Public Enterprise Reform in Zimbabwe under the Transitional Stabilisation Programme: A Review

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Abstract: Using desktop research method, a critique of the Transitional Stabilisation Programme (TSP) with reference to the reform of the public enterprises in Zimbabwe was conducted. The Government undertook to expedite the reform of public enterprises through privatization of underperforming and loss making entities, liquidation of some entities, as well as merging others in October 2018. The reform process is still underway one year later. Public enterprises in Zimbabwe have been chronically recording large losses, piling pressure on treasury in the form of bail outs and debt assumption burdening the tax payer. Some of the problems facing public enterprises are attributable to the principal – agent problem, and include dilapidated infrastructure, shortages of foreign exchange, corruption and abuse of office, artificially-low controlled prices, lack of competition, resistance to change and the failure by the government to punish errant managers of public enterprises. Unless key factors underlying the poor performance of public enterprises are addressed decisively, public enterprises will remain a burden to the taxpayer. Reforms require political will and decisiveness. Government has to be consistent in its policy position. More importantly the government should create an enabling environment, an environment which encourages investment, attracts fresh capital and private public partnerships. It is recommended that the government reforms its public enterprises before offloading them to ensure that it realises the maximum benefit.

I. Introduction

The Transitional Stabilisation Programme (TSP) was presented by the Government of Zimbabwe on 5 October 2018 to stimulate economic growth and stabilize the economy. It covers the period 2018 to 2020. Public enterprise reform was identified as a key deliverable. The Government undertook to expedite the reform process through privatization of underperforming and loss making entities, liquidation of some entities, as well as merging others. Using desktop research method, I critique the proposed reforms as set out in the TSP, a year after its presentation. I address the following issues - challenges facing public enterprises, previous reform efforts, assess the proposed reforms and conclude by making recommendations on the way forward.

Problem Statement

Zimbabwe has a total of 179 state owned enterprises and parastatals. These entities comprise of hospitals, universities and other tertiary institutions, authorities and agencies, commissions, financial institutions as well as companies and corporations. Interest in this paper is focused on public enterprises. These public enterprises have and continue to put pressure on treasury in the form of bail outs as they continue to incur losses. Previous efforts to reform these public enterprises have failed. The government embarked on yet another attempt to reform the public enterprises in 2018.

Purpose Statement

The purpose of this research was to review the strategies adopted by the government of Zimbabwe in reforming its public enterprises, with a view to making recommendations on improvements which need to be adopted if the reform process is to be successful.

Research Question

The central question in my research was are the strategies adopted by the Government of Zimbabwe in reforming its public enterprises appropriate and or adequate. What can the government of Zimbabwe do to resolve the challenges facing public enterprises?
Significance of the Study

The purpose of this study was to evaluate the strategies adopted by the government of Zimbabwe in reforming its public enterprises. The findings in this study may assist the government in implementing reforms and ensuring that its public enterprises cease to be a burden to taxpayers. The findings may also ensure the profitability of public enterprises and thereby improve service delivery. The research findings may contribute significantly to researchers, investors, regulators, and corporate executives who wish to study, add value, or promote sustainable and successful public enterprises.

II. Literature Review

Zimbabwe has a total of 179 state owned enterprises and parastatals. These entities comprise of hospitals, universities and other tertiary institutions, authorities and agencies, commissions, financial institutions as well as companies and corporations. Interest in this paper is focused on public enterprises. Zimbabwe has entities wherein it is the sole shareholder while in others it is a majority shareholder together with the private sector. The Government as the major or only shareholder in those state owned enterprises is responsible for giving direction to the public enterprises and the selection and appointment of directors of the boards to the state owned enterprises. This is in addition to the government’s power to regulate the operating environment.

On attaining independence in 1980, the new Zimbabwe government inherited twenty public enterprises which were spread across all key sectors of the economy and with varying levels of state ownerships (Zhou, 2012). The main thrust of these public enterprises was the provision of financial support to white commercial farmers as agriculture was considered the backbone of the economy. The new government driven by a desire to promote equality, improve public welfare and ensure service affordability, created new and additional public enterprises. The new public enterprises quickly became a burden to the fiscus as they were overregulated, mismanaged, inefficient, debt-ridden and subsidy-dependent (Zhou, 2012). To address these challenges, the Government of Zimbabwe adopted economic reforms dictated by the International Monetary Fund and the World Bank. The reforms entailed commercialisation and privatisation of some public enterprises. These reforms sought to ensure that public enterprises were run in a more efficient, effective, competitive and profitable, reduce pressure on treasury and improve the performance of public enterprises thereby achieving the twin objectives of serving the public in an efficient manner and reduced cost to government. Privatisation and commercialisation did not eradicate the pressure on the fiscus.

Having adopted the indigenisation policy in 1998, privatisation was abandoned as being inconsistent with the indigenisation policy thrust. Further public enterprises failed to attract suitors due to undercapitalization, aged plant and equipment, lack of access to credit lines and foreign currency shortages which constrained the importation of spare parts (GoZ, Ministry of State Enterprises and Parastatals, 2010). Consequently privatisation was not successful.

During the period 2000-2008, the Government resorted to unbundling public enterprises and it remained a 100 per cent shareholder in the newly created entities (Zhou, 2012). The unbundling route saw for example, the breaking up of the Postal and Telecommunication Corporation (PTC) being broken down in 2001 into three (3) smaller companies, namely ZIMPOST, Net-One and Tel-One; and the unbundling of the Zimbabwe Electricity Supply Authority in 2002 into subsidiary companies namely the Zimbabwe Power Company (ZPC), the Zimbabwe Electricity Transmission Distribution Company (ZETDC), the Zimbabwe Electricity Distribution Company (ZEDCO), the ZESA Enterprises (ZENT) and the Power Tel Communications (PowerTel). The unbundling of public enterprises was meant to ensure efficiency and separate the role of the government as a regulator from its role as an investor. Each of the subsidiaries has its own board of directors and executives who earn substantial perks commensurate with their positions and not necessarily linked to production. The unbundling of public enterprises created top-heavy board structures and the new entities are competing against each other. The government seeks to rebundle some of the public enterprises under TSP.

In the TSP, the government committed to the privatisation of 11 public enterprises, 6 IDC subsidiaries, and 17 ZMDC subsidiaries; liquidation of 2 public enterprises namely Kingstons (Pvt) Ltd, and Chitungwiza Garment Factory and 3 IDC subsidiaries namely National Glass Industries, and Motira, Zimglass, as well as merging 11 entities; departmentalisation of 7 public enterprises into line ministries; rebundle of all subsidiaries of ZESA Holdings and unbundling the civil aviation into a regulator and an airports authority as well as demerging the Grain Marketing Board (GMB) into a Commercial Business Unit and the Strategic Grain Reserve (SGR). It was argued that the reforms would enhance efficient allocation of resources and avoid unnecessary and unhealthy competition among state institutions. Implementation of these reforms is still underway.

Challenges Facing Public Enterprises

The agency theory stresses the increased divergence of interests between principals and their agents when information is imperfect and asymmetric, goals are multiple and contradictory, monitoring is difficult, and compensation schemes do not reflect the incentives of private property rights (Parker, 1995). Agency theorists
contend that there is a goal conflict between the principal and the agent as they both want to maximize their utility (Dawar, 2014; Lappalainen & Niskanen, 2012). When a firm is controlled by some people other than the owners, the objectives of the owners are likely to be subordinated to the objectives of the managers (Alalade, Onadeko, & Okezie, 2015). There is need for mechanisms to monitor the managers.

Agency theorists contend that the potential conflict of interest between corporate managers and owners will result in poor firm performance because corporate managers may use their control to advance their personal interests to the prejudice of the firm (Jensen & Meckling, 1976). The behaviour exhibited by some managers of public enterprises confirms that their interests are at variance with those of their principal. Cases of corruption, abuse of office, unauthorised loans and salary adjustments, violation of procurement procedures among others are common.(Rusvingo, 2014; Zvavahera, & Ndoda, 2014)

Zvavahera, and Ndoda, (2014) evaluated the impact of corporate governance and unethical behaviour on the performance of state corporations in Zimbabwe, focusing on the Zimbabwe Broadcasting Corporation, and concluded that top management, and the board were corrupt, lacked accountability and transparency. They further established that procurement procedures were flouted causing financial prejudice to the broadcaster. There was no relationship between productivity and efficiency and the remuneration paid to the chief executive officer. These challenges are not peculiar to the Zimbabwe Broadcasting Corporation as they afflict other public enterprises.

Control and excessive interference by the central government hampers the performance of public enterprises (Parker, 1995). The controls are multiple, confused, crossed, and superimposed (Parker, 1995). They slow down decisions in the public enterprises, spread and dilute responsibility, and limit management’s authority (Parker, 1995). Lack of competition causes public enterprises to relax. A number of public enterprises are overstaffed and the manpower at such enterprises is often resistant to change.

TSP identified some of the challenges facing public enterprises. It pointed out that 70 percent of public entities are technically insolvent, presenting an actual or potential drain on the fiscus, owing to weak corporate governance practices and ineffective governance control mechanisms (GoZ, 2018b). Furthermore, fiscal risks have arisen from debt assumption by Government, re-capitalisation requests, and called-up guarantees of public enterprises. Poor corporate governance and inadequate oversight of public enterprises also created fertile grounds for corruption.

According to the 2017 Auditor General’s report, (GoZ, 2018a) some public entities operated without boards or substantive chief executive officers. Minerals Marketing Corporation of Zimbabwe, operated without a General Manager for six (6) years (GoZ, 2018a). Petrotrade operated for four (4) years without a substantive Chief Executive Officer. Agricultural Marketing Authority did not have a Chief Executive Officer since May 2017 (GoZ, 2018a).

Public enterprises face acute shortages of foreign exchange and this has affected their ability to procure spares and modernise their infrastructure. Most of the public enterprises are heavily indebted both internally and externally. As a result of their weak financial position public enterprises are unable to attract fresh capital. Most public enterprises are facing serious viability problems as they operate at controlled non-economic prices.

Reforms under TSP

TSP recognises that there is general low confidence in public enterprises (GoZ, 2018 b). 70 percent of these entities are technically insolvent, presenting an actual or potential drain on the fiscus, owing to weak corporate governance practices and ineffective governance control mechanisms (GoZ, 2018 b). Furthermore, fiscal risks have arisen from debt assumption by government, re-capitalisation requests, and called-up guarantees of public enterprises (GoZ, 2018 b).

According to the Herald issue of 10 April 2019, TelOne owed a Eksportfinas of Norway (US$13.8 million); Eximbank of Japan (Sumitomo II) (US$9.5 million); BNP of France (US$36.2 million); Tunisia-based African Development Bank (US$89.9 million); Overseas Economic Co-operation Fund (OECF) JBIC III of Japan (US$152.4 million) and Kredittanstalt Fur Wiederaufbau (KFW 11A) of Germany (US$12.6 million). The bulk of the loans, which had punitive interest rates. But it is the penalty interest rates that have caused a huge jump in the debts. It was reported that official figures show that by the fourth quarter of 2018, the principal balance of the legacy loans was US$177.5 million while interest, arrears and charges amounted to just over US$206 million. Telone’s position is further compounded by the fact that the government itself owes Telone in excess of US$100 million according to the Herald. In April 2019, the government resolved to assume Telone’s debt of 383 million United States Dollars (The Herald, 10 April, 2019).

TSP seeks to minimise over-reliance by public enterprises on recourse to treasury. Instead, Government seeks to play a facilitative role and promote synergies with the private sector, especially in areas where this strengthens public enterprises’ efficiency in the provision of public services, underpinned by strengthened regulatory mechanisms. Government undertook to focus on policy design, institutional efficiency and regulation.
Socio-political considerations determine the government’s policy towards public enterprises. Government is usually motivated by the desire to cushion vulnerable members of the society in setting up public enterprises.

Government realised that the reform or restructuring of state enterprises was unlikely, in itself, to turn around a habitually under-performing sector unless a serious, parallel effort was made to address the corporate governance weaknesses which have long undermined the effective functioning of public enterprises and compromised both their performance and service delivery to the nation. Government undertook to implement a comprehensive programme to reform public enterprises, to address weak governance and other operational and capitalisation related challenges. It seeks to enforce provisions of the Public Entities Corporate Governance Act and making the necessary adjustments to prices charged by public enterprises to ensure cost recovery. A corporate governance unit was set up in the office of the president and cabinet. It is still in the process of recruiting key personnel. Advisors have been appointed to advise government on the reform of some public enterprises. For example Price Waterhouse and Coppers was appointed to advise on the reform of Telone, while Agribank has appointed Ernest and Young as its transactional advisors (The Sunday Mail, 12 May, 2019).

III. Discussion

The important role of public enterprises in an economy is acknowledged. The challenges facing state owned enterprises are common knowledge. They have been identified by the auditor general in her reports for instance. What is lacking is implementation of the recommendations by the Auditor General. Similar challenges have also been identified in TSP. At the centre of these problems is governance and the government itself. The political will to implement reforms is lacking. Government should take bold and decisive steps. There is no point in keeping insolvent entities. They should be wound up before they increase the burden on tax payers. Directors and executives who are found wanting should be dealt with in accordance with the law expeditiously.

Insolvent public enterprises will continue to be a drain on the government budget unless they are wound up, or unless the state decides to privatize and is lucky enough to find a buyer (Parker, 1995). Public enterprises should rely on their own profits and bank credit rather than the state budget for capital expansion, thereby reducing the inefficiencies of investment hunger, and to allow state enterprises the ability to motivate their workers (Parker, 1995). It is unfortunate that the government continues to flout its own laws. This is evident in the appointment of boards for instance. In November 2019, the minister of Energy and Power Development appointed Dr Gatsha, a former executive chairman of ZESA, as the power utility’s executive chair, despite the fact that he previously failed in the same position and there is no provision for the appointment of executive chairpersons in the law (The Herald, 20 November 2019). Good corporate governance does not support the consolidation of the positions of chairperson and chief executive officer. CEO duality refers to a governance structure in which one executive serves as the CEO and the chairperson of the corporate board of directors of the company (Krause, Semadeni, & Canella, 2013; Lawal, 2012). In a two-tier structure, the CEO manages the firm while a separate chairperson takes charge of board activities (Abels & Martelli, 2011). The main responsibility of a chief executive officer is to initiate and implement the company’s strategic goals, plans, and policies while the board of directors is responsible for protecting the shareholders’ interests (Doğan, Elitaş, Ağa, & Ogel, 2013). Agency theorists recommend separate board leader structure in order to ensure that the performance of the CEO is independently monitored by a different person (Htay, 2012). Agency theorists argue that shareholder interests require protection by separation of incumbency of roles of board chair and chief executive officer (Donaldson & Davis, 1991; Grove, Patelli, Victoravich, & Xu, 2011). CEO duality constrains board independence and adversely affects (Amba, 2013; Bliss, 2011; Manmu, Yasser, & Rahman, 2013). In the case of ZESA, there is both an executive chairperson and a chief executive officer. There is bound to be a conflict on the role of the two and this may affect the performance of the power utility.

In the 2020 budget statement the Minister of Finance noted that there are ministries which are imposing unwarranted burdens upon public enterprises through unjustified requests with a bearing on the entities’ financial positions. The lawfulness of such requests is in issue. The fundamental question is what is it that government is doing to contain the errant ministers or ministries. Clearly if government does not impose sanctions these requests will continue unabated. The arrest of the former minister of public service on allegations that she obtained a loan from NSSA and caused NSSA to bankroll her political campaign exposed the abuse of state resources by ministers of institutions falling under their portfolios.

The government should pay for services received from public enterprises in full and on time. This should then enable public enterprises to service their debts timeously and avoid penalty interests. The public enterprises themselves should also live within their means.

The challenges identified in the TSP should inform the reforms to be adopted by the government. If the public entities are insolvent, they should be wound up. There are public entities which compete against each other. Effectively the government is competing against itself. This is apparent in the telecoms sector where
Telone, Powertel, Zanet, Africom, Telecel and Netone are effectively competing against each other. If these entities were to be merged and their assets combined, they would pose serious competition to the private sector and this will result in a significant reduction of operational costs in terms of board fees and executive pay as only one chief executive officer can run the operation. Currently each entity has its own board as well as its executives. TSP identifies unhealthy competition amongst public enterprises. The government should move with haste in merging entities which are in unhealthy competition. The government should privatise the telecoms entities after merging them, as it is likely to realise more than if it we to sell the entities individually.

Government investments should be rationalised. In the financial services sector for instance, the government has established several banks which are essentially competing against each other. Agribank, Empower Bank, POSB, Small and Medium Development Corporation effectively compete each other. Further the government has interests in other financial institutions such as CBZ, ZB bank and indirectly in National Building Society. These financial institutions compete for the same customer.

In China, the reform of state owned enterprises was gradual as the government appreciated the significant economic, social and political consequences of disruption caused by breaking up public enterprises in a short timewithout creating the necessary conditions for change (Song, 2018). Reforms resulted in only a small number of enterprises that are purely state owned, with the majority of enterprises state-controlled shareholding corporations (Song, 2018). If Zimbabwe is to follow this example there is need for urgent reform of its public enterprises so that they can attract fresh capital and talent.

Government is usually motivated by the desire to cushion vulnerable members of the society in setting up public enterprises. In this regard the government of Zimbabwe split the Grain Marketing Board into two units one responsible for grain reserves and the Silo Foods Industries which aims to supply basic commodities at affordable prices. Therein lies the problem. The government does not have the resources to establish retail outlets to sell basic commodities to the entire population or the underprivileged. A lot of resources are required. This the government cannot do alone. There is a role for the private sector. Consequently Silo Foods Industries is not able to meet demand. This creates opportunities for corruption and arbitrage. Those few who are able to procure lowly priced commodities sell the goods at the black market at higher prices, defeating the government’s objective. The government employed the same strategy before through the Reserve Bank of Zimbabwe’s Basic Commodities Supply Side Intervention (BACCCOSSI) programme and it failed.

The government has come up with subsidies for basic commodities like roller meal for example. However the subsides are often abused. Roller meal covered by the subsidy has disappeared from the shops and only the more expensive refined mealie is readily available. I opine that instead of giving subsidies, it is important that every person or at the very least the majority earns a decent income which enables the individual to buy basics. This may not be possible as some people have various challenges like disabilities and unemployment is rampant. It is further opined that instead of subsidies the government creates an enabling environment for production at competitive rates which will ensure that the end product is sold at affordable prices.

Government should take a cue from the pre independence government which focused on supporting agriculture. It is common cause, that agriculture is the backbone of the Zimbabwean economy. It is imperative that government meaningfully supports agricultural production. The support has to be targeted. The supports have to be directed at the farmers and the producers of critical inputs such as seed and fertilisers. The farmers should be able to access loans from Agribank and other financial institutions. These institutions naturally require collateral. This collateral can be in the form of land. It is imperative that the government reviews its position on 99 year leases and consider giving farmers title to the land. Prior to the land reform programme in 2000, farmers were productive because they could access loans from financial institutions using their land as collateral. The resettled farmers have the land but lack the resources to make the land productive. Instead of dishing out inputs to all and sundry, genuine farmers who are committed to farming should access loans from financial institutions. These farmers should repay their loans or risk losing their land or assets. When the country produces adequate grain this will push the price of grain downwards to a level affordable to the majority of the population and at the same time take away the burden of providing subsidies and similar support from government.

Government undertook to facilitate initiatives which promote synergies with the private sector, especially in areas where this strengthens public entities’ efficiency in the provision of public services, underpinned by strengthened regulatory mechanisms. In sectors where there are demonstrable competency and efficiency gains, it will be desirable for public entities to move out in favour of the private sector service provision. Government would then focus more on policy design, institutional efficiency and regulation to facilitate the development process. These partnerships are yet to be realised.

Zimbabwe should seriously consider public listing. Some of the public enterprises play a pivotal role in the economy and should be attractive to investors. Public listing is a key reform measure for large state-owned enterprises (SOEs) in China (Wang, Xu, & Zhu, 2003). Public listing lowers state ownership significantly and lessens firms’ reliance on debt finance (Wang, Xu, & Zhu, 2003). The challenge with Zimbabwean public enterprises though is that they are heavily indebted and their equipment is antiquated so that it does not make
sense for any serious investor to invest in such entities as the investor is better off establishing a new entity. The government needs to appreciate that its entities are not as attractive as they may appear in the valuation of such entities. I would recommend that the government assumes the debt of such public enterprises which have potential to attract private sector investors such as in the transport sector, appoint a competent board and executives to oversee the transition and listing. The primary driver to the government should not be to make money out of the siting but to transfer the burden which the public enterprises have become to the private sector and to a competent management team thereby reducing the pressure on treasury.

IV. Conclusion
Public enterprises in Zimbabwe have been chronically recording large losses, piling pressure on treasury in the form of bail outs and debt assumption. This in turn affects the tax payer. The challenges identified by the government as afflicting public enterprises should inform the reform agenda. Unless key factors underlying the poor performance of public enterprises such as dilapidated infrastructure, shortages of foreign exchange, corruption and abuse of office, governance, artificially-low controlled prices, amongst others, are addressed decisively, public enterprises will remain a burden to the taxpayer. Reforms require political will and decisiveness. Government has to be consistent in its policy position. More importantly the government should create an enabling environment, an environment which encourages investment, attracts fresh capital and private public partnerships.

The boards of public entities should be empowered, and government intervention should be minimised. The performance of the board should be regularly evaluated and effective enforcement mechanisms should be put in place. Action must be taken against those directors and executives who are found wanting. There should be less rhetoric and more action.

TSP lays a solid foundation for reform of public enterprises. There is however need for the implementation of the proposed reforms with speed and decisiveness. State consumption expenditure must be curtailed as far as possible. Those services in respect of which the state accepts responsibility must be provided to an extent and at a standard which the country can afford. Privatisation should be aimed at raising revenue for the state through the sale of the state’s stake in the public enterprises, promote efficiency and productivity, promote wider share ownership and spread risk and minimise government interference in the economy.

The public enterprises must first become efficient and profitable in order to attract best suitors and realise the maximum return. Therefore before offloading public enterprises or stakes therein, the government should reform and restructure the public enterprises so that they are attractive to investors. Further the government should create and sustain an enabling environment, an environment which attracts fresh capital, an environment which is stable and where investments are safe.

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