

PUBLIC ENTERPRISE SECTOR REFORMS IN ZIMBABWE: A MACRO ANALYTICAL APPROACH

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Abstract

States, the world over, are called upon to put in place enabling policy frameworks to ensure successful implementation of public enterprise sector reforms. This requires profound reformation of the institutional, legal, regulatory and control networks in which the public enterprise has been embedded, often for decades. The creation of such enabling contexts largely hinges on the nature of the state and its political will to transform its role from that of an entrepreneur to a mere facilitator in the reform process. This article contributes to this challenge by analysing the socio-political, institutional, legal and regulatory contexts within which public enterprise sector reforms are implemented in Zimbabwe.

THE SOCIO-POLITICAL AND ECONOMIC ENVIRONMENT

Socio-political challenges

In the 1990s, the Zimbabwe government was embroiled in a matrix of socio-political problems. On the political front, the ruling political party, the Zimbabwe African National Union Patriotic Front (ZANU PF) (in power since 1980), was increasingly under pressure for transparency, accountability and good governance in its state structures.

By the 1990s, the independence euphoria of the first decade had gradually phased out and in its place had emerged a restive civil society which was increasingly questioning the state's capacity to translate independence ideals into tangible deliverables. In particular, land had been a central issue during the liberation struggle for Zimbabwe. It is in fact a critical component of the National Question. As stressed by Robert Mugabe in the ZANU (PF)'s 1980 election manifesto:

It is not only anti-people but criminal for any government to ignore the acute land hunger in the country, especially when it is realised that 83 per cent of our population live in the rural areas and depend on agriculture for their livelihood (ZANU PF Election Manifesto, 1980).

Upon gaining power in 1980, the new Black government initiated the resettlement programme to resettle 18 000 families on approximately 1,1 million hectares of land at a cost of \$60 million (*Development Policy Review*, 1993, 170). Besides failing to meet the set targets, this process

led to the transfer of mostly marginal lands to over 54 000 peasants, with little capital, infrastructure and agricultural services. In fact, by the mid-1990s, most of these resettlement areas were quickly reverting into communal areas (Moyo, 1994, 4).

In subsequent years, the government's commitment to ensure a credible land redistribution programme was further dented by frequent allegations of corruption and lack of transparency in the distribution of this *political good* (land). To date, debates on how best to redress the land question, while maintaining the incentive to increase production in the agricultural sector, are still raging on.

In the wake of government failure to redress this basic component of the National Question, society became increasingly restive. While initially cabinet ministers were generally criticised as inefficient and corrupt, by the 1990s such accusations had widened to include the President. The major issue of concern being the President's leadership style. In resonance with the general trends worldwide, local civic pressure groups and academics called for "multi-party democracy" in Zimbabwe (Sithole, 1994; Moyo, 1990; Sachikonye, 1990). Masipula Sithole's "Multi-party state *Yanga Yakaipai*", "Zvobgo opposed to one-party state", and Byron Hove's "Signs of political intolerance" *Moto* (1989; 1990, 8), in a way depict the general political mood of the 1990s.

Civic pressure groups [for example, the Catholic Commission for Justice and Peace (CCJP), ZimRights, the Harare Legal Project Centre] called for more transparency and accountability in government circles (*Social Change*, 1993). These calls were fuelled by the perceived increasingly excessive powers of the President *vis-a-vis* other arms of government. Concern also centred on how the government handled dissident activities in Matabeleland and the Midlands and the shooting of a Gweru business tycoon, Patrick Kombayi, on the run up to the 1990 Presidential elections. The Cabinet was also increasingly viewed as obese, especially in the wake of dwindling resources and increasing reports of corruption among the top political leadership (as revealed by the Willowvale Scandal of 1988).

The anti-corruption demonstrations which erupted in the late 1980s opened up a new chapter of sour relations between the state and civic groups (particularly with university students and academia). This led to the closure of the University of Zimbabwe on 4 October, 1989, and the subsequent enactment of the University of Zimbabwe Amendment Act of 1990, which, according to *Moto* (1991), was "one of the most controversial pieces of legislation in the history of Zimbabwe". The then vice-chancellor, Walter Kamba, subsequently resigned citing "interference from unprofessional hands" (*Moto*, 1997, 7).

Nyamufukudza's article 'Zimbabwe's political culture today', published two years before the adoption of public enterprise reforms in Zimbabwe, went a long way to summarise the prevailing political mood in the country:

There is public fulmination about the nation's chosen ideology by the selfsame leadership which is accumulating property with the fervour of a newly self-discovered bourgeoisie. What has happened to the leadership code? As a result, we live in a culture, both politically and economically, where it is more profitable to leave your job and become a wheeler-dealer, smuggling goods in short supply to resell them at outrageously inflated prices (*Moto*, 1988).

However, the 1990s also witnessed landmark political developments which ushered in a relatively stable political climate. One such positive political development was the Unity Accord of 22 December 1987 between the two political giants, ZANU PF and the Zimbabwe African People's Union (ZAPU). This accord, although frequently criticised as only existing at a political level, put an end to the dissident activities that had rocked Matabeleland and the Midlands.

Economic challenges

On the economic front, while the government scored substantial achievements in education and health during the first decade of independence, these successes were not matched by corresponding economic growth and rising per capita income (*Zimbabwe: A Framework for Economic Reform*, 1991-95, 1).

The major highlights of the Zimbabwean economy were: a GDP growth rate of 2.7%, increase in debt service repayments (34% around 1990), soaring unemployment levels (26% in 1989) and a budget deficit which was more than 10% of GDP (*Zimbabwe: A Framework for Economic Reform*, 1991-95, 3). Central government debt had reached 71% of GDP, of which 36% was external debt (*Budget Statement*, 1990).

Against these economic hardships, the need to control government expenditure, particularly the huge subsidies to the parastatal sector, was glaringly imperative. Furthermore, while it had been possible to underwrite public enterprise inefficiencies with huge subsidies in the early 1980s, by the 1990s, a host of exogenous and endogenous problems had emerged to constrain the fiscal capacity of the treasury. There was also increasing pressure for tight budgets from the two international financial institutions, the World Bank (WB) and the International Monetary Fund (IMF). This international pressure received backing from the domestic front, as it was generally agreed that the Zimbabwean budget deficit had become unsustainable (*Social Change*, 1993, 3-24). It was in these circumstances that the Zimbabwe government, though still "nostalgic" (Herbst, 1990, 13), adopted public enterprise sector reforms in 1991.

Desirability and feasibility of reforms in the 1990s

Given these political and economic scenarios in the Zimbabwean policy environment, one is forced to ask: *How popular were public enterprise reforms at the time of adoption?*

According to the *World Bank Policy Research Report* (1995, 32-35), reforms are politically "desirable" and "feasible" when certain conditions exist in the policy environment. The first one is where there are changes in the leadership's constituencies such that those who oppose public enterprise reforms are no longer part of the leadership's support base. These changes may be due to outright regime shifts (as in Zambia in 1994) or a shift within the governing coalition.

However, for Zimbabwe, while there was no outright regime shift, certain coalitions within the ruling party and government were calling for the need to open up the economy to liberalisation. Herbst (1990, 210) refers to emerging "technocratic considerations replacing political considerations" within both the ruling party and government structures. In particular, he cites the then Minister of Finance, Economic Planning and Development's increasing influence over a policy process that had formerly been supervised by political officials. Within the ruling party circles, political stalwarts such as the then Minister of Political Affairs, Edison Zvobgo and the Vice President, Joshua Nkomo (though not too vocal about it), are frequently cited as having been pro-liberalisation since the 1980s. They are even known to have publicly opposed the leadership code (Herbst, 1990, 211).

Besides this, economic difficulties which were being faced by the government in the late 1980s also increased the desirability of public enterprise reforms. These ranged from unassailable unemployment levels, sharp drop in net foreign assistance, and declines in GDP. In this way, it became increasingly difficult for the government to continue subsidising public enterprises. In fact on a cost-benefit analytical framework, the political benefits (ie of undertaking reforms) outweighed the political costs (ie of continuing to subsidise parastatals).

This analysis can be extended further to examine the *feasibility* of public enterprise reforms in Zimbabwe. Reforms are said to be feasible when the leadership can easily muster the approval of other government entities such as the parliament, the bureaucracies and the provincial governments (*World Bank*, 1995, 31). In Zimbabwe, these organs (which in essence are mere extensions of ZANU (PF) Politburo decisions), were in full support of the government's decision to liberalise the economy. In fact, the adoption of liberalisation measures was a *condition* for receiving balance of payment support. Thus, while there may have been reservations within these arms of government, opposition to reforms was largely covert, if it existed at all.

The leadership in Zimbabwe also enjoyed the support of international donor institutions such as the World Bank, the International Monetary Fund and other local financiers and could therefore put at bay any subtle opposition to reforms. Thus while public enterprise reforms in Zimbabwe (as in most African governments), were indeed donor driven, at local level, the government was in full control of the policy formulation. Society, largely fed up with statist policies of the first decade, generally viewed such reforms as a relief from yesteryear restrictive policies.

In fact, there was hardly any covert opposition to public enterprise reforms from those who stood to lose (such as public enterprise employees, indigenous pressure groups and labour unions). If anything, these groups sought to find means by which their constituent interests could be accommodated in the ensuing reform process. In fact, as earlier alluded to, public enterprise reforms were largely viewed as a welcome relief from Scientific Socialism and its interventionist doctrine.

Also related to the foregoing, is the issue of government credibility in the eyes of the local and international community.

Government credibility

According to a World Bank Policy Research Report, 'Bureaucrats in Business' (31), for a government to score a high credit score, investors must believe that the government will not "renationalise privatised firms". Besides this, public enterprise employees and others who fear that they may lose out during the reform process, must believe that the government will deliver on any promises of future compensation.

In Zimbabwe, the impression is that while public enterprise reforms were viewed largely as politically feasible and desirable, by the 1990s, the government's political credibility was very low. In this case, the state's *credibility* to dispose of state assets in a transparent and accountable manner was "highly questionable" (*Business Herald*, 18 May, 1995). In subsequent years, this was reinforced by the government's apparent delay in putting a privatisation time-frame. After a ten-year tryst with the now defunct Marxist-Leninist dogma, the government needed to put extra effort to convince the public (especially sceptical potential investors) that the government meant a shift in its ideological outlook. Such reservations were reinforced by the President's apparent nostalgic references to Scientific Socialism particularly at crucial party and Politburo meetings. Such pronouncements, I submit, dented investor confidence in the government's commitment to seriously implement these reforms in a transparent and accountable manner.

The enactment of such noble but controversial Acts like the Land Acquisition Act in 1992 seemed to have further dented government credibility in the eyes of potential foreign investors. The government was

largely seen as having little regard to domestic constitutional restraints. Government credibility to undertake a transparent and accountable public enterprise reform poised to ensure equitable distribution of resources, had also been severely dented by such revelations about corruption in government circles (eg the Willowvale Scandal). In fact, while the Government set up a Commission of Inquiry, this did not do much to improve civic society ratings on government commitment. As the *Moto Editorial* (1988, No. 71) lamented:

Corruption is eating away at our society and will ultimately destroy it. One only needs to listen to conversations in buses, pubs, workplaces and other social gatherings. Everyone is talking about corruption, not corruption by the povo or small man, but *corruption by the big chefs* (my emphasis) and people know it is happening.

The net picture is that while society at large viewed public enterprise reforms as the way forward, there were doubts on the state's *political will* to realise this. Against this background of political and economic scenarios in Zimbabwe around the 1990s, one is left askance about what policy framework, institutional, legal and regulatory contexts the state put in place to guide implementation of public enterprise reforms in Zimbabwe.

REFORM POLICY

Zimbabwe adopted public enterprise reforms in 1991. As in most African countries, public enterprise reforms were implemented as a major component of structural adjustment programmes. As such, public enterprise reforms were expected to alleviate macro economic problems besetting the nation. As outlined in *Zimbabwe: A Framework for Economic Reforms (1991-95)* and later in *Zimbabwe: Programme for Economic and Social Transformation (ZIMPREST), 1996-2000*, macro economic problems ranged from a high budget deficit, rising unemployment, high rates of inflation and interest, and low level of investment.

Policy goals

In this case, first and foremost, public enterprise reforms in Zimbabwe sought to reduce the budget deficit. The budget deficit which in 1990 was pegged at 10% of GDP, was largely seen as originating from the loss-making public enterprises, which as inefficient monopolies, required huge transfers of resources from government, as subsidies.

Subsidies were targeted to decline from their 1990/91 level of Z\$629 million to Z\$40 million by 1994/95 (*Zimbabwe: Framework for Economic Reform*, 5) through a system of gradual subsidies withdrawal, the ultimate goal being that by 1995, commercial public enterprises would not be receiving any budgetary support. Indirect subsidies such as import duty

exemptions, concessional loans and government guarantees on commercial bank loans were also to meet the same fate. The government was however, expected to subsidise losses that were a result of social or policy obligations.

Besides this, commercialised and privatised companies were also to pay taxes to government, thus improving government net revenue. This was in turn to reduce government's propensity to borrow from the domestic market, thus releasing more funds for productive ventures. A related source of government revenue would also be the sale of government shares or whole companies to the public.

However, the experience to date is that "only modest reductions in the aggregate public enterprise sector financial deficit" were recorded during the first phase of the reform programme (ZIMPREST, 1998, 4). Public enterprises continued to pose a drain on the fiscus. As the document further shows, major parastatals like National Railways of Zimbabwe (NRZ), Grain Marketing Board (GMB), Cold Storage Commission (CSC), Cotton Marketing Board (CMB), and Zimbabwe Iron and Steel Company (ZISCO) incurred total losses of Z\$1.753 million.

Secondly, public enterprise reforms in Zimbabwe also sought to improve operational viability in the public enterprise sector. This was to be done through a cocktail of micro level measures ranging from operational, organisational, and managerial restructuring. These measures also envisaged government relaxing its direct controls on the operations of public enterprises, thus giving more autonomy to parastatal boards and management in micro decision making such as price setting, investment, hiring and firing. This in essence meant exposing state companies to competitive commercial discipline.

However, as the *Zimbabwe Programme for Economic and Social Transformation* (1998, 4) acknowledges, "overall performance of major public enterprises deteriorated significantly during the reform period". Losses incurred amounted to Z\$2 billion or 3.3 % of GDP in the 1993/94 fiscal year (*Herald*, 4 May 1995). In the 1994/95 fiscal year, it had risen to Z\$4.18 billion partly because government continued to borrow extensively from the domestic market to finance its deficit and because most of the public enterprises continued with "management inefficiency" and "poor restructuring" practices. It was prohibitively expensive to borrow as commercial bank rates had risen sharply from 13% to above 33% by the beginning of 1995.

State companies (eg. GMB, ZISCO, NRZ, CSC, and Affretair) contributed to the bulk of losses. During the same period, called-up loans and guarantees on public enterprises, amounted to Z\$0.704 billion and Z\$1.932 billion respectively. In fact, by 1996, combined losses of public enterprises in the 1995/96 fiscal year amounted to \$6.5 billion (*Zimbabwe Independent*,

11 April, 1997). Besides this, most public enterprises failed to honour their loans guaranteed by the state, resulting in an additional burden on the fiscus of about Z\$2 billion over the same period.

Thirdly, public enterprise reforms also aimed at redressing historically-induced skewed ownership patterns in the economy by economically empowering indigenous (black) groups. The rationale for indigenisation is graphically captured in *The Government Policy Framework for Indigenisation of the Economy* (24 February, 1998, 1), thus,

Foreign component of the private sector dominate the economy. Foreign ownership is over 80%. The domestic private sector is much smaller and weaker and is dominated by non-indigenous enterprises. While the economy heavily depends on agriculture, mining and agro-based manufacturing industries, foreign investment in these sectors accounts for over 70% of total investment with the remainder mostly owned by non-indigenous Zimbabweans.

This skewed structure, in favour of non-indigenous people, characterises all the sectors of the economy. However, in a policy environment characterised by a low absorptive capacity among locals (ie capacity to take advantage of available investment opportunities in shares being off loaded onto the market), low savings, weak collateral security, little knowledge of stock markets or share concept, the achievement of such indigenisation ideals call for extra *defensive* mechanisms and instruments.

Cognisant of these structural inhibitions, the government sought to use defensive schemes such as the sale of shares to public enterprise employees, management and employee buy-outs (MBOs) and employee stock option plans (ESOPs). These schemes are meant to broaden ownership at enterprise level.

In addition to this, in 1996 the Government endorsed the establishment of warehousing facilities such as the National Investment Trust (NIT). The idea behind the NIT is that as the government privatises parastatals, it reserves a stake for the NIT to warehouse shares for the indigenous people of Zimbabwe. For example, the NIT has 10% shares in both Dairibord of Zimbabwe Limited (DZL) and the Cotton Company of Zimbabwe (Cottco) and 26% shares in the Commercial Bank of Zimbabwe (CBZ).

However, the effectiveness of such a facility depends on the extent to which the government keeps to its promise to inject funds (Z\$400 million) into this facility. The existence of this facility also assumes that the economic capacity of indigenous groups is poised to improve in the long run so that they will be able to actively participate in available investment opportunities. In fact as reported by the *Business Herald* (1 October, 1998), the Z\$400 million allocated to the NIT since it was formed in 1996, was diverted by the State to pay war veterans gratuities.

INSTITUTIONAL SCOPE

Public enterprise reforms in Zimbabwe are undertaken within a heavily institutionalised policy environment. Currently, there are ten institutional players (all located within the President's Office), which are directly involved in the reform process. As the Zimbabwe Congress of Trade Unions (ZCTU) Chief Economist, Godfrey Kanyenze, in a paper delivered at the Zimbabwe National Chamber of Commerce (ZNCC)/Friedrich Neuman Foundation Conference on Privatisation held in Kariba (2-4 April, 1998) puts it:

There are currently ten (10) government departments directly involved in privatisation. All these make policy statements on what should be done, and in a situation where there is no definite programme, it becomes very confusing and creates conflicting signals (*Zimbabwe Independent*, 11 April, 1998).

In addition to the issues raised above, these state agencies are all in the President's Office. While their centralised location ensures state control of the decision making processes, in practice, this proximity to the Executive has distanced the implementation process from the relevant stakeholders. In fact, apart from giving these state agencies the *aura* associated with higher offices, it has also rendered them less accessible to the public. Consultation with relevant stakeholders has therefore been limited. Where there has been some "consultation", this has tended to be of a unilateral nature, as the state is not legally obliged to factor in their inputs.

The operations of these implementing organs have also been marred by coordination problems, blurred lines of responsibilities, and the resultant conflict of interest. Thus, instead of facilitating prompt decision making, these institutional players tend to promote bureaucratic delays in policy implementation. The net picture is that the institutional scope, as currently structured, is a liability to the entire reform process. For example, it is not quite clear how the National Economic Planning Commission (NECP) and the Department for State Enterprises and Indigenisation relate to each other.

Institutional players

The first institutional player is the *public enterprise* itself precisely because it is the organisation to be restructured or privatised. In addition to this, public enterprise boards and managers are an integral component of the formulation and implementation process. Apart from the fact that reform measures seek to give them more decisional powers in the running of these parastatals, it is their responsibility to draw up privatisation proposals. In undertaking this mandate, parastatal boards have to ensure

that public managers consult with relevant groups such as employees, the parent ministry and other relevant stakeholders.

In other words, the calibre of public enterprise managers is a critical factor in the implementation of reform processes. In particular, public enterprise management's attitudinal disposition to the reform process, their view of their future role in the post-reform era, their competence and professionalism and their latitudes to decide, are indeed fundamental considerations.

There are two dominant views about the calibre of public enterprise managers in Zimbabwe. The first view holds that while most public enterprise managers in Zimbabwe have requisite academic qualifications (degrees or post graduate degree), they are however, constrained by yester era restrictions in the policy environment. As the ZNCC Chief Economist, Wonder Maisiri observed:

Most of the public enterprises are run by very able managers but at the end of the day the *framework* (my emphasis) of the parameters within which they have to discharge their duties and carry out their responsibilities is not free from government interference (*The Herald*, 25 April, 1996).

The glaring message is that the legal framework within which these reforms are implemented is largely intact as most public enterprises still operate under their traditional enabling Acts. This legal framework compromises management decisional autonomy as parent ministers occasionally invoke these Acts to effect controls on pricing, investment, borrowing, hiring and firing decisions at enterprise level. Under these inhibiting legal frameworks, entrepreneurship and innovativeness, may not reap their expected rewards.

Proponents of this view further argue that reforms are not based on a coherent and clear policy guideline. The *Business Herald* (22 August, 1996) cites "lack of a clear strategy and programme" as one major impediment in the Zimbabwean policy environment. In these circumstances, parastatal managers operate with no clearly defined guidelines. Decisions on privatisation have been shrouded in secrecy, as public sector managers are often not well informed about what specific decisions government has made on the respective parastatals. In other words, the central argument is that qualifications may not make any difference if the policy context is irrelevant.

According to a Coopers and Lybrand Report (as quoted in the *Financial Gazette*, 14 December, 1995), this scenario is worsened by "lack of appropriate skills and experience by board members". According to this Report (although in specific reference to the Posts and Telecommunications Corporation (PTC), "few board members had business or commercial backgrounds with experience in financial and accounting matters". The *Business Herald* (14 July, 1994) had also earlier lamented that:

incompetent and poorly informed board members are holding back progress. Some board members do not have the foggiest idea of what they are doing in parastatals.

The *second view* holds that while most incumbent public enterprise managers in Zimbabwe may have sound qualifications, they basically lack the relevant skills. In other words the bulk of public enterprise managers, just like most incumbent board members, are generally lacking in "commercial background". Those who were appointed during the pre-reform era under dubious political appointments, still hold on to their posts.

Such managers, according to this view, do not measure up to the requirements of the new millennium as they tend to be risk averse, *status quo* oriented and uncertain about their security in the post-privatisation era. Such a crop of public sector managers cannot be trusted to turn around their ailing companies.

Proponents of this view further argue that, the often cited lack of enthusiasm in coming up with privatisation proposals, continued poor parastatal performance and lack of transparency and accountability in corporate governance, largely stem from the fact that the *pre-reform mentality* abounds among most of public enterprise managers in Zimbabwe. Most public enterprise managers and board members owe their appointments to political connections, in particular the *liberation factor*. Thus, by virtue of their background, they are less disposed to the inevitable prospects of accountability to diverse shareholders.

Thus, while it may be difficult to establish the more plausible view, a central argument in both views, is that there is need for both government and parastatal management to adopt a new *mind set* commensurate with the new millennium. As Wilson(1993) warns:

It is dangerous to underestimate the continuing influence of *pre-reform attitudes and values*, and mutual *expectations* on reforms (my emphasis). They persist through the many reorganisations and institutional changes associated with parastatal reform. The pre-reform system had its own set of attitudes that supported the old system inculcated over the professional lives of its workers and managers, and may subvert the successes of the emerging systems.

The second institutional player is the *parent ministry*. Public expectations are that the parent ministry, as an extension of the government, adjusts from a position where it directly controls public enterprises, to a new position where it merely regulates the sector by creating a conducive atmosphere for ensuring competition in the sector under its jurisdiction. In other words, the parent ministry adjusts from being a super-regulator to the new role of being one of the shareholders in a restructured public enterprise. In essence, this implies loss of power,

privileges, and prestige which the ministry used to enjoy over its state companies.

However, contrary to these expectations, parent ministries continue to view public enterprises as government departments (*ZIMPREST*, 4). Parastatal enabling Acts are largely unamended. Parent ministries therefore continue to exercise their traditional authority on decisions concerning appointments of board members and price setting. In fact, the parent ministry can fire the entire board of directors in case of irreconcilable differences. For instance, members of the Government Tender Board (GTB) were fired when they defied "political instructions" (*The Financial Gazette*, 21 March, 1996). Issues at stake were the PTC cellular telephone, the Harare International Airport and the Zimbabwe Broadcasting Corporation (ZBC) tenders. As further argued in this article, in all these cases, the GTB had preferred a "professional approach rather than accept recommendations from politicians who might have vested interests".

Attempts to remove the PTC monopoly by opening up the telecommunication sector to new players generated a circus of litigations and political bickering. In the PTC tender, the GTB had rejected the politicians' award of the tender to Ericsson, arguing that it was expensive. The Airport project had been awarded to a French company by the Government Tender Board, a decision which was reversed by cabinet in favour of Airport Harbour Technologies (according to *The Financial Gazette*, 21, March, 1996), a company in which some politicians had major interests. In all these cases, the parent ministries intervened and overturned the GTB decisions, confirming the public's doubts about the credibility of the Government to undertake transparent tendering processes.

Attempts to open up the ZBC to private participation were also met with "resistance from the parent ministry" (*Zimbabwe Mirror*, 8-14 May, 1998). Efforts by the LDM broadcasting systems to set up a private television and radio station have since 1994 been constrained by the existing Broadcasting Act. To date, the information sector still operates under an unamended Broadcasting Act which dates back to the days of the Federation of Rhodesia and Nyasaland.

The Broadcasting Act (Section 27, Chapter 12:01) is the foundation on which the ZBC was created. The same Act provides for the constitution and functions of the ZBC board of governors, regulation of its financial matters and the appointment of its Director-General and other staff. The powers of the ZBC are set out in the schedule to Section 16 of the Act. In this case, most of the powers can only be exercised with ministerial approval. In other words, by this Act, the ZBC still upholds monopoly of the airwaves and uses its monopoly prerogatives (such as charging high

subscriptions to new companies) to frustrate all attempts at introducing competition in the information sector. The experiences of new entrants such as the MABC and JOY TV are illustrative of this.

With the Zimbabwe Electricity Supply Authority (ZESA), the entire board was forced to resign when they opposed the government decision to award the majority shareholding in ZESA to YTL, a Malaysian based company (*Herald*, 2 October, 1996). Amid public and board reservations that such a deal was likely to result in hikes in electricity charges, the government went ahead with the deal and even appointed a new board headed by Professor Christopher Chetsanga. Nothing has so far materialised from this deal, as the new investors are not owning up to earlier promises. In fact, it would appear that both partners are increasingly realising that most pertinent considerations had been brushed aside, in their rush to conclude this deal.

These scenarios seem to indicate that the traditional *principal-agent* relationship is largely prevailing. The parent ministry still draws its authority from traditional enabling Acts. In fact, while parastatals are urged to compete effectively and turn out profit, parent ministries continue to regard these parastatals as coming under the previous Acts of Parliament governing parastatals.

In other words, even those public enterprises commercialised or registered under the Companies Acts, still come under the Acts of Parliament until such Acts have been repealed and their privatisation plans finalised. In fact, the scenario on the ground is that the traditional relations between the public enterprise and the parent ministry have not been significantly amended because:

- the title of the heads of public enterprises remains General Manager or Director as spelt out in the relevant Parliamentary Acts. This title can only be altered by amending the relevant section of the legislation through the Attorney General's Office.
- public enterprises are not allowed to change their structures without clearing with the parent ministry and the State Enterprises Advisory Committee.
- boards of directors are appointed by the minister in consultation with the President, while board fees and allowances are still fixed by the Ministry. ZBC management was recently taken to task for awarding themselves salary increases without prior authorisation from government.
- disposal of state assets has to be done by public tender after clearing with the relevant line ministries who in turn clears with the ministry of finance.
- boards of directors and management still require cabinet authority obtainable through the relevant line ministry before undertaking foreign travel on official business.

— where restructuring results in staff retrenchments, the retrenchment proposals and severance packages are cleared with the parent ministry.

The existence of these provisions indicates that responsible ministries in Zimbabwe continue to exercise direct control over their public enterprises. The state has not significantly shifted its role from that of an entrepreneur to a mere facilitator in the reform process. The responsible ministry is still involved at both micro and macro policy levels.

Decision making organs

While the sectoral ministry and its public enterprises are active participants in programme implementation, decision-making *officially* rests in these four institutional actors, namely, the cabinet, the Interministerial Committee on Commercialisation and Privatisation, the National Economic Planning Commission, and the Department of State Enterprises and Indigenisation. However, in practice, the ruling party, ZANU (PF) and the President's Office, do wield considerable influence on policy decisions guiding public enterprise reforms. The ruling party, ZANU (PF) and the President's Office overwhelmingly dominate over decision making in the policy environment. As argued by one seminar participant,

In Zimbabwe's national political drama, the President, Robert Mugabe, is the pivotal and unchallenged actor among the *dramatis personae*. The President is also the centre of gravity of the country's policy system. Indeed, it is tempting to label Zimbabwe a presidential-state, for power is not only highly centralised in the President's Office, with the latter it is highly concentrated in the President himself (*Seminar Paper*, 1998).

In other words, the policy process in Zimbabwe has been *presidentialised*. The President is the ultimate target of various kinds of lobbying activities. The roles of these four institutions in the public enterprise reform process should therefore be understood within these confines.

The cabinet wields considerable constitutional and political authority over the entire reform process. It is the highest decision making organ of the government and has the final say on whether a public enterprise's enabling Act is to be amended or not, whether or not the public enterprise is to be commercialised or privatised. In other words, all commercialisation/privatisation proposals have to be approved by the cabinet.

Its authority is both political and constitutional. It is political because in Zimbabwe, most ministers who comprise the cabinet are drawn from the ruling party, ZANU (PF). The bulk of cabinet ministers also hold senior positions at provincial, central and Politburo decision-making levels. In this case, the cabinet is indeed a mere conduit line for decisions earlier endorsed at Politburo, the party supreme policy making organ.

The cabinet operates through a committee called the *Interministerial Committee on Commercialisation and Privatisation*. As a cabinet committee made up of all parent ministries, it makes recommendations to the cabinet on matters concerning commercialisation and privatisation. In making these recommendations, it relies heavily on the technical expertise of its technical wing, the *Working Party on Privatisation*. For example, the Interministerial Committee on Commercialisation and Privatisation (ICCP), working through this technical wing, was responsible for the identification and classification of public enterprises in their appropriate categories before commercialisation or privatisation.

The Working Party on Privatisation's main responsibility is to provide technical assistance to the Interministerial Committee. Its responsibilities comprise permanent secretaries drawn from all parent ministries. Its specific responsibilities are to:

- receive commercialisation and privatisation proposals from parastatals through parent ministries,
- to analyse the proposals/documents,
- to prepare agenda for discussion with the Interministerial Committee under National Economic Planning Commission (NEPC) Chairmanship, and
- to advise ICCP on what decisions to make as per particular enterprise.

Also involved in central planning and coordination of public enterprise reforms in Zimbabwe, is the National Economic Planning Commission (NEPC), which is headed by the Planning Commissioner, who is also a member of the cabinet. The commission currently has a staff complement of 70 members. Of these, 60 are technical staff and 10 are support staff. Of the 60, 12 are in the Planning Policy Formulation Division. It is this division which is tasked with the implementation of the public enterprise reform process.

While its primary function is to set up a broad framework for the entire national planning process, the NEPC is also directly involved in the commercialisation and privatisation of public enterprises by ensuring:

- promotion of public enterprise operational efficiency,
- generation of revenue for the government through privatisation of state-owned enterprises, and
- promotion of broad-based ownership.

In its execution of these functions, the NEPC coordinates with all the relevant implementing organs. This is ensured through the chairing of meetings involving the Working Party of Officials on Commercialisation and Privatisation and the Interministerial Committee on Commercialisation and Privatisation. By doing this, the NEPC also provides the administrative or secretariat machinery to the commercialisation/privatisation process.

However, in practice, the boundary of responsibilities between the NEPC and the other implementing organs such as the *Department of State Enterprises and Indigenisation* have not been clear enough. It is generally felt that there is duplication in the responsibilities of these implementing organs.

The Department of State Enterprises and Indigenisation was established in 1996 to spearhead the indigenisation process. It is also in the President's Office. In addition to this, it is represented at both the Working Party and Interministerial levels.

Its responsibilities are as follows:

- monitoring the management and performance of statutory bodies and other state enterprises,
- formulating strategies aimed at improving their performance,
- drafting initiatives and coordinating actions related to the commercialisation and privatisation of enterprises and other institutions presently wholly or partially owned by the state, and
- drafting appropriate strategies on indigenisation, and liaising with the private sector to foster better understanding between government and the sector.

However, in practice, this department has confined its activities to mere monitoring of indigenisation goals, leaving the other issues to the NEPC. The NEPC deals with the technical and administrative issues while this department deals with the implementation of political ideals such as indigenisation. In any case, the creation of this department was largely due to political pressure mainly from indigenous pressure groups. Its existence reflects the dilemma of the state in trying to promote broad-based ownership while trying to woo investors (local and external) in its ultimate goal to generate revenue from disposal of state assets. Thus, viewed at a more philosophical level, the mere existence of the NEPC and the Department of State Enterprises and Indigenisation, brings to the fore the inherent contradictions in public enterprise reform processes. By creating these two institutions, the government is trying to make a delicate balance between the political and the economic considerations in the reform process.

In addition to these state agencies, there is also the *ruling party*, ZANU (PF) and the *Office of the President*. Although these institutions are indirectly involved, they in practice wield considerable influence on policy matters concerning the privatisation of state enterprises.

ZANU (PF)'s role in the reform process is closely linked with that of government since the boundary between the ruling party and the government is blurred. Decisions taken at party level (national congresses and the politburo) usually translate into government policies. This seems to stem from the fact that those who are in the ruling party decision

making structures, are the same members who comprise the bulk in the government policy making organ, the cabinet. In addition to this, of the 150 Members of Parliament, only two are not members of the ruling party.

In his address to the second ZANU (PF) National Conference in Bulawayo on 14 December, 1996 (*Sunday Mail*, December, 15, 1996), President Mugabe told indigenous groups to start compiling names of trustworthy and honest people who will buy shares in multinational corporations and other companies as part of the indigenisation drive.

The ruling party ensures its control over policy making through various committees. For example, ruling party members such as Emmerson Mnangagwa [ZANU (PF)] Secretary for Finance and Minister of Justice, Legal and Parliamentary Affairs); Richard Hove (Planning Commissioner), Swithun Mombeshora and Mutumwa Mawere (Chairman of Africa Resources Limited and now owner of Shabanie and Mashaba mines and its subsidiaries), constitute a four-men indigenisation committee which was set up to promote indigenisation in private sector dealings (*The Financial Gazette*, January, 9, 1997). It is this committee, which monitors the extent to which locals are given opportunities to buy previously privately owned companies.

Also related to the above, is the Office of the President. In fact, what is compositely known as the Office of the President and Cabinet is an amalgam of several offices and departments, all of which are geared towards servicing the President, the two Vice-Presidents, the Planning Commissioner and seven Ministers of State. The President's Office is thus the hub of the overall process of policy making, coordination, implementation and monitoring.

Its functions are:

- to provide overall policy direction and guidance to all ministries and departments;
- to coordinate the formulation and implementation of development plans and programmes including determination of the capital budget;
- to monitor the implementation of Government programmes by various ministries;
- to analyse and evaluate the impact of policy decisions in the public and private sectors;
- to coordinate the activities of the various Cabinet Committees and their Working Parties and to establish and administer Commissions of Inquiry.

The President's Office therefore has the overall monitoring functions on all policy decisions. The President's Office thus ensures compliance with national ideals, which in essence are ruling party ideals.

These offices and departments fall under the Chief Secretary to the President and Cabinet who coordinates key aspects of the Office, including Cabinet and Cabinet Committee business. The Chief Secretary chairs heads of ministries' meetings and the Review Panel, both of which facilitate coordination and monitoring of activities in the public sector.

For his policy duties, the Chief Secretary, relies mainly on four departments, namely the National Economic Planning Commission (NEPC) which is headed by the Planning Commissioner, the Monitoring and Implementation Department (MID), the Central Statistical Office and the Department of State Enterprises and Indigenisation, most of which are headed by heads of departments (Permanent Secretary grade).

DISCUSSION

While almost eight years have gone since the official adoption of public enterprise sector reforms in Zimbabwe, in practice, the Zimbabwean policy environment has not been significantly restructured. For most parastatals in Zimbabwe, their enabling Acts are still to be repealed. The net effect is that the Zimbabwean government still wields considerable control over the parastatal sector. In practice the state still wields direct control over hiring and firing of board members and top management.

By February 1998, most public enterprises in Zimbabwe were operating under their pre-reform enabling Acts. These include the GMB, CSC, the Tobacco Research Board (TRB), Agricultural and Rural Development Authority (ARDA), ZBC, NRZ, Small Enterprise Development Company (SEDCO), Agricultural Finance Corporation (AFC), ZESA, National Oil Company of Zimbabwe (NOCZIM), Central Mechanical Equipment Department (CMED), Industrial Development Corporation (IDC) and ZISCO (ZIMPREST, 1998, 51-53).

The existence of these pre-reform enabling Acts means that the parent ministry is still legally empowered to directly supervise its sectoral parastatals. Because of these legislative prerogatives, the parent ministry can still intervene in price setting, investment, appointments and firing. It also means that those public enterprises which were monopolies still enjoy their monopoly privileges. Any attempt to open up these sectoral parastatals to competition before their enabling Acts have been amended is a dead end exercise since the concerned parastatals are prone to use their comparative advantage and predatory tactics to strangle competition. The experiences at the ZBC and the PTC are cases in point.

Clarke (1993) warns privatisation practitioners of the danger of simply transforming publicly owned monopolies into private monopolies without ensuring the issue of market contestability. Cases in point are that of the British Gas and the British Telecom which "entered the private sector

with positions of great dominance" (Vickers and Yarrow, 1986; Kay and Thompson, 1986), since these companies were simply transferred from the public to the private sector unchanged. As institutional monopolies, they inevitably used their market power or strategic dominance to stifle potential competition. In all these cases, the lesson is that privatisation of public enterprises with *institutional monopoly* immediately calls for the restructuring of the market structure to make it more competitive.

Contrary to the expectations of this reform era, the government of Zimbabwe still wields considerable ownership in the economy. In fact, out of a portfolio of more than 40 public enterprises, only three (DZL, Cottco and CBZ) have been off-loaded to the private sector. In fact, as documented in ZIMPREST (1998), the distribution of government ownership in state companies is currently as follows: Delta (6%); ZIMRE (100%); CBZ (20%); Zimbabwe Development Bank (ZDB) (33%); FINHOLD (48.79%); Astra (corporate company in which the Reserve Bank of Zimbabwe owns 80%); Department of Printing and Stationery (a government department); Zimbabwe Investment Centre (ZIC) (100%); ARDA (commercial estates to operate as 100% owned by government while its development activities continue under the Act); GMB (strategic grain reserve is 100% owned by government) — Reserves to remain under the GMB Act, while grain trading is to be commercialised); DZL (25% government ownership); Cottco (25%); CSC (100%); Air Zimbabwe (100%); Affretair (100%); NOCZIM (100%); CMED (100%); SEDCO (51%), ZISCO (100%), and Rainbow Tourism (100%).

The net picture is that the Zimbabwean bureaucrats are still in business. The government is still either in sole majority or minority ownership in social security companies such as National Social Security Authority (NSSA), insurance companies such as Fidelity Life Insurance and commercial banks such as the Post Office Savings Bank (POSB) and ZIMBANK. In fact, even in privatised companies (DZL, Cottco, and CBZ), the level of state ownership is more than officially stated as the state indirectly controls shares in such institutions as NSSA and National Investment Trust (NIT). The argument is that where these companies buy or have shares reserved for them, they inevitably come under state control as they are themselves government owned.

The implementation of public enterprise reforms is heavily institutionalised as there are currently almost ten state institutions that are directly involved in policy formulation and implementation. Worse still, due to absence of clearly defined lines of responsibility, the coordination of these state institutions has been a burden. Instead of speeding up the implementation process, the institutional scope in Zimbabwe has tended to promote red tape and the resultant delays in programme implementation. The institutional scope as currently

constituted, apart from being inaccessible to relevant stakeholders, is also largely seen as oversized and therefore a liability to successful implementation of public enterprise reforms in Zimbabwe. The situation is worsened by the fact that the regulatory framework is still to be put in place. Independent regulatory institutions and procedures are needed to guide the operations of restructured parastatals. Opening up the marketplace to competition requires new regulations to ensure fairness and the creation of a "level playing field". Without such a regulatory framework, former monopolies such as GMB, PTC, and ZBC have used predatory tactics to disadvantage new participants in their respective sectors. Contestability has therefore suffered. Regulatory institutions and regulations ideally act as a watchdog against possible *ultra vires* actions by the more established companies.

While by 1996, the Zimbabwean government had endorsed the decision to establish a *National Investment Trust* (NIT) to ensure that part of the shares in privatised state enterprises is reserved for future sale to the indigenous population, by early 1999, the trust was yet to be operational. Its intended form, specific functions and mode of operation was still a government secret. Such a trust can only be operational when a notarial deed is in place. However, the deed of trust was submitted to the cabinet in 1997 and had by 1998 been approved. By the close of 1999, the Ministry of Finance was yet to appoint members of the Board of Trustees!

The NIT is supposed to purchase shares and hold them in trust for indigenous people. A well-structured NIT is indeed an important mechanism for promoting the indigenisation crusade. The NIT is also expected to provide expertise on issues concerning the apportioning of shares to ensure that these shares are allotted to 'the right people', a euphemism for indigenous people. Without expert advice from such a structure, it is very difficult for government to arrive at the share prices of parastatals to be privatised. In such circumstances, problems of vested interests between officials and politicians and possibilities of "asset stripping" cannot be ruled out. Asset stripping is where the value of parastatals earmarked for privatisation is grossly undervalued by officials and the state asset is sold at a give away price. Issues of underpricing of state assets severely compromise the national sovereignty of current and future generations.

The apparent delay to establish the NIT seems to emanate from the prevailing mixed feelings about the feasibility of such a structure. Those who are opposed to the idea of the NIT, argue that if the principal function of the Trust is the warehousing of shares for future sales, there is therefore less need for this new institution, as such a function can be done by any of the existing financial institutions like NSSA, POSB or any

of the government owned banks. In fact, Delta shares worth \$200 million are already warehoused with NSSA and POSB. In this context, if the Trust is meant to be an active player in the asset market by managing a portfolio of assets, then, the question of ownership of the assets and beneficiaries also need to be clearly spelt out. Unless this is made clear, "NIT is no more than the government managing its asset at arms length" (Goddana and Hlatswayo, 1997).

However, the experience from other implementing countries indicates that autonomously and professionally managed Investment Trusts are an integral aspect of public enterprise reform processes. For instance, in Malaysia, an investment institution, which gave preferential treatment to locals for buying shares was created (Cruickshank, 1996, 6). There was also extensive use of mutual funds and unit trusts to channel domestic resources towards investment in the privatised companies. In Singapore, people were encouraged to join a fund, after which they could get access to shares in privatised companies (Low, 1988, 275).

The policy document on which public enterprise reforms is based is largely viewed as "lacking in strategy" (*Business Herald*, 22 August, 1996). For example, policy documents do not explicitly identify the strategies that will be used to dispose of parastatals and the specific strategies that will be used to ensure economic empowerment of indigenous groups during the privatisation process. As yet, there is no coherent privatisation policy which can be subjected to rigorous scrutiny by social partners and civic society. As the president of the Zimbabwe Institute of Public Finance and Accountancy has observed:

We do not seem to have a clear understanding of the concept as a nation. It is critical that we are informed on how the programme will be conducted so that people can decide how they want to participate in it (*Business Herald*, August, 22, 1996).

Experiences elsewhere show that the formulation of a programme which shows clear goals stand to inspire people into participating and contributing to the success of privatisation processes. Such a policy promotes consultation and transparency in the public enterprise reform process. For example, in Malaysia, a special fund was established to finance feasibility studies and a privatisation action plan was adopted after private consultants had reviewed the government-owned entities to determine the feasibility and desirability for privatisation (Jomo, 1993).

While an Interministerial Committee on Privatisation and Commercialisation was appointed in 1994 to oversee the process and a department of State Enterprises and Indigenisation was also set up in the President's Office, these organisations have not made much progress. There has not been much consultation and dialogue on what privatisation

entails. Even the much awaited *ZIMPREST Policy Document*, like its predecessor, the *Framework for Economic Reforms* (1991-95), also fell short of these expectations.

While various meetings have been convened where government officials have been invited to share their views with various stakeholders, the unfolding evidence is that the formulation process has remained a highly centralised process. In practice, programme formulation in Zimbabwe is generally viewed as the sole preserve of the state and its implementing agencies. In fact, the formulation process in Zimbabwe, has not only been agonisingly slow, it is also *ad hoc*, opaque and therefore vulnerable to manipulation.

CONCLUSIONS AND RECOMMENDATIONS

First and foremost, there is urgent need to restructure the institutional framework. The ten institutions currently existing are an unnecessary liability to the successful implementation of the entire public enterprise reform process. Apart from duplication of functions, particularly between the Department of State Enterprises and Indigenisation and the National Economic Planning Commission, the institutional scope has caused unnecessary delays during the implementation process. It has also blurred accountability channels.

In fact, the experience worldwide is that states are never good at monitoring their own operations. Their failure to exercise fiscal discipline in their operations illustrates this. In this case it would be naive indeed to think that the state in Zimbabwe can police its own reduction of shares in state companies. The perceived "slow pace in privatisation" (*Business Herald*, 18 May, 1995) is illustrative of this.

What is therefore needed is the establishment of an autonomous, multipartite Privatisation Authority. To ensure its autonomy, accessibility to the public and professionalism in its operations, the Agency should be established in terms of a Privatisation Law. Legislation must explicitly state its expected membership profile, nature of governance, its funding, its specific functions, and how it relates with such other state organs like the Cabinet, the Treasury and the Parliament. The underlying issue is that it should be completely divorced from Executive control.

In fact, it may be useful to take a leaf from the *Zambian Privatisation Agency* (ZPA). The *Zambian Privatisation Agency* was established by a Privatisation Act (No. 21 of 1992). The ZPA was established as the agency responsible for planning, managing, implementing and controlling the privatisation of state owned enterprises.

The ZPA has a twelve-member Board drawn from all key sectors of the economy. These are nominated by their respective organisations and

approved by the National Assembly. Out of this membership, only three are government officials (ie the Permanent Secretaries of Finance and Commerce, Trade and Industry and the Attorney General). The remaining nine members are drawn from private sector institutions. By having such a composition, the ZPA ensures that while there is interaction with the state, this interaction does not translate into undue interferences. The presence of government officials in ZPA endows the agency with the political legitimacy which it also needs if it is to make any headway. In this way, the Agency also acts as an advisor to the Cabinet, the key decision-maker.

Its responsibilities as enshrined in the Privatisation Act include:

- public offering of shares,
- private sale of shares through negotiated or competitive bids,
- offer of additional shares in a state owned company to reduce government share-holding,
- sale of assets and business state owned enterprises,
- reorganisation of state owned enterprises before the sale of the whole or any part of the state owned enterprise,
- management or employee buyouts in the state owned enterprises, and
- any other method the Agency may consider.

A critical consideration is that such an institution be composed of members of outstanding professional credit and that its operations are amenable to public scrutiny via the parliament. In other words the public must be occasionally appraised of the state of progress in the reform process and how much has been raised from parastatal proceeds. Such a model in my view is the solution to the current perceived slow progress in reform implementation.

An added advantage of a multipartite privatisation authority is that it also takes over the functions of the Government Tender Board (GTB) by handling tender-related matters. For the Zimbabwean GTB, its operation over the past seven years has raised questions about its capacity and autonomy to ensure transparency and fairness in tendering processes. Its handling of the PTC and the ZBC tenders left most observers convinced that it is an institution in desperate need for restructuring. Parent ministers interfere at will in its operations. Where board members make decisions which are at variance with those of the responsible minister, suspension of the entire board has always been inevitable.

Lamenting the operations of the tender system in Zimbabwe, Matchaba-Hove, president of the Zimbabwe Human Rights Association (ZimRights) observes:

With the opening up of the economy, we have watched with utter disbelief, amazement, and sadness as big fish of all sorts elbow each

other in attempts to position themselves into economically strategic positions. At the end of the day, the same big, brutal, avaricious sharks have won the battle for enrichment (*Zimbabwe Standard*, April-20, 1997).

A profitable way out of these untenable scenarios is to dismantle the GTB and surrender its responsibilities to an autonomous, professionally run Privatisation Authority. The GTB as currently constituted is a mere liability to the implementation process as it has no chance to decide.

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