

**SECTION 4: IMPROVING PARTNERSHIPS WITH
ORGANISATIONS OUTSIDE
CENTRAL GOVERNMENT**

4.1 Improving parastatal accountability

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Government commissioned a study of the accountability of what are loosely termed ‘parastatal organisations’. This category comprises all government-owned or controlled organisations that do not belong either to the public service or to local authorities, but are nonetheless subject to ministerial oversight. In general, these may be classified either as statutory corporations or as trading companies established under the Commercial Partnerships Ordinance.

The study examined existing mechanisms for regulating the policies and activities of parastatals, and addressed the relationships between ministers and parastatals over which they have oversight. Particular attention focused on the role of Chairmen of Boards of Directors.

Proposals emerging from the study address:

- criteria and guidelines for exercising more consistent control over and for achieving greater accountability from parastatals;
- practical working relationships between chairmen of parastatals and responsible ministers; between chairmen and permanent secretaries of the sponsor ministries; and between parastatals and central agencies, notably the Ministry of Finance.

The study’s findings and proposals now constitute an internal discussion paper, awaiting consideration and decision by Cabinet.

The context for change

The sixty-four parastatals play a significant role in Malta’s society generally and in its economy specifically. The largest are monopolies providing essential municipal or economic services such as water, electricity, petrol, telecommunications, air travel. They are also empowered to set and levy charges for such services.

The number of parastatals increased rapidly over the past thirty years and as a result of this time span and of changing philosophies of the governments of the day there are significant inconsistencies among the respective founding statutes. This is further complicated by the fact that some of these parastatals were also given regulatory functions to perform. This dual role may compromise the enterprise’s objectivity in the performance of its regulatory function.

There is some concern about the accountability of these organisations as:

- their actions have a substantial impact on the society of which they form part;
- the electorate views the Government as being ultimately responsible for shortcomings in the delivery of services by parastatals;
- they spend significant amounts of public money each year and they own assets which formerly belonged to Government or were acquired with public funds.

Implementing change

The accountability of parastatals raises delicate political issues. Not only will a firm lead from Cabinet be required as to the principles and mechanisms for securing accountability; but individual ministers, each of whom is responsible for several parastatals, must conform to Cabinet policy in the matter. Before implementing changes to the framework of accountability in their portfolios, ministers will need to ensure the willingness of candidates for directorships to comply with Cabinet policy.

Written directives would need to be complemented by informal understandings, which will only be forged by means of ongoing consultation with the key stakeholders, including the chairmen of the state-owned enterprises, the responsible ministers, their permanent secretaries, the finance ministry and the public auditor.

Parastatal accountability is linked with the Financial Delegation and Accountability initiative and specifically this entry is a companion document to the entry on the financial delegation framework (see entry 5.3). The latter deals with delegation of financial responsibility from the Ministry of Finance to the operating ministries and departments.

Another complementary initiative is the Financial Policy Manual (see entry 6.4) which is a basic support tool for senior administrative and financial officials who are expected to operate in a decentralised environment in which they are required to make consistent decisions with a minimum of external guidance.

The amount of time required to effect the changes recommended in the discussion paper will depend on a number of factors that range from issues such as the political will to achieve greater accountability from state-owned enterprises, to answers to questions such as whether the state-owned enterprises should be

considered as legislative creations or as limited liability companies with government as the principal shareholder.

It may be argued that more time will be required to effect reform of the limited liability companies due to the scant availability of tools for the job. In this context, it is reasonable to anticipate that some of the chairmen of the limited liability companies may choose to resign rather than continue under a system which requires them to be more accountable. Government may therefore require a shortlist of new candidates for positions of chairmen, so as to reduce the time required to fill vacancies which arise in the process of implementing new policies.

The general principles which have emerged from experience in Malta are:

- Where such enterprises were established by ad hoc legislation, a thorough review of each statute is a necessary first step. Particular attention should be paid to sections of the Act which deal with annual funding of the enterprise and the manner and form of reporting to ministers and to parliament. Any sections which impose a regulatory function on the enterprise should be noted for further investigation as to the appropriateness of that function.
- Interviews with senior public servants of both the central agencies and the host ministries and with the chairmen of state-owned enterprises are essential in order to understand their perspectives and problems. These interviews should be focused on the autonomy/accountability issue in order to provide the required information and insights.
- Legislative changes will place additional demands on the parliamentary schedule as well as calling for legal drafting skills of a high order. Public debate on the issues may be expected to focus on political, rather than on technical, issues.
- Once approved, statutory modifications of the management structures of parastatals will set in train internal reviews which may need further assistance from central change industries within government.