

GOVERNANCE OF STATE-OWNED ENTERPRISES IN ZAMBIA

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Abstract

Reports of the Auditor-General indicate that governance of State-Owned Enterprises continues to be a challenge in Zambia. Unfortunately, not many studies have been carried out on this subject matter. The purpose of this qualitative study therefore was to explore contributory factors to poor governance in SOEs in Zambia focusing on the Ministry of Finance. Data was mainly collected through interviews. Participants were the Office of the Auditor-General, two State Banks, and independent experts in addition to the Ministry. Although situated in one ministry, this research has enabled the gaining of insights into challenges that ministries face when supervising parastatals. Findings indicate that a combination of a weak supervisory system, lack of capacity in terms of manpower in the Government Investments Unit at Ministry of Finance, and lack of a specific policy and legal framework for SOEs may be the major issues at play when exercising the supervisory function.

Keywords: Governance, state-owned enterprises, accountability and supervision.

Declaration

I declare that this report is my own, unaided work. It is submitted in partial fulfilment of the degree of Master of Management (in the field of Public and Development Management) in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university.

Misael Fitzgerald Kateshi

Dedication

I dedicate this report to: my lovely wife Ndonano; children: Mpala, Tasheni and Sefya; my father, Mr Matthews Kateshi; my mother, Ms Alice Misozi Banda for your encouragement; and lastly the Pastor of Bethel Christian Centre, Nyumba Yanga, Bishop Andrew Mwenda for the spiritual covering.

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Acronyms

AG	Auditor-General
BFSA	Banking and Financial Services Act
CEO	Chief Executive Officer
DPE	Department of Public Enterprises (South Africa)
GIU	Government Investments Unit
MMD	Movement for Multi-Party Democracy
MOF	Ministry of Finance
OECD	Organisation for Economic Cooperation and Development
PF	Patriotic Front
PFA	Public Finance Act
SFI	State-Owned Financial Institution
SOB	State-Owned Bank
SOE	State-Owned Enterprise
UNIP	United National Independence Party

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CHAPTER ONE

Introduction

This Research Report presents details of the research to explore contributory factors to poor governance in State-Owned Enterprises (SOEs) in Zambia focusing on the supervisory role of the Ministry of Finance (MOF).

State-Owned Enterprises, also known as public enterprises, refer to entities in which the State has 'significant control, through full, majority, or significant minority ownership' (Organisation for Economic Cooperation and Development, 2005b, p. 11; Khan, 2007; Robinett, 2006). Developed and developing countries alike have used state enterprises, among other things, to: (a) promote economic activity in geographical areas that are not able to attract private capital; (b) promote economic development; (c) improve service delivery; (d) create employment; (e) ensure more local control over the economy or taking control of the 'commanding heights'; and (f) implementation of public policies (Kauzya, 2007, p. 79; Khan, 2007). SOEs, therefore, have the potential of significantly contributing to economic development as was the case with a number of East Asian countries between the 1960s and 1990s (Hertog, 2010).

The literature shows that the growth of SOEs was more significant after the Second World War up to the 1980s when serious challenges were faced such as: (i) rising corruption; (ii) poor management; (iii) bloated workforces; (iv) SOEs becoming a fiscal burden leading to rising inflation, increasing public deficits and rising interest rates; and (v) lack of appropriate technology (Khan, 2007; Organisation for Economic Cooperation and Development, 2005a). Other than these challenges, SOEs were also criticised as not being national champions in that they tended to be inefficient and soaked-up the capital and skills that the private sector could have better utilised (Economist, 2012). This led to a number of countries embarking on reforms with privatisation dominating the options particularly in the developing world, for some, at the instigation of the World Bank and International Monetary Fund. In the developed world, some of the countries reformed their SOEs due to external pressures such as the need to adopt New Public Management practices which encompassed among other things private sector management techniques and a devolved public sector (Christensen & Lægreid, 2003).

Despite privatisation that mainly occurred in the 1980s and 1990s, a World Bank study in 2005 showed that SOEs are still major economic players in the developing world as the private sector could on average only account for about 20 – 25% of investments in infrastructure (Vagliasindi, 2008). Some governments while desirous of reforming their SOEs to make them more productive and accountable, are seeking alternative reform options in which ownership is retained (Vagliasindi, 2008). Aivazian, Ge and Qui (2005) provide some evidence in their study on SOE reforms in China that restructuring internal governance arrangements in state enterprises without changing ownership can result in sustained positive performance.

In terms of governance, the literature indicates that SOEs are like a pendulum swinging to and from two extremes: (i) there are SOEs that are subjected to closer oversight and stricter controls and treated more like government departments; and (ii) there are those that are allowed to operate more independently with ineffective monitoring and control (Fernandes, 1986).

1.2 Background

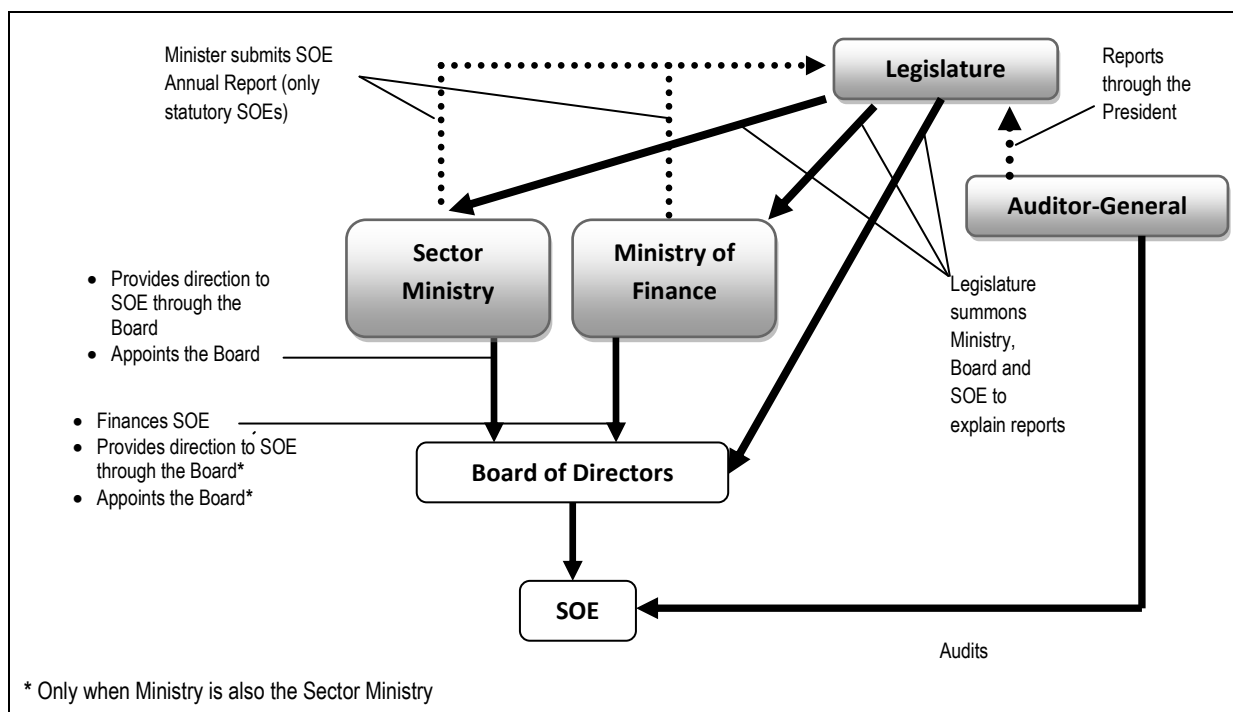
Zambia's history with SOEs comprises three phases. Firstly, the newly independent State in 1964 inherited a predominantly private sector led economy (Fundanga & Mwaba, 1997). According to Fundanga and Mwaba (1997), the first phase lasted up to 1968 when the Government began nationalising private businesses at the same time setting up more enterprises but under public ownership. The second phase, therefore, began in 1968 and came to an end in 1991 when the socialist oriented United National Independence Party (UNIP) lost power, through elections, to the Movement for Multi-Party Democracy (MMD). The MMD shortly after assuming power resolved to privatise state enterprises marking the beginning of the third phase. The current governing political party - the Patriotic Front (PF) - which assumed office in 2011 appears to favour the retention of SOEs and has gone as far as reversing the sale of majority shares in Zamtel, the State telecommunications company, and cancelling the Railway Systems Concession Agreement within the first year of its administration.

1.2.1 State Enterprise Governance Framework

The current governance framework of SOEs has four State oversight institutions: sector ministries; MOF as shareholder on behalf of the State; the Legislature; and the Office of the Auditor-General as shown in the Figure 1 below. Although Figure 1 shows that ministries

supervise SOEs through the boards, they are permitted under the law to directly oversee the enterprise if there is no board in place.

Figure 1: Current Institutional Governance Framework of SOEs



Source: Constructed using current legal framework

Statutes that establish some of the SOEs are quite explicit on reporting requirements to ensure that the entities are accountable, transparent in their operations and perform to expectations. Statutory SOEs are required to submit annual reports, through sector ministers, to Parliament. The Public Finance Act (PFA) of 2004 further requires all boards of statutory corporations to have government representation (PFA, 2004). Despite this, reports of the Auditor-General (AG) on parastatal bodies in the period 2005 to 2010 reveal recurring governance irregularities in a number SOEs which include: (a) operating without the full complement of the board or none at all; (b) failure to submit annual reports to Parliament; and (c) engaging in unsound corporate governance practices (AG, 2005; AG, 2006; AG, 2007; AG, 2008; AG, 2009; AG 2010).

In order to address the problems, the Ministry of Finance had intentions of coming up with State-Owned Enterprises legislation and policy guidelines (National Assembly of Zambia, 2012). There are two potential pitfalls of this intervention. Firstly, despite the PFA being clear on what should

be done when SOEs do not follow its provisions, supervising or sector ministries do not take timely corrective action until after publication of audit reports. Secondly, the specific weaknesses of the current SOE governance framework have not been clearly articulated. If these are not adequately addressed, the revised framework may just be as ineffective.

1.3 Problem Statement

Although the Zambian Government now has fewer SOEs to oversee and supervise, there is poor governance in these entities based on reports of the Auditor-General. Studies carried out in Zambia have mostly concentrated on the privatisation process itself and the performance of former SOEs; therefore, little is known about why the governance of enterprises under state-ownership has continued to be poor. Some literature indicates that governance challenges confronting some SOEs stem from the inability to create a balance between the desire by governments to control the entities, and the enterprise operating as a business (Khoza & Adam, 2005).

The fieldwork of this research was carried out in January 2013. It focused on MOF being the shareholder on behalf of the State, and two State-Owned Banks (SOBs) the Ministry supervises. One of the banks was mentioned twice in the AG's reports, between 2005 and 2012, for having governance irregularities. The other bank was not mentioned for having irregularities in the same period.

Findings of this research can be useful in three ways. Firstly, as the MOF is in the process of finalising legislation and policy guidelines on SOEs, the findings have pointed to some specific shortcomings of the current governance system. Secondly, specific challenges faced by a ministry charged with the responsibility of supervising state enterprises are highlighted. Thirdly, the findings may provide insights into what constitutes 'good' governance practices in the context of the two banks.

1.4 Purpose Statement

The purpose of this research was to explore contributory factors to poor governance in SOEs in Zambia. It has researched: (i) challenges that the Ministry of Finance may be facing in ensuring that SOEs under its charge are well governed; and (ii) governance experiences of two enterprises that are supervised by the Ministry of Finance.

1.5 Research Question

The primary research question is: 'What issues are at play when exercising the supervisory role over SOEs by the Ministry of Finance?' The secondary questions are:

- (i) what factors may be leading to some SOEs supervised by the Ministry of Finance having recurring governance irregularities?
- (ii) what factors (legal and non-legal) may be impeding the Ministry of Finance from effectively supervising SOEs? and
- (iii) what are the governance experiences of state enterprises supervised by the Ministry of Finance?

1.5 Organisation of the Report

This report has five chapters. Chapter One introduces the research and details the problem statement, purpose of the research and the research questions. The literature on the governance of SOEs is presented in Chapter Two. The methodology that guided the research is detailed in Chapter Three. Chapter Four explains how the data was analysed. Research findings are also presented. Chapter Five discusses the research findings. Chapter Six concludes.

CHAPTER TWO

Literature Review

This chapter discusses the literature on the governance of State-Owned Enterprises (SOEs). The sources for the literature were the University of the Witwatersrand Library Electronic Databases and collection, Google Scholar and the Social Science Research Network. Articles published mainly within the last ten years were considered. Search strings used were: governance of state-owned enterprises; supervision of state-owned enterprises; control of state-owned enterprises; and management of state-owned enterprises. All these were repeated using the words: public enterprises, and parastatals, as they are used interchangeably with state-owned enterprises in the literature (Kaunga, 1993; Khan, 2007).

The chapter begins by defining key concepts. An international perspective is then presented on the governance of SOEs. Thereafter, a section that speaks to the Zambian case is presented. The chapter concludes with efforts that are being made to improve governance of state enterprises at the international level.

2.1 Understanding the Concepts

Four key concepts used in this research - state-owned enterprises, corporate governance, accountability, and supervision are defined below.

2.1.1 State-Owned Enterprises

Countries have many types of government institutions such as commissions, authorities, boards, councils, agencies and SOEs. Fernandes (1986) provides a method of identifying SOEs in the maze of government institutions by looking for two key dimensions. Firstly, any SOE needs to have a commercial dimension meaning that it is involved in the production of goods or services which are traded, and income arising is adequate to sustain its operations. Secondly, the public dimension made up of three elements: (i) public ownership by the national, provincial and local government or another state enterprise; (ii) public policy objectives; (iii) must be subject to public control and accountability. The theory underlying the creation of SOEs is that by using private sector efficiencies, these enterprises can promote social development (Ramamurti, 1991).

2.1.2 Corporate Governance

Governance is a term often used in situations involving power relations. According to the literature, governance can be defined in a number of ways depending on the context. The focus of this research is corporate governance. Corporate governance in the context of SOEs can be defined as the process involving arrangements that define: (a) the relationships between ministries, the boards of directors, management and other stakeholders; (b) the way in which policy and commercial objectives of an enterprise are determined including the means of attaining them or simply the way decisions are made; and (c) the way in which the board and management account for performance of the enterprise (Andrés, Guasch & Azumendi, 2011; Organisation for Economic Cooperation and Development, 2005b; Scott, 2007). According to Apreda (2006, p. 16), governance in SOEs brings together public and private sector governance dimensions in what is called 'dual governance'. Apreda further argued that the overall objectives of SOEs are politically determined which itself is not unusual since the state is either a full or significant part owner.

The literature shows that corporate governance is a combination of a number of processes or activities such as control, monitoring, supervision, oversight, transparency and accountability (Department of Public Enterprises, 2002; Scott, 2007). In this sense, reference to these processes either singularly or in any combination entails reference to the governance of an enterprise. Furthermore, changes in any of these processes will ultimately have an effect on the overall governance of an enterprise.

Jensen and Meckling (1976) argued that the very decision by the State to own and operate a firm exposes it to the principal-agent challenge. The principal-agent theory is fundamental in understanding the governance of state enterprises. The principal-agent theory describes relationship dynamics that can ensue when one party, the principal, engages another party, the agent, to perform some duty in the interest of the principal (Heath & Norman, 2004). In the case of SOEs, the Government, as a principal, appoints the board members, the agent, to oversee a state enterprise on its behalf or when a board of directors, as a principal, appoints a management team, the agent, to run the enterprise. For SOBs, depositors are principals with the enterprise as the agent (Apreda, 2006). The agency problem can affect a firm whether private or state owned. However, unlike in a private entity, there is an extra layer of the agency problem in the SOE

structure, the board, which is appointed by the Government to oversee operations of the enterprise (Sprenger, 2010).

According to Heath and Norman (2004, p. 253), understanding the theory is vital for two reasons: (i) to appreciate the 'moral hazard' issue when the agent may act less diligently or inappropriately because the risk of such action will be borne by the principal; and (ii) to appreciate the 'adverse selection' issue, when the agent possesses knowledge prior to entering into the agreement which the principal is not aware of and can be used to the advantage of the agent.

2.1.3 Accountability and Supervision

In most cases, part or all of the start up capital for SOEs is provided by the State: therefore, an enterprise must be made to account, that is, requested to present its accounts specifying expectations and achievements (Trivedi, 2007). This form of accountability is referred to as managerial accountability as it involves determining whether a set of objectives is being achieved (Luke, 2010). According to Luke (2010) other forms of accountability include: (i) political accountability to ministries and parliament; (ii) professional accountability to professional bodies and industry regulators; and (iii) legal accountability by operating within a specified legal framework. Accountability is cardinal in state enterprises as these entities may sometimes prioritise the pursuance of the social objective which is more challenging in terms of assessment (Andrés et al., 2011).

Supervision refers to the roles that ministries responsible for exercising ownership rights and implementing policies have to perform with respect to SOEs (Fernandes, 1986). According to the literature, countries, organisations and authors refer to ministries responsible for exercising ownership rights in a number of ways such as "Executive Authority" in South Africa, "Ownership Entity" by the Organisation for Economic Cooperation and Development (OECD) and "Shareholder Representative" by the World Bank (Department of Public Enterprises, 2002, p. 4; OECD, 2005b, p. 11; Scott, 2007, p. 7). The adopted reference in this research is "shareholder representative."

2.2 Legal Forms of State-Owned Enterprises

Studies show that there are three types of SOEs (MacCarthaigh, 2011; OECD, 2005a; United Nations, 1974). The first is in the form of a departmental organisation established within a ministry or department. The second is in the form of a public corporation established either

through an Act of Parliament or incorporated under the Companies Act. Third is a joint-stock company in which the Government only holds shares. The results of the survey on corporate governance by the OECD (2005a) indicated that 60-90% of SOEs in member states are either fully owned or the State has a majority share suggesting that majority or full ownership is preferred in these countries. In the literature consulted, there is no clear pattern in Africa.

Each legal form has specific strengths with respect to governance. The departmental enterprises are highly accountable for obvious reasons in that they operate directly under the government but they can be very inefficient (United Nations, 1974). In addition, since they are not corporatised, political influence can be significant (Aivazian et al., 2005). A public corporation established under an Act of Parliament can equally rank highly on accountability but may fall short on best practices because it is not subject to requirements of the Companies Act and may be protected from competition and subject to soft budget constraints (Hertog, 2010; Okhmatovskiy, 2010). Some countries have commercialised such enterprises so that they are more oriented towards the business objective (Bozec, Zéghal, & Boujenoui, 2004). The joint-stock company offers the opportunity to incorporate more private sector practices in the SOEs as they are partly owned by non-state actors but they may not be politically accountable as enterprises wholly owned by the State (United Nations, 1974).

Results of a recent study on electricity and water utility state enterprises in Latin America and the Caribbean indicate that joint-stock companies or those enterprises in which the private sector has equity, ranked highly on the composite governance scale that was devised (Andrés et al., 2011).

2.3 Models of State Ownership

Three broad models of SOE ownership can be identified from the literature. First there is the centralised model when one ministry or State agency is solely responsible for all SOEs (MacCarthaigh, 2011; OECD, 2005a; Vagliasindi, 2008). Practice, however, shows that it is highly unlikely to find a case in which all SOEs are under the ownership of one ministry or department (Vagliasindi, 2008). There are some examples such as the Ministry of Enterprise, Energy and Communications of Sweden which is the holding Ministry of a number of SOEs but not all (MacCarthaigh, 2011). Countries with systems that are closer to a centralised model usually create a dedicated unit within the Ministry to monitor SOEs such as the State Ownership Department within the Ministry of Trade and Industry in Norway (MacCarthaigh, 2011;

Vagliasindi, 2008). The OECD (2005b), however, recommends the creation of a separate agency to be in charge of SOEs.

Second is the decentralised or traditional model in which each SOE is placed under the charge of a sector ministry or department (Vagliasindi, 2008). Finally there is the dual model in which both the sector ministry and a common ministry (usually the Ministry of Finance) are responsible for exercising ownership rights (Vagliasindi, 2008). In Europe examples of this model are present in Greece, Italy and Switzerland (Ernst & Young, 2010). In Africa, South Africa has a system that has characteristics of a dual model in that it has a department that performs the function of a shareholder while another department performs the role of policy maker and gives policy direction to the SOE (Department of Public Enterprises, 2002; National Treasury, 2005).

There is also in existence a model involving three ministries specifically in South Korea, which has been labelled a “trial model” as it is not common (OECD, 2005a, p. 48).

It is quite evident from the literature that most countries have mixed ownership models although there can be dominance by one model.

2.4 Governance Frameworks of State Enterprises

It is suggested in the literature that SOE governance is broadly organised around three bodies. Firstly there is the Executive as owner, policy maker, regulator and representative of the governing party (Fernandes, 1986; MacCarthaigh, 2011; National Treasury, 2005).

Secondly there is the Board of Directors, the governing body of SOEs ideally with full responsibility over the performance of the enterprise in terms of the public policy and commercial objectives (National Treasury, 2005). The literature further shows that there are two types of boards of directors' arrangements: (i) the one-tier system comprising a single board of directors; (ii) the two-tier system comprising two boards; a supervisory board and a management board (Bohinc, 2011; Kamal, 2010). Under the two-tier system, the supervisory board operates basically like the ordinary board but is charged with responsibility of overseeing the management board which in turn is responsible for the management of the firm (Bohinc, 2011).

Third there is parliament, particularly in countries with strong democratic traditions (Fernandes, 1986). The interventions that Parliament can take with respect to SOEs include: (i) passing of

laws; (ii) through the budget approval process; (iii) through parliamentary committees; and (iv) questions to the Executive for oral and written answers (Fernandes, 1986; National Treasury, 2005; Yamamoto, 2007).

Regardless of the ownership model a country adopts, at least one ministry is assigned the responsibility to oversee SOEs. As owner, a government has a right to: (a) determine objectives of SOEs; (b) decide and approve investment plans; (c) participate in shareholders meetings and vote; (d) appoint and remove members of boards; (e) give directives on matters of national security; (f) give directives on matters concerning public policy; (g) make a claim on part of the profits of enterprises; and (h) control and monitor - involving obtaining information on operations, and audit transactions (Bernier, 2011; Fernandes, 1986; Scott, 2007). These also constitute the functions of the supervising ministries.

The Ministry of Finance has additional functions which include: (a) provision of capital funds and long term financing; (b) determining the expected rate of return on investments; (c) dealing with inter-enterprise transfer-pricing; (d) intervening, if need be, in wage and salary policies; and (e) bailing out SOEs with critical financial challenges (Fernandes, 1986).

It has been argued that effective supervision requires ministries to evolve innovative administrative systems to ensure that they have the necessary capacity to deal with issues concerning analysis of investments, corporate planning, human resources, and monitoring and performance evaluation of SOEs (Fernandes, 1986; Ramamurti, 1991). Ramamurti (1991) further argued that this is what was missing in the aftermath of the establishment of SOEs in developing countries which led to some of them failing to achieve the intended objectives and ended up being privatised.

2.5 Issues Surrounding Governance of State Enterprises

As earlier mentioned, governance embodies a number of processes such as supervision, control, oversight, transparency and accountability. Factors affecting governance therefore will be reflected in these processes. The literature shows that there are a number of factors that affect governance in SOEs. These are described below.

2.5.1 Leadership

Leadership is a cross-cutting issue. The other factors discussed below are influenced by leadership. Leadership is a concept with many definitions. Northouse (2007) argues that there are four components that can be identified in leadership: (i) it is a process; (ii) it involves influence; (iii) it occurs in a group context; and (iv) attainment of goals is involved.

Based on these components as expounded by Northouse, leadership can be defined as a process in which people, acting collectively under the influential guidance of an individual, group of individuals or any other entity, are able to pursue common objectives. It is important to note here that leadership can reside in individual persons or in an institution. In the governance of SOEs, both personal and institutional leadership are required. Personal leadership is required because individuals are appointed as board chairpersons and chief executive officers. In the case of institutional leadership, SOEs are subject to direction by a board and a ministry or any other government agency.

Khoza & Adam (2005) attributed some of the governance successes at Eskom - the electricity parastatal in South Africa - to effective leadership that was shown at two levels. Firstly, the political and ministerial leadership was resolved to having a well-governed enterprise. Secondly, the Board of Eskom was equally committed to ensuring that the company was well managed. Similarly, Kauzya (2007) linked the dismal performance of SOEs in Uganda particularly prior to privatisation to poor leadership at the political level.

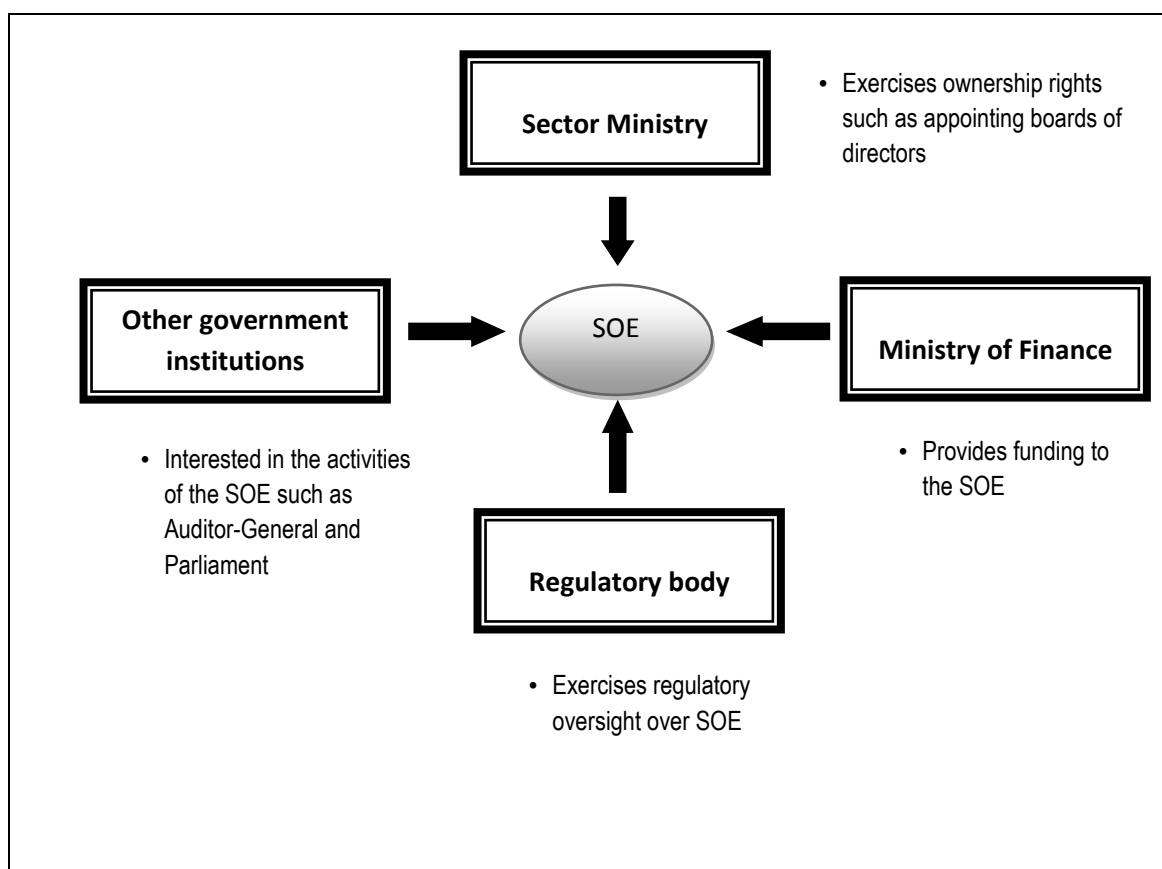
Considering the current trend in which countries wish to retain ownership of some SOEs, the reforms that are being pursued such as corporatisation and commercialisation have not been smooth. A study in Norway by Christensen and Lægreid (2003) showed that political leaders were uncomfortable with the process of reinventing or reforming SOEs because of the 'loss' of control that could have resulted from commercialisation. The literature therefore suggests that political and ministerial, board, and management leadership are critical in the governance of state enterprises (Christensen & Lægreid, 2003; Kauzya, 2007; Wong, 2006).

2.5.2 Multiple Principals

Depending on jurisdictional arrangements, the governance framework can comprise a number of principals (ministries, Parliaments, Auditors-General, Ombudsmen and regulators) with each having a different set of objectives such as maintaining fair prices, employment provision,

ensuring financial probity in operations, and fostering regional development, thereby creating room for potential conflict (Hertog, 2010; Luke, 2010; OECD, 2005a; Trivedi, 2007; Vagliasindi, 2008; Wong, 2004). Conflicting interests are depicted in Figure 2 below. This appears to be a common finding in a number of studies both in developed and developing countries bringing to light an earlier argument by Ramamurti (1991) that coordinating a loosely decoupled organisation such as government is challenging.

Figure 2: Multiple Governmental Influences



Source: Adapted from Wong (2004)

Other than potential conflict, it is also argued that multiple principals may make the control mechanism too complex and affect efforts aimed at striking a balance between granting SOE managers greater autonomy to realise their corporate objectives and ensuring that public policy objectives are fulfilled (Bernier, 2011; Heath & Norman, 2004).

Having multiple principals can lead to the 'Not Me Syndrome' or 'Passing the Buck' which arises when institutions attribute problems to other players within the governance framework (Trivedi, 2007, p. 46). Trivedi (2007) gave the example of Indian Airlines. When passengers complained about poor service, management pushed the blame to bureaucrats in the Ministry in charge of civil aviation, who in turn blamed politicians. Politicians also claimed that they were acting on the wishes of the people. The process ended up as a vicious circle.

2.5.3 Commercial and Social Objectives

SOEs have many objectives which fall in two main groups: (i) those connected to the commercial aspect of the entity such as return on the investment, profitability and contribution to the treasury; and (ii) those related to the public or social dimension such as employment creation, provision of affordable services, and addressing past social injustices in some societies (Robinett, 2006). Balancing these two categories of objectives can affect the governance of the enterprise (Khoza & Adam, 2005; Robinett, 2006).

Fernandes (1996) argued that this did not need to be a major issue as the commercial objectives should be a precondition for the achievement of social objectives. In other words, if the SOE is not successful commercially, then it cannot fulfil the social policy objectives unless the enterprise can be compensated otherwise. This may have been the reasoning for New Zealand, arguably one of the countries with successful SOEs, to have an explicit provision in the *State-Owned Enterprises Act* that state enterprises should be profitable and efficient like private companies (Luke, 2010).

Under this situation, unspecified accountability can also occur if supervising ministries are not clear whether SOEs should be held accountable for the commercial objective or for the public policy objective (Ramamurti, 1991; Scott, 2007; Trivedi, 2007). Even when there is clarity about the objectives, there may still be a problem of the evaluation criteria for accountability purposes (Sprenger, 2010).

The accountability process can be further complicated if the enterprise performs poorly and the supervising ministry is unable to determine whether this was due to the board and management function or political interference and other economic factors (Luke, 2010; Ramamurti, 1991).

2.5.4 Political Influence

By the very nature of SOEs, some form of political intrusion cannot be totally avoided. There are, however, three political issues that can affect governance: (i) excessive interference in operations particularly relating to charges for services rendered and expansion of service provision; (ii) 'seasonality of politics' particularly during run-up to elections when either the governing party use SOEs to champion some cause or the opposition capitalise on any failures of enterprises for political mileage; and (iii) changes in government policy which can involve changes in regulation and whether to retain SOEs or privatise them (Andrés et al., 2011; Hertog, 2010; Luke, 2010, p. 149; Wong, 2004). Collectively these issues have to do with empowerment, that is, how much autonomy boards and management of these institutions enjoy when pursuing their objectives.

Ordinarily, one can assume that democratic States will have well-governed and better performing SOEs; however, the study by Hertog (2010) of oil and natural gas producing countries in the Gulf Region showed that more autocratic monarchs had more successful state enterprises. One of the reasons for this was that the SOEs were shielded from excessive political interference by the royal families.

Political influence, however, need not be viewed in the negative only. As earlier mentioned, one of the responsibilities of the government through the Ministry of Finance is to bailout enterprises that are struggling to survive (Fernandes, 1986). This is positive intervention as has been the case in the United States of America (USA) and other developed countries where private corporations have received financial assistance from governments. The issue could probably be the way the bailouts are executed. Wong (2004) gives the example of France where the Government was said to have excessively interfered in operations of state enterprises when they were made to purchase goods from another SOE that was underperforming.

Whether political involvement is positive or negative, principal-agent problems may be experienced, particularly the moral hazard issue as SOE management can take advantage of the situation and misappropriate funds for the enterprise or engage in risky business practices (Heath & Norman, 2004).

2.5.5 Dilution of Accountability

Accountability can be linked to some of the inherent characteristics of SOEs like: (a) operating under 'soft budget constraints' arising from the protection from bankruptcy, receiving subsidies in

case of financial difficulty and operating in less competitive areas; and (b) having less stringent transparency and disclosure requirements compared to the private enterprises (Andrés et al., 2011; Hertog, 2010; OECD, 2005b; Okhmatovskiy, 2010; Wong, 2004). Robinett (2006, p. 19) argues that 'opacity' or lack of transparency is one of the regrettable inadequacies of governance arrangements of SOEs. These tend to lower the accountability bar for state enterprises and can affect their governance.

Some studies show that this does not apply to all state enterprises. Andrés et al. (2011) showed that about 70% of their sampled SOEs in the water and energy sectors could go bankrupt. Within the same sectors, it was observed that about 43% of the respondent firms stated that they did not enjoy any tax related benefits (Andrés et al., 2011). The study by Teer-Tomaselli (2004) in South Africa on SOEs involved in broadcasting and telecommunications indicates that competition does occur within state enterprises citing the example of Esi-Tel under Eskom and Transtel under Transnet competing with Telkom.

Accountability can further be diluted through politically oriented managerial appointments as Bernier (2011) observed in Canada. Such appointments are likely to lead to situations in which a direct communication channel is established between the Chief Executive and the political leadership by-passing the board and public officers charged with the responsibility of supervising the SOE (Bernier, 2011; Robinett, 2006).

2.5.6 Legal Form and Ownership

Some studies show that the legal form of the SOE can have a bearing on the way it is governed although results show a mixed effect. In the Baltic Institute of Corporate Governance (BICG) survey of fifteen large SOEs in the three Baltic States of Estonia, Latvia and Lithuania, Citadele, a Latvian State-Owned Bank (SOB), was found to have the best governance system and this was largely attributed to being a joint-stock company (BICG, 2012). A possible explanation for this was that joint-stock enterprises are more insulated from political interference as was observed by Hertog (2010) at Equate in Kuwait.

On the other hand, a case study of the Development Bank of Southern Africa (DBSA) by Scott (2007) showed that despite the DBSA being 100% owned by the South African Government, it ranked highly in the way it is governed when benchmarked against the OECD Guidelines on

Corporate Governance of State-Owned Enterprises. This suggests that when examining governance in SOEs, the legal form has to be taken into account.

The ownership model adopted appears to have the potential of affecting governance. The OECD prefers a centralised model as it has a clear line of accountability but recommends the establishment of an agency to perform the ownership function (OECD, 2005b). These centralised agencies are not widely tested in both developing and developed countries, therefore, their efficiency is not concretely proven (OECD, 2005a; Vagliasindi (2008). The results of a study of performance implications for banks in Russia by Okhmatovskiy (2010) appear to support the position of the OECD. It was observed that banks that were indirectly owned by the State, that is, ownership was through another SOE or agency, performed better in terms of profitability than those with direct government ownership.

In Canada, poor coordination of SOEs was partly attributed to lack of a central agency to oversee state enterprises owned by the Federal Government and by some provinces (Bernier, 2011). In contrast, a study of the National Water and Sewerage Company of Uganda showed that the accountability arrangement was more effective with direct interaction between the company and the Ministries of Water and Finance without having a coordinating agency (Mugisha & Berg, 2008).

The dual ownership model had posed reporting challenges in South Africa according to the National Treasury (2005). For Example, Eskom submits its quarterly reports to the Department of Public Enterprises (DPE), the Executive Authority or shareholder representative and not to the Department of Energy which is in charge of policy (National Treasury, 2005).

2.5.7 Asymmetry in Information and Human Capacity

Instances have been identified in which SOE managers possess more expert knowledge than the supervising ministry meaning that: (a) the ministry officials will be incapable of determining appropriate performance benchmarks for the SOE; and (b) the ministry will be dependent on information from the SOE which can deliberately be distorted to favour management (Fernandes, 1986; Ramamurti, 1991). This is yet another situation which may exacerbate the principal-agent problems. Holding the SOE to account can be challenging if a government does not invest in the

human resource, time and energy (Heath & Norman, 2004). This is probably why the OECD prefers specialised central agencies to oversee SOEs as it is easier to build their capacities.

2.6 State Financial Institutions

Being state owned most features of State Financial Institutions (SFIs) are similar to other SOEs; therefore, the focus here is on those characteristics that are unique to enterprises in the financial sector.

Some studies suggest that there is generally less State ownership of financial institutions compared to infrastructure development related institutions operating in sectors such as energy, transportation and telecommunications (Ernst & Young, 2010; OECD, 2005b). Scott (2007) distinguishes two broad types of SFIs. Firstly, there are those that take deposits which include State Commercial Banks and operate purely on commercial basis, and State Development Banks that also pursue public policy objectives. Secondly, there are Development Financial Institutions which do not take deposits and are financed through non-deposit resources such as loans from the State and only pursue public policy objectives.

Aprada (2006) argues that SOBs are examples of SOEs that display dual governance characteristics. Unlike the other purely private competitors, SOBs enjoy certain privileges like: (i) tax benefits; (ii) shielding from embarking on massive restructuring exercises that can lead to job losses; (iii) less stringent conditions for loan guarantees; (iv) less rigorous requirements for opening new branches; and (v) protection from failure (Aprada, 2006).

Unique governance issues affecting SFIs include: (a) inadequate prudential regulation and supervision which is key for banking institutions; (b) lack of managerial skills both in the SFIs and supervising ministries owing to the specialised nature of banking; and (c) lack of transparency mainly arising out of the intervention in credit decisions (Rudolph, 2010; Wong, 2006).

SFIs appear to be more susceptible to political pressures particularly in the run up to elections as they are made to increase lending below market rates to enhance winning chances of the party in power resulting in the following: (i) SFIs become less transparent in their operations as this becomes a position of comfort for both the governing party and bank management; (ii) levels of accountability decline as managers cannot be held accountable for poor performance due to excessive external influence; and (iii) an accentuated culture of non-repayment of loans

particularly in developing countries (Hanson, 2004; Rudolph, 2010). There is indication in the literature that SFIs are supposed to be more transparent than other SOEs owing to the disclosure requirements imposed by central banks (Apreda, 2006). According to Apreda (2006), this rarely happens as the procedures are less stringent and the information is usually in a form that is not useful for analysis.

Due to the specialised nature of banking and the financial sector in general, Scott (2007) argues that one way of having a sound governance arrangement would be investing significantly in human resources, banking processes and technology.

2.7 The Zambian Case

With independence in 1964, Zambia inherited a few SOEs mainly in the railway transport, electricity and water sectors (Fundanga & Mwaba, 1997). This state of affairs changed after the 1968 Mulungushi Reforms and 1969 Matero Reforms when the Government nationalised a number of businesses (Fundanga & Mwaba, 1997).

Reasons advanced for nationalisation include: (i) failure by the largely foreign investors to re-invest sufficiently in the economy; (ii) excess repatriation of profits at expense of development in Zambia; (iii) acute economic imbalances; (iv) rural-urban gap accentuated by private investors' preference to concentrate activities in urban areas; (v) growing gap between indigenous Zambians and foreigners; (vi) failure by private investors to develop local human resources with the result that virtually all aspects of economy were under the control of foreigners or settlers of foreign origin; (vii) inordinate economic power wielded by foreign private investors; and (viii) apparent impotence of the Government of the day in directing the pace, direction and location of economic development (Kaunga, 1993).

The next changes occurred after 1991 when the MMD, which had a strong belief in market liberalisation, took office. It implemented an extensive privatisation programme that resulted in 262 SOEs being privatised between 1991 and 2008 from a total of 284 that were earmarked for sale (Mutandwa, 2009). The major reason for privatising SOEs was their poor performance whose causes included: (a) most were loss making with losses between 1985 and 1989 estimated at US\$455 million per annum, therefore subsidising them was costly; (b) poor

capitalisation and use of inappropriate technology; (c) poor management partly due to political appointments; and (d) lack of accountability and poor supervision and monitoring systems – boards were weak and ministries were not effectively exercising their supervisory role (Cheelo & Munalula, 2005; Kaunga, 1993).

2.7.1 Supervision of State Enterprises in Zambia

Supervision of SOEs can be said to have undergone three major transformations. The first was in 1970 when the Zambia Industrial and Mining Corporation (ZIMCO) was established as a holding company for government investments in enterprises but supervision was the responsibility of sector ministries (Kaunga, 1993). The second was in 1979 when ZIMCO was reformed. State enterprises were delinked from sector ministries and placed under ZIMCO's supervision and control with the exception of those that were created under Acts of Parliament (Fundanga & Mwaba, 1997; Kaunga, 1993). According to Kaunga (1993), one of the reasons for delinking SOEs was that ministries became too busy with other national matters and could not effectively supervise state enterprises. The third was in 1995 when ZIMCO was liquidated and all enterprises under its control reverted to the respective sector ministries although the initial plans were to create a Directorate of State Enterprises (Chandi, 2008).

In the literature, Zambia is given as an example of a country with a decentralised system (Vagliasindi, 2008). There is, however, a variation in that the Ministry of Finance as shareholder representative does not exercise some of the ownership rights such as nominating members of the boards (Chandi, 2008). The sector ministries perform this role. When critically examined, it can be seen that Zambia actually has a mixed system of ownership model. The State still owns a single holding company, ZCCM-Investments Holding that is responsible for all its investments in mining companies and the Copperbelt Energy Corporation (National Assembly, 2007).

Zambia has had its share of some of the identified governance issues. For example, prior to privatisation in 1991, political influence is argued to have been evident in board and managerial appointments (Kaunga, 1993). Kaunga (1993) further argued that lack of clarity between commercial and policy objectives was one of the reasons for the unsatisfactory performance of SOEs prior to 1991.

Although studies in other parts of the world show that SOBs can be protected from failure, Zambia has had a different experience. The country in the 1990s had two failures of state sponsored banks, Lima Bank and Cooperative Bank which were created to provide finance to farmers (Maimbo, 2002). The failure of the Cooperative Bank was attributed to gross mismanagement and abuse of depositors' funds (Maimbo, 2002).

2.8 Enhancing Corporate Governance in State-Owned Enterprises

The literature indicates that after the wave of privatisation that mostly occurred in the 1980s and 1990s, countries are now more inclined towards reforming their SOEs and maintaining ownership therefore issues of governance are receiving more attention (Ernst & Young, 2010; MacCarthaigh, 2011; Okhmatovskiy, 2010; Vagliasindi, 2008). These reforms are boosted by global developments such as: (a) rescue of some failing big private corporations by governments in developed countries (ii) growth of sovereign wealth funds which are being used by some governments to acquire shares in off-shore companies; and (iii) the contribution of SOEs in driving economic development in countries such as Brazil, India, Russia, China, South Korea, Malaysia and Taiwan (Ernst & Young, 2010; Hertog, 2010). The tacit overriding principle is to reform but retain ownership.

Reforms to enhance corporate governance in SOEs include: (i) formulation of codes on corporate governance for SOEs (for example Ireland, South Africa and the OECD) and enactment of specific legislation for State enterprises (Namibia and New Zealand are examples); (ii) introduction of performance agreements; (iii) commercialisation, that is, reorienting SOEs to pursue business and not policy objectives; (iv) establishment of *ad hoc* specialised advisory units on SOEs such as SICOT in Italy, Government Business and Private Financing Advice Unit (GBPFAU) in Australia, and Crown Companies Monitoring Advisory Unit (CCMAU) in New Zealand (Bozec et al., 2004; DPE, 2002; Luke, 2010; MacCarthaigh, 2011; OECD, 2005a; OECD, 2005b; Scott, 2007; State-Owned Enterprises Governance Act of Namibia, 2006; Trivedi, 2007).

Hertog (2010) identifies two conditions that may lead SOEs to be successful. Firstly, governments should not pursue populist strategies that weigh towards fulfilling social objectives. Secondly, SOEs should be granted more operational autonomy. Implicitly, this means that SOEs should be given more space to pursue commercial objectives.

Boards of directors appear to be the vital link to improving corporate governance in SOEs and are the point of emphasis in governance guidelines such as the OECD SOE governance guidelines, the South African Protocol on Corporate Governance in the Public Sector (BICG, 2012; DPE, 2002; OECD, 2005b). The results of the study of state enterprises in the Baltic States appear to confirm that boards can affect the governance of SOEs as some of the weaknesses that were identified in some of the sampled corporations had to do with weak boards of directors (BICG, 2012). Similarly, in Canada, a study of three state enterprises in the Province of Quebec showed that some of the challenges faced were avoidable if stronger boards of directors were in place with efficient control mechanisms (Bernier, 2011).

The only challenge with most of the Codes of Corporate Governance is that they are not binding and take any one of the following approaches: 'apply or explain', 'adopt or explain' and 'comply or explain' (Institute of Directors of Southern Africa, 2009, p. 6). Therefore, in case of non-compliance or application of the Code, all the State needs to do is justify its action. According to the Institute of Directors of Southern Africa (2009) the USA is the only country where compliance is mandatory as required by the Sarbanes-Oxley Act of 2002.

In the Southern African Development Community (SADC) Region, South Africa stands out as a country that has made significant progress in enhancing the governance of SOEs by having important instruments such as: (i) the comprehensive Public Finance and Management Act; (ii) the Protocol on Corporate Governance in the Public Sector; and (iii) the Code on Corporate Governance (King Code of Governance Principles).

This literature review has shown that a number of studies have been carried out on the governance of SOEs focusing on the enterprises and not supervising ministries. Issues presented are, therefore, from the perspective of the enterprises. This research took a different approach by focusing on the Ministry of Finance and how it performs its supervisory role over SOEs. Data obtained from the Ministry was compared with those from two SOBs, the Office of the Auditor-General and independent experts in order to have a better understanding of how the supervision role is carried out.

CHAPTER THREE

Research Methodology

This chapter discusses the methodology that was used to carry out this research. Based on actual experiences, validity, reliability and ethical matters are explained. A researcher's bias statement is also included.

3.1 Paradigm

The research was guided by the "interpretive paradigm" in which reality is considered to be "socially constructed" therefore, the focus is on understanding human behaviour in the context or from the perspective of those being studied (Green & Browne, 2005; Merriam, 2009, p. 8). Each sector ministry has its own experiences of supervising SOEs. Therefore, to explore the challenges faced by MOF when carrying out its supervisory function, the interpretive approach was considered to be more appropriate. In addition, exploring governance experiences of each of the two SOBS could best have been done following the interpretive approach as each had to give its own experiences with the current governance arrangement. The unit of analysis was the institution.

The interpretive approach permitted the use of inductive reasoning in coming up with plausible explanations of why corporate governance may be poor in some SOEs, based on actual data that were collected (Babbie, 2010; Neuman, 2011).

3.2 Methodology

The research was carried out using the qualitative research methodology which does not rely on numerical but conceptual analysis and presentation (Green, 2005). This methodology was considered appropriate for three main reasons. Firstly, since the research was aimed at exploring the governance challenges and experiences from each participating entity's perspective, numerical data was not absolutely necessary although it has been sparingly used to support arguments in some areas. Secondly, the researcher was fully engaged in data collection and analysis an important aspect in qualitative research (Merriam, 2009). Thirdly, the inherent flexibility of this approach as argued by Merriam (2009), made it possible for the researcher to make adjustments during the research process, especially when conducting interviews and analysing the data, to suit particular situations.

Based on the classification of qualitative methods by Merriam (2009), this was an exploratory qualitative study. It was cross-sectional as it was based on observations representing a single point in time (Babbie, 2010).

3.2.1 Data Collection

This research used: (a) primary or uninterpreted data which were collected through interviews, from Acts of Parliament, and codes of corporate governance; and (b) secondary or interpreted data through examining reports of the Auditor-General and annual reports of the SOBs (Cooper & Schindler, 2008; Kombo & Tromp, 2006).

Interviews were the main method used to collect the primary data and involved the researcher and interview participant engaging in conversations focussed on the governance of SOEs (Merriam, 2009). The interviews were semi-structured in the sense that they were conducted using an interview schedule which contained guiding open-ended questions (See Appendix I). Open-ended questions allowed participants the liberty to choose appropriate words, length of the answer and what matters to include in their responses (Denscombe, 2007). According to Babbie (2010), interviews are flexible. The researcher was therefore able to elicit more information from interviewees by probing and prompting. This was particularly useful for questions involving opinions and thoughts on SOE governance issues. The flexibility also enabled the researcher when conducting the interviews to be reviewing earlier ones to identify gaps and some specific issues that needed follow-up with subsequent participants.

The interviews were conducted between 7 and 25 January 2013. Before conducting, the interviews, the two banks had requested for additional information. In one case, the Bank wanted to have an idea of main questions, a consent draft, and brief explanation of the value of the research to them. Drafts of the consent and the statement on the value of the research are in Appendices II and III respectively. In the second case, they wanted an idea of the questions since it was bank policy not to conduct interviews. The information was provided and permission was granted to conduct interviews in both cases.

In order to ensure that the responses were not rehearsed thus possibly affect the objectivity of the responses, only lead questions were provided to the participants. There was also a mitigating factor in that this only applied to representatives of management. Representatives of the Boards

did not request prior information. Overall, there was no significant threat to the value of the research.

3.2.2 Sampling Method

The focus of this research was the Ministry of Finance and two SOBs under its supervision. Ten interviews were conducted with private individuals and representatives of participating institutions. Interview participants were selected using purposive non-random sampling which Neuman (2011) describes as a process in which a wide range of methods are used to locate all possible cases that fit particular criteria including the judgment of the researcher as detailed in Table 1.

The participating banks were assured that their identities would be anonymous and any reference to them would be in codes. The banks are therefore referred to as Bank A and Bank B throughout this report.

There were three adjustments made to the sample. Firstly, the researcher, when planning the research, was under the assumption that MOF had specific desk officers attached to particular SOEs. The intention was therefore to interview desk officers for the two SOBs at the Ministry. It was later discovered that due to manpower challenges in the Government Investments Unit (GIU), there are no desk officers and tasks are assigned randomly to officers. At the time of the interview, there were only two officers dealing with SOEs. The researcher therefore had to conduct only one in-depth interview with the senior officer in GIU the Ministry had authorised to deal with the research. There was no threat to the value of the research as this was the situation on the ground.

Secondly, the AG authorised two very senior officers to participate in the research. The earlier intention was to have one participant. This only added to the value of the research. Thirdly, there was a good response from the independent experts and the interviewer ended up interviewing three persons instead of one. This also added to the value of the interviews.

One distinguishing feature of the qualitative approach is that there should be adequacy of the data that possibly reaches a point of “saturation” since it does not depend on a large sample like in quantitative research (Neuman, 2011, p. 508). Although it was not possible to reach the point

of saturation in terms of data that were collected due to time limitations, the intended number of interviews was achieved and the data collected were sufficient for purposes of this research.

Table 1: The Purposively Selected Interview Participants

Interview Participants	Relevance to Study
A representative of MOF (one)	This was the focal institution of the research. It is headed by the Minister of Finance who is a “corporation sole” as provided for under the Minister of Finance (Incorporation) Act, Cap 349 of the laws of Zambia: 3. The Minister of Finance shall be a corporation sole by that name, with perpetual succession and an official seal, and with power to acquire and hold in that name lands, Government securities, shares in any company, securities for money, and real and personal property of every description, to sue and be sued, to execute deeds, to enter into agreements binding on himself and his successors in office, and to do all other acts necessary or expedient to be done in respect of the above matters or any of them (Minister of Finance, 1958). The Ministry therefore performs a dual role in the governance of SOEs: (i) as shareholder; and (ii) it gives policy direction to SOEs in the financial sector including the two SOBs that participated in this research.
Representatives of the Auditor-General’s Office (two)	The Supreme Audit Institution is the major source of currently available information on SOEs.
Representatives of the Board (one) and management (one) of Bank A*	Bank A was created under an Act of Parliament and is 100% owned by the Government. It was created to mobilise national savings and does not participate in mainline commercial banking although it is deposit-taking.
Representatives of the Board (one) and management (one) of Bank B*	Bank B is a joint-stock commercial bank. The Zambian Government owns 40% of the equity.
Independent experts on development and public administration (three)	The three academics were purposively selected to provide a non-state actor’s perspective
*There are four state-owned banks in Zambia. Two are statutory banks, that is, they are created under Acts of Parliament while the other two are joint-stock banks. One was been picked from each category.	

3.3 Validity and Reliability

This section discusses internal and external validity, and reliability.

According to Cooper and Schindler (2008) internal validity refers to the ability of the research methods used to describe or measure subject matters accurately. In order to enhance internal validity, the following steps as advised by Merriam (1995) were taken: (i) of the ten interviews, nine were electronically recorded and fully transcribed; only one was not at the request of the participant; (ii) a statement by the researcher is given on any biases, experiences and assumptions that may affect internal validity; and (iii) some level of triangulation has been applied in the study in that primary and secondary data have been used; and issues affecting the supervision of SOEs were also explored from the perspective of two SOBs, the Office of the Auditor-General; and three independent experts. Triangulation is the process of observing any matter from different viewpoints (Neuman, 2011). Due to time limitations, no re- confirmations of interviews were done with participants. However, face to face qualitative interviews, as argued by Denscombe (2007), have an in-built means of validating the data; therefore, the researcher was able to seek immediate clarification on any issue that was not clear.

Although the ten interviews cannot guarantee external validity - the ability of the findings of a particular study to be generalised - the researcher made reasonable attempts to follow the advice of Merriam (1995, p. 58) to provide a “thick description” of issues surrounding the governance of SOEs; experiences of the two SOBs; and views of other participants. The researcher leaves it up to the reader to generalise in what is called ‘reader or user generalisability’ (Merriam, 1995, p. 58).

Being a qualitative study, it was not about establishing causal laws. Reliability, which Cooper and Schindler (2008) define as how dependable measures adopted in a research are and whether they are able to give consistent results if the research is repeated, cannot be guaranteed in a qualitative study. Besides, human behaviour, feelings and perceptions are not static and can change depending on circumstances (Merriam, 1995; Neuman, 2011). The researcher strove for dependability of the research methods and not consistency, as advised by Merriam (1995).

3.4 Ethics

This research did not deal with sensitive groups in society and the matters were not contentious as audit reports have publicly revealed the poor governance that characterises SOEs. For purposes of credibility and the need to maintain high levels of integrity, the researcher adhered to some of the research guidelines posited by Merriam (2009). Firstly, the purpose of the research and methods to be used were explained to all participating institutions. This was done through detailed letters that were sent to the institutions when seeking their consent to conduct interviews. For the two academics at the University of Zambia (UNZA), this was done through the Dean of the School of Humanities and Social Sciences. The other expert was approached in his private capacity using the same letter.

Secondly, the participants were assured of confidentiality of information they provided and that their identities would remain anonymous. The banks were also assured that their names would not be disclosed; hence their being referred to as Bank A and Bank B. The only institution named is the Ministry of Finance as it is the focus of the research. Thirdly, recording of the interviews was only done with consent. In all the cases, this was done verbally. One participant had declined to be recorded but was comfortable with the written record. All records of interviews proceedings have been deleted from the researcher's computer. Transcripts and voice recordings have been saved on a separate flash disk which is securely stored. Fourthly, the research strove to uphold the highest standard of academic professionalism.

3.5 Personal Bias

The researcher is a parliamentary officer at the National Assembly of Zambia. Having served as Secretary to the Public Accounts Committee, he was aware of the governance irregularities at some SOEs and this was actually a motivating factor in choosing the research topic. Since the National Assembly was not a participant in this research, the researcher's personal position on some issues did not interfere with the research process.

The researcher adopted a neutral position and some of the issues that emerged were contrary to held assumptions. This was strengthened by the researcher's work experience of dealing with witnesses that have to submit before parliamentary committees and their voices have to be reflected in decisions that are arrived at.

CHAPTER FOUR

Research Findings

Research findings are presented in this chapter and arranged in two sections. The first deals with data analysis and the second is a presentation of the findings.

4.1 Data Analysis

This section explains the process that was followed to convert the raw data into information ready for interpretation.

Data analysis, in this research, was a continuous process and began at the same time as data collection as argued by Merriam (2009) and Rubin and Rubin (2005). The thematic content analysis approach was followed in analysing both the primary and secondary data and this was done manually. Thematic content analysis involved the researcher having to identify commonly occurring, dominant or significant concepts or terms, themes, events and 'topical markers' such as political parties, pieces of legislation, and policies in the data (Rubin & Rubin, 2005, p. 207; Thomas, 2003).

The researcher employed the six phase approach propounded by Braun and Clarke (2006) but collapsed it into three. Firstly, the researcher had to familiarise himself with the data. This involved going through all the interview transcripts and extracted secondary data several times. Secondly, the researcher split the data into three data units namely: Ministry; Experts and Audit Office; and Experiences of SOBs. Data units are groups of data that are considered together (Rubin & Rubin, 2005). The initial codes were generated under these three units. This also involved searching for concepts, themes, events and topical markers in the data under the three data units and linking them to the relevant research questions. This is shown in Tables 2, 3 and 4.

Table 2: Initial Coding under the Ministry of Finance Data Unit

Data Unit	Research Question	Initial Coding
Ministry of Finance	Q1. Factors leading to SOEs under Ministry to have recurring governance queries	1. Current Loose Arrangement 2. Historical perspective 3. Lack of Private Sector Participation
	Q2. Legal and non-legal factors impeding the Ministry from effectively supervising SOEs	1. Policy and Legal Framework 2. Lack of Capacity 3. Multiple Principals 4. Commercial versus Social Objectives 5. Political Influence
	Other Matters	Models or Well-Governed Enterprises

Table 3: Initial Coding under the Experts and Audit Office Data Unit

Data Unit	Research Question	Initial Coding
Experts and Audit Office	Q1. Factors leading to SOEs under Ministry of Finance (and other ministries) to have recurring governance irregularities	1) Historical Perspective 2) Ad hoc Arrangement of Supervision 3) Insufficient corporate autonomy 4) Non-Performing Boards 5) Soft Budget Constraints 6) Managerial Issue 7) Absence of Punitive Measures
	Q2. Legal and non-legal factors impeding Ministries from effectively supervising SOEs	1) Policy and Legal Factors 2) Political Influence 3) Capacity of Ministerial Staff 4) Commercial versus Social Objectives 5) Lack of Appreciation of Board Efforts 6) Lack of an Effective Reporting System
	Other matters	1) Models or Well Governed SOEs 2) Financial Under Performance

Table 4: Initial Coding under the Experiences of SOBs Data Unit

Data Unit	Research Question	Initial Coding
Experiences of SOBs	Q1. Factors leading to SOEs under Ministry to have recurring governance queries	1) Genesis of Problems for Bank A 2) Low Capitalisation 3) Calibre of Members of the Board and Top Management
	Q3. Actual experiences of SOEs	1) Strict Regulation 2) Commercial versus Social Objectives 3) Operational Autonomy 4) Multiple Principals/Relationship with other Government Institutions 5) Board versus CEO 6) Reporting System/Transparency 7) Supervision, Monitoring and Evaluation
	Other Matters	Good Practices

Thirdly, emerging issues in each unit were then reviewed by cross relating to those in other units. In the process some themes were merged and others renamed. The final coding was a combination of MOF, and Experts and Audit Office Data Units as shown in Table 5.

Table 5: Final Coding

Data Unit	Research Question	Final Coding
Ministry of Finance and Experts & Audit Office combined	Q1. Factors leading to SOEs under Ministry to have recurring governance queries	1) Loose Supervision and Monitoring 2) Lack of Private Sector Participation 3) Insufficient Corporate Autonomy 4) Non-Performing Boards
	Q2. Legal and non-legal factors impeding Ministries from effectively supervising SOEs	1) Policy and Legal Framework 2) Political Influence 3) Capacity of Government Investments Unit 4) Multiple Principals 5) Commercial versus Social Objectives 6) Lack of appreciation of Board Efforts
	Other Matters	1) Good Practices 2) Policy Document and Legislation

Based on this analysis, findings of the research are presented in the next section.

4.2 Data Presentation

Data from all participants except from the SOBs are presented first under each theme. The experiences of the banks are then presented so as to give a practical perspective. It should be noted that there are themes where there are no comments by participants from the banks.

4.2.1 General Information

Ten interviews were conducted as shown in Table 6. Four SOBs participated in the research whose identities are anonymous in this research. However, a brief account is presented on their boards just to give an idea of their present governance arrangement.

Table 6: Summary of Interview Participants

Interview Participants	Gender	Institution
A	Male	Ministry of Finance
B	Male	Private Consulting Firm
C	Male	University of Zambia
D	Male	University of Zambia
E	Male	Office of the Auditor-General
F	Female	Office of the Auditor-General
G	Male	State-Owned Bank A
H	Male	State-Owned Bank A
I	Male	State-Owned Bank B
J	Female	State-Owned Bank B

Table 7: Brief Account on the Boards

	Bank A (100% State Owned)	Bank B (40% State Owned)
Qualifications of Chairperson	PhD - Banking and Finance	Banker but retired
Qualifications of CEO	Banker	Banker
Composition of Board	Mixed – Private and Public Sector	Mixed – Private and Public Sector
Number of Board Members	Nine including the CEO	Eight including CEO; and the Secretary

Source: Constructed using research data

4.2.2 Factors Leading to SOEs having Recurring Governance Irregularities

A number of participants were of the view that the current problems that were being experienced with the governance of SOEs were historical. The problems were a reflection of the development process the country had gone through from independence including important landmark policy decisions like the Mulungushi and Matero Reforms in 1968 and 1969 respectively, and the Privatisation Programme after 1991. The views from the participants suggest that the governance practices obtaining today were a carry-over from one political regime to another; therefore, there had not been much improvement in the way SOEs were managed, as one remarked:

“However, by and large, the way they are managed is still problematic today. I have not seen any significant improvements.” (Participant C, Personal Interview, 14 January 2013).

Interview data show that the policy of the MMD Government after assuming power in 1991 was that all parastatals would be sold off. The participant from MOF had this to say:

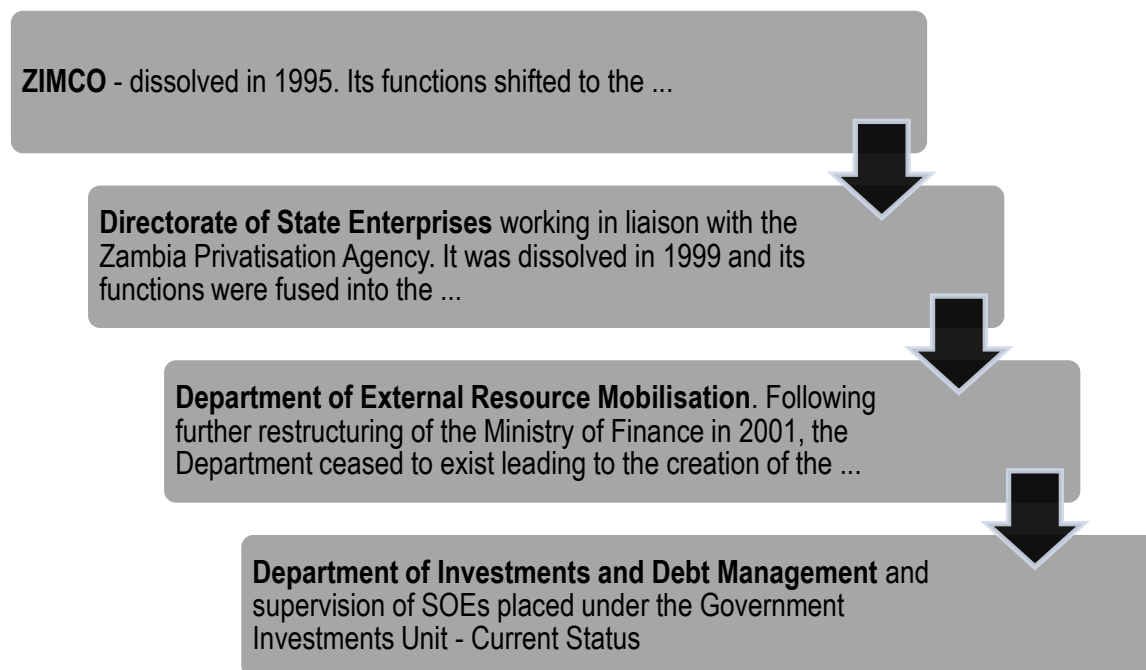
“...the Government embarked on a privatisation programme starting in 1991, in order to fully divest its interest in State-Owned Enterprises. As a consequence of the privatisation programme, ZIMCO, the holding parastatal company was dissolved in 1995. Following the dissolution of ZIMCO, the Directorate of State Enterprises was created to manage the transition of the privatisation of State Owned Enterprises and act as the surrogate shareholder in State-Owned Enterprises on behalf of the Minister of Finance. This function was to be undertaken in liaison with the Zambia Privatisation Agency until the Directorate of State Enterprises could be finally phased out upon completion of the privatisation programme.” (Participant A, Institutional Interview, 22 January 2013).

The transformation process of supervision and monitoring of SOEs from the time ZIMCO was liquidated is depicted in Figure 3.

Challenges of supervision persisted despite the reorganisation in 2001 when the Investments and Debt Management (IDM) Department was created. One participant said:

“Despite the re-organisation, the IDM Department faces a number of challenges relating to the absorption of the new functions of monitoring and supervision of state-owned enterprises effectively and efficiently.” (Participant A, Institutional Interview, January 22, 2013).

Figure 3: Transformation Process of Ownership and Supervision of State-Owned Enterprises after the Liquidation of ZIMCO



Source: Constructed using research data

This state of affairs continued even after 2002 when there was a policy shift on privatisation. The Government then started pursuing privatisation options that did not involve complete ceding of ownership. According to information that was provided by the participant from MOF, the Government of the Republic of Zambia had equity interest in thirty-nine (39) enterprises as of 2013.

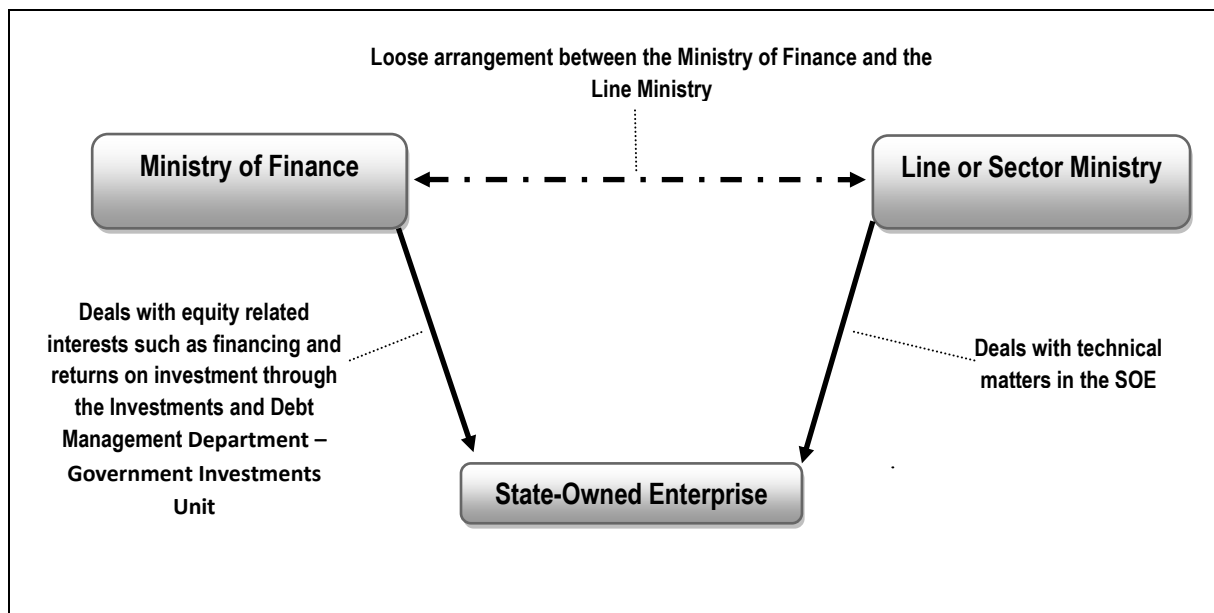
Data from the participants suggest that there are four contributing factors to recurring governance irregularities in SOEs as detailed below.

4.2.2.1 *Loose Supervision and Monitoring*

According to some participants, Zambia currently has a loose arrangement of supervising SOEs meaning that there was no close-knit relationship between MOF and sector ministries under which enterprises fell. Exceptions were enterprises that fell under the Ministry of Finance itself. The participant from MOF said this was as a result of having a dual ownership system in which

the Ministry dealt with issues relating to returns on the investments while line or sector ministries dealt with technical aspects. Figure 4 shows the current supervision and monitoring arrangement.

Figure 4: Dual Supervision and Monitoring of State-Owned Enterprises



Source: Constructed using research data

This loose arrangement had led to poor supervision of SOEs:

“... it is just the Ministry of Finance who owns shares in all these parastatals. Where you see a parastatal is falling under a specific line ministry, it was just because of technical advice that was required. But finally, they started existing whereby Ministry of Finance was not even controlling them as such. There was that loose arrangement... In practice, ownership functions are exercised by the Ministry of Finance and the sector ministry assigned to the state-owned enterprises based on the sector without any written rules or guidelines. The drawback of this arrangement has been the duplication of duties between the shareholding minister and the sector ministry, and as a consequence, poor supervision of state-owned enterprises.” (Participant A, Institutional Interview, 22 January 2013).

One participant referred to supervision in all ministries as being *ad hoc* and that monitoring had been left to the boards and CEOs:

“Everything is *ad hoc*. There is an emergence and Indeni (Petroleum Refinery) has shut down. What do we do to buy fuel? The Government can buy, so get a loan from or something. So, everything is done *ad hoc*. There is no structured system of monitoring these parastatals. I can tell you that...the Ministry of Finance does not monitor how business is progressing on a quarterly, monthly, and so on. This is left to the Board and the Board members are non-executive and meet quarterly. This means that they are not

in touch with business every day. They can only rely on what management gives.” (Participant E, Institutional Interview, 17 January 2013).

The Ministry of Finance had introduced performance agreements with some boards of SOEs to enhance monitoring but enforcement had been a challenge due to the absence of legal backing. The participant from the Ministry stated:

“In some we put (Performance Agreements). You see, we just started. We did not have the powers to demand can you bring this by now, under what law? We did not have that. So others would ignore the instruction.” (Participant A, Institutional Interview, 22 January 2013).

On the practical side, participants from the two banks revealed that there were no specific officers that they dealt with at MOF although the Department of Investments and Debt Management carried out the monitoring including requesting explanations when there were adverse reports. One participant described the supervision by MOF as excellent because they had been allowed to operate like any other bank without interference. As partly observed by some non-bank participants, the Boards of the two Banks had mechanisms in place for monitoring management performance. This was through committees of the boards which met at set times usually quarterly.

4.2.2.2 *Lack of Private Sector Participation*

According to the participant from the Ministry of Finance, it had been observed that SOEs like Zanaco Bank, Indo-Zambia Bank and Nanga Farms had performed relatively better owing to participation by the private sector. Zanaco had even done better on governance issues such that it had even listed on the Lusaka Stock Exchange. Most of the dividends were being received from SOEs that were not wholly owned by the Government:

“...Indo-Zambia and Zanaco, they declare dividends because they became efficient. It’s not business as usual. Now there was participation by the private sector who must ensure that things are efficiently done. They have to work to earn profits. They have done that and that is why Parliament is even saying how come we are getting dividends from institutions where the shareholding is even reduced. That is where dividends have been coming from where there is 100 we are not getting dividends. It is a correct observation because people where Government has 100 per cent shareholding have been relaxed.” (Participant A, Institutional Interview, 22 January 2013).

4.2.2.3 Corporate Autonomy

The perception of some participants was that continued poor governance in SOEs was as a result of the shareholder's inability to give boards and chief executive officers sufficient corporate autonomy to be able to make decisions in a way that responded to the market. Participants, however, acknowledged that there was no such thing as absolute autonomy. One of them remarked:

“What makes a company is whether the managers, the Board and chief executives are given sufficient corporate autonomy to be able to make decisions in a way that responds to the market... If you have chosen it carefully, you entrust and transfer the responsibility to that Board at the corporate management level. The appointing authority must coil back and make sure that they do not in fact interfere. They can give directives. A chief executive must actually, get directives from the shareholder. He is the shareholder. So, there is no question of saying that you can have absolute autonomy.” (Participant B, Personal Interview, 16 January 2013).

There was also a contrary view. The participant from MOF stated that boards of SOEs were autonomous:

“Whichever boards we have appointed, they are autonomous. They were really autonomous. They were told before they were appointed that: ‘you are expected to perform’.” (Participant A, Institutional Interview, 22 January 2013).

The position of the Ministry participant was consistent with the experience of the two banks. All participants from the two banks stated that they had reasonable operational autonomy. In the case of Bank A, despite being wholly owned, the Government had given it space to decide for itself which specific rural areas to open branches in and what products to offer the market. The Government had, however, issued guiding principles that required the Bank to pay special attention to the under-banked rural areas. Their decisions as a bank were arrived at after conducting feasibility studies which should among other things show that they could break-even within 24 months. If this was not the case, they did not open a branch.

The Bank could enter into strategic partnerships with other financial institutions at the operational level. For example, they were the only Bank operating in Kaputa, a remote District in the Northern Province of Zambia. Other institutions conducted their business through Bank A. At the same time, if it was unable to open a branch, it could, with consultation, establish agency banking with

established local traders. The challenge faced was the delay in getting approval from MOF. This was an area they felt the Ministry slowed them down:

“... but the only thing we perhaps need is that the Ministry are prompt in providing the necessary authority when we need it... when we put in requests for certain approvals. I think that can be seen as an area where the Ministry can hold our progress.” (Participant H, Institutional Interview, 8 January 2013).

For Bank B, their operational autonomy was almost unfettered:

“...they do not breathe over our necks... I do not remember, even my tenure on the Board being called to say please as shareholders we would like you to do A, B and C, no!” (Participant J, Institutional Interview, 25 January 2013).

4.2.2.4 Non-Performing Boards of Directors

Participants identified non-functioning SOE boards as a factor that led to poor governance. This could be caused by:

- a) vacuums that were created by delays to constitute boards by ministries themselves;
- b) board members became complacent and stopped performing their functions properly:

“...so far, so many parastatals we have reviewed, we cannot see evidence to show that this Board is really supervising the management. If management is running its own things, the Board is there but why are there anomalies?” (Participant F, Institutional Interview, 17 January 2013);

- c) non-preparation of financial statements and annual reports;
- d) having a chief executive officer who was more powerful than the Board particularly if appointed either by the Head of State or Minister. This meant that the Board became detached from what was happening on the ground in the SOE. Decisions of the Board in this case were heavily influenced by the Chief Executive Officer in that he or she would be presenting to the Board what had been already agreed with the appointing authority. One participant gave an example of one SOE where this had been the case and was actually a member of the Board. When confronted on an issue the CEO would say:

“I have got a hotline.” (Participant F, Institutional Interview, 17 January 2013).

Participants from the banks had had no experience of having a CEO who was more powerful than the Board as their boards were fully involved in the recruitment process.

- e) People entrusted to run companies in certain instances failed to perform because they became comfortable with the assistance they got from the Government in the form of subsidies. In addition, there were no sanctions for wrongful acts. Participants B and F commented:

“...those companies that are found wanting are not subsidised using the tax-payers money and are allowed to collapse so that they should know that you cannot run a company with an eye on the tax-payers money subsidy, and that you will be fired not because you have made a politically and unattractive decision but because you have failed to actually adhere to the business ethics and have failed to actually improve the bottom line.” (Participant B, Personal Interview, 16 January 2013).

“People are not following the regulations and the law and nobody is penalising anybody for wrong doings. So, there are no penalties for wrong doings again.” (Participant F, Institutional Interview, 17 January 2013).

Bank A was mentioned in the Auditor-General's Report for the accounts for the year 2010. The audit queries were on the banking computer software that was non-functional (AG, 2010). The queries led to a chain of events after that. According to press reports, the Board reacted by dismissing the Managing Director over the procurement of the software (Post Newspapers, 2012). The Government in March 2012 dissolved the Board and reinstated the Managing Director as he was not in the employment of the Bank when the procurement was made but the Board was (Post Newspapers, 2012).

Participants from the Bank confirmed the matter and stated that the audit queries were linked to the mishandling of the procurement process of the failed computer software. The software affected the integrity of their data and led to a series of Information and Communication Technologies related problems such as failure to prepare financial statements from 2009. The Bank was, therefore, having recurring governance queries with respect to reporting. It was disclosed that the Government had provided funding to capacitate the Bank so that it could contribute to the promotion of financial inclusion since studies had shown that over 60 % of adult

population in Zambia was unbanked. The Bank was assisted in three areas: (i) procuring a modern Information Technology (IT) System; (ii) branch expansion; and (iii) technical assistance to improve development of human capital.

4.2.3 Factors Impeding Effective Supervision of SOEs

Seven issues emerged out of the data on supervision of state enterprises as presented below.

4.2.3.1 Policy and Legal Framework on SOEs

Some participants were of the opinion that the absence of corporate governance policy guidelines had contributed to the current state of affairs in SOEs. This was confirmed by the Participant from MOF:

“Currently, there is no policy document which provides policy guidelines on key corporate governance policy and procedures for state-owned enterprises. The remaining state-owned enterprises have continued to operate without the set policy guidelines and goals. As a result, work on state-owned enterprise is done haphazardly and in an ad hoc manner.” (Participant A, Institutional Interview, 22 January 2013).

This meant that people serving SOEs in various capacities were not aware of what was expected of them in terms of monitoring and evaluating their institutions. There was also a view that the reporting system was weak since ministries were not obligated to produce separate reports on government investments they supervised.

According to Participant A, MOF had identified lack of specific legislation on governance of SOEs as a hindrance to effective supervision. It was stated that there were four major pieces of legislation which were relied upon in governing state enterprises. Firstly, the Companies Act but this was only to the extent that an SOE was incorporated. There was no law that compelled enterprises incorporated under the Companies Act to conform or operate in line with public service rules and procedures. Secondly, the Public Audit Act empowered the Auditor-General to audit SOEs by virtue of having public funds invested in them. Reports of the Auditor-General appear to be the main source of information on SOEs. One participant remarked:

“... currently, the best we can give you is the Report from the Auditor-General which will only include problematic institutions...that is the only thing that exists now...” (Participant A, Institutional Interview, 22 January 2013).

Thirdly, the Public Finance Act with regard to government investments only covered statutory corporations. Fourthly, the Minister of Finance (Incorporation) Act which specified the functions of the Minister as a corporation sole. This Act had some weaknesses with respect to SOEs in that ownership and reporting functions were not provided for. This complicated the process of accessing information:

“Currently, if I go to Energy...I go to TAZAMA [Parastatal that operates the petroleum pipeline from Dar es Salaam] and ask them for information; they may not give me saying: ‘No, you have to go through the Ministry of Energy.’ But I am the shareholder. Even if I push, they will be scared and will not give me.” (Participant A, Institutional Interview 22 January 2013).

Some participants were of the view that some pieces of legislation were not enabling enough as they gave ministers so much power which could be used to exert undue influence. The manner of enforcement or lack of it was also a factor.

Participants from the two SOBs stated that in their operations, they followed governance guidelines as required by the Bank of Zambia, and abided by provisions of the Banking and Financial Services Act (BFSA). There were no regulatory exemptions that the two SOBs enjoyed under the BFSA:

“We are answerable to the regulator. So, there is no exception ... We are regulated just like any other commercial bank in Zambia.” (Participant I, Institutional Interview, 21 January 2013).

Examples of the requirements of the BFSA included: candidates for top positions to pass the Bank of Zambia Fit and Proper Test just like any other bank; and being transparent by publishing, through the press, quarterly statements as one participant stated:

“Quarterly statements are public information. We are obligated by law. So, you can follow and track the bank’s performance every quarter up to the annual statement. This is public information. They will know what you are spending, what you are earning, what your invested in. It is all there (Participant I, Institutional Interview, 21 January 2013).

In another example, despite the important mandate that Bank A had of promoting financial inclusion, the Bank of Zambia was not allowing it to draw money for branch expansion to avoid spreading the risk owing to the faulty computer software that was installed. The Bank of Zambia

had also capped the amount of money Bank A could lend out at Kwacha rebased (Kr) 50,000 (Equivalent to approximately 80, 000 South African Rands) per client.

4.2.3.2 Political Influence

All participants, with the exception of those representing SOBs, identified political influence as a major factor in governing SOEs but acknowledged that political influence was inevitable when the Government was the boss. Two major areas of political influence were singled out:

(i) In the recruitment and appointment processes:

“A typical example we can give is the composition of Zamtel Board (Telecommunications parastatal)...Even Zesco (Electricity parastatal) is a typical example in Zambia because even the same Mr Banda (Pseudonym) what qualification has he got to be on the Zesco Board.” (Participant C, Personal Interview, 14 January 2013).

The participant from the Ministry stated that at one time, the level of interference used to be high but that things had now improved in that there was more scrutiny involved in the appointment of board members including a wider participation of non-state actors such as professional bodies:

“...those who were appointed in the recent past, we could send for nominations from ZICA - Zambia Institute of Chartered Accountants, from LAZ (Law Association of Zambia), Chambers of Commerce and all those relevant areas depending on the sector of the institutions. So, they will send nominations and we will pick from there and the minister will appoint. They would have chosen a professional who knows what to do. Ministry of Finance has appointed a number of them from that. Previously, it never used to be the case. People were just appointed whether it is a cadre or what. They were just appointed. So, you wonder when you go to the board and meet such a person. However, nowadays, they are subjected to such kind of scrutiny and the policy will make it more perfect.” (Participant A, Institutional Interview, 22 January 2013).

The participant from the Ministry stated that, at present, chief executive officers were appointed by boards following the normal recruitment process. There was however a caveat. Due to imperfection of the system, it may have happened in some enterprises that this process was not strictly adhered to. This view was echoed by other participants who felt that appointments of board members and chief executive officers were made purely on

political patronage lines and ill qualified persons found their way on the board and on top management teams. One participant said:

“...you find that one can be a head of procurement but he has a degree in economics and has nothing to do with purchasing. How did this person get this job? You see a lot of fireworks coming from the left, right and centre. Then you can tell that there must be some influence from somewhere.” (Participant F, Institutional Interview, 17 January 2013).

In some cases, the Chief Executive Officer (CEO) was appointed even earlier than the Board. Zambia Railways was given as an example where this had recently happened:

“The most recent example that I will give you is with Zambia Railways, the Chief Executive was appointed politically. Fortunately, in this case, I think he is a good guy...one would believe and hope that he will not be frustrated. After appointment, several weeks or a month, the Board was constituted...” (Participant B, Personal Interview, 16 January 2013).

Even in a situation where professionals were appointed either to sit on boards or as chief executive officers, the invisible arm of politicians would still be there leading to failure to perform effectively. One participant had this to say:

“...board members have got more allegiance to the appointing authority than anything else. So, you see the invisible arm of the minister perhaps, a Head of State being extended to control the public enterprise even when we have professionals. We have had professionals and you have seen how they have run down parastatals.” (Participant C, Personal Interview, 14 January 2013).

All participants from the two SOBs did not mention having low calibre board members or ill qualified top managers. One participant observed:

“...we have a board which is technically competent to provide effective supervision and guidance of management. Fortunately, on the management side too, we have a very solid team, very well experienced people in key management positions that are very qualified and experienced. One can feel confident that as far as governance is concerned, we are ok.” (Participant H, Institutional Interview, 8 January 2013).

- (ii) Depriving the Board of corporate autonomy leading to interference in the operations of the entity:

“So, you run into these serious problems that even where someone is trained in the West and understood how a company, parastatals or not, functions, corporate autonomy just flew up through the window and politicians started influencing what is

happening in the Board Room. If actually, you say something that is not complimentary to the feelings or to the interests of the appointing authority, who is a politician, you are either fired as a chief executive or your board will be dissolved and another one is constituted, sometimes consisting of cadres.” (Participant B, Personal Interview, 16 January 2013).

4.2.3.3 Capacity of the Government Investment Unit

Some participants said the GIU in the Department of Investments and Debt Management was understaffed leading to an inability to function effectively. It was stated that there were only six officers compared to twenty in the Directorate of State Enterprises. At the time of the interview, only two officers were looking into issues of SOEs. This had resulted in the supervision of SOEs being less effective. With regard to technical capacity and specifically when dealing with financial institutions, there was an adequate pool of economists and accountants who could handle issues.

Other than just supervising SOEs, the officers had to perform other duties:

“...we could not be all over. We had limitations despite just supervision, we also have other things. Sometimes you may find people surrounding the Ministry arising from privatised companies and are claiming that they were underpaid their terminal benefits, and so on. We are dealing with those as well. It is just difficult when the staffing levels are low.” (Participant A, Institutional Interview, 22 January 2013).

Due to the staff constraint, officers had evolved a mechanism of supervising SOEs through financial statements and annual reports. The limitation of this arrangement was acknowledged:

“Which is not good. Auditors go there periodically and just go and see things that have already happened. So we have to be proactive.” (Participant A, Institutional Interview, 22 January 2013).

Other participants were of the opinion that even if the numbers were adequate and staff performed their duties such as producing reports, final decisions rested with the politicians. Ministerial staff would still tow the political line.

4.2.3.4 Multiple Principals

Although there were government institutions, other than MOF, with an interest in SOBs like the Bank of Zambia as a regulator and the AG, the majority of the participants did not see this as a major challenge in terms of how such institutions related in carrying out their duties with respect to SOEs. There were two issues raised though. Firstly, a possible concern would be how MOF

could be a shareholder and supervisor at the same time. Even then, the view was that this would not be a problem:

“Well, the conflict of interest will not necessarily be there, in that these boards shall be appointed on professional grounds and they are going to use the private sector to sit on the board, in order to make sure that we reduce that conflict of interest. Currently, the chairpersons of the boards are from the private sector. So they will be able to see things critically and efficiently and be able to advise.” (Participant A, Institutional Interview, 22 January 2013).

Secondly, a participant from one of the banks pointed that there was some duplication in the information asked for and time was lost in the process:

“...what we see is some duplication because sometimes, the Bank of Zambia would come and do their inspections and they ask the following things. May be the following month, the Auditor-General will come and ask for the same things. That is the only time you find that in terms of how we commit the human resource to attend to them... it is always eating into the time resource.” (Participant G, Institutional Interview, 7 January 2013).

4.2.3.5 Commercial versus Social Objectives

Most participants viewed pursuance of both commercial and social objectives as important; however, the feeling was that state enterprises needed to be profitable and the social objectives should be met from profits. The challenge was, therefore, on how to balance the commercial and social objectives within the confines of good corporate governance.

The Government was aware of challenges facing SOEs such as the Postal Services Corporation which had to provide services in the remotest of places that may not be profitable:

“Even if that remote area is not profitable, you need to have a post office or there is need for a service. A poor farmer or business person needs to receive a letter even if it does not make any economic sense,” (Participant A, Institutional Interview, 22 January 2013).

Related to this was the question of supporting strategic enterprises regardless of their performance, financial or otherwise. For example, private banks at one point in time started closing down branches outside Lusaka. Government had to support the National Savings and Credit Bank (Natsave) so that it could continue providing banking services in rural areas:

“What was going to happen to rural areas if Natsave also died? Where would the poor teachers get their salaries from? Were they going to be travelling hundred kilometres to go and get salaries when half of their salary goes to transport?” (Participant A, Institutional Interview, 22 January 2013).

Some participants raised concern about the misuse of SOEs. They said parastatals such as Zesco had been used to finance other activities when they were not making profits:

“...Government sometimes intervenes even in the company that is not making profit to grab money. Zesco is notorious for that. Sometimes even sponsoring elections. We know that. It comes in the public domain. That is where we get the information. We are not accusing anyone. In the previous governments, we have known Zesco to be financing elections.” (Participant B, Personal Interview, 16 January 2013).

The pursuit of commercial and social objectives had not come out as a major challenge for the two banks. In the case of Bank A, their experience was that the commercial and social objectives were actually interrelated. With 61% of the Zambian population living in the rural areas and the reduced opportunities in the over-banked urban areas, there was business in rural areas. One participant said:

“So, you will find that as much as the Government is saying we go this route, there is actually viability in these same areas. That is where now you see this intersection between the commercial objective and the public policy. At the end of the day, the Bank is able to derive a lot of value from these areas through volumes. Margins may be small but the volumes are huge and that is what creates the commercial viability of whatever we are doing.” (Participant G, Institutional Interview, 7 January 2013).

Branches in some areas may initially not be profitable. If there was future potential, these were subsidised using profits from well-performing branches. In addition to Bank A's own effort of cushioning impact of opening rural branches, the State also provided support:

“...we are opening new branches in Kalabo and Chavuma (these are rural areas). When we do that, Rural Finance Programme refunds us part of the cost of those branches. That money goes straight to our capital (Participant G, Institutional Interview 7 January 2013).

For Bank B, their motive was profit maximisation although they were alive to societal needs:

“First and foremost, we have got to maximise value for our shareholders. That is fine and that we do. But at the same time, profit is something that we have to attain because it is part of our business model... yes, commercial considerations on one hand but social considerations always move within our business model.” (Participant I, Institutional Interview, 21 January 2013).

Although the Government did not impose any social objectives on Bank B, it however, modelled its business plans to its priority areas as this presented business opportunities for them. Admittedly the Bank had made some interventions but these had been on commercial basis:

“Being our shareholders, one would think that they would come in and just request us to intervene in certain social challenges. I just want to let you know that has not been our problem...Government as the shareholder left us to do business uninterrupted. Where we have been requested to intervene, for example, the Food Reserve...once every year they are looking around for money to increase the purchase of maize. We are also doing some interventions that have come in through Government. They have been commercial.” (Participant J, Institutional Interview, 25 January 2013).

4.2.3.6 *Lack of Appreciation of Board Efforts*

Participants observed that even when a state enterprise board was professionally constituted, governance of the entity could be affected if a minister or permanent secretary did not appreciate its efforts. One participant cited two examples. In the first, he had to resign as Board Chairperson of one of the Commissions because of the arrogant way in which the Permanent Secretary disregarded board decisions:

“We do as Boards make decisions but the Commission cannot implement those decisions because they have to go to the Hon. Minister or the Permanent Secretary but he refuses to adhere to the Board decisions, and in a very arrogant way. One day, I said: ‘I am out of here. I am not going to superintend over a board that I know we do not have the functions that are enshrined in the enabling piece of legislation’.” (Participant B, Personal Interview, 16 January 2013).

In the second example, the entire Board of another Commission where he was a member was dissolved for having differed with the CEO. According to the participant, the character of the Minister or Permanent Secretary could be a factor:

“...sometimes, it is to do with the character of the Permanent Secretary or the Minister more than that you have a parent ministry. There are ministries that know the limits of their responsibility...” (Participant B, Personal Interview, 16 January 2013).

4.2.4 *Other Matters*

There were two issues that came out of the data not directly related to the research questions. One was on examples of models or entities that were seen or perceived to be well governed; and the other was on policy and legislation.

4.2.4.1 *Models in Zambia*

When asked if there were any examples of well-governed SOEs in Zambia, most participants could only respond after moments of consideration:

“(After a pause) Which ones now? Maybe these that are declaring dividends. It means that they are efficient. How can you declare dividends if you are not efficient?” (Participant A, Institutional Interview, 22 January 2013).

“(Sigh)... Zesco is one of them. It is just a matter of supervising that institution and see, if they want to privatise, what can they privatise?... If you look at Tazara, you see what I mean, Indeni...aah...what else can one think of ...aah... It is very difficult to say this company...yaah...I don't know,” (Participant F, Institutional Interview, 17 January 2013).

The SOEs that participants identified, with some level of difficulty, were Zesco, Zanaco, Indo-Zambia, Nanga Farms, National Airports Corporation and Zamtel. There were various reasons for the choices. Zesco was chosen on account of having improved its revenue collection efficiency by installing prepaid electricity metres; Zamtel was its re-commercialisation; and Indo-Zambia, Zanaco and Nanga Farms were paying dividends.

There was a common characteristic for those that were identified on account of paying dividends; the Government only had part ownership. The view of some participants was that there was probably less political influence:

“When you critically look at Indo Zambia Bank which we have mentioned is doing good... the political influence there is minimal because we are minority shareholders. Even for Zanaco, we are minority shareholders.” (Participant E, Institutional Interview, 17 January 2013).

Not all participants were of the opinion that there were any good models in Zambia:

“I do not think that Zambia can have any model from what I have seen. There is no model that you can say, and even recommend to another country to replicate. We have done badly and we have to accept that.” (Participant B, Personal Interview, 16 January 2013).

Bank B was identified as one of the well-governed banks in terms of being profitable and its ability to declare dividends. According to participants from the Bank, the success was mainly attributed to (i) being professionally managed in that it had a professionally constituted management team, supportive staff, loyalty of customers, clear business plan, clear vision and mission; (ii) being compliant to all regulatory dictates; and (iii) not seeking favours from the Government including funding; and being given the go ahead by Government to do whatever was possible as an investment.

4.2.4.2 *Policy Document and Legislation*

The participant from MOF stated that Cabinet in 2012 had approved the State-Owned Enterprises Policy to address challenges of the current governance system. The policy was yet to be gazetted. In addition, specific legislation on SOEs was still being worked on.

Most of the participants were aware of the pending legislation on SOEs but not the policy document. One participant from the banking institutions remarked:

“I have not seen that. Even the draft document. They have not consulted us or talked to us about it.” (Participant J, Institutional Interview, 25 January 2013).

CHAPTER FIVE

Discussion of Research Findings

The discussion of research findings is organised in three sections. The first section is on factors that may be leading to recurring governance queries in state enterprises. The second discusses factors that may be influencing effective supervision of SOEs. The third discusses the synthesis of the first and second sections. Experiences of the SOBs have been used to enrich discussions in the first and second sections.

Technically, as provided by the Minister of Finance (Incorporation) Act, MOF is supposed to be solely in charge of all SOEs. The Act does not expressly provide for the Minister to delegate his functions to another ministry although it does state that the Minister can perform all other acts necessary or expedient to the listed matters (Minister of Finance, 1958). Although sector ministries are allowed to perform ownership functions, the statement that there are no written rules and guidelines indicates that SOEs falling under them do not feel that they are answerable to MOF. This marks the starting point of answering the main research question of what issues are at play when exercising the supervisory role over SOEs by MOF.

5.1 Recurring Governance Irregularities (Research Question 1)

Of the four factors that emerged from the data, three factors - loose supervision and monitoring; lack of private sector participation; and non-performing boards - appear to have a higher degree of significance in affecting the governance of SOEs. The experience of the two banks suggests that some SOEs enjoy sufficient corporate autonomy; therefore this appears not to be a major issue in this context. From the literature, these three significant factors have to do with poor accountability mechanisms; lack of efficiency; and the principal-agent problem as detailed below.

Having a loose supervision and monitoring system means that there is poor accountability. As was highlighted in Chapter Two, SOEs in Zambia were created with a particular set of objectives. By virtue of having utilised public funds, there was need to ensure that they were accountable by putting in place supervision and monitoring mechanisms. The UNIP Government that initiated large scale public ownership of businesses created ZIMCO for this purpose. In this particular context, there were two forms of accountability that were essential based on the arguments of Luke (2010): (i) managerial accountability to ensure that set objectives were being achieved; and

(ii) political accountability, having to report to ministries and the Legislature. The situation as it stands today in Zambia is similar to that in the period before 1979. Fundanga and Mwaba (1997) and Kaunga (1993) explained that SOEs were delinked from ministries and placed under the direct supervision of ZIMCO because they were not effective in overseeing the enterprises.

The literature shows that the theory behind the creation of state enterprises is to infuse private sector practices into them and make them more efficient. The data suggest that poor performance of a number of SOEs was linked to lack of private sector participation indicating that there was less efficiency. It was observed that profitable SOEs were those in which the State was only a part owner and in some cases a minority shareholder. The literature, in Chapter Two, shows that both joint-stock SOEs and wholly owned state enterprises can achieve positive results in terms of profit and other governance measures based on the studies by Andres et al. (2011) in Latin America and the Caribbean, BICG (2012) in the Baltic States, and Scott (2007) in South Africa. However, in the context of the Ministry of Finance of Zambia, having fewer joint-stock SOEs may be a contributing factor to poor governance.

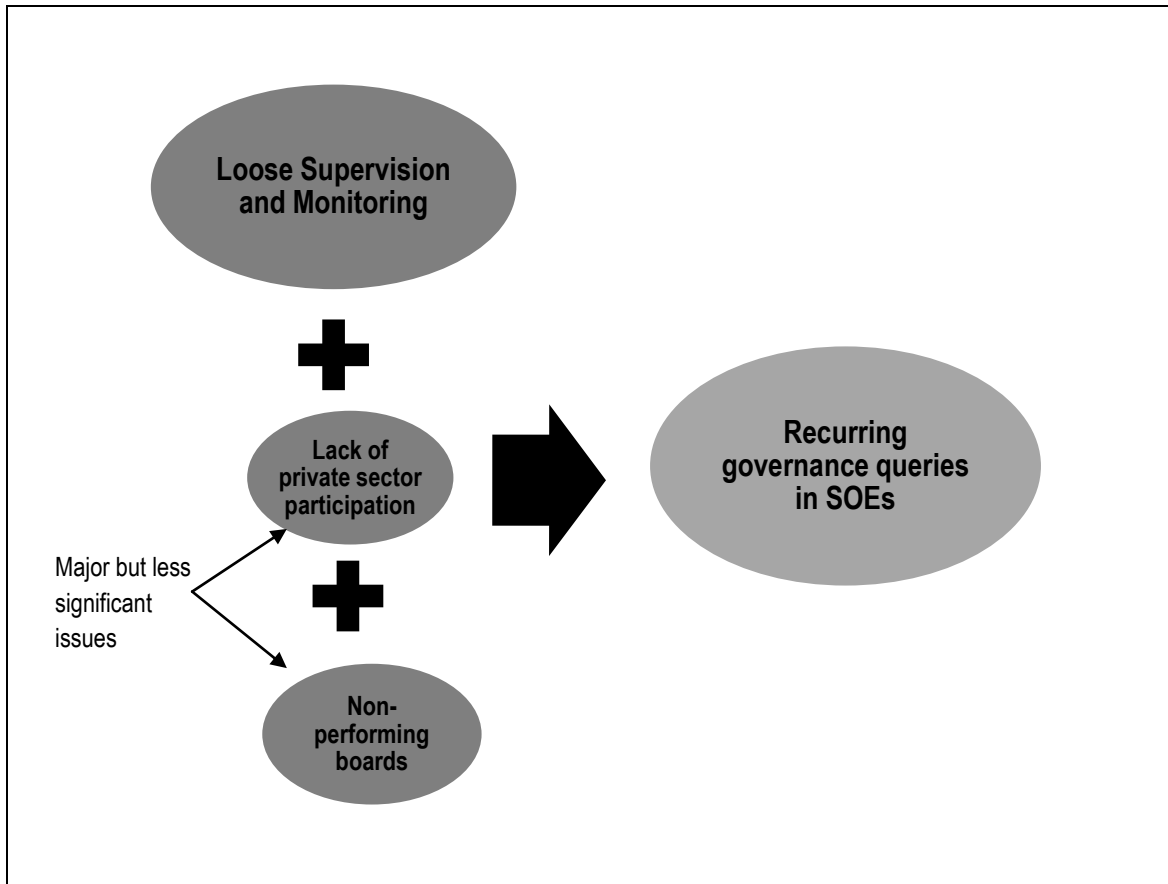
Although the interview data shows that there are a number of factors that may make boards fail to function, two factors stand out in analysing the experience of Bank A: (i) board members becoming complacent and ceasing to perform as required; and (ii) those that fail because they become comfortable with the assistance that they get from the shareholder or operating with soft budget constraints as the literature says. This is an example of the principal-agent problem that Apreda (2006), Heath and Norman (2004), Jensen and Meckling (1976), and Sprenger (2010) highlighted.

Despite the good intention of MOF to provide funding to Bank A so that it could improve its operations and promote financial inclusion particularly in rural areas, this very act led to audit queries. The data suggest that the Board did not act in the best interest of the shareholder, the moral hazard issue, by procuring untested banking computer software which later failed to function. This was probably because the risk was going to be borne by the shareholder; hence the Board could have been less rigorous in overseeing the procurement process.

Findings seem to suggest, in this context, that the major contributory factor to recurring governance queries of SOEs overseen by MOF is the weak institutional supervising and

monitoring system that is in place. The other two factors may just be a reflection of this weak supervisory system. This argument is illustrated in Figure 5.

Figure 5: Contributory factors to Recurring Governance Irregularities in SOEs



Source: Constructed using interview data

5.2 Factors Impeding Effective Supervision of SOEs (Research Question Two)

On this question, six issues emerged from the interviews: (i) SOE policy and legal framework; (ii) political influence; (iii) capacity of GIU; (iv) multiple principals; (v) commercial versus social objectives; and (vi) lack of appreciation of board efforts.

As was discussed in Chapter Two, some functions of a supervising ministry are controlling, monitoring - involving obtaining information on operations, and auditing transactions (Bernier, 2011; Fernandes, 1986; Scott, 2007). All these functions are about ensuring that the SOE is accountable. It therefore means that impeding the supervisory function of the Ministry is

equivalent to lowering accountability. The relationship of each of the factors to accountability is discussed below.

From the literature, it is shown that compliance to policy directives and laws is being accountable. Although findings of this research show that despite there being no specific SOE policy guidelines, the two banks are accountable in as far as observance of the law is concerned. This has been brought about by the strict regulatory regime that exists in the banking industry.

The reporting requirements of the Banking and Financial Services Act (BFSA) are consistent with the argument by Apreda (2006) that SFIs are supposed to rank highly on transparency because of the disclosure details that are required by central banks. Whether or not the information that is published is in a format that is useful for analysis is a matter beyond the scope of this research. In the same study by Apreda, it was shown that SOBs can at times enjoy privileges including less stringent conditions to open branches and protection from failure.

The experiences of the SOBs in this research show that they are not exempt from any regulation. The Bank of Zambia has even gone as far as slowing down the expansion programme of one of the banks because of low integrity of the data that was brought about by the defective computer software. In addition, literature on Zambia provides evidence that Lima Bank and the Cooperative Bank went under despite being state-sponsored. In this context, there is no indication that SOBs enjoy protection from failure.

When the supervision and monitoring system in MOF is not as effective, as is the case now, the effective regulatory regime in the banking sector appears to be a mitigating factor. This may not be the case for non-banking SOEs. Therefore, lack of a specific SOE policy and legal framework remains a major issue.

Political influence has the potential of undermining the role of the Board which ultimately leads to poor accountability. The findings show that the major concern is about the appointment of board members and chief executive officers. The identified threats are having ill qualified board members and a chief executive officer who is appointed by either the Head of State or the Minister. If a CEO is not recruited by the Board, the appointing authority may start communicating directly to the chief executive officer ignoring the Board. The result of this is dilution of accountability. In the literature, it was shown that findings of studies by Bernier (2011) and

Robinett (2006) revealed such situations. In Zambia itself, Kaunga (1993) argued that there was political influence in the appointment of managers in SOEs prior to privatisation after 1991.

The literature explains that the success of SOEs can also depend on leadership. Khoza & Adam (2005) cited the example of the success that was achieved at Eskom in South Africa. This was mainly attributed to leadership that was displayed at the political and the board levels in that both had resolved that Eskom should improve its performance. As observed by participants, political influence cannot be eliminated as SOEs form part of the State assets; however, the influence can be managed to emulate the success of Eskom.

The experiences of the two SOBs in this research, however, do not confirm such a situation as both indicate that they have competent and qualified board members. But this finding is in the context of the two banks. Overall, political influence remains an issue on the evidence of cases that participants cited.

These findings show that the capacity of GIU under the Department of Investments and Debt Management with respect to staffing is insufficient to ensure effective supervision of SOEs. If the six officers were strictly assigned to the supervision of SOEs, the situation may have been manageable. However, considering that they have to perform other duties suggests that they may not have the time to oversee the current 39 enterprises in which the Government has equity. The existing loose supervision and monitoring arrangement between MOF and sector ministries makes the situation even worse. Ministries cannot therefore easily pull efforts together to deal with the situation.

Although there is indication that MOF has a pool of economists and accountants to deal with technical matters, in the literature it is shown that banking is a highly specialised field. Scott (2007) argues that effective governance on banks requires significant investment in human resources, processes and technology. According to Fernandes (1986) and Ramamurti (1991), for supervising ministries to be effective, they need to have the capacity to carry out analyses of investments, corporate planning, human resource planning, and monitoring and performance evaluation. Going by the staff constraints in GIU, it is difficult to see how this is possible. As was observed by participants, the Ministry, in terms of information, appears to depend on reports from the management of SOEs creating an asymmetrical relationship as elaborated by Fernandes

(1986) and Ramamurti (1991). These findings suggest that inadequate staffing in GIU is one of the major impediments to effective supervision of SOEs.

The literature shows that having multiple principals may be a challenge to governance because of the potential conflicts that may arise because of the different objectives that each institution has. Findings of this research suggest that this is not a major issue in the supervision of SOEs by MOF. The experience of the two banks reflects the same position although one of them found duplication in the information demanded by some institutions and also that it tends to take up a bit of their time. The possible explanation for this state of affairs is probably that the major authority, in the context of banking, is the Bank of Zambia, that is, the Central Bank. Other Government institutions other than MOF have very little to do with SOBs.

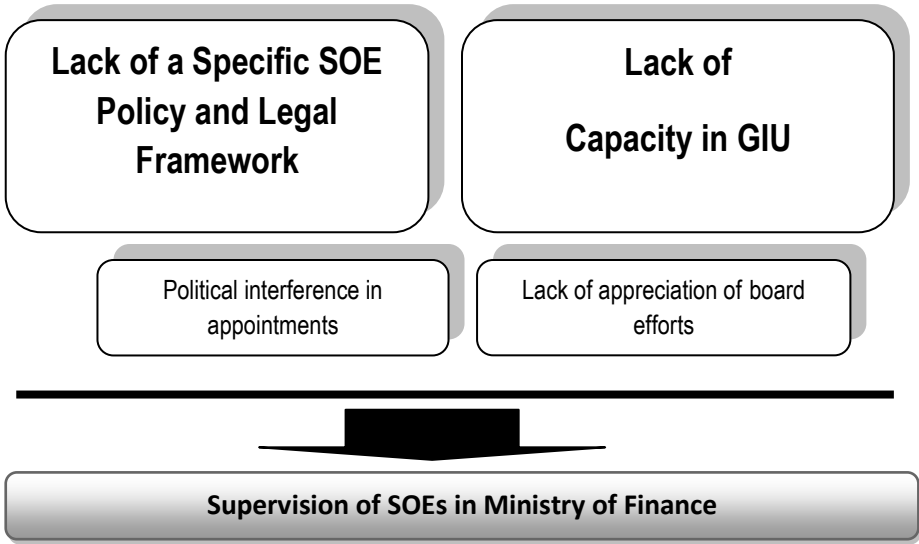
The findings of this research suggest that pursuance of commercial and social objectives, which is a common characteristic of SOEs is not a major factor in the supervision of SOEs by the Ministry. Although MOF has to provide support to service oriented SOEs that operate in rural areas like the Zambia Postal Services Corporation, as well as SOEs of a strategic nature like Zesco, the indication is that, as shareholder representative, they aim at ensuring that SOEs are able to contribute to government revenues. The cited case of Zesco of having been used to sponsor elections by past political regimes borders more on the exertion of abusive political influence on the enterprise.

The experience of the two banks is consistent with views of other participants. The priority of Bank B is creation of value for shareholders and in the process meets societal needs. The Bank A has an arrangement of being reimbursed part of its expenditure incurred in opening a rural branch. Fernandes (1986) argued that profitability should be a pre-condition for meeting social objectives. Where this was not the case, there was need to compensate the SOE, which the Ministry was doing in case of Bank A for opening rural branches.

Although there was nothing in the interviews with participants from the banks suggesting lack of appreciation of board efforts by either a minister or permanent secretary, this remains a potential challenge based on the actual experiences of one of the participants. In the literature, codes of corporate governance regard boards as key instruments in improving governance. Any act that undermines efforts of the Board is not consistent with best practice.

Based on the above, there are two key factors that stand out – SOE policy and legal framework; and capacity of GIU – which if adequately addressed, would make the other two issues namely: political interference in appointments; and lack of appreciation of board efforts, easier to deal with and make the supervision of SOEs more effective. Figure 6 illustrates this point.

Figure 6: Factors Influencing Effective Supervision of State Enterprises in the Ministry of Finance

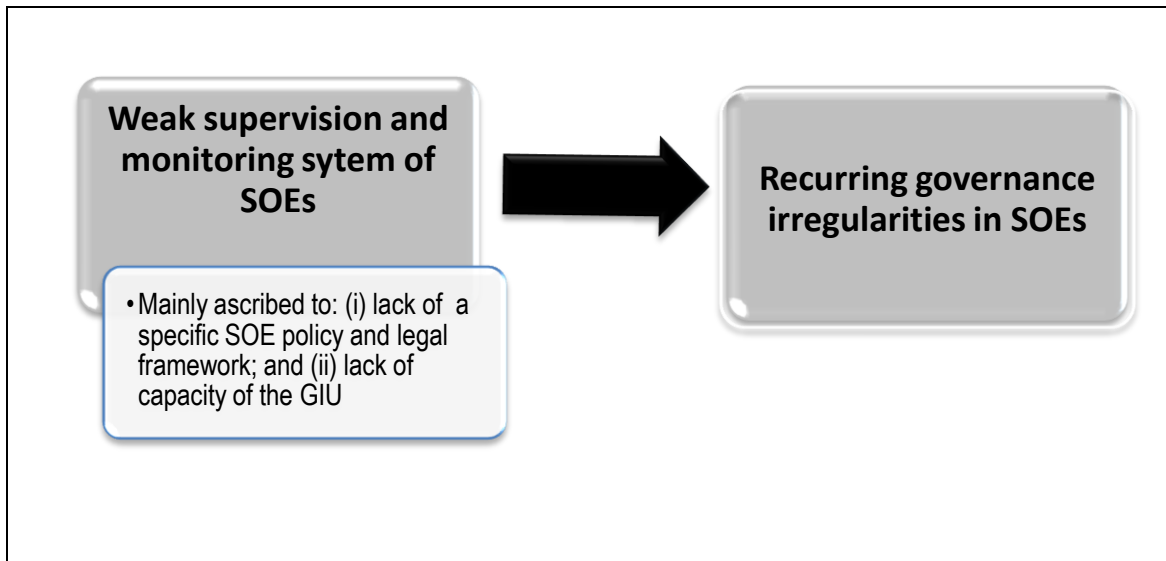


Source: Constructed using research data

5.3 The Synthesis

When contributory factors to recurring governance queries in SOEs are examined together with those influencing the supervision of SOEs, it can be observed that there is a linkage between these two sets of factors. Findings suggest that lack of a policy and legal framework for SOEs, and lack of capacity in the GIU in terms of the staff complement could have led to having a poor supervision and monitoring system for SOEs. The poor supervision and monitoring system is evidenced by the recurring queries in SOEs signifying poor governance. This is depicted in Figure 7.

Figure 7: The Plausible Linkage of Factors in the Governance of SOEs



Source: Constructed using research data

The interview data on the first research question showed that after the demise of ZIMCO, the supervision of SOEs became a challenge. The various attempts that were made to remedy the situation by creating the Directorate of State Enterprises, then the Department of External Resource Mobilisation, and later the Department of Investments and Debt Management indicates a weak policy and legal framework or complete absence of it. This state of affairs is not surprising as the initial position of the MMD Regime as initiators of the privatisation programme was that all parastatals would be sold. When there was a policy change in 2002, no major attempts were made to improve the supervision and monitoring of SOEs. This synthesis, therefore, provides a possible answer to the main research question.

5.4 Good Corporate Practices in Zambia

There were various answers to the question of whether there were any well-governed enterprises that could serve as models. This was probably because the criterion of determining good performance was not specified. However, this was the crucial issue as governance is understood differently by different people. The failure by most participants to give a straight answer implies that there are issues that need to be dealt with to improve the status. The views of participants that identified the 'good performers' suggest that there are five areas that may make SOEs successful: (i) professionalism of the Board and management; (ii) having a corporate plan (with a

clear vision and mission); (iii) observance of rules and regulations; (iv) sufficient corporate autonomy; and (v) the commercial objective should be priority because SOEs are firms and should act as such; that is, aim at creating wealth and from that meet societal needs. The last two areas are consistent with the conditions that Hertog (2010) identified as being necessary to bring about success in state enterprises.

The approval of SOE policy guidelines by the current PF Government is an indication that governance in state enterprises may soon improve but maybe the involvement of more stakeholders could have speeded up the process as some participants said they were not aware of the policy document.

5.5 Recommendations

The focus of this research was limited to the Ministry of Finance and two SOBs. The findings should therefore be seen within that context. This is only a small space considering the dearth of information on governance of SOEs in Zambia. Although important insights have been gained on some challenges that a supervising ministry may face when performing their duties, more research is needed in areas such as: (i) supervision of SOEs in line ministries; (ii) governance of statutory corporations; (iii) oversight role of Parliament over SOEs; and (iv) how the recently adopted SOE policy guidelines match international best practices. Only when more substantial research is carried out in these areas could one authoritatively attempt to explain the overall governance of SOEs in Zambia.

CHAPTER SIX

Conclusion

This report set out to detail the research whose purpose is to explore contributory factors to poor governance in SOEs in Zambia focussing on the supervisory function of the Ministry of Finance. In order to have a practical feel of the governance arrangement, two State-Owned Banks were purposively selected to participate. Although Zambia has fewer state enterprises than it had in the early 1990s, reports of the Auditor-General suggest that their governance is poor based on recurring irregularities. Although a fair amount of literature exists on the privatisation process, there has not been much research in Zambia, to explore contributory factors to poor governance in a number of SOEs.

This was a basic qualitative study. In which primary and secondary data were used. The primary data were mainly collected through interviews with participants drawn from the Ministry of Finance, Office of the Auditor-General, two SOBs and three independent experts. The thematic content analysis method was used to analyse the data.

Findings of this research show that there is a loose supervision and monitoring system in place that appears to be the major factor leading to a number of SOEs having recurring governance irregularities. Findings further suggest that the loose supervision and monitoring system may have resulted mainly due to not having a specific policy and legal framework for SOEs, and inadequate staff in the Government Investments Unit at Ministry of Finance. These constitute the main issues that are at play in the supervision of SOEs by the Ministry of Finance.

The research was not without limitations. The major factor was the time available to conclude the research report within 12 months of the Master of Management in the field of Public and Development Management full-time programme. The data collected was very rich and with time, more issues could have been revealed. However, for the purpose of this research, the necessary data was extracted to complete the project.

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APPENDIX I

Interview Schedule

Introduction

1. Explain purpose of the research.
2. Fill in general information of participant and ask how the institution is doing business wise (As ice-breaker).
3. Request for permission to record, if applicable, and explain that the recordings can be deleted, if that is desire of interviewee. Further explain that for purposes of anonymity a pseudonym will be used.

General Information of Representative of Participating Institution

Sex	
Position	
Length in Position	
Qualification	

SECTION I

MINISTRY OF FINANCE

A. Supervision

1. The Ministry plays duo roles as shareholders representative and as a sector ministry with respect to SOEs. What are the specific duties that it performs?
2. Tell me about the institutional arrangement of supervising and monitoring SOEs in this Ministry and others.
Probe on expertise in the Ministry particularly banking
3. Why is there lack of enforcement of some provisions in The Public Finance Act on governance of SOE and other enabling legislations?
4. What are the specific weaknesses in the current law that the proposed SOE legislation will address?
5. What non-legal factors hinder the Ministry from effectively supervising SOEs under its charge?
6. Some SOEs supervised by the Ministry have been reported as being poorly governed, Natsave being one of them, why is this so?

Probe if there are differences between SOEs that are 100% owned by the State e.g. Bank A and those in which government just owns shares e.g. Bank B.

7. What factors make some SOES such as Indo-Zambia appear relatively well governed?
Probe on other well-governed SOE

B. Accountability

8. Prompt on the latest position of SOE legislation and Policy.
Probe on likely ownership model, will it be continuation of the decentralised system, or will go the centralised way, which is recommended by the OECD? (Cite ZIMCO and ZCCM-IH)
9. Zambia has opted for legislating SOE governance like Namibia and New Zealand, what advantages does this approach have?
10. What are the public policy objectives of Bank A and Bank B?
11. Tell me about the reporting system of the two banks.
12. When were the last annual reports submitted to Parliament through the Minister?
13. Tell me about how you monitor and evaluate the performance of boards and SOEs in general.

Probes

- *Are there performance agreements between the board and ministry, and between the board and management?*
- *Do boards have internal evaluation systems in place?*

C. Multiple Principals and Objectives

14. Tell me about the relationship between the ministry and other government institutions with interest in SOEs.
Probe on cases of conflict and 'passing the buck'
15. Tell me about the regulation of SOEs?

D. Political Influence

16. How much autonomy do SOEs have in day-to-day operations?
Probes
 - *How much autonomy do you have in deciding where to operate or which population segment to service?*
 - *How much autonomy do you have in deciding which policy instruments or strategies to use in your operations?*
17. Tell me about the nomination process of board members for Bank A and Bank B?
18. Would you describe the boards as independent?
Probes
 - *Do they elect their own Chairpersons?*
 - *Do they appoint the CEOs?*

19. What specific qualities do the current board members bring to the banks?

SECTION II

BANK A & BANK B

A. Supervision

1. You have been mentioned in the Auditor-General's reports for a number of irregularities linked to governance. What are factors led to this? **(Bank A)**
2. You have been mentioned as having improved. In which areas has this improvement occurred? **(Bank A).**
3. What have been some of your experiences with the current SOE governance system?
Probes
 - 1) *Are there any specific policy and legal factors that you are uncomfortable with particularly with the Ministry of Finance?*
 - 2) *Are there other government institutions you deal with other than Ministry of Finance? If so, has this had an effect on the governance process?*
4. The Bank has never been mentioned in the Auditor-General's reports, what is it that you do right? **(Bank B).**

B. Accountability

5. What are your public policy objectives?
Probes
 - *Are they publicly disclosed?*
 - *What are cost implications on entity?*
 - *How are these financed?*
 - *Does pursuing both commercial and policy objectives pose challenges?*
6. Being fully or partly state-owned, do you have any exemptions from banking regulations?
7. Tell me about the reporting system.
8. When was the last annual report submitted to Parliament through the Minister?
9. Tell me about monitoring of the performance of boards and bank.
Probes
 - *Do you have performance agreements between the board and ministry, and between the board and management? If so, how are targets determined?*
 - *Does the board have an internal evaluation system in place?*

C. Political Influence

10. Would you describe the board as independent?
Probes
 - *Does it elect its own Chairperson?*
 - *Does it appoint the CEO?*

11. How much autonomy does the bank/board have in its operations?

Probes

- *How much autonomy do you have in deciding where to operate or which population segments to service?*
- *How much autonomy do you have in deciding which policy instrument or strategies to use in your operations?*

12. What specific qualities do the current board members bring to the bank?

13. What are the committees of the board?

SECTION III

OFFICE OF THE AUDITOR-GENERAL AND EXPERTS

1. How would you describe the supervision of SOEs by ministries?

2. What are factors that contribute to poor governance in SOEs as reported in audit reports?

Probe if these are linked to:

- *Political interference*
- *Ineffective boards*
- *Poor supervision by ministries (including issues of capacity)*
- *Legal framework*
- *Clarity of objectives (commercial vs. public interest)*

3. How do the above relate to the Ministry of Finance?

Probe if there are issues peculiar to the Ministry of Finance

4. The Ministry of Finance is in the process of introducing legislation and policy guidelines aimed at strengthening the governance of SOEs, which areas would need serious consideration?

5. Tell me about the governance situation at Bank A and Bank B? **(Auditor-General)**

6. Bank A was reported as having improved, in which areas did this occur? **(Auditor-General)**

7. Which SOEs can serve as models of good governance?

Probe on contributing factors.

Thank you very much for according me the time to interview you

APPENDIX II

Information Sheet and Consent Form

Research on State Owned Enterprises in Zambia

My name is Misael Fitz Kateshi, an employee of the National Assembly of Zambia currently studying for the Master of Management Degree in the field of Public and Development Management at the University of the Witwatersrand in South Africa. As part of the requirements for the award of the degree, I am carrying out a study on the governance of State-Owned Enterprises (SOEs) in Zambia focusing on the supervisory role of the Ministry of Finance.

Bank B Participation

I am seeking authority to conduct two in-depth interviews with the Chairperson of the Board or a representative, and the Chief Executive Officer or a representative primarily to learn the experiences of Bank B with the current SOE governance framework.

In order to accurately capture proceedings of the interviews and avoid any misrepresentations, the interviews will be audio recorded but with your permission. Findings of this research will be made available to participants after the research report is accepted by the University.

Confidentiality and Anonymity

Interview proceedings will be kept confidential to the extent possible. The identity of the Bank and its representatives will be anonymous in the research report. Disclosure of identity can only be done with your permission. Any reference to Indo-Zambia Bank will be through a code number. The University Ethics Committee is strict in ensuring that research ethics are upheld therefore the interview proceedings may be scrutinised by my supervisor to ensure that you are not disadvantaged.

Risks/Discomforts

There are no major risks that are anticipated with your participation. Most issues to be discussed will revolve around what is already in the public domain. In any case, the research is meant for academic purposes only.

Who to Contact in Case of Unethical Conduct

This research has been approved by the University. However, should you have any concerns, you can contact the following:

The Manager: Academic Delivery Unit Graduate School of Public and Development Management Faculty of Commerce, Law and Management University of the Witwatersrand E-mail: Helen.Mzileni@wits.ac.za Tel: +27 11 717 3562	Prof Pundy Pillay – Supervisor E-mail: Pundy.Pillay@wits.ac.za	Mr Murray Cairns – Programme Coordinator (MM-PDM) E-mail: Murray.Cairns@wits.ac.za
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In Zambia, the Clerk of the National Assembly of Zambia can be contacted on e-mail: clerk@parliament.gov.zm and phone: 292425/36.

Consent Form

We hereby agree to participate in the research on Governance of State-Owned Enterprises in Zambia. We understand that we are participating freely and without being forced in any way to do so. We also understand that we can stop participating at any point should we not want to continue and this decision will not in any way affect us negatively.

We understand that this research project is not necessarily meant to directly benefit us although the findings can be used in decision-making.

We understand that our participation will remain confidential (with respect to interview proceedings) and our identity anonymous.

.....
Signature of Participant

Date:.....

We hereby agree to the recording of the interviews.

.....
Signature of Participant

Date:.....

APPENDIX III

Value of Participation

This brief write-up highlights the value of participating in the research on the governance of state-owned enterprises in Zambia. It is divided into three sections. The first deals with the motivation for choosing this particular research topic. The second is on general significance of the research. The third deals with the specific value of the research to Bank A.

Motivation

The researcher was motivated to undertake the research following revelations of governance irregularities in State-Owned Enterprises (SOEs) in various reports of the Auditor-General particularly in the period 2004 to 2010. The researcher having served as Secretary to the Public Accounts Committee of the Zambian Parliament developed interest in the operation of SOEs especially that after the near 'wholesale' privatisation of state enterprises in the 1990s, the expectation was that the remaining few would be better governed.

While a number of studies have been carried out on the performance of SOEs prior to privatisation and the process itself, few have been carried out on the governance of the remaining state enterprises. The researcher therefore resolved to contribute, albeit on a small scale, to the body of knowledge on governing SOEs in Zambia.

General Significance of the Research

Other than the contribution to the knowledge gap, findings of this research will be useful in three other ways. Firstly, as the Ministry of Finance is in the process of finalising legislation and policy guidelines on SOEs, the findings will give an indication on the specific shortcomings of the current governance system. Secondly, specific challenges faced by a ministry charged with the responsibility of supervising SOEs will be highlighted. Thirdly, the findings will assist in gaining insights into what can constitute 'good' governance practices in the context of some SOEs supervised by the Ministry of Finance.

Some studies on SOEs seem to suggest that a number of countries that embarked on privatisation have had a rethink of this particular reform option and are opting for reforming but retaining ownership. This has been reinforced by the recent developments in advanced economies where big private corporations have either been bailed-out or partially nationalised to save them from collapse following the global economic crises.

Locally, the present government has strongly shown its resolve to retain ownership of some state enterprises following the reversal of the Zamtel majority share sale and termination of the Railway Concession. One of the ways of improving the performance of SOEs is by enhancing their governance.

Specific Value to Bank A

Bank A has been mentioned in reports of the Auditor-General at least twice in the last five years involving accounts for the financial years 2005 and 2010. The Public Accounts Committee Chairperson is reported to have complimented Bank A for good financial performance suggesting that it is possible to implement successful turnaround strategies in SOEs. Against this background as well as being one of the major enterprises supervised by the Ministry of Finance, Bank A stands as one of the key SOEs to learn experiences from having been in existence in the pre-privatisation, privatisation and post-privatisation eras. By participating in this research, Bank A will not only make an important contribution to the pool of knowledge on state enterprises but also to the reform of SOEs in Zambia.

The purpose of the research is to explore issues that affect governance of SOEs. Bank A stands to ultimately benefit by having a better operating environment that may result not necessarily of this particular research but similar ones.