



REPUBLIC OF NAMIBIA

**BUDGET MOTIVATION BY THE HONORABLE LEON JOOSTE,
MP, MINISTER OF PUBLIC ENTERPRISES.**

VOTE 34

NATIONAL ASSEMBLY, 24 April 2018

**Honourable Chairperson of the Whole House Committee,
Honourable Members,**

I rise to present the motivation for the budget for Vote 34, of the **Ministry of Public Enterprises**.

Please allow me, Honourable Chairperson, to congratulate the Honourable Minister of Finance, his Deputy and the entire staff of the Finance Ministry for the thorough preparation of the budget, which is currently under consideration. Equally, I would like to extend the same congratulations to the Honourable Minister of Economic Planning, his Deputy and staff of the National Planning Commission for the meticulous preparation and tabling of the 2018/19 Medium Term Expenditure Framework.

Hon. Chairperson, before I present our Ministry's budget, let me first explain to this August House the roles and importance of the Ministry of Public Enterprises, since it is a new Ministry, and some still have questions about its roles and responsibilities.

In any economy public enterprises/ state owned enterprises are established for specific reasons. In most cases, Public Enterprises are created to achieve the following purposes:

- To provide public goods;
- To generate public funds;
- To increase access to public services;
- To encourage economic development and industrialization through sustaining sectors of special interest for the economy.

In Namibia, our Public Enterprises were also established soon after Independence and over the years to serve as special purpose vehicles for government to accelerate access to public services; to generate revenue for the state and contribute to economic development through infrastructure development and job creation.

Although, Public Enterprises were created to perform the above functions, unfortunately over the years since independence, many Public Enterprises have failed to deliver on the mandates they were created for. For example, instead of Public Enterprises supporting the generation of revenue for the State, they have become a burden to the State by depending on annual government subsidies and guarantees to sustain their operations.

For 2017/18 alone, Commercial Public Enterprises that are supposed to generate their own revenue, have received a total allocation from the National budget of more than N\$1,2 billion, whilst the total debt of our Public Enterprises is already about N\$ 43 billion (which is 25% of GDP). Hon Chairperson, it is also important to note that the total return on the assets of the Public Enterprises portfolio is negative, with a total loss of more than N\$ 150 million per annum. This indicates that the current levels of performance and financial results emanating from most of our Public Enterprises are very low and therefore not sustainable.

I am sure you will agree with me, ladies and gentlemen that this situation is unsustainable and warrants critical intervention by Government.

I therefore believe that to accelerate transformation, the State-Owned Enterprise Governance Council (SOEGC) was created in the Office of the Prime Minister, and the State-Owned Enterprise Governance Act No.2 of 2006 was enacted by Parliament. His Excellency the President then saw it fit

to elevate Public Enterprises reform and created the Ministry of Public Enterprises in 2015 with a specific mandate to ensure that Public Enterprises are transformed to play a meaningful role in the country's developmental agenda.

Hon Chairperson, the functions of the Ministry of Public Enterprises in summary are as follows:

- To establish generally accepted common principles of corporate governance and good practice governing State-owned enterprises;
- To develop common policy frameworks for the operations of public enterprises, including policies on issues relating to human resources, assets and finance;
- To provide directives on governance and performance agreements to be entered into between the portfolio Minister and the Board.
- To provide directives on performance agreements to be entered into between the board of the PE and its Chief Executive Officer and other Senior management staff.
- Review business plans, annual financial statements and annual budgets.
- Responsible for the Board of Directors recruitment and appointment guidelines.
- Responsible for the restructuring of Public Enterprises.
- Create and Monitor frameworks for policies and procedures development on human resources, assets and financing for Public Enterprises.

Since 2006 we have attempted to govern our Public Enterprises under a flawed dual-governance model. Based on comparative studies, analyses

and benchmarking the MPE concluded that the dual governance model for Public Enterprises was unsustainable, inadequate and cumbersome.

As a result, our Ministry developed a new governance model, called the "Hybrid Governance Model" which was approved by Cabinet in July 2016. This new model is now being transformed into a legal framework and once Parliament approves the amendment, all commercial Public Enterprises will be transferred to the Ministry of Public Enterprises and non-commercial Public Enterprises will remain with their line Ministries. This governance model supported by the improved legislative environment will enable us to pursue a well-crafted process to transform our Public Enterprises.

May I now move, Hon. Chairperson, that this August House considers the total budget allocation, to the Ministry of Public Enterprises, for the financial year 2018/2019, which amounts to; **N\$42,280,000. (Forty-Two Million Two Hundred and Eighty Thousand Namibian Dollars). This represent a 19, 37 % reduction compared to the 2017/18 revised budget.**

Honourable Chairperson

The activities of the Ministry of Public Enterprises are grouped under two main Programmes; namely:

- Legal, Economic and Financial Advisory Services; and
- Policy Coordination and Support Services.

Programme 1: Legal, Economic and Financial Advisory Services

An amount of **N\$8,528,000** (Eight Million Five hundred and Twenty-Eight Thousand Namibian Dollars) has been allocated to this Programme.

The main activities to be carried out under this programme are as follows:

- Finalization of the Consolidated PEGA amendments with the Ministry of Justice and the office of the Attorney-General.
- Drafting of the PEGA Repeal Act
- Development of the Public Enterprises Performance, Monitoring and Evaluation Framework
- Development of the Financial Performance Analysis Public Enterprises.
- Development of the Board E-recruitment system and board nomination guidelines
- Implementation of the Business Process Re-engineering processes
- Analyzing of Public Enterprises Business, Financial and Annual Performance Reports

Programme 2: Policy Coordination and Support Services

An amount of **N\$33,752,000** (Thirty-Three Million Seven Hundred and Fifty-Two Thousand Namibian Dollars) has been allocated to this programme. This programme consists of two (2) main components, namely: Policy Supervision and Coordination, as well as, Support Services.

Under this programme, my Ministry will carry out the following activities:

- Development of the ownership policy
- Development of the Public Enterprises Transformation Strategy
- Development of a compliance rating framework
- Development of Public Enterprises Classification and Remuneration Framework
- Development and implementation of the Board Performance Evaluation framework
- Facilitation of strategic Public Enterprises Reform

Honourable Chairperson

The mandate of the MPE is to “position Namibia’s key Public Enterprises to play their meaningful role in the country’s development agenda and to ensure that public enterprises are well managed in order to reduce the financial burden on the state”.

However, the biggest challenge currently facing the MPE is the legal environment, which is still in essence the same as that under which the SOE Governance Council operated. The Act in its current form merely provide the MPE with an oversight mandate and is therefore not sufficient to deal with the transformation of the Public Enterprises landscape. Hence the urgency to amend the Act and to give legitimacy to the Hybrid Governance Model, which was approved by Cabinet in July 2016.

I am however delighted, Honourable Speaker, to inform you that a number of milestones have already been reached:

- **PEGA amendment bill tabled to Cabinet and CCL:** The draft PEGA amendment bill was tabled and approved in principle by the decision making Cabinet in October 2017. The Bill was also tabled and discussed at Cabinet Committee on Legislation;
- **Customer service charter implementation:** The Ministry Customer Service Charter was finalised, disseminated and uploaded on the Ministerial website (www.mpe.gov.na/);

- **Re-engineering of key process:** Five (5) key processes within the Ministry has being reviewed and re-engineered;

- **The Public Enterprise Compliance Reporting and Performance tool:** One of the Ministry's mandates is to monitor the performance of Public Enterprises. To perform this function, an electronic tool was developed to strengthen the compliance reporting and performance of Public Enterprises. The Ministry will continue to monitor and evaluate the performance of these Public Enterprises after which remedial actions will be implemented and failure to comply will result in taking action on non-performing Public Enterprises;

- **Public Enterprises Portfolio database:** One of the challenges facing the Ministry is reliable data on the total Public Enterprises portfolios since their establishment as this information was found to be extremely inaccurate. To address this problem, the Ministry developed a fully-fledged database for Public Enterprises. This is a continuous process which the Ministry has started and will continue to collect information and update the database to ensure that real-time accurate information is always available.

- **Board members database:** The Ministry developed a database for potential Board members. This will be translated into an e-recruitment database, that will be utilized to provide information and advertise vacant Board of Directors' positions. I'm happy to announce that our database currently consists of more than 600 individuals and it keeps growing continuously.

- **Public enterprises reform:** The Ministry supported the development of TransNamib, NWR, Air Namibia and NAMDIA's Integrated Strategic Business Plan (ISBP), in addition MPE also provided technical guidance to the restructuring of the RCC.

- During the course of this year the Ministry will focus on the following areas:
- The **Namibian Public Enterprises Transformation** strategy and our **Ownership Policy** will be finalized and presented to Cabinet for approval to map the transformation strategy.

- **Public Enterprises Performance and Remuneration:** The Performance framework for Public Enterprises performance and an integrated performance system will be developed. All Public Enterprises will be required to have fully functional Performance Management Systems and remuneration will be incentivized. This is a simple but fundamental requirement to cultivate a performance culture within the Public Enterprises.

- **Board Appointments and performance:** We have finalized our new Board recruitment guidelines which will be presented to Cabinet soon. These guidelines will introduce a new thorough recruitment process to ensure that the best possible Board members are identified in a transparent process. Our current manual database consisting of around 600 potential Board members will be transferred to an electronic format. In cases where appropriate skills cannot be sourced from our database, advertisements will be placed to provide further opportunity for professional Board members to apply. One of the factors we will have to pay particular emphasis to is to ensure that sector specific skilled Board members are appointed to

ensure that a skills balance between the Board and the Executive is maintained. Board self-evaluation guidelines will be developed and implemented for all boards and annual evaluations will be conducted in most cases. The quality of our Board inductions will also be evaluated and improved to ensure that Boards are duly equipped to perform their tasks.

- **CEO recruitments:** CEO recruitment guidelines will be issued within the first quarter of 2018. The absence of robust succession plans is cause for concern and we will request that succession plans/policies are developed to ensure that these are in place.
- **Board fiduciary duties:** The Ministry will look at ways to enforce the legal framework to ensure that boards are held accountable for financial losses if due diligence was not applied. We will also be utilizing the provisions of the Companies Act in cases where Public Enterprises are registered under this law. The accountability of Board members, both individually and collectively, will enjoy particular attention. In cases where reckless trading or gross negligence can be determined, Board members will be held personally liable with associated unpleasant consequences. Boards must have active Audit and Risk committees and risk mitigation and strategies should constantly be evaluated and modified.
- **Public Enterprises Funding:** Some Public Enterprises will be unable to borrow their way out of their financial difficulties, at a time where the ability of the Shareholder to fund "bail-outs" is constrained, and there is therefore urgent need for consultative processes to review the funding and business models of these distressed Public Enterprises.

Business Plans will be thoroughly evaluated and we will not allow for “unbankable” business plans to be approved.

- **Corruption in Public Enterprises:** We will tighten up on the efforts to curb corruption by conducting more Special Investigations in instances where malpractice is suspected and if corruption is exposed, the investigation reports will be handed over to the ACC for further processing and eventual prosecution if warranted. Please take note that there should not be an assumption that all our Special Investigations are aimed to target corruption. These investigations take multiple forms and are also intended to identify corporate governance failures, flawed policies, structural constraints etc. and to then propose suitable remedial actions.

Honorable Chairperson,

Honourable Members

As I conclude, I wish to thank the Honorable Members of this August house for their support and interest in the mandate given to our Ministry. I particularly would like to thank His Excellency the President, The Vice President, The Right Honorable Prime Minister, The Deputy Prime Minister and my dear colleagues in the Executive, for their patience and support. I equally want to thank my former Deputy Minister, Honorable Nawatiseb, my new Deputy Minister, Honorable Nekundi, the Acting Permanent Secretary, Deputy Permanent Secretary and all staff of the MPE for their hard work and dedication. The process to transform the Namibian Public Enterprises will be complicated and even unpleasant at times but we are led by our conviction that every proposal we make and every decision we

take will always be in the best interest of the Nation and the respective Public Enterprise rather than the interest of an individual or a group of individuals. The reality is that the successful revival of the Namibian economy will not be possible if the current status quo is maintained. The year 2018 will be recorded as the year where the State as shareholder is transformed into a professional active shareholder where governance boundaries will be respected but deliberate and decisive calculated interventions will take place as and when required to protect the interest of the State as the representative of the people of Namibia. We at the Ministry of Public Enterprises are ready and excited about the year ahead where we will truly activate our mandate to transform our Public Enterprises into model Enterprises that each and every one of our 2,4 million Namibians are proud of. We are steering through uncharted territory, but we remain guided by evidence-based facts and reference to Global Best practices. We will not fall into the trap of taking hasty, undue ill-conceived decisions and I want to plead for more endurance as we together embark on the journey to reform Namibia's Public Enterprises.

I wish to thank all the Honorable Members of this respected House in advance for the overwhelming support they always given to Vote 34.

I thank you.

Leon Jooste
(Minister)