

## FROM INTERVENTIONISM TO MARKET-BASED MANAGEMENT APPROACHES: THE ZIMBABWEAN EXPERIENCE

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### Abstract

*The adoption and implementation of public enterprise sector reforms the world-over reflects a paradigmatic shift from state-centred to private sector-oriented management styles. This article captures these evolutionary trends through a detailed case analysis of the management regime that prevailed in the Zimbabwean public enterprise sector before the adoption of reforms. Public enterprise sector reforms call for a fundamental restructuring of yesteryear practices at the macro and micro levels. However, as a review of the first and the second phases of the programme reveals, by the dawn of the new millennium, the state in Zimbabwe had not significantly relinquished its traditional controls over the parastatals sector. Most public enterprises still operated under their traditional enabling Acts.*

### INTRODUCTION

A distinctive feature of the post-independence decade in Africa was the belief in *big government*. The government was seen as the only organisation with the capacity to engineer socio-economic development. The creation and subsequent phenomenal expansion of the *public enterprise sector* in the past three decades reflects this development orthodoxy. This interventionist development orthodoxy was rooted in the belief that market systems are inherently imperfect and, as such, can hardly allocate resources in line with public preferences. Such market failures, it was argued, could only be offset through active state intervention.

In industrial countries, the experience of market failures in the 1930s and the apparent successes of Kynesian-based reconstruction policies of the 1940s and 1950s practically asserted the need to put the state in command. These views, which also derived strong support from labour-dominated political parties, produced the "social democratic consensus" (Brett, 1988, 16) which was responsible for organising the transition from the war economy to the long boom of the 1960s.

In the developing world, practical realities, such as small domestic capital markets, dependence on primary export, income disparities, reluctance of the private sector to invest, mistrust of private sector

motivations, and shortage of indigenous entrepreneurial skills, among other factors, were often cited as justifications for government participation in market activities (Ndongko, 1991). In such circumstances, public enterprises became critical policy instruments for import substitution and the generation of investible profits.

In colonial Africa, the interventionist doctrine found ready acceptance as it easily blended with the basic assumptions of nationalist movements fighting for independence. In the newly emerging post colonial states, interventionism provided the new black elite with the rationale for taking control of the commanding heights of the domestic economy. As Brett (1988) argues, such views could be presented as a model for reformist socialism based on domestic state power in opposition to the predominantly expatriate interests, which controlled the commanding heights of the local economy in most developing countries. Reeling under pressure to provide visible and tangible manifestations of modernisation, newly emerging post-colonial African governments had little choice but to use public enterprises as instruments of state intervention.

Yet by the late 1980s, the consensus in many countries was that the public enterprise sector's contribution to the progress of economic development was far below expectations (World Bank, 1998; Killick, 1983; IMF, 1986; Rammanadham, 1989; Cook and Kirkpatrick, 1988). State-owned companies that were expected to provide investible surplus to the government often required massive subsidisation, imposing a fiscal burden on the economy. They became a drain on scarce state resources (Gillis *et al.*, 1987; Nellis and Kikeri, 1989; Woon, 1991). As forcefully argued by Wilson (1986), "rather than contributing to economic development, public enterprises sat like huge white elephants over the African landscape, voraciously consuming what had been produced by others".

Instead of promoting economic development, interventionist policy strategies left behind a residue of strong central intervention and an extensive and highly monopolistic state sector. While it was possible to underwrite public enterprise inefficiencies with huge subsidies during the immediate post-independence decades, by the 1990s, a host of exogenous and endogenous problems had emerged to constrain the fiscal capacity of the treasury.

In particular, the fiscal crisis of the state, induced by the downturn in the world economy which began in the 1970s and high levels of corruption and inefficiency in the state sector, led to a fundamental re-evaluation of the role of the interventionist development strategy in economic development. There was overwhelming pressure to reduce the role of the state and to sell loss-making public enterprises into the private sector (where it was assumed they would be rehabilitated by being subjected to the discipline of the market). In practice, this meant freeing the public

enterprise sector from the direct controls and regulations of the past three decades.

This consensus received a big boost from the emergence of conservative political leaders in the UK and USA, who, as noted by Turner and Hulme (1997, 183), provided "a radical practical demonstration of how the rolling back process could be done through the privatisation of public enterprises". Donor agencies also lent support to these arguments by arguing that "governments need to do less in those areas where markets work" (World Bank, 1991, 1). In this way, public enterprise sector reforms became key components of the International Monetary Fund and World Bank policy prescriptions.

Zimbabwe embraced these reforms in the early 1990s. This article explores management styles that were employed in Zimbabwe's public enterprise sector during the pre- and post-independence periods. The aim is to provide an empirically based explanation of the contextual forces that led to the transition from interventionism to market-based policy strategies.

#### THE COLONIAL LEGACY

While a new era began in Zimbabwe with independence in 1980, the legacy of the colonial era remained a major determinant factor in Zimbabwe's development initiatives. In fact, most policy initiatives reflect concerted efforts by the new leadership to come to terms with the vestiges of the past.

At independence, the new black government took over a state in which income and wealth distribution were skewed in favour of the foreign element (Seidman, 1986; Chimombe, 1985; Moyana, 1984; Sachikonye, 1986). Herbst (1990, 30) refers to a "bruised but not defeated" settler state which contained "powerful anachronistic elements which were potentially hostile to the political project of the new regime". According to Bratton (1981),

At independence, the ZANU (PF) leadership constituted a thin veneer atop a largely untransformed state apparatus. The cabinet found itself in a fragile position because institutions wholly or partially controlled by groups of dubious loyalty were imposed between the leadership and its popular base (p.452).

As Murapa (1984, 62) notes, 29 000 of the 40 000 civil servants inherited by the new government in 1980 were blacks, with the majority being teachers or clerical assistants. Of the 10 570 Established Officers, only 3 368 were black, with no Blacks holding positions above the senior administrative level. The import of this is that the bureaucracy (as the main policy-implementing organ of the new sovereign state), was yet to

be brought under state control. Under such circumstances, its allegiance to the new state was viewed as questionable.

In the parastatal sector, the new black government inherited a sector that had been principally used as a vehicle for securing the interests of the white community. For instance, during Ian Smith's 1965 Unilateral Declaration of Independence, the parastatal sector acted as a "buffer against the threatening international environment" (Herbst, 1990, 19). Agricultural parastatals were used to subsidise inputs as well as to promote access to credit facilities to white commercial farmers (Rukuni, 1994, 18). The system was so entrenched that for Herbst (1990, 22), it amounted to "socialism for whites".

By the 1950s, the colonial government had enacted comprehensive price controls over large parts of the economy. These interventionist policies benefited white farmers as they set prices for the bulk of their crops, thus guaranteeing the purchase of these crops when they were marketed. In the same manner, manufacturing industries were also protected from the vagaries of the market as they took advantage of protectionist tariffs and the "inexpensive labour provided by the labour reserve system" (Seidman, 1986, 173).

This system reached its pinnacle in the mid-1960s when the Agricultural Marketing Authority (AMA) was established. Legislation required that AMA, through its marketing organs, the Grain Marketing Board (GMB) and the Cotton Marketing Board (CMB), buy the entire crops regulated by the government (Herbst, 1990, 84).

In addition to using controls and subsidies, the colonial state also moved aggressively to develop public enterprises in areas deemed vital to the economy but unattractive to private investors. Thus, by 1945, state enterprises included electrical power stations, the Cold Storage Commission's abattoirs, Cotton Research and Industrial Board (1936) and the Maize Control Board (1937), the Rhodesian Iron and Steel Corporation's foundries and the Sugar Industry Board's Triangle Estate. By the 1970s, state companies like the Zimbabwe Broadcasting Corporation and the Agricultural Finance Corporation were already in existence and in full operation (Stoneman, 1976, 33). By 1980, a parastatal investment portfolio of 20 public enterprises was in existence in Zimbabwe.

In the Zimbabwean agricultural sector, production was largely in the hands of the white commercial sector. Seidman notes that, while the GMB had 27 depots throughout the country before independence, only one in Mrewa specifically served communal sectors. In the financial sector, the institutional structure at independence was such that it offered "relatively little financial or credit facilities to the communal areas" (Rukuni, 1994, 17). In addition, the white community had, through the "constitutional safeguards" in the Lancaster constitution, ensured that

no major changes in the socio-economic structures would be made, at least during the first decade (Nzombe, 1989, 194). Thus, one negative impact of colonial policy in Zimbabwe was that it left behind a "residue of deep-rooted inequalities" in the economy (Moyana, 1984, 85). The blacks, who constituted 75% of the population, only occupied 47% of the land, so that, at independence, the communal lands had a population density of approximately 28 people per square kilometre, compared with 9 per square kilometre in formerly white areas (Bratton, 1994, 72).

In fact, it is these racially-induced imbalances which had been the principal foci of the armed struggle in Zimbabwe. Thus, one daunting challenge facing the new government at independence was to translate liberation ideals into tangible deliverables, such as improved standards of living, greater returns for their labour, better transportation for exporting and marketing their surpluses, easy access to education, adequate water supply, electricity, health-care facilities, and other amenities. These social expectations summed up the mindset of the new nation.

#### PUBLIC ENTERPRISE MANAGEMENT STYLES IN THE POST- INDEPENDENCE ERA

Like its predecessor, the new government of Zimbabwe adopted a highly interventionist development strategy in which public enterprises were used as critical instruments of reversing the vestiges of the past. Within this development model, inherited parastatals, such as the Agricultural Finance Corporation, the Industrial Development Corporation, the Zimbabwe Broadcasting Corporation, and the Grain Marketing Board, were expanded in line with post-independence priorities as enshrined in the first Independence Plan: *Growth with Equity*. The state also used newly created companies, such as the Zimbabwe Mining and Development Corporation and the Minerals Mining Corporation of Zimbabwe, to control mining activities and marketing of minerals. In this way, the state made significant inroads into areas that were deemed critical to economic development.

In the industrial sector, the state took over the Industrial Development Corporation (IDC), which had been established in 1963 and registered as a company. Until 1984, the IDC was 80% state-owned, with 20% private sector investment. In 1984, the IDC Act was amended and the government bought out the 20% private sector share. Through the IDC's rescue operations, the state expanded its ownership into various sectors of the economy such that by 1990, the IDC had 45 wholly or partially-owned subsidiaries under its portfolio of investments.

For instance, the government had shares in the following subsidiary companies: Motec Holdings (100%), Willowvale Mazda Motor Industries

(51%), AMTEC (52%), Chemplex Corporation (100%), Dorowa Mineral (100%), Deven Engineering (100%), Sable Chemicals (21%), National Glass Industries (50%), Zimbabwe Phosphate Industries (100%), Zimbabwe Fertiliser Company (50%) and the Zimbabwe Grain Bag (49%).

Thus, within a decade, the public enterprise sector in Zimbabwe had expanded from its 1980 level of 20 to over 40 by the 1990s, with the majority being monopoly companies in which the state had 100% share ownership. The public enterprise system in Zimbabwe comprised public corporations established through special acts of parliament, state companies incorporated under the private Companies Act with 100% government ownership, and joint ventures with foreign companies. Thus, in terms of primary intents and purposes, public enterprises in Zimbabwe exhibit a variegated mix of regulatory, promotional, developmental and commercial objectives, with proportions of each set of objectives varying according to the nature of the enterprise.

As outlined in the *General Report of the Committee of Inquiry into the Administration of Parastatals* (1989, 5-6), the authority to create a public enterprise in Zimbabwe was the preserve of either the Executive or the responsible minister. A memorandum justifying the need to establish a parastatal was submitted to the responsible cabinet committee before being referred to Cabinet for approval. The memorandum was expected to specify its functions, explain how the parastatal related to other parastatals and any possibilities of overlapping, as well as showing the size and composition of board membership. In practice, however, these procedures were hardly followed in the immediate post independence era. In fact, as noted by the *Smith Report* (1989, 6), the establishment of a public enterprise was "approved without regard" to the fact that existing parastatals or other organisations had functions which might overlap with those of the proposed new public enterprises. For instance, the functions of the Zimbabwe Development Corporation and those of the Industrial Development Corporation overlapped. The general procedure was that, once a public enterprise was established, it was left to the Board of the public enterprise concerned, with some guidance from the responsible ministry, to determine its structure and size of staff. Given such discretion, the Board of the new public enterprise and the Chief Executive would "justify existence" of the public enterprise by "increasing its workforce" (Smith Report, 1989, 8).

### SUBSIDIES POLICY

In these circumstances, public enterprises were invariably subjected to various forms of control. The principal-agent relationship between the state as owner and its parastatals as agents also meant that the state was

statutorily obliged to finance public enterprise operations and make good any of the losses from their operations. What, in effect, emerged was a state-dependent public enterprise sector whose capital base was virtually loan capital. Whether the parastatal sourced funds through either domestic or offshore borrowing, often, there were government guarantees. Consequently, the parastatal system did not motivate management to minimise costs since poorly performing parastatals could be bailed out by subsidies from the treasury.

It should however be noted that, despite these misgivings, a subsidy policy was necessary if the post-colonial state had to achieve its equity objectives of enhancing the welfare of the peasant farmer through the provision of affordable prices to the poor. The subsidies policy was also developmental in that it aimed at ensuring self-sufficiency among the hitherto neglected communal producers. For instance, pricing policies in relation to cotton, beef and dairy production were used to encourage export production and expansion of the national herd, respectively. As noted by Herbst (1990, 104), when threatened with shortages of its staple (maize), the government provided a price high enough to promote increases in production.

In this context, a key feature of public enterprise management in post-independence Zimbabwe was the subsidies policy. In the 1981/82 financial year, subsidies constituted 11.6% of total government expenditure and 24.2% of total tax revenue while subsidies to the agricultural marketing boards totalled Z\$43 million (Seidman, 1986, 46). In the 1982/3 financial year, the government, in an attempt to hold down prices of essential foodstuffs while ensuring a high return to the growers (producers), provided heavy subsidies of Z\$79 million through the Ministry of Trade and Commerce. By 1990, the extent of direct subsidies to the public enterprise sector was as shown in Table 1 below.

As shown in the table, the principal recipients of subsidies and transfers from the government were the Agricultural Marketing Boards through their Agricultural Marketing Authority, the National Railways of Zimbabwe, and Zimbabwe Iron and Steel Company. These parastatals also benefited from hidden transfers such as tax exemptions, access to cheap credit facilities on a government guarantee, and sales by government to public enterprises at below-market prices. This was unfortunate as, in practice, indirect subsidies constitute a major drain on the national fiscus.

To honour its statutory obligations, the Zimbabwe government ended up borrowing heavily from both the external and domestic markets, thus mopping up funds which could have been put to use in productive capital ventures. These supports to the parastatal sector substantially increased government expenditures, culminating in unacceptably high budget deficits which, by 1990, averaged 10% of GDP (*Zimbabwe: Framework for*

Table 1

## TRENDS IN GOVERNMENT SUBSIDIES TO PES 1986-1990 (Z\$ MILLION)

Major PEs in Zimbabwe	1986/87	1987/88	1988/89	1989/90	1990/91
Agri. Mark.					
Boards	166.0	210.0	156.1	160.2	—
GMB	48.1	123.9	80.0	48.9	—
DMB	65.0	43.3	40.0	56.1	—
CSC	49.5	31.2	11.0	37.5	—
CMB	—	11.7	25.0	17.7	—
AMA	3.4	—	—	—	—
NRZ	80.0	100.0	120.0	100.0	255.0
Air Zimbabwe	45.0	39.9	10.0	15.0	9.0
Affretair	15.0	3.0	—	—	—
ZISCO	82.0	100.0	167.0	100.0	100.0
AFC	18.4	4.5	15.0	12.5	—
NOCZIM	—	—	—	—	—
<b>TOTAL</b>	<b>406.4</b>	<b>457.4</b>	<b>468.1</b>	<b>387.7</b>	<b>628.6</b>

Source: Government Framework for Economic Reform.

Table 2

## TRENDS IN PROFITS AND LOSSES (-) OF MAJOR PARASTATALS 1986-1990 (Z\$ MILLION)

Major PEs in Zimbabwe	1986/87	1987/88	1988/89	1989/90	1990/91
Agric. Marketing					
Boards	(-183.0)	-214.8	-193.1	-163.0	166.7
GMB	(-82.9)	(-86.6)	(-71.7)	(-71.8)	(-59.2)
DMB	(-55.6)	(-49.3)	(-51.3)	(-52.2)	(-59.8)
CSC	(-33.4)	(-28.9)	(-36.7)	(18.0)	(-15.2)
CMB	—	—	—	—	—
AMA	-91.7	126.8	-116.7	-117.6	-216.0
NRZ	-25.1	-23.2	-27.1	-10.1	-4.5
Air Zimbabwe	-3.3	—	—	—	—
Affretair	-57.9	-89.4	87.2	-77.6	-80.0
ZISCO	-14.6	-17.9	-16.0	—	—
AFC	-13.4	119.0	112.2	5.9	-106.9
NOCZIM	-11.1	(-50.0)	(-33.4)	(-21.0)	(-15.2)
<b>TOTAL</b>	<b>-389.0</b>	<b>-353.1</b>	<b>-327.9</b>	<b>-362.4</b>	

Source: Government Framework for Economic Reform

*Economic Reform*, 1991). The irony, however, is that, despite these continuous massive infusions of capital, public enterprises generally found themselves capital-deficient.

### PERFORMANCE

While the parastatal sector gobbled up so large a chunk of the national budget in direct and indirect subsidies, its produce as a sector showed "small returns, if any on capital performance of the parastatal sector for the same period" (Zimbabwe Framework for Economic Reform, 1991, 9). The net parastatal performance was as shown in Table 2 above.

As shown in the table above, in most large parastatals, the returns on the portfolio of investment were always negative. In these circumstances, public enterprises ended up depending either on subsidies from government or from domestic and offshore borrowing, further worsening their deficits, since interest on the short-term borrowing was chargeable to the parastatal concerned. By 1987, parastatal performance had sunk so low that a Commission of Inquiry into Parastatals was set up under the Chairmanship of Justice L. G. Smith.

According to the Commission, public enterprise deficits were mainly due to state controls. For instance, prices for parastatal goods and services were determined by executive fiat. Often, they were set below market levels, thus making it difficult for Public Enterprises (PEs) to cover their operating costs. The AMA Report of the Committee of Inquiry into Parastatals sums up government pricing policy as follows:

While government periodically increased prices paid to producers of products like maize, wheat and beef and milk and readily increased wages; usually, government was slow in allowing parastatals to pass on the cost increases to wholesalers and consumers (Smith, 1989, 41).

The cumulative effect of these delays was that most parastatals, for example, Air Zimbabwe, NRZ and ZISCO, received a "deficit on every unit sold" (Smith, 1988, 11) during that time. For the NRZ, it took "26 months from October 1983 for government to approve a tariff increase", while Air Zimbabwe had to wait for "three months before it could adjust its fares" (Smith, 1988 15). In fact, when its requests for a 10% increase, which had been submitted in 1983, was finally approved in 1986, that increase had become paltry because, by 1985, "Zimbabwe currency had been devalued by 53%" (Smith, 1988, 23). When ZISCO applied to the Ministry of Trade and Commerce for a 19% domestic price increase on steel, it took "21 months for the application to be approved and, by then, the company had lost Z\$20 million in potential revenue" (Smith, 1988, 13).

Apart from price controls, public enterprises were required to undertake investments or activities of a social nature, which were not

economically viable. For example, the AFC and the GMB were directed to "avail larger amounts of credit to peasants" and to "ensure national food security through its strategic grain reserves", respectively (AMA, 1987, 13). As a result, the GMB, as a residual buyer, incurred huge losses requiring huge subsidies from government. Furthermore, export prices were lower than what the GMB paid producers, while the price at which GMB imported was higher than the price at which it sold to millers. Since their capital base largely consisted of loans, this meant a subsequent heavy burden of debt service on the parastatals concerned.

In this situation, management often argued that poor parastatal performance was due to circumstances beyond their control. There were structural constraints on PE Boards' discretion to invest, purchase, hire and fire, coupled with inadequate internal financial control systems and external monitoring systems for PEs. In such an administrative regime, managers could not be rewarded or penalised according to their performance. In fact, the system did not motivate management of PEs to provide quality products and services.

While it had been possible to underwrite public enterprise inefficiencies with huge subsidies in the early 1980s, during the 1990s, a host of social, political and economic problems had emerged to constrain the fiscal capacity of the treasury. On the international scene, the pro-reform winds emanating from the World Bank and the International Monetary Fund were sweeping across Africa and the entire world. On the local scene, the budget deficit was no longer sustainable and calls to embrace liberalisation were even heard within government and ruling party circles. Reeling under these pressures, the Zimbabwe government, though still nursing nostalgic feelings about scientific socialism (Lehman, 1992, 15), had no option but to adopt *public enterprise sector reforms*.

### MARKET-BASED MANAGEMENT POLICY

The Zimbabwe Government embarked on Public Enterprise Sector Reforms in 1991 as part of a broader Public Sector Reform initiative under the Economic Structural Adjustment Programme. As outlined in the *Zimbabwe: A Framework For Economic Reforms (1991-95)* and the *Zimbabwe Programme For Economic and Social Transformation (ZIMPREST)*, public enterprise sector reforms in Zimbabwe sought to improve the macro and micro contexts of the public enterprise sector by removing restrictions that prevailed within the policy environment and at enterprise levels. The liberalisation and the deregulation of the policy framework are, therefore, central features of the new management orthodoxy.

The new consensus was that the budget deficit, which in 1990 was pegged at 10% of GDP, largely originated from loss making public

enterprises. As inefficient monopolies, public enterprises required huge transfers of resources from the government in the form of subsidies. As a result, subsidies were to decline so much that, by 1995, commercialised PEs would not be receiving any budgetary support (*Zimbabwe: The Economic Framework*, 1991, 5). Indirect subsidies, such as import duty exemptions, concessional loans, and government guarantees on commercial bank loans were also to be gradually phased out. The government was however expected to subsidise losses that were a result of social or policy obligations.

In addition, commercialised and privatised companies were expected to pay taxes to the government, thus improving government net revenue. This, as policy initiators argued, would, in turn, reduce government's propensity to borrow from the domestic market, resulting in the release of more funds towards productive ventures. Government revenue, as further argued, would also be boosted through the sale of government shares or whole companies to the public. The new policy measures also sought to improve operational viability in the public enterprise sector through a cocktail of micro level measures including operational, organisational, and managerial restructuring. To make this possible, the government was to relax its direct controls on the operations of PEs, thus giving more autonomy to parastatal boards and management in micro decision making in areas such as price setting, investment, hiring and firing. This was meant to expose the companies concerned to competitive commercial discipline.

Given the inherited racially induced skewed ownership patterns, low savings and weak collateral bases, one critical concern of this programme was to ensure the economic empowerment of the hitherto disadvantaged indigenous groups (blacks). The policy ideal was to institute defensive mechanisms and legal instruments to enforce compliance with such national concerns. It should however, be noted that the first policy document (*Zimbabwe: A Framework for Economic Reforms*, 1991-95) makes no explicit reference to indigenisation. While the concept features in a relatively detailed way in the second policy document (ZIMPREST, 1996-2000), policy strategies are however, not clearly described. As stated in this policy document, the rationale for indigenisation arose from the observation that:

The foreign component of the private sector dominates 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 (Zimprest, 1996-2000, 1).

## POLICY STRATEGIES

As is evident from *Zimbabwe: A Framework for Economic Reform* (1996-2000, 12), the reform programme sought to achieve its goals through a mix of policy options, which included the sale of shares, sale of assets, leasing, and contracting out of non-core activities. The sale of shares usually takes various forms. It may be public or private. Where the public floatation strategy is adopted, the state sells the equity of the enterprise to the public through the formal capital market/stock exchange. The equity may be offered at a fixed price or on a tender basis. The shares can be marketed internationally or domestically. The public sale may entail the selling of the entire or partial entity.

While public floatations have the potential to widen share ownership, to generate short-term revenue gains to the government and to attract foreign investors, they however, require well developed local stock exchange and equity markets. Even where these conditions prevail, privatising directly through the stock exchange has the risk of further marginalising indigenous groups, who, due to low savings and weak collateral, may not afford to buy shares that are floated to them. Another major drawback of this option is that there are huge costs to be borne by the state in the form of fees charged by professional advisors and underwriters involved in the pricing and valuation of state assets.

Where the private sale option is adopted, it involves the sale of all or part of the shareholding in a public enterprise to a single purchaser or a group of purchasers. The sale may be by private placements with institutional investors or a trade sale to other private sector companies. Private sales can be negotiated by competitive bidding or by negotiation with potential buyers. Where there is already a vibrant private sector in place, the government may simply sell its shareholding to the existing private shareholders.

While private sales do not require developed stock and capital markets and allow governments to identify the buyer, there is, however, the risk of underpricing state assets especially where the government deals with a single buyer. Private sales are also very vulnerable to self-seeking pursuits by some government officials. In such situations, there is the two-pronged danger of increasing wealth concentration and reducing competition. The investors may also demand warranties from government such as tax concessions, high rates of protection and incentive mechanisms to allow them to recover their total investment in extremely short periods. Ndongko (1991, 105) cites the case of a Togolese steel mill company that was leased to a private foreign entrepreneur. The new investor demanded a protection rate of 41% and tax-free importation of all raw materials. The lessee ended up paying a paltry fee of US\$175; a

fraction of the interest charges which the government of Togo continued to pay on the planned investment.

Where Management Buyouts (MBOs) are adopted, they involve the managers of the enterprise acquiring a controlling shareholding in the enterprise. These can also be in the form of employee buy-outs. Such arrangements are however, ideal where the government wants to reduce the risk of ownership passing into foreign control. MBOs also ensure continuity of the management of the enterprise. However, their effectiveness depends on the easy availability of financial institutions willing to lend to management and employee investors. They are therefore best suited to those companies with favourable cash flow positions.

Under the contracting-out arrangement, a private sector contractor assumes responsibility under a contract for providing a specified level and quality of public services for a fee. The main objective is to obtain the most cost-effective delivery of the service. Competitive tendering is usually used by inviting tenders from both public and private sectors. While such arrangements have the advantage of ensuring government ownership of assets and the control of service provided, there is the risk of disrupting service supply and, sometimes, there are problems in monitoring quality of service supplied. Contracts usually do well where there are autonomous regulatory agencies to monitor the activities of these new companies (Usman, 1993).

Where the government adopts leasing and franchising policy options, a private operator leases assets or facilities owned by the government and uses them to conduct business on its own account (*Commonwealth Secretariat*, 1991, 39). The lease specifies the conditions under which the lessee can operate the assets and specifies the payments to be made to the government. One important characteristic of this arrangement is that the lessee assumes full responsibility for the commercial operation of the assets and, at the same time, has full control over the operation of the assets or facilities, subject to any maintenance and repair conditions specified in the contract. Leases and franchises also ensure guaranteed payment, irrespective of enterprise profitability.

### IMPLEMENTING REFORMS

Reforms in Zimbabwe were undertaken in two distinct phases (1991-95 and 1995 to date), with *commercialisation/ privatisation* and *indigenisation* constituting major policy features of the two phases, respectively. Another contrasting feature of the two phases is that, while the first phase was relatively less visible, the second phase tended to be more lively, political, and contentious. This mainly stems from the fact that indigenisation programmes are, basically, re-distributive in outlook. They involve the

balance sheet restructuring. This entails assessing the assets and liabilities of the enterprise earmarked for commercialisation (Luke, 1988, 169). Balance sheet restructuring is important given that poor financial performance of the public enterprise sector is usually a result of internal factors such as inept management and use of PEs as conduits to fulfil social and political objectives of government. In this case, it is imperative that policy implementers distinguish such extra burdens, which are likely to deprive PEs of a level playing field.

Balance sheet restructuring is a complex exercise which involves business strategies such as reorganisation of existing businesses, determination of current and potential inflows, hiving off some of these controls, and the determination of core business (Pande, 1994, 40). Asset restructuring presupposes a detailed business plan both in the medium-term and in the long-term perspective. The divestment of non-core business, either as assets or preferably after being incorporated as a separate company, are to be decided at this stage.

In Zimbabwe, the NRZ was among the first state companies to undergo organisational and operational restructuring. Its restructuring concentrated on shedding of non-core activities such as the Road Motor Services (World Bank, 1995, 109). Restructuring also entailed retrenchments (cutting the workforce by about 3%), tightening of staff supervision, improvement of management information systems, filling critical job vacancies, and increasing security to reduce cases of theft.

While the World Bank Report (1995, 13-17) was quick to declare this restructuring exercise a "success story", its performance in the ensuing years did not give credence to these claims. As revealed in the *ZIMPREST* (1998, 4) policy document, the NRZ was, by 1998, among those state companies which "contributed to the bulk of the losses". The *Financial Gazette* (21 August 1997) also notes that, in the 1995/96 financial year, the NRZ had incurred a deficit of \$192 million, an increase of \$106 million on the \$86 million deficit in the 1994/95 financial year.

### **Reforms in the agricultural parastatal sector**

The agricultural sector in Zimbabwe is, to date, among those sectors that have experienced significant commercialisation. Cases in point are the Dairy Marketing Board (DMB), the Cold Storage Commission (CSC), and the Cotton Marketing Board (CMB). These were subjected to extensive restructuring to achieve efficiency-oriented initiatives. The government also made an undertaking to take over their debts of approximately \$4 billion (*ZIMPREST*, 1998, 107).

These agricultural marketing boards had, by the end of the first phase, been moved from the Public Act of Parliament and incorporated under the Companies Act thereby becoming fully commercialised public

balance sheet restructuring. This entails assessing the assets and liabilities of the enterprise earmarked for commercialisation (Luke, 1988, 169). Balance sheet restructuring is important given that poor financial performance of the public enterprise sector is usually a result of internal factors such as inept management and use of PEs as conduits to fulfil social and political objectives of government. In this case, it is imperative that policy implementers distinguish such extra burdens, which are likely to deprive PEs of a level playing field.

Balance sheet restructuring is a complex exercise which involves business strategies such as reorganisation of existing businesses, determination of current and potential inflows, hiving off some of these controls, and the determination of core business (Pande, 1994, 40). Asset restructuring presupposes a detailed business plan both in the medium-term and in the long-term perspective. The divestment of non-core business, either as assets or preferably after being incorporated as a separate company, are to be decided at this stage.

In Zimbabwe, the NRZ was among the first state companies to undergo organisational and operational restructuring. Its restructuring concentrated on shedding of non-core activities such as the Road Motor Services (World Bank, 1995, 109). Restructuring also entailed retrenchments (cutting the workforce by about 3%), tightening of staff supervision, improvement of management information systems, filling critical job vacancies, and increasing security to reduce cases of theft.

While the World Bank Report (1995, 13-17) was quick to declare this restructuring exercise a "success story", its performance in the ensuing years did not give credence to these claims. As revealed in the *ZIMPREST* (1998, 4) policy document, the NRZ was, by 1998, among those state companies which "contributed to the bulk of the losses". The *Financial Gazette* (21 August 1997) also notes that, in the 1995/96 financial year, the NRZ had incurred a deficit of \$192 million, an increase of \$106 million on the \$86 million deficit in the 1994/95 financial year.

### **Reforms in the agricultural parastatal sector**

The agricultural sector in Zimbabwe is, to date, among those sectors that have experienced significant commercialisation. Cases in point are the Dairy Marketing Board (DMB), the Cold Storage Commission (CSC), and the Cotton Marketing Board (CMB). These were subjected to extensive restructuring to achieve efficiency-oriented initiatives. The government also made an undertaking to take over their debts of approximately \$4 billion (*ZIMPREST*, 1998, 107).

These agricultural marketing boards had, by the end of the first phase, been moved from the Public Act of Parliament and incorporated under the Companies Act thereby becoming fully commercialised public

companies, although they were 100% state-owned. In line with their new legal status, the Dairy Marketing Board (DMB) became Dairiboard Zimbabwe Limited (DZL), the Cotton Marketing Board (CMB) became the Cotton Company of Zimbabwe (Cottco) and the Cold Storage Corporation (CSC) became the Cold Storage Company (CSC).

Deregulation in this sector liberalised the buying and processing of milk, the buying and ginning of cotton, and the buying and processing of livestock meat. For example, the deregulation of the cotton industry in 1994 saw the scrapping of the CMB monopoly in the buying and selling of lint on the local market. This opened the cotton sector to two competitors, Cotpro (owned by the Commercial Cotton Grower's Association) and Cargil (a subsidiary of the giant Cargil International). By 1996, Cotpro catered for 30% of growers nationwide. With its main ginnery in Triangle, its catchment zone spread from the Lowveld to the Midlands, Hurungwe, and Makonde districts, through to Guruve, Dande, Muzarabani, Mount Darwin, Chesa, Mazoe Valley, and the Umfurudzi resettlement area. Cargil, on the other hand, has interests in several African countries (such as Malawi, Nigeria, and Tanzania). In Zimbabwe, Cargil operates Chegutu and Tafuna ginneries, which it acquired from the Cotton Company of Zimbabwe.

### **Impact of phase one reforms**

While a considerable amount of time was spent during the first phase undertaking diagnostic studies of all major parastatals with the objective of coming up with instruments to effect the policy of restructuring and commercialisation of PEs, by the end of this phase, "the fundamental conditions for the inefficiency and ineffectiveness of the PEs working in a sluggish bureaucratic maze of environment were left intact" (*ZIMPREST*, 1998, 106). In fact, until 1994, the restructuring of PEs consisted mainly of changing institutional structures and systems, price adjustments, and tariff increases to reduce operational losses. By the end of 1995, none of the PEs in Zimbabwe were ready yet for privatisation.

Although the main goal during the first phase was to restructure or rationalise the operations of PEs, creating sound financial systems proved to be very difficult. The public enterprise sector's privileged access to the budget, credit system, tariffs, special tax status and regulatory protection was not significantly curtailed. The first phase resulted in modest reductions in the aggregate PE sector financial deficit. Net losses for 1993/94 were Z\$648 million, while, for the previous year 1992/93, net deficits amounted to Z\$4 707 million (*ZIMPREST*, 1998, 108). PEs such as the NRZ, GMB, CSC, CMB and ZISCO continued to pose a drain on the budget, as they incurred total losses of Z\$1,753 million in the first phase of the reform programme. As further noted in the *ZIMPREST* policy document, public enterprise sector performance "deteriorated

significantly" during the reform phase (*ZIMPREST*, 1998, 4). Losses amounting to \$2 billion and \$1.8 billion were incurred during the 1993/94 and 1994/95 financial years respectively. While these losses may have been internally induced, in the majority of cases, they were largely due to government control systems, which, by the end of 1995, were still intact. Most PEs operated under their traditional enabling Acts. In these circumstances, the government continued to exercise direct controls on pricing, investment, hiring and firing.

In its assessment of progress during the first phase, *ZIMPREST* (1998) concluded:

As a whole the first phase of reforms affected changes in the operations of the PEs, it left out the most important ingredient of reform, that is, the delegation of autonomy to run these organisations in a competitive environment. Even those PEs like the DZL, Cottco and CSC which had been allowed commercialisation status, had their hands tied by government (p.107).

As is evident from this statement, the legal and institutional frameworks governing PEs in Zimbabwe up to the end of the first phase (1995) imposed constraints on the achievement of public enterprise viability. Of particular concern was the legislation governing labour, investment, borrowing, reporting, and public procurement. The problem, as revealed in *ZIMPREST* was that:

From the point of view of alleviating the budget deficit, parastatals were urged to compete effectively and turn out profit, while from the administration viewpoint, parent ministries continued to regard their PEs as coming under the previous Acts of Parliament governing the former Boards (p.109).

In fact, when the first phase ended, all the parastatals in Zimbabwe were governed by their respective Parliamentary Acts. The PEs that had been subjected to rationalisation under the rubric of commercialisation and registered as private companies under the Companies Act were still administered under the Acts of Parliament. The designation of heads of PEs in most cases remained those of General Manager or Director, as enunciated in the relevant Parliamentary Acts.

Public enterprises were not allowed to change their structures without clearing with the parent ministry and the State Enterprises Advisory Committee. For instance, the positions of General Managers and Deputy Managers were designated posts whose salaries and appointments were cleared through the State Enterprise Advisory Committee of the President's Office. While designated employees were free to choose contracts or general conditions of employment, their annual increments for salaries and wages had to be approved by the relevant ministry. Thus, the parent ministry still wielded considerable direct control over the management of PEs in Zimbabwe. The Minister, in consultation with the

President, appointed Boards of Directors, while the ministry fixed the Board fees and sitting allowances. All Boards of Directors required Cabinet Authority obtainable through the relevant parent ministry before undertaking foreign travel on official business.

While the disposal of assets such as the grain and slaughter depots and other fixed capital assets were undertaken by public tender, they however had to be cleared with the relevant parent ministry, who, in turn, sought the clearance of the Ministry of Finance. Where organisational restructuring resulted in staff retrenchment, the retrenchment proposals and severance packages were first cleared with the parent ministry. The traditional bureaucratic delays in the processing of such tenders inevitably set in.

In fact, at the end of the first phase of the reform programme in Zimbabwe, there was a huge backlog in terms of the goals of this phase. As shown in Table 3 below, by 1998, most parastatals in Zimbabwe still had their enabling Acts unrepealed.

*Table 3*  
TIME TABLE FOR COMMERCIALISATION AND PRIVATISATION OF PES  
IN ZIMBABWE

PE	Ministry	Cabinet Decision	Current Status	Legal Framework
1 Delta	Finance	Disposal of the shareholding in Delta	Government has 6% share holding	Corporate Company
2 ZIMRE	Finance	To reduce Government shareholding from 100% to 20%	100% government-owned	ZIMRE Act
3 CBZ	Finance	To reduce government shareholding from 100 to 20%	Privatised with 20 % government shareholding	Banking Institution
4 ZDB	Finance	Repeal ZDB Act and incorporate it as a Development Bank	Government owns 33% shares	ZDB Act

Table 3 (Cont)

PE	Ministry	Cabinet Decision	Current Status	Legal Framework
5 FINHOLD	Finance	Reduce government shareholding from 48.79% to 20%	Banking Institution	Registered Banking Institution
6 ASTRA	Finance	Sell RBZ shareholding to the indigenous sector	Corporate Company owned 80% by RBZ	Registered Companies Act
7 Department of Printing and Stationery	Ministry of Finance	Seeking cabinet decision on commercialisation	Government Department	A trading Fund under the Audit and Exchequer Act
8 Office of the Commissioner of Insurance and Pension Industry	Finance	Seeking Cabinet decision on the establishment of a regulatory and Supervisory Authority of the Industry Insurance and Pension Industry	Government Department	Division within the Ministry of Finance
9 ZIC	Finance	To remain under government	Currently 100% Government-owned and funded	(not indicated)
10 ARDA	Lands and Agriculture	Commercial estates to operate as 100% owned by gvt while development activities to come under the Act	Parastatal	ARDA Act which is to be amended to reflect separation of ARDA into commercial and Developmental Division

Table 3 (Cont)

PE	Ministry	Cabinet Decision	Current Status	Legal Framework
11 AFC	Lands and Agriculture	To split into AGRIBANK (operating under Banking Act and Development Finance Agency)	Parastatal	AFC Act to be amended
12 GMB	Lands and Agriculture	Strategic Grain Reserves to remain under the Act while Grain Trading is to be commercialised	Parastatals	GMB Act
13 DZL	Lands and Agriculture	To be privatised and promote wide share ownership in the process	Privatised with Government owning 25% of the share	DMB Act
14 Cottco	Lands and Agriculture	To be privatised	100% owned by Government.	CMB Act
15 CSC	Lands and Agriculture	To be privatised	100% owned by Government	CSC Act
16 Pig Industry Board	Lands and Agriculture	To be privatised	Parastatal	PIB Act
17 Tobacco Research Board	Lands and Agriculture	To be privatised	Parastatal	TRB Act
18 Tobacco Marketing Board	Lands and Agriculture	To remain a parastatal	Parastatal	(not indicated)
19 NRZ	Transport and Energy	To separate permanent away from rolling stock	Parastatal	(not indicated)

Table 3 (Cont)

PE	Ministry	Cabinet Decision	Current Status	Legal Framework
20 ZESA	Transport and Energy	To commercialise ZESA and to introduce independent power procedures at generation level and distribution to a bulk point	Parastatal	ZESA Act
21 Air Zimbabwe	Transport and Energy	To commercialise prior to privatisation after two years	100% government-owned	(not indicated)
22 Affretair (Pvt) Ltd	Transport and Energy	To resuscitate prior to privatisation	100% government-owned	Companies Act
23 NOCZIM	Transport and Energy	To remain 100% government-owned	100% government-owned	Companies Act
24 CMED	Transport and Energy	To commercialise	100% government-owned	Fund
25 ZSTC	Industry and Commerce	To be sold to indigenous enterprises	Parastatal	ZSTC
26 SEDCO	Industry and Commerce	Cabinet has approved part of privatisation involving selling 49% of shares to private investors in order to capitalise it	Parastatal	SEDCO Act amended to allow private shareholders

Table 3 (Cont)

PE	Ministry	Cabinet Decision	Current Status	Legal Framework
27 ZDC	Industry and Commerce	ZDC to spearhead development at Growth Points and other small centres. However, Ministry of Industry is proposing that ZDC be dissolved and subsidiaries be disposed of	Parastatal	ZDC Act
28 IDC	Industry and Commerce	IDC old investments to generate capital to support new investments	Parastatal	IDC Act
29 CPA	Industry and Commerce	To be wound up	A parastatal	(not shown)
30 SDF	Public Service Labour and Social Welfare	No decision has as yet been made. PSC has recommended commercialisation	A Fund	(not shown)
31 ZISCO	Industry and Commerce	To be partly privatised	100% government-owned	ZISCO Act
32 ZTA	Mines Environment and Tourism	Developmental activities to continue under Act while commercial ZTDC to be a shareholder in hotels with other partners	Parastatal	Tourism Act of 1995

Table 3 (Cont)

PE	Ministry	Cabinet Decision	Current Status	Legal Framework
33 Forestry Commission	Mines Environment and Tourism	To be separated into two entities; a developmental arm under Act and a commercial forestry commission	Parastatal	Forestry Commission Act
34 Rainbow Tourism	Mines Environment and Tourism	To be commercialised prior to privatisation	100% government-owned	Companies Act
34 Rainbow Tourism	Mines Environment and Tourism	—	Semi public enterprise	Government Department

Source: ZIMPREST, 1998, 51-53.

### THE SECOND PHASE

While the second phase is officially associated with the year 1996, there was, however, no full-scale privatisation until 1997. For instance, attempts to conclude the ZESA-YTL (Malaysia) private sale in 1995 had not only generated nationwide protest, but it also resulted in the dismissal of the entire board of directors under the chairmanship of Solomon Tavengwa. It should also be noted from the outset that, while privatisation and indigenisation took centre stage during this phase, these programmes however, ran concurrently with commercialisation.

The term *privatisation*, as used in this context, is in the restricted or structural sense of ownership transfer and refers to the sale/transfer of ownership from the public (government) to the private (individuals/local and foreign investors) and institutions (local companies and multinational companies).

This phase was more lively and contentious than the first phase for a number of reasons. Indigenisation ideals demand equity, fairness, transparency, and accountability in any privatisation processes undertaken. Secondly, ownership transfers (especially of state-owned entities) impact on issues of sovereignty. There are deep-rooted fears that such transfers may result in foreign control of the commanding heights of the economy, thereby reversing independence gains. The policy

debates that ensured among civil societal groups, key stakeholders, and the state should be understood within these contexts.

From 1996 to 1998, reform implementation was undertaken without any legally constituted privatisation plan of action. Policy implementers relied on conflicting official statements that were, occasionally, issued by the Department of State Enterprises responsible for indigenisation and the National Economic Planning Commission. Consequently, programme implementation, generally, remained behind schedule, with only five out of an investment portfolio of over 40 state companies having been privatised by 1999. These are the Dairiboard Zimbabwe Limited (DZL), the Cotton Company of Zimbabwe (Cottco), the Commercial Bank of Zimbabwe (CBZ), the Zimbabwe Reinsurance Company of Zimbabwe (ZIMRE) and the Zimbabwe Tourism Group of Companies.

### The DZL case

The DZL was born through the commercialisation of the former Dairy Marketing Board in July 1994. It was the first state owned enterprise to be privatised and listed on the Zimbabwe Stock Exchange. It was privatised through a public sale of 336 661 000 government shares to the public (individual and institutional investors). A consortium of three merchant banks, namely the Barclays Merchant Bank, the Trust Merchant Bank, and the Heritage Investment Bank assisted in this privatisation programme (*Zimbabwe Independent*, 23 May 1997). Share distribution structure was as shown below:

Table 4  
SHARE DISTRIBUTION STRUCTURE

Category of Shareholder	No. of Shares	Percentage
Public (Individual Investors)	50 492 000	15
Technical Partner	33 661 000	25
Small Scale Producers	16 831 000	5
Employees (DZL)	33 661 000	10
Large Scale Producers	33 661 000	10
National Investment Trust	33 661 000	10
Government	33 661 000	25
<b>Total</b>	<b>33 661 000</b>	<b>100</b>

Source: DZL Prelisting Document, 1997

The share offer opened on June 16 and closed on June 27 1997, with shares selling at an affordable price of \$1,20. This offer raised well over

Z\$840 million, having attracted around 27 000 applications from individual investors (*Financial Gazette*, 3 July 1997). Individual investors were offered a 15% equity in the company, which translates into 50 492 000 shares with a net value of Z\$60 million. In fact, the share offer was over-subscribed, with about 26 000 applicants being turned down. This over-subscription may have been due to the low price of the shares (sold at \$1,20 each) as well as the massive publicity mounted on DZL's privatisation (which included radio announcements in the vernacular languages of Shona and Ndebele). It may also be explained as a demonstration of public confidence in the DZL as an entity.

DZL employees negotiated the acquisition of 10% of the shares through the Dairiboard Employees Share Ownership Trust. The National Merchant Bank (NMB) facilitated the deal through its corporate finance division, which acted as the advisors to the Dairiboard employees (*Sunday Mail*, 13 July 1997). The DZL employees, with the assistance of the NMB, established the Dairiboard Employees Ownership Trust as an autonomous organisation representing all employees in the negotiation process.

### The Cottco case

Preparations for the privatisation of the Cotton Marketing Board were in progress by July 1997. The process kicked off with the preparation of a privatisation prospectus, with the over-the-counter 350 million share offer finally taking place between 30 September and 17 October 1997 (*Sunday Mail*, 13 July 1997). Z\$620 million was raised during the process. These shares, which were selling at 110 cents per share, were offered to employees of the company, cotton growers, individual and institutional investors of Zimbabwe, giving them an opportunity to acquire 75% of the company's off loaded shares. The entire share distribution structure was as below:

Table 5  
SHARE DISTRIBUTION STRUCTURE

Type of Investor	Shares Offered
Small-scale Cotton growers (shares warehoused by NSSA)	20%
National Investment Trust (NIT)	10%
Large-scale Cotton Growers	10%
General Public	15%
Institutional Investors	15%
Employees	5%
Government	25%
<b>Total</b>	<b>100</b>

Source: Cottco Prospectus, 1998, p5.

The privatisation of Cottco was subsequently followed by its listing on the Zimbabwe Stock Exchange, with most financial institutions warehousing its shares. By March 1999, at least 80 million of the Cottco shares worth about \$120 million had been traded on the stock exchange at prices fluctuating between \$1,35 and \$1,48 per share. The share price appreciated by about 50% during this period. In fact, the Cottco price closed at \$1,48 on 2 March 1999, having appreciated by 75% from their 1997 level (*Business Herald*, 4 March 1999).

While these two privatisation cases present a somewhat successful indigenisation through privatisation, on the whole, the implementation of the Zimbabwean Indigenisation Programme has been severely constrained by the absence of a coherently defined indigenisation policy document. It took almost eight years for the Zimbabwean government to come up with a policy document to guide the implementation of this programme. The Indigenisation Policy Document that was finally adopted in 1998, apart from being long overdue, was generally viewed as lacking in coherence. The policy document does not provide an explicit programme of action. Neither are its policy strategies comprehensively defined. There are no clearly stipulated defence schemes for ensuring the economic empowerment of the indigenous groups. Its legitimacy as a policy statement has also been curtailed by the absence of constitutional provisions to back up the Zimbabwean Indigenisation Programme. In the absence of such legal provisions, programme implementation has tended to be *ad hoc*, poorly co-ordinated, opaque and indeed vulnerable to political manipulation by self-seeking politicians and top civil servants.

### **The PTC saga**

Attempts to open Zimbabwe's communication and information sectors to private participation through the tendering processes resulted in a series of court litigations between responsible ministries and the would-be investors. The PTC case best captures these issues.

In the case of the PTC, the responsible ministers interfered with the operations of the Tender Board, thus depriving the Government Tender Board (GTB) of its operational autonomy. In most cases, the adjudication processes were manipulated to suit favoured tenderers. One such case is the long drawn-out court case between one local businessmen, Strive Masiyiwa, representing Enhanced Communications Networks (Econet), and the then Minister of Information, Joyce Mujuru. The centre of controversy was the government decision to award the country's first private cellular phone licence to a consortium of black businessmen, including President Mugabe's nephew, Leo Mugabe, and a foreign firm called Telecel. As this PTC saga unfolded, the then chairman of the GTB, Stanley Mahlala, disclosed that the Cabinet Secretary, Charles Utete, had

ordered him to award the second cellular tender to Telecel, in contravention of the board's own resolution (*Zimbabwe Independent*, 23 May 1997).

In 1997, the PTC saga took a new twist when the Retrofit and the Enhanced Communication Network (Econet) served the then Tender Board chairman, Phibian Mashingaizwe, with a High Court Provisional order restraining the board from proceeding with the adjudication of the cellular telephone tender. Kantor and Immerman served the interdict. This High Court order restrained the PTC Board and the Minister of Information, Posts and Telecommunications from "processing further, or from suffering or permitting any other agency of government in the procurement process, from proceeding further on the public tender . . . which closed on February 9, 1995" (*Financial Gazette*, 30 November 1997).

In June 1997, the then Minister of Information, Posts and Telecommunications, Joyce Mujuru, admitted that the award of a second cellular phone network licensing (Network Two) to Telecel Zimbabwe was "flawed" and immediately called for tender re-evaluation (*Financial Gazette*, 5 June 1997). In an affidavit filed in the High Court, the minister asked the GTB to carry out a reappraisal of the evaluation. The minister responded thus:

In the light of the extraordinary revelations of the tender board, I do not oppose the claim for an order that the award of the licence to Telecel should be set aside. While I concede that the tender process has been deficient, I cannot accept that this automatically entitles the applicant to the second licence. I respectfully submit that the additional new facts presented in this affidavit necessitate a reappraisal of the evaluation of all the tenders by a reconstituted tender board (*Financial Gazette*, 5 June 1997).

These scenarios suggest that divestiture processes are, by their very nature, highly political. As transfer processes, they inevitably invoke normative issues of justice, transparency, and accountability.

It is also interesting to note that, while the government had by 1996 made a policy decision to establish a National Investment Trust (NIT), by October 1998, this decision had not yet been translated into action. The idea of NIT originated from the need to warehouse some shares on behalf of the indigenous groups. Its establishment was delayed by lack of credible budgetary support. For instance, its 1997/98 vote of Z\$200 million, apart from being too meagre, was "diverted to meet other unbudgeted-for government expenditures" (*Herald*, 1 October 1998).

### **The Privatisation Agency of Zimbabwe (PAZ)**

The PAZ was established at the end of 1998 with a \$120 million cash injection from the British government (*Financial Gazette*, September 16-22 1999). It, however, became fully operational in September 1999.

Its establishment was a result of protracted lobbying by civil societal groups for an autonomous and professionally-run body, to be involved, among other things, in evaluating parastatals earmarked for sale, deciding how best the disposal should be handled, assessing the legal environment and other aspects of privatisation. The creation of such an agency was imperative given that in 1998, parastatals had made a total loss of \$11 billion, that is 15% of the national budget (*Herald*, October 19 1999).

The PAZ took over the responsibilities that were, initially, undertaken by over ten state institutions (such as the National Economic Planning Commission, the Inter-ministerial Committee on Privatisation, the Department of State Enterprises and Indigenisation, the President's Office, and other ministries responsible for parastatals). Cephas Msipa, the then Minister of State responsible for public enterprises and indigenisation, outlined the *modus operandi* of the new agency as follows:

ministries would forward to the agency the names of those state-companies to be privatised and the agency would do the rest of the work. This eliminates delays which were previously experienced due to the submission of incomplete privatisation proposals to the inter-ministerial committee (*Herald*, 22 October 1998).

By September 1999, the PAZ had already received privatisation proposals for the CSC, with the privatisation of the Rainbow Tourism Group (RTG) in progress. It was also earmarking the following state companies for sale: the National Railways of Zimbabwe (which made a loss of \$700 million in 1998), the Forestry Commission (which was by 1999 saddled with a \$50 million overdraft), and the heavily borrowed Zimbabwe Iron and Steel Company (*Zimbabwe Independent*, October 8, 1999).

On October 11 1999, the RTG became the fifth state-company to offer its shares to the public and the first to by-pass the "over-the-counter" route (*Financial Gazette*, October 14-20, 1999). This share offer, which was expected to raise \$444,7 million (US \$11,7 million, was open to the public up to 22 October 1999).

The government retained 30% stake, while 35% was for a strategic partner (yet to be selected), 20% for the public (namely, individual and institutional investors), 10% for the National Investment Trust, and 5% for the employees. RTG employees succeeded in raising \$30 million, which was required to claim the five-percent employee share offer (*Herald*, October 14, 1999).

## CONCLUSION

While the establishment of the PAZ is indeed a welcome development, the agency's operational effectiveness is constrained from the onset by

the absence of a privatisation law. Without such a legal framework, the PAZ can not make binding monitoring decisions.

Another issue of concern is its location. Like the ten predecessor state institutions already mentioned, the PAZ is located in the Office of the President. While this may strengthen policy decisions emanating from this agency, such centralisation may work against it. In particular, the location factor may rob this institution of the much needed accessibility, decisional autonomy, transparency, and accountability. In such circumstances, professionalism, the fundamental value on which it is supposed to operate, may be severely compromised.

As argued by a spokesman for the Zimbabwe National Chamber of Commerce (ZNCC),

The operational structure of the PAZ is very defective. The body is not autonomous as it reports to the President's Office and not Parliament. When it was formed, no consultations were done with the stakeholders outside Government and, as such, key stakeholders are not represented (*Sunday Mail*, November 5, 2000).

The Agency's autonomy is very crucial if the risk of partisan interest taking precedent over national concerns is to be reduced. One way out of this impasse is to create a legal framework for the PAZ. This framework must spell out its specific mandates and how it relates with other organs of the state. Without these requisite conditions, the creation of the PAZ will remain meaningless.

The need to address these anomalies is urgent, given the current *ad hoc* and knee-jerk approaches to reform implementation in Zimbabwe. For instance, while this reform programme is almost at the tail end of its second phase, very little has been covered in all its three major policy strategies: commercialisation, privatisation, and indigenisation. Those state companies that have been exposed to commercial discipline have not been accorded the requisite institutional autonomy as their enabling Acts are largely in place. Referring to the issue of indigenisation in Zimbabwe, the chairman of Africa Resources Limited observed:

The government has not been speaking with one voice on this defining issue and the private sector has also used this lack of clarity by Government to do nothing. The Government talks of empowering people but there is nothing on the ground to push this agenda forward and this unfortunately creates an impression that the Government is not serious about privatisation and empowerment (*Sunday Mail*, November 5, 2000).

In the absence of an indigenisation policy framework with clearly spelt-out procurement procedures (as the PTC saga testifies), tendering processes inevitably fall victim to clientelist interests, posing a potent threat to the achievement of broad-based ownerships.

It is also disquieting that, despite the transition to market-based management styles in the public enterprise sector, parastatals continue to register losses. For instance, in 1998, these losses were to the tune of Z\$11 billion, with the National Oil Company of Zimbabwe, Zimbabwe Electricity Supply Authority, Grain Marketing Board, Zimbabwe Iron and Steel Company, and Post and Telecommunications Corporation, being major loss-making entities. Of crucial concern is that such loss-making giants have not been targeted for privatisation. The official position is that they are strategic, implying that they are to remain sacred cows. Given the financial crisis Zimbabwe is currently reeling under, to continue retaining such a resource-draining empire is hardly sustainable, especially since one major goal of this reform programme is to reduce a spiralling budget deficit.

The state in Zimbabwe is still in the majority shareholding position in most state-companies. Even in those that have been privatised, its equity holding is still considerable. Allocating shares to some state-owned enterprises such as National Social Security Authority (NSSA) and the National Investment Trust has ensured this.

The net picture is that, while the declared policy is to shift from interventionism to market-based management styles, interventionist management practices still reign supreme. Zimbabwe is yet to put in place conducive macro and micro contexts in line with this new management dispensation. Yesteryear *principal-agent* relationships are largely intact. In other words, while official policy espouses market-based management styles, the mindset of the key policy makers is still steeped in the interventionist orthodox.

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