned Enterprise Governance Reform: An Inventory of Recent Change," 22.

Performance agreements, Board remuneration guidelines, board requirements, appointments and the criteria followed in making the decision, aggregate employment statistics and financial statements should form a start.

- This information should be easily accessible online and expanded over time.

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APPENDIX 1: Q&A WITH MINISTER LEON JOOSTE

The hybrid governance model marks a significant departure from previous models. Why did you feel there was a need for such a move in how Namibia's SOEs are regulated? The fact is that our Public Enterprises (PEs) have largely failed to implement their respective mandates and one of the first things we did was to figure out exactly what the root causes of these failures are. Globally PEs are broadly governed in decentralized-, dual- and centralized governance models. The dual governance model which has been used in Namibia since 2006 is generally accepted to be one of the most ineffective models around and it quickly became obvious that the attempt to govern our PEs in flawed governance models is one of the fundamental root causes for the failure of PEs. There is a Global tendency to migrate towards centralized governance models. In our case, we have both commercial- and non-commercial PEs which is why the hybrid model is required. Our priority commercial PEs will be governed within a centralized model while our non-commercial PEs will still continue to be governed within a dual-governance model. This model will provide us with the required governance infrastructure to reform our PEs while still leaving room for further evolution.

In deciding on this new model, which other countries or cases did the Ministry look at to find the best model? We attach a lot of value to research and targeted benchmarking with countries that have proved to be successful in this particular area. Some of the best examples are found in Norway, Sweden, Singapore, Malaysia and New Zealand.

In September 2015, you stated in Parliament that many SOEs had not complied with your request for information. Has there been progress on this front? We have made progress after I requested Cabinet approval for our Public Enterprise Compliance Project. We will upgrade the quality of the Performance Agreements radically to include compliance to our legal provisions and failure to adhere may result in dismissal.

Will the new framework include requirements for SOEs to publish their annual reports and sanctions if this does not occur? Definitely. The submission of Annual Reports is a legal requirement and has to be submitted within 6 months after the financial year-end. We will once again capture this element in Performance and Governance Agreements and there will be consequences for failure to adhere.

On the same topic, the Harambee Prosperity Plan calls on all SOEs to release audited financial statements within six months after the financial year. Has there been progress on this front? There has been progress and we are pushing the PEs to catch up as quickly as possible.

How does the new framework prevent conflicts of interest in regards to high-ranking employees of SOEs? Does it introduce any new rules in that regard? We are preparing a comprehensive list of governance principles and directives to ensure good corporate governance. Our principles are based on King 3 and the Namcode.

"We are finalizing completely new Remuneration Guidelines that will mark the introduction of a Performance Based system."

Does the new framework include any new rules on the remuneration of board members and other high-ranking employees of SOEs? Radical changes. We are finalizing completely new Remuneration Guidelines that will mark the introduction of a Performance Based system. Performance Agreements between the Minister and individual Board members and then between the Board and the CEO (and then to cascade downwards) will be a legal requirement. These agreements will contain actual key performance indicators (kpi's) that will be aligned to the approved (by the same Board) business and financial plans. We will implement a performance management system to evaluate financial, operational and strategic performance. The final element is that the new Remuneration Guidelines will be incentivized with emphasis on performance-based remuneration. This is a major shift from the current system where Boards and Managers are remunerated according to their tier classification regardless of whether they perform or not.

What are the next steps in implementing the new governance framework? We are anxiously waiting for the finalization of the legal amendments to our existing legislation that will allow us to implement this governance model. We will finalize this within the next month and table it in Parliament as soon as business resumes in 2017.

When will the new law regulating the framework be introduced, and when will the new framework be fully in place? See 8. We will table the Bill in February and will have everything in place for full implementation as soon as the amendment is promulgated.

The Harambee Prosperity Plan states that some SOEs own assets that are "dead capital." Will reforms in the SOE sector include the privatization of some SOEs or some of their assets? If so, what is the framework for this process? Our legislation has an entire Section dealing with the restructuring of PEs that clearly explains the process to be followed. We are going to explore various options to "leverage" our comprehensive PE assets. We are also developing and Ownership Policy which will guide our decision-making and include this particular element. We are investigating options to merge certain PEs, absorb some into Ministries and to list some PEs on the Namibian Stock Exchange while other may attract strategic partners.

APPENDIX 2: SOE ANNUAL REPORT AVAILABILITY AS OF NOVEMBER 22 2016

SOE Name	Most Recent Report on website	URL
Agricultural Bank of Namibia	2015	https://cms.my.na/assets/documents/p1ato1lseo5ei43r-se65u9hvc3.pdf
Agronomic Board	2014	http://www.nab.com.na/cms_documents/e6e-nab2014an-nualreport.pdf
Air Namibia	none	
August 26 Holdings Company (Proprietary) Limited	none	
Communications Regulatory Authority of Namibia	2014	http://www.cran.na/dloads/Media%20Releases/Cran%20 Annual%20Report_2014.pd
Development Bank of Namibia	2016	http://www.dbn.com.na/index.php/publication-home/ annual-reports/file/115-annual-report-2016
Diamond Board of Namibia	2009/2010	http://www.oag.gov.na/report/reports/1027_ DiamondBoard08_10.pdf
Electricity Control Board	2015	http://www.ecb.org.na/images/docs/Annual%20Reports/ ECB_Annual_Report_2015.pdf
Environmental Investment Fund	2013/2014	http://www.eifnamibia.com/index.php/downloads/docu-ments/corporate-reporting
Epangelo Mining Company (Pty) Ltd	none	
Fisheries Observer Agency	2009/2010	http://www.foa.com.na/wp-content/up-loads/2010/09/2009-2010.pdf
Games Products Trust Fund	2008/2009	http://www.oag.gov.na/report/reports/885_GameProduct-sTrustFund_2007_09.pdf
Health Professionals Council of Namibia	2016	http://www.hpcna.com/images/publications/Health%20 Professions%20Councils.pdf
Henties Bay Waterfront (Proprietary) Limited	none	
Karakul Board of South West Africa	2012	http://www.oag.gov.na/report/reports/17_2014_Kara-kul_2011_12.pdf
Lüderitz Waterfront Company	none	
Meat Board of Namibia	2014/2015	http://www.nammic.com.na/index.php/library/ category/23-annual-reports
Meat Corporation of Namibia	2016	http://www.meatco.com.na/files/files/Meatco%202016%20 Annual%20Report%20print_20160602.pdf
Minerals Development Fund of Namibia	2012/2013	http://www.mme.gov.na/publications/
Motor Vehicle Accident Fund	2015	http://www.mvafund.com.na/index.php/shortcode/ac-cordion/carousel
Namibia Airports Company	2012/2013	http://www.airports.com.na/about-us/annual-reports/108/
Namibia Board of Trade	none	
Namibia Bricks Enterprises (Proprietary) Limited	none	
Namibia Broadcasting Corporation	none	
Namibia College for Open Learning	2014/2015	http://www.namcol.edu.na/files/downloads/c4c_Nam-col%20A-Report%202014-15.pdf
Namibia Competition Commission	2012	http://www.oag.gov.na/report/reports/61_2013_Namibian-CompCom_2011_12.pdf
Namibia Development Corporation	none	
Namibia Estate Agents Board	none	
Namibia Financial Institutions Supervisory Authority	2015	http://www.namfisa.com.na/arnotice.php
Namibia Fish Consumption Promotion Trust	2012/2013	http://www.nfcpt.com.na/sites/default/files/annual_re-port_2015.pdf

Namibia Institue for Mining Technology	none	
Namibia Institute of Pathology	2013/2014	http://www.nip.com.na/annual-reports/
Namibia Maritime & Fisheries Institute	none	
Namibia Mineral Development Fund	none	
Namibia Ports Authority	2013/2014	http://www.namport.com.na/pdf/Namport_Annual_Report_2013_2014.pdf
Namibia Post Ltd	2015	https://www.nampost.com.na/corporate/81/Download
Namibia Press Agency	2014	http://www.nampa.org/index.php?model=page&function=display&p=annualreports
Namibia Qualification Authority	2014	http://www.namqa.org/downloads/
Namibia Tourism Board	none	
Namibia Training Authority	none	
Namibia University of Science & Technology	2013	http://www.nust.na/?q=annual-report-2013
Namibia Wildlife Resort	none	
NamPower	2015	http://www.nampower.com.na/Media.aspx?m=Annual+Reports
National Council for Higher Education	2014/2015	http://www.nche.org.na/publications.php
National Petroleum Corporation of Namibia	2014/2015	https://www.namcor.com.na/about/downloads
National Art Gallery of Namibia	none	
National Commission on Research Science and Technology	2014/2015	http://www.ncrst.na/downloads/
National Disability Council	none	
National Fishing Corporation of Namibia Limited	none	
National Heritage Council	none	
National Housing Enterprises	none	
National Road Safety Council	none	
National Special Risks Insurance Association (Nasria)	none	
National Theatre of Namibia	none	
National Youth Service	none	
New Era Publication Corporation	none	
Offshore Development Company	none	
Road Fund Administration	2013/2014	http://www.rfanam.com.na/index.php/archive/annual-reports
Roads Authority	none	
Roads Contractor Company	2010/2011	http://www.rcc.com.na/index.php/media-centre/downloads
Security Enterprises and Security Officers Regulation Board	none	
SME Bank	2015	https://smebank.com.na/post/sme-bank-annual-reports/
Social Security Commission	2011/2012	http://www.ssc.org.na/downloads/
Star Protection Services (Proprietary) Limited	none	
Telecom	none	
TransNamib	2013	http://www.transnamib.com.na/downloads/
Trust Fund for Regional Development and Equality Provisions	none	
War Veterans Trust Fund	none	
Windhoek Country Club	none	
Windhoek Maschinenfabrik	none	

Note that this is not a comprehensive list of SOEs; at the time the exact number of SOEs was unknown.

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