

December 2019

### Public Entities Corporate Governance Act officially launched

The PECG Act gazetted in June 2018 broke new ground for Zimbabwe by setting out in legislative form the requirements for the good governance of State Enterprises and Parastatals (SEPs). Building on the National Code of Corporate Governance (ZIMCODE), which was developed in 2015, the Act places Zimbabwe at the cutting edge of legislation for good corporate governance.

Led by the Office of the President and Cabinet working with the Ministry of Finance and Economic Development and the Attorney General's Office, the Act provides a legal foundation for improvements in oversight and governance of parastatals to reduce their burden on the fiscal, including better management of fiscal risk, performance and service delivery, and accountability.

Prior to the act according to **Justice Chinengo** at the launch, Zimbabwe had largely relied on a self-regulatory environment in its approach to corporate governance because the basic requirements of corporate governance had not been given the force of an Act of Parliament. "In a deliberate effort to put in place appropriate legal and regulatory frameworks that are enforceable in order to promote good corporate governance, the government introduced the Act as public entities such as state enterprises and parastatals play a developmental role in the provision of public goods and services. But for these organizations to be effective, sound governance systems are essential and must be

adhered to," **he added**. Corporate governance frameworks are there to encourage the efficient use of resources and to promote accountability for the stewardship of those resources.

The Act was officially launched on December 4, 2019 in Harare at a well-attended ceremony by government (ministries, agencies and departments), development partners and media who were in attendance to appraise themselves on the Act and ask relevant questions. The Guest of Honor was the Minister of Finance and Economic Development.

'It is no secret that well managed parastatals can contribute to economic growth and improved service delivery. In that same vein it is known that badly managed entities can become an albatross on the fiscus affecting economic growth and jeopardizing the welfare of employees and at times leading to job losses. As such we welcomed technical support from the World Bank through the Zimbabwe Reconstruction Fund to reform our parastatals and pave the way for improved performance, said **Hon. Mthuli Ncube, Minister of Finance and Economic Development** at the Launch. Honourable Mthuli also warned that state entities must comply with the legislation as they will be ranked from 2020. He emphasized that SEPs should play a vital role towards the realization of the country's economic development.

The Act mandates the appointment of properly qualified Boards and requires them to establish Codes of Conduct and Ethics and a Board Charter. Under section 11 of the Act, Ministers no longer enjoy unfettered discretion in these matters. Additionally, the Corporate Governance Unit provides oversight and support there by providing a system of checks and balances. The Act obliges the board of public entities to draw up strategic plans setting out objectives and priorities for the entities they oversee. Chief Executive Officers and senior members of staff are required to enter into performance contracts with the board.

It also requires SEPs to produce and publish strategic plans, and to publish annual reports on progress. Among other provisions, it also legislates for Directors to declare their assets, and specifies how potential conflicts of interest should be dealt with.

The Act sets an ambitious agenda. Building on the progress made in Zimbabwe's business climate, including the improvements in the ease of doing business, the Act requires SEPs to adopt best practice in corporate governance. It provides the opportunity for Government, which owns the enterprises on behalf of the citizens of Zimbabwe, to exercise that ownership role more effectively.

The Act also underscores the responsibility of Line Ministries to more effectively monitor, supervise and oversee the management operations of public entities to ensure strict compliance without, however, infringing on the autonomy of public entities. The Act also introduces some consistency in the conditions of service of members of Boards of public entities and makes provisions for their remuneration to be limited.

“SEPs play a critical role in many developing and emerging economies where they contribute up to 10% of GDP. They therefore need to be properly managed and the PECA Act sets out a framework for good governance of SEPs. The Act will provide Government with an overview of its portfolio's management which can be used to incentivize all SEPs to match the best. It's vital for all involved to live up to the letter and the spirit of the Act, so that SEPs contribute fully to Zimbabwe's development,” said Ms Mukami Kariuki, World Bank Country Manager for Zimbabwe.

Several manuals and regulations have been produced and training conducted for State Entities and Line Ministries to ensure the successful implementation of the Act. Good corporate governance and ethical leadership will contribute to the effectiveness of state enterprises.

It is envisaged that the implementation of the Act will arrest among other things, the following issues:

- ✓ Lack of regional and gender diversity.
- ✓ Lack of clarity on service periods for board members.
- ✓ Lack of transparency, accountability and political interference in Board conduct
- ✓ Lack of clarity on the relationship between the line Ministry, board of directors and chief executive officers.
- ✓ Poor management of resources leading to public entities incurring massive financial losses requiring them to receive government bail-outs.



*Zimbabweans from all walks of life will benefit from the improved management of state entities.*

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