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PUBLIC ENTERPRISE REFORM AND PRIVATISATION IN
ZIMBABWE: ECONOMIC, LEGAL AND INSTITUTIONAL
ASPECTS

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Abstract

The public enterprise reform which earnestly started in the early 1990s with
the commercialisation of a number of parastatals has entered a new phase
where the commercialised government companies are being privatised and
this process is expected to gain added momentum after the successful June,
1997 public flotation by Dairibord Zimbabwe Limited, the first by a former
parastatal. However, there has been very little public debate and still less
academic discourse on such a major policy issue of reassessing the role of
the state in the economy. This article discusses the pertinent issues of public
enterprise reform and privatisation in Zimbabwe and, based on lessons from
international experience, suggests a conceptual, institutional and legal
framework for the way forward.

INTRODUCTION AND BACKGROUND

SINCE ITS INCEPTION, the state has played a crucial role in the economic life
of nations. Without the state upholding property rights, enforcing contracts
and determining rules and regulations for market transactions, generalised
voluntary exchange as we know it today would have been impossible. This
minimal role of the state has never been in contention. The state as a
 guarantor of property relations has placed a lower limit on the scope of
state activity in the economic system. However, in the modern era, the
state has not limited itself to its minimal scope. In fact, the concept
'minimal state' itself has been changing over time to reflect new demands
and new challenges in a complex society.

Today, the scope for the 'minimal state' includes not only the area of
legal framework but also provision (not necessarily production) of essential
social services, economic stabilization and equitable distribution. But the
state has not limited itself even to this expanded scope of a modern
minimal state. In this century, governments all over the world have been
active in many spheres of economic activity by engaging in direct
production and distribution of a variety of goods and services. However,
the level of state involvement in the economy has varied from country to
country and over time.
The role of the state in direct economic activities outside infrastructural and extractive industries was very much limited until the Russian Revolution of 1917 when a large chunk of the European economy fell under state ownership and management. After the end of the Second World War, state ownership as a dominant form of organising the economy spread to several East European countries, Central Asia and China. Thus a new global economic system based on state ownership and guided by a central plan emerged as the antithesis of the world market economy based primarily on private ownership and basically guided by the price mechanism. The emergence of a new social, political and economic order on the global scene exerted significant influence on the course of socio-economic development worldwide for the last half a century or so.

The initial success in industrialisation and high economic growth especially in the less developed regions of socialist countries significantly boosted the image of the state as a superior form of organising and managing the economy than the market. The 1950s and 60s and the first half of the 70s were periods of intense political and economic competition between two different economic systems. It is not accidental that the role of the state in economic activities expanded very rapidly in many countries precisely in this period. The anti-colonial struggle in many African and Asian countries developed understandably a strong dislike to the economic system of the Western colonial powers which was rightly blamed for the extreme economic exploitation of the colonies. Many looked to the East for support and inspiration.

Apart from the demonstration effect of planned economies, there were other important objective conditions which forced many countries in the developing world, especially in Africa, to opt for greater involvement of the state in the economy. Though specific objectives might have varied from country to country, the desire for economic independence, lack of indigenous entrepreneurship, severe regional and sectoral imbalances and highly skewed distribution of wealth were important considerations in many of the countries which gained independence in the early 1960s.

The expanded role of the state in the economy globally cannot be understood without taking into cognisance this historical episode. Conversely, the privatisation drive world-wide since the late 1980s cannot be properly comprehended in isolation from the fundamental political and economic changes which have taken place in the former socialist block. These two historical episodes must be kept in mind when assessing the growth and decline of public enterprise globally. If the present wave of privatisation and commercialisation is to a large extent the result of conformity to present ideological trends rather than a serious appreciation of the advantages and disadvantages of the market system, policy reversal in the future is most likely.
From the mid-1960s to mid-80s state enterprises dominated the industrial sector in much of sub-Saharan Africa (Pryor, 1976; Short, 1984; Nellis, 1986). By the mid-1970s, however, serious problems started to emerge in the state enterprise sector in many countries. Most were making huge losses that had become a major cause of economic instability. The quantity and quality of service provided by the public enterprise sector fell below consumer expectations and the enterprises were insensitive to consumer demands and preferences. Inefficiency, sheer incompetence and corruption became so widespread that it seriously threatened economic and social stability.

A major source of problems encountered by state owned enterprise was the nature of the relationship between government and the enterprise. Multiple and contradicting objectives set by government, excessive and ad hoc control or absence of any meaningful control, distorted input and output prices which were far from reflecting the relative scarcity of resources, deliberate policies of protecting state enterprises from competitive pressure, all precluded any meaningful assessment of the efficiency or inefficiencies of the public enterprise sector as there was no way to disentangle the effects of internal firm operation from the effects of external-to-the-firm policy constraints and opportunities.

Added to this, political appointments for managerial positions turned the public enterprise sector into an instrument of political favouritism and patronage rather than an instrument to facilitate efficient resource allocation. Competence in managing enterprises was accorded less and less value in appointments to leading management positions. Once appointed to a managerial position, the security of tenure did not in any way depend on how efficiently or inefficiently the enterprise was run but on changes in political alliances and allegiances. There were no incentive mechanisms by which good performance could be rewarded or bad performance penalised.

PUBLIC ENTERPRISE REFORM: EARLY ATTEMPTS

Faced with severe financial viability problems and the generally perceived inefficiency of the public enterprise sector, there were attempts to find ways of addressing the sector's problem. The first wave of measures started in the mid-70s and was primarily directed at restructuring the state enterprise sector without any significant change in ownership. These measures included: changing the organisation form, increased managerial autonomy, redefinition and re-focusing of enterprise objectives, making a clear demarcation between business and social objectives and the costs associated with each of these components, increasing transparency in the flow of funds between the government and the state enterprise sector and implementation of different incentive systems.
These changes in organisation, control and management of the sector had temporary or negligible effect on the performance of state enterprises. Shortly after the reform exercise, things went back to the old situation. This failure at reform in the mid-70s and early 80s is being presented as evidence that the sector’s problems cannot be solved short of complete change of ownership. However, this conclusion is probably too hasty and not based on a full analysis of the facts.

For a more balanced evaluation of the early attempts of reforming the public enterprise sector, the following facts must be considered. First, in many instances the reforms were either not implemented at all or implemented half-heartedly. Secondly, which was of decisive significance, there was little change in the economic policy environment in those countries. Increased market competition was not encouraged, enterprise board members and management remained political appointees, formal interference in the day-to-day operations was replaced with equally devastating informal interference; enterprises continued to have easy access to the state budget in the event of financial difficulties. Thus the preconditions for the success of the reform were completely lacking.

The economic as well as the socio-political environments are of crucial importance when assessing past failures and future prospects of public enterprises. Performance is highly dependent on institutional arrangements, market conditions and a host of other constraints and opportunities. The performance of a public enterprise under a regime of strict administrative control, political interference and complete absence of market signals cannot be a yardstick to judge what that firm’s performance will be under a completely liberalised economy, enhanced enterprise autonomy and a well functioning market system. The form of ownership may not be decisive in itself. Rather, it is the way the ownership right is exercised which has the greatest influence in determining the behaviour and performance of an enterprise. One needs to be cautious in making a sweeping generalisation about the inefficiency of public enterprises irrespective of the prevailing economic and policy environment.

The lesson one should draw from the failure of reforms in the 70s and 80s is that any reform measure in one sector without fundamental changes in the overall economic and political environment is doomed to fail. The reforms would have been more successful had they been undertaken in a more conducive policy environment. It should also be noted that economic and political conditions in the mid-90s are fundamentally different from those which prevailed in the mid-70s to mid-80s. All this should be born in mind when assessing the prospect for current reforms of the public enterprise sector.

1 In the words of Lee and Nellis (1990) ‘The most telling fact is that the numerous reforms short of ownership change have not produced sufficient or enduring benefits.’
THE PRIVATISATION DRIVE

International experience
The 1980s were years when liberal and extremely market friendly views gained significant ground. The political expression of these views were Thatcherism in England and Reaganomics in the USA. In Britain the Thatcher government implemented a huge privatisation programme which is usually described by its proponents as a resounding success both in its process and its outcome. It was then followed on a limited scale in France, Italy and Sweden. But the main privatisation stride was made after the collapse of the East European economic system at the end of the 1980s. The privatisation programme in Germany after unification, in particular, has been extremely rapid. Poland, Czechoslovakia and Hungary have been among the major privatising countries in the former Eastern block. The main driving forces of privatisation in UK and the former East block countries have been political and ideological, i.e., economic objectives were subordinated to the overriding ideological and political goal.

In the developing world some 2,000 enterprises were privatised during the 80s. However, most of this privatisation was in Latin America. In other parts of the developing world there has been very little divestiture. In a study of seven developing countries, it was found that "only 98 enterprises have been (totally or partially) privatised through sales or leasing, out of a total of 2,000 SOEs" (Adam et al., 1992). In sub-Saharan Africa (SSA), privatisation in the sense of transfer of ownership has been even more limited:

- privatisation in SSA countries displays a poor record, both at aggregate and sectoral level, with liquidation and closures predominating the divestiture strategy (Fontaine and Geronimi, 1995, p. 149).

Though the past decade can be characterised as an era of global economic liberalisation, significant privatisation of public assets has taken place in a relatively few countries, most notably in East Europe and Latin America. In most other countries the process is only starting and will perhaps gain momentum in the coming years.

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2 In two years the Treuhandsanstalt (an organisation exclusively set up to expedite the privatisation of 12,500 firms) managed to privatise more than 800 companies for a total of US$18 billion (Rondinelli and Lacono, 1996).

3 Nine hundred public enterprises were privatised in Mexico alone. Argentina has also divested more than 200 state enterprises (Rondinelli and Lacono, 1996). Another big privatiser in Latin America is Chile which reduced the size of the public enterprise sector from 39% of GDP in 1973 to 16% in 1989 (Galal and Shirley, 1994).

4 Even in Malaysia, a country often cited as a vanguard in the privatisation drive in the developing world and where the State Owned Enterprises (SOE) sector output is estimated at 25% of GDP, proceeds from privatisation for the period 1984/89 constituted only 0.1% of GDP. The norm in Malaysia has been divesting only part of the shares and retaining majority or retaining minority interest with a 'golden share'.
Africa is the region where privatisation has yet to start earnestly. The Economic Structural Adjustment Programmes initiated and supported by the IMF/World Bank have invariably included privatisation as an important policy measure. As Young (1995) observed:

Given the troubled economic circumstances of many African states and their intensified aid dependence, the role of external agencies in promoting privatisation has been considerable (p. 167).

The rationale for privatisation

In the debate on privatisation, apart from the political-ideological motive dominant in European privatisation, two motives stand out as the most important: relieving the financial burden on the state budget and improved enterprise efficiency.

The argument for increased efficiency rests on the premise that the private owner is interested in high profits and one way of achieving that objective is by reducing costs through efficient allocation of the firm's resources and effective utilisation of human and physical capital. Of course, this premise is valid only if two further assumptions are made.

The first assumption is that the market is so competitive that the only way to increase profits is by improving technical and allocative efficiency. This assumption is highly inappropriate for most developing countries as many firms do possess significant market power that enables them to increase profits even in the face of deteriorating enterprise efficiency. Unless the market can be made competitive, a mere transfer of ownership may not contribute to improved efficiency. If the market is made competitive, improved efficiency may be achieved even without any transfer of ownership of assets rendering the efficiency argument for privatisation superfluous.

The second assumption is that when ownership is private, the owners will be the ones who run the firm and pursue their profit motives and hence strive for maximum efficiency. This scenario is unlikely for most public enterprise firms that are almost by definition large firms. Large firms are in most cases run by professional managers (Berle and Means, 1934; Burch, 1972) and it is unlikely that these managers always strive to maximise the wealth of the owners. In fact, there is sufficient theoretical argument as well as empirical evidence that managerially controlled firms do not behave as profit maximisers or allocate enterprise resources in an efficient manner.6

5 It has been noted that 70% of all structural adjustment loans made during the 1980s contained a privatisation component (Cook and Kirkpatrick, 1995). Most African countries reluctantly accepted or were made to accept the policy of privatisation but very few have pursued this policy vigorously (with the exception of Ghana, Gabon and recently Zambia).

6 The whole school of managerial economics which deals with the behaviour and performance of large corporations managed and controlled by salaried managers argues and empirically demonstrates that the behaviour of such firms differs from that of firms controlled by owners (Baldwin, 1964; McKean and Kania, 1978; Redice, 1971; Williamson, 1967).
To date there is very little empirical evidence on the efficiency-enhancing effect of divestiture due to the short period most firms have operated after being privatised. In fact, the divestitures were preceded and/or accompanied by fundamental changes in the internal and external environment of the enterprises which makes it extremely difficult to disentangle the effect of the ownership change from those of other changes taking place.

There is some evidence in the UK that generally performance increased in privatised firms. But it was also noted that the same improvement has been achieved even in enterprises which were not privatised. It is also contended that the observed improvement in privatised enterprises is mainly due to the pre-privatisation restructuring and less to change of ownership. In some of the privatised UK companies, financial performance greatly improved not because of increased internal efficiency but due to high prices and deterioration in service quality\(^7\) (exercising private monopoly power) accompanied by massive cuts in the work force. After reviewing the available evidence Yarrow (1993) concludes:

\[\text{The hypothesis that privatisation per se will quickly lead to substantial improvements in the performances of inefficient state-owned enterprises is not supported by the data (p. 76).}\]

Adam \textit{et al} (1992) after reviewing the empirical evidence on the effect of ownership on firm performance both in the developed and developing countries emphasise the influence of the regulatory and competitive environment on enterprise performance rather than the mere change of ownership.

The other strong argument forwarded in support of divestiture is the expectation that this will raise revenue for the government that can be used to reduce the budget deficit and/or public debt. It is not that obvious that this will be the case in all instances. If the capital market is efficient, the value of the assets to be sold must equal the discounted net flow of earnings from those assets in the future. In fact, this is the valuation method preferred to determine the sale price of public enterprises. If the sale can fetch such a price, selling public assets is just an immediate capitalisation of future earnings. In the long-term the net budgetary impact of privatisation is neutral (Adam \textit{et al}, 1992). Of course, capital markets are far from perfect, especially in developing countries. Thus it is most likely that the sale price will not fully reflect the future stream of earnings.

\[\text{\textsuperscript{7} High prices and deteriorating service were also observed in the Telephone Company of Argentina (Rausch, 1993). In Bangladesh, divestiture had not improved performance or improved technology (Muhith, 1993). Potts (1995) based on his study of a government owned Tea Company in Tanzania observes: 'Given adequate resources, favourable conditions and financial and managerial autonomy, public sector estates can perform as well as any private sector estate.'}\]
It has become more the rule than the exception that public assets are usually grossly under-priced in almost all countries.\(^8\) With such under-pricing, selling profitable or potentially profitable public enterprises will negatively impact on the budget in the medium to long-term.

It is mostly the profit-making firms which are attractive to the private sector and easier to privatise while the loss-making ones remain under public ownership. This change in the composition of the government asset portfolio will lead to an overall deterioration of the financial position of the public enterprise sector. As Jomo (1995) notes,

the sale of the government’s most valuable assets, while it is obliged to retain those less profitable activities and assets of little interest to the profit-seeking private sector, contributes to the self-fulfilling prophecy of the unprofitability of public sector economic activities (p. 239).

Due to the perceived inefficiency of public firms, actively propagated by the seller itself! — the government — public firms’ assets will not only be grossly undervalued but different kinds of sweeteners to the private buyer must be offered to make them saleable and hence reducing the revenue gain from privatisation.

Another factor to be considered is whether the new buyers assume the old debts of the enterprises to be privatised or the government assumes all debts and sells the assets. In Zimbabwe the government assumed the debts of three parastatals to the tune of Z$4 billion. The financial burden of the state enterprise sector is mainly the result of the huge debt of the sector. The cleaning of the balance sheets of public enterprises is simply a way of transferring their debts to government and leaving only the assets with the enterprises. Selling productive assets will offer very little budgetary relief if these debts are assumed by the state. The sale of public assets may bring small and temporary relief to the budget but by no means affects the overall budgetary position of the government. If we also consider the costs of privatisation like the fees to evaluators, marketers, legal advisors and executors, retrenchment packages and the creation of special funds, even the short-term relief on the fiscus becomes extremely minuscule.

Generally, there is little to suggest that sale of state enterprises will make any significant contribution to the budget in the medium to long-term. It may be argued that the firms will be more efficient in private hands, become profitable and ultimately generate tax revenue. We have already argued that this roundabout contribution of privatisation to the budget through improved efficiency is highly questionable.

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\(^8\) It was noted in the UK privatisation that government assets were hugely underpriced as evidenced by the enormous windfall gains made by those who purchased the shares.
Approaches to privatisation

Privatisation is often understood as a mere transfer of ownership of public assets to private hands. The privatisation drive we gave a historical account of above is exclusively of ownership transfer type. It is usually this narrow concept of privatisation which is being advocated by multilateral financial organisations and donor countries alike.

A more fruitful approach to privatisation is to conceive it as a set of policies and measures which are intended to make enterprise decisions responsive to market signals, market opportunities and constraints. The measures may entail complete or partial change of ownership, redefinition of enterprise tasks and re-focusing of tasks, expanding the role of the private sector, and more broadly, creating a conducive environment for a free play of market forces.

Privatisation should be understood in the context of a broader concept of public enterprise. Public enterprise as the name suggests has two dimensions: the public dimension which expresses public ownership, public purpose and public guidance to achieve that purpose and the enterprise dimension which expresses the businesslike operation and management of the publicly owned firm (Fernandes, 1981). Thus, relieving the enterprise of its public purpose and allowing it to function as any other private enterprise pursuing exclusively financial objectives (commercialisation) for all practical purposes is privatising though no transfer of ownership would have been effected. One can privatise without 'privatising in the narrow sense' by changing the objectives, control and management of public enterprises.

If privatisation is conceived as a broader process of economic change giving more and increasing room for greater play of market forces, there has been tremendous privatisation on a truly global scale during the last decade. The process of privatisation has been greatly speeded up and expanded in the wake of fundamental political and ideological changes. The process has also been pushed further by economic hardships faced by many developing countries and the carrot and stick policy of international financial organisations and donors. Today, there is hardly a single country which has not freed prices, liberalised foreign trade and foreign exchange, encouraged private entrepreneurship, changed the organisation and management of the state enterprise sector, stressed commercial objectives instead of vaguely and badly conceived social objectives. This process of privatisation has also included partial or complete transfer of ownership of assets.

The debate on privatisation and privatisation policy must be freed from the strait jacket narrow concept of divestiture and directed towards the most fruitful broader concept of privatisation. If such a broader approach is taken, transfer of ownership would be viewed as only one
means of achieving the objectives of privatisation. The relative desirability of different forms of privatisation must be judged case by case. The choice of privatisation measures should of course, be dependent on the specificity of each country — the breadth, depth and absorptive capacity of the asset market, the competitiveness of the industry, distribution of economic power in the country, the specific objective of the privatisation programme, the financial health of the enterprise to be privatised and no general prescription applicable to all countries, sectors or enterprises should be made.

Each privatisation measure has its advantages and disadvantages, demands and constraints.

THE PARASTATAL SECTOR IN ZIMBABWE

Emergence and expansion
Zimbabwe inherited at independence a large number of parastatals. More than 60% of the parastatals were established before independence. In particular, almost all the marketing boards date back to the pre-independence period. The expansion of the parastatal sector after independence was not accomplished through expropriation or nationalisation of private assets but through new investments and creation of new parastatal bodies. This is in contrast to what happened in most African countries where massive nationalisation and expropriation was the rule rather than the exception. This distinct nature of the expansion of the sector makes disposal of state assets easier as there are no private claimants to the assets owned by the state.

Both the emergence and expansion of the public enterprise sector in Zimbabwe is quite different from the experiences in many other African countries. The role of the state in the economy has grown gradually over a very long period without any sudden change. It seems ideology has played a very minor role in this gradual process. Zimbabwe, in the early eighties was one of a few countries in Africa where private ownership was a highly dominant feature in industry.

The parastatal sector in Zimbabwe today encompasses a wide variety of economic activities. It is represented in almost all sectors. Most notably in agriculture, manufacturing, mining, transport, energy, communication and finance. All in all there are about 90 public enterprises and about 15 statutory bodies. In about 85 of them government is the sole owner, in another 10 government is a majority shareholder and in about 10 government holds substantial minority ownership. The Industrial Development Corporation (IDC) alone has ownership interest in 45 enterprises more than half of which are fully owned by the corporation.

In terms of legal status, some parastatals are public corporations established under special Acts of Parliament like most of the agricultural
marketing boards before their commercialisation in the past couple of years. Others are incorporated under the Private Companies Act with 100% government ownership like Alfretair, ZISCO and IDC. There are also a few which are joint ventures with foreign companies like some of the subsidiaries of ZMDC in the mining sector.

The parastatal sector is also very diverse in terms of objectives. Some are purely developmental and promotional like ARDA, AFC; some are strategic like GMB, Zimbabwe Defence Industries, ZIANA and some are predominantly commercial like ZISCO, MMCZ and most of the subsidiaries to ZMDC and IDC.

The legal and institutional framework for public enterprises (PEs) as it is now, imposes constraints on their effectiveness, autonomy and accountability. For example, from the point of view of alleviating the budget deficit, parastatals are urged to compete effectively and turn out profit, pay income and capital gains tax and dividends to the government. However, from an administrative point of view, parent ministries continue to regard their PEs as coming under the relevant Acts of Parliament in such areas as labour law, investment, borrowing, reporting, supervisory mechanism as well as rules and regulations governing public procurement.

Public enterprise reform in Zimbabwe
In the Framework for Economic Reform (1991-95) (hereinafter called ‘the Esap Document’) the Government of Zimbabwe undertook to implement a public enterprise reform programme, aimed at eliminating the large budgetary burden of the PE sector and making the PEs more efficient. The envisaged PE reform programme was broad and its objectives were set out as:

— efficiency improvements and economic development through attraction of foreign investment, technology and know-how, and the harnessing and encouragement of local entrepreneurial skills; and

— generation of revenue from sales and leases;

To achieve these objectives utilization of a full range of options including outright sale of shares and assets, leasing and management contracts and contracting out of services was recommended. However, in the actual implementation, the PE reform programme seems to have been narrowed down to privatization in its most restricted sense. Thus, the actual sale of shares previously held by the state or the state’s stake in PEs and the revenue raised therefrom seem to have become the accepted measure of success or failure of the reform programme.

The PE reform programme as spelt out in the ESAP Document above had some obvious shortcomings. For example, no particular requirement.

9 For the period 1986/91 subsidies and advances to some 12 parastatals and government companies exceeded $2 billion.
like the setting up of a special capital account, was stated for the utilization of revenue generated from the disposal of state assets. However, the more fundamental weaknesses of the programme were the failure to develop a comprehensive policy statement and the lack of an efficient and transparent legal framework for the implementation of the reforms.

Since the start of the reform programme, several enterprise restructuring measures have been undertaken in preparation for full privatization. PEs which received earlier restructuring programmes include the National Railways of Zimbabwe (NRZ) and the Zimbabwe Electricity Supply Authority (ZESA). In the case of the NRZ, the restructuring concentrated on its core business and shedding off non-core activities such as the Road Motor Services, now a private company. As for ZESA, a $6 billion agreement with a Malaysian company, YTL Corporation Berhad, was signed for the privatization and expansion of the Hwange Thermal power station. Under the deal there would be established a joint venture company in which the local PE utility, ZESA, would have a 49% equity while the majority shareholding of 51% would be held by the Malaysian company.

Significant reforms were made in the former Agricultural Marketing Boards (CMB, CSC, DMB and GMB) and they focused on rationalization and restructuring to achieve efficiency. The government agreed to take over the $4 billion debt of three major agricultural PEs (CSC, CMB, GMB). At the same time three agricultural PEs (DMB, CMB and CSC) were put on a fast track towards more profound reform. These PEs have moved from being statutory or public corporations under public Acts of Parliament to incorporation under the Companies Act, thereby becoming private companies though with 100% share capital still owned by the government. The PEs thus incorporated under the Companies Act have become known as Dairibord Zimbabwe Limited (DZL), Cotton Company of Zimbabwe (Cottco) and Cold Storage Commission (CSC). The deliverables of these companies, buying of milk and milk processing, buying of cotton and ginning, and buying of livestock and meat processing, have been liberalized with the entry of competition. In 1997 both Dairibord Zimbabwe Limited and Cottco were privatised through public share offers to institutions and private investors.

Three PEs operating in the mining sector — MMCZ, ZMDC and the Roasting Plant Corporation have been the subject of legislation permitting a new form of corporate structure with private sector involvement. Under amended enabling legislation they have limited liability and provision for share capital, although no capital has yet been issued. At all times the present legislation allows at least 51% of the shares of ZMDC, and the Roasting Plant Corporation and 75% of the share capital of the MMCZ to be held by the state. Some of the PEs in the mining sector have submitted their privatization proposals for approval by government.
With the successful launching of the first privatisation exercise, government seems to be determined to move faster than before. The PTC is soon to be fully commercialised once its regulatory functions are transferred to other bodies. ZBC is also to see major changes in its operations and to lose its broadcasting monopoly.

As privatisation is gathering momentum, concern has been raised about the effect of the privatisation on wealth distribution in the country, particularly, on the indigenisation of the economy. The government has tried to allay the fear that foreign interests and non-indigenous groups will further consolidate their economic power by establishing the National Investment Trust to warehouse some shares in privatised companies for future disposal to indigenous groups. Another measure suggested is the creation of Employee Stock Ownership Schemes (ESOPs). As ESOPs and the National Investment Trust have been presented as a way of using privatisation as a vehicle of indigenisation, it is necessary to look into the privatisation-indigenisation connection.

**Indigenisation and privatisation**

In any privatisation exercise in the developing world, the major problem has been the lack of adequate domestic capital to buy the shares or assets in divested firms. In particular, the sale of large state enterprises has in most cases required significant foreign capital involvement. In Malaysia, foreign involvement accounted for 40% of total sales value (Adam et al., 1992). Even more disturbing is the finding that African privatisation have involved greater foreign capital participation than privatisation in East Asia (Cook and Kirkpatrick, 1995). This seems to be one of the reasons why governments are reluctant to speed up the privatisation process.

Political power in almost all countries rests in the hands of indigenous groups at least nominally. Thus, state ownership of assets is by definition indigenous ownership. Privatising these assets cannot make such ownership more indigenous but less so, as sooner or later part or most of the privatised assets will end up in foreign or domestic non-indigenous groups. Therefore, divestiture cannot be a vehicle for indigenising the economy in the sense of increasing the share of the indigenous population in asset ownership. Whatever indigenisation is attempted during the transfer of state assets into private hands, it can only be defensive and not an offensive measure to expand indigenous ownership. It is due to the weak financial and managerial capacity of the indigenous population that such defensive measures as National Investment Trusts have been found necessary.

Privatisation and indigenisation are not mutually supportive measures but impose constraints on each other. If indigenisation is of paramount importance in privatisation, the revenue objectives and probably even
improvement in efficiency need to be sacrificed. This trade-off must be borne in mind in any policy on privatisation. How much of revenue and efficiency can be traded for achieving the goal of indigenisation need to be made explicit.

ESOPs and privatisation

In almost all divestitures involving sale of shares a certain percentage of the share is reserved for the employees to be distributed either freely or to be purchased at preferential prices. Employee share participation has become an integral part of any privatisation plan. However, in most cases the share allocation to employees has been relatively small, ranging from 5% to 10%. The main motive for allocating shares to employees has invariably been to diffuse employee opposition to the privatisation plan than to give employees a real influence in the enterprise. A special scheme of employee ownership, ESOP (Employee Stock Ownership Plan), is increasingly being considered as a way of spreading asset ownership in developing countries including Zimbabwe.

Employee Share Ownership Plan (ESOP) is a scheme first introduced in the US which requires special institutional, legal and tax incentive arrangements. Basically, ESOP is an institutional arrangement where all employees in a firm buy a block of shares at fair market value under a loan arrangement guaranteed by the employer repayable with future dividend earnings on the block of shares.

The scheme can only work if the employer is willing to guarantee such a loan and if expected dividends are higher than the expected interest to be paid on the loan. To make employers willing to institute such a scheme and financial institutions to lend money for the scheme, a host of tax incentives for firms and financial institutions must be introduced. Though the originators of ESOP and its strong supporters have a wider political and ideological objective of creating “popular capitalism”, the primary concern of employers and creditors is the scheme’s immediate financial benefit.

Tax legislation plays a decisive role in encouraging ESOPs and such a legislation must precede any ESOP scheme. ESOP is not something which can be appended to privatisation without prior preparation of the institutional, legal and tax framework. Today, such a framework does not exist in Zimbabwe or any of the other privatising African countries. Even if such a framework is worked out as a matter of urgency, there are a host of technical questions which need to be addressed before the scheme can be implemented.

As to the nature of ESOPs, the US presidential candidate Bob Dole has put it bluntly when he said, ‘I don’t know much about ESOPs, but I do know that property owners vote for conservatives and I am all for that’ (quoted in Jeffery Gate’s (the originator of ESOP) speech, Lima, January 1996).
Most importantly, ESOP can only be implemented in a stable enterprise environment: good profitability or potential profitability, relatively stable labour force and a relatively well established working relationship between the work force, management and owners. A firm which is about to be privatised does not provide such a conducive environment for instituting ESOP.

Once the institutional, legal and tax framework is worked out, the government could proceed to implement ESOPs in major commercialised state enterprises which provide a much better stable environment for the scheme. Such a measure would prepare the ground for gradual participation of other private interests in commercialised parastatals and also set the pace and modalities for the introduction of ESOPs in the private sector of the economy. Thus, the non-divestiture options of privatisation are more appropriate for such gradual and careful implementation of employee participation both in ownership and control of productive assets.

INSTITUTIONAL AND LEGAL FRAMEWORK FOR PE REFORM

Current institutions and procedures
Among the most critical indicators for assessing the performance of privatization programmes are:
— the depth and quality of programme design and management;
— appropriate legislation (a Privatization Law);
— the legal authority of a privatization authority which enables it to undertake its work with minimum political interference; and
— transparency — the steps taken to inform the public about the programme and to encourage their maximum participation in the process.¹¹

Weighed against the above indicators, Zimbabwe's privatization programme fairs poorly compared to four other privatizing African countries, namely Malawi, Tanzania, Uganda and Zambia. All these countries have comprehensive policy statements on PE reform and privatization, adequate legal and institutional frameworks consisting of privatization laws and autonomous privatization authorities and transparent privatization processes (Commonwealth Secretariat Interim Report, 1994)¹²

The discussion below is based on the above report.

Malawi
Following a World Bank restructuring mission in 1994, a comprehensive privatization policy was developed and implemented which has put the

Malawi privatization programme on the same league as that of the trend-setting Zambians. Since the Zambian privatization programme will be indicated below, what might be useful here is to reflect on the pre-1994 Malawian programme as a warning to what might happen in Zimbabwe if the present non-transparent system is allowed to continue:

A state enterprise divestiture scheme was first conceived in 1986 and, with the encouragement of the IMF and the international funding agencies, became operational in 1988, when the government started to divest itself of a number of enterprises under the control of ADMARC, the state holding company. The main aims were to improve liquidity as these companies were a drain on the Treasury, to broaden share ownership, let the private sector return these companies to profitability and let ADMARC go back to its core business of commodity marketing. With the support of a 90% counterpart grant from USAID, agricultural estates were sold to Malawians — but only to wealthy farmers and landowners with strong political connections. Other companies were sold either to expatriate or international firms, many of which had minority shareholdings, or to the PRESS Group of companies controlled by a trust run by the President. Professional valuations of the enterprises were carried out but transparency was not evident and many secret deals were done (emphasis added).\(^{13}\)

**Tanzania**

The parastatal reform programme is a key element in Tanzania's overall strategy for economic reform and in this regard a Policy Statement was published in 1992 followed by a Privatization and Reform Masterplan in 1993 which set out the government's reform strategy, method of implementation and an outline of a time phased divestiture programme. Responsibility for directing and implementing the programme lies with the Parastatal Sector Reform Commission (PSRC), whose powers and responsibilities are elaborated in the Public Corporation (Amendment) Act of 1993. The Act gives the PSRC substantial authority to carry out its mandate. The PSRC is backed by a full compliment of 25 professional staff and consultants. The divestiture programme got off to a solid start, with the PSRC in the very first year concluding 20 divestitures using a variety of techniques, 22 liquidations and 117 businesses under review by the end of the year, well above the targets set in the Masterplan.

**Uganda**

Following the country's economic recovery programme launched in 1987, the government published a Policy Statement on Public Enterprise Reform

and Divestiture in 1991, which outlined the government's privatization strategy. The Public Enterprise Reform and Divestiture Statute was passed in 1993 to give effect to the privatization strategy. The statute established the Divestiture and Reform Implementation Committee (DRIC), comprising senior members of administration and headed by the Finance Minister to have responsibility for implementing the policy. Thus in Uganda the privatization policy is clear, the law and framework satisfactory.

Zambia
In 1992 a Privatization Act was passed with a programme to privatize and commercialize state owned enterprises. The Act established the Zambia Privatization Agency (ZPA) to execute the programme reporting to the Minister of Commerce and Industry, who was given cabinet responsibility for the privatization programme. As an integral part of the privatization programme, a Privatization Trust Fund was set up in 1994 to temporarily warehouse shares which are later to be sold through public flotations. Zambia's programme has taken off dramatically with 97 deals worth US$119 million concluded over the 12 months from June 1995 to June 1996.

Zimbabwe stands alone in not having any of the above structures in place. Its institutions and procedures for privatization of PEs have developed in an ad hoc manner and are, therefore, cumbersome and non-transparent. The key institutions involved, their procedures and weaknesses are discussed below.

The public enterprise
The PE itself, which may be in the process of restructuring, prepares privatization proposals. This task is entirely entrusted to the managers in the public enterprises without any participation by workers. The absence of employee participation in the preparation for privatization makes the process non-transparent and creates an atmosphere of worker hostility to the whole exercise.

Sector interests
The PE invites inputs from sector interests (SI), e.g., from producers for an agricultural PE. However, management of PEs has self-interests in the privatization process and is not likely to be objective or impartial in its invitation and assessment of sector and general public inputs. In making recommendations to the parent Ministry, PE management is likely to highlight its own interests and underplay those of the sector and the general public investors and consumers.

The parent ministry
The parent ministry has to deal with privatization proposals at the precise moment when it is experiencing its own identity crisis. First, the
Restructuring and commercialization of its PEs reduces the power and the prestige the Ministry used to enjoy over the PEs. The roles are dramatically reversed in a manner akin to the tail suddenly wagging the dog as the PEs' greater resources compared to the Ministry's become all too obvious.

Secondly, the Ministry has to adjust from a position where it controlled PEs, which in turn discharged the (self)-regulatory activities of the sector (monopolized by the PE), to a situation where the Ministry itself has to take over the regulation of the sector and introduce competition while relying on the manpower expertise and resources of the PE.

Thirdly, the Ministry has to adjust from the dizzy heights of super-regulator to its new role as just the sole shareholder (soon to be a minority or no shareholder at all) in a restructuring PE which has to contend with competition introduced by the Ministry.

Therefore, it is not difficult to see why the parent Ministry, presented with privatization proposals, will delay and prevaricate as it tries to adjust to the new situation.

**Working Party on Privatization**
This is chaired by the Head of Planning of the National Economic Planning Commission and consists of Permanent Secretaries of the ministries of Justice, Lands, Agriculture, Mines, Industry and Commerce, Transport and Energy, Information, Defence and Directors in the Department of State Enterprises and the Attorney-General's Legal Affairs section. The Working Party examines privatization proposals from the sector ministries and makes recommendations to the Inter-Ministerial Committee on Privatization.

**Inter-Ministerial Committee on Privatization**
It consists of ministers whose ministries are represented in the Working Party, and is chaired by the Planning Commissioner. The Minister of State for State Enterprises and Indigenisation also sits on this Committee.

**Ministry of Finance**
The Finance Ministry has the critical role of approving privatization proposals.

**The National Economic Planning Commission**
It is strategically placed to play a meaningful and consistent role in PE privatization but it does not have legislatively granted powers and autonomy. It is envisaged that a Privatization Unit within the NEPC will coordinate government work on privatization and commercialization of PEs. The PU will derive its authority from the Inter-Ministerial Committee on Privatization. This arrangement will not give the PU the power and autonomy it requires to implement privatization.
The Ministry of State responsible for Parastatals

It seems to have assumed a key role of general policy formulation in PE privatization. However, its role is not clear in this regard given the strong roles of the parent Ministries and the NEPC. Nonetheless, most of the pronouncements on privatization and indigenisation of late have come from this Ministry.

Cabinet approval is required for privatization proposals. The Planning Commissioner, under whom the NEPC falls, is a full cabinet member and is therefore strategically placed to drive the privatization process. The State Enterprises Minister is merely a Minister of State without Cabinet status. He only sits in Cabinet for specific issues of privatization and indigenisation. The apparently conflicting roles of NEPC and State Enterprises Ministry, it has been suggested, could be reconciled by allocating the role of privatization implementation to the PU within the NEPC and the monitoring role to the Department of State Enterprises and Indigenisation. However, we believe that a mere administrative allocation of roles will not suffice. It is necessary to have enacted a privatization law clearly delineating and enshrining the respective roles.

The President’s Office and the ruling political party have significant formal and informal influence over privatisation policy formulation and the eventual disposal of the assets. For example, addressing the second Zanu (PF) National Conference in Bulawayo on 14 December, 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 government’s programme to economically empower the marginalised majority Blacks. Even the indigenous groups themselves were split in their response to this unorthodox approach to Black empowerment. While the Indigenous Business Development Centre (IBDC) welcomed the announcement unconditionally, the Affirmative Action Group seemed to express some reservations on the manner of compilation of the list, preferring a single national list rather than several lists from various groups. To the average citizen such an approach raises serious concerns of favouritism, political patronage, lack of transparency and possible corruption.

The role of the Zanu (PF) party seems to even extend to private sector dealings. For example, The Herald reported that the Zanu (PF) Secretary for Finance and Minister of Justice, Legal and Parliamentary Affairs, Mr. Emmerson Munangagwa, and the National Planning Commissioner, Mr. Richard Hove (who is responsible for public enterprise privatization), had

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15 The Herald, 11 December, 1996.
been talking to selected multinationals with extensive holdings in Zimbabwe on how Blacks could buy equity in existing companies to speed up the indigenisation of the economy.

Once agreement was reached on the sale of shares, the minister responsible for implementing government policy in the relevant sector — mines, industry or agriculture — was brought into the discussion as well. In one of the first partial successes, Shabanie and Mashaba mines had been bought by African Resources.

As later reported by *The Financial Gazette*, a four-men indigenisation committee, chaired by Justice Minister Munangagwa, was set up by President Mugabe to promote indigenisation in private sector dealings:

The indigenisation committee is made of Munangagwa, Planning Commissioner Richard Hove, Mines Minister Swithun Mombeshora, and Mutumwa Mawere, chairman of Africa Resources Limited which now owns Shabanie and Mashaba mines and its subsidiaries.

Given the above vague policies on PE privatization and a cumbersome institutional framework, it is no wonder why the pace of PE privatization has been sluggish. More than ten institutions, ranging from the Privatization Unit consisting of civil servants and consultants, to the ruling party with its political heavy weights, have significant roles in the privatization and reform of parastatals!

As already argued, it is critical that a comprehensive PE privatization policy should be formulated encompassing clear and measurable indications on employee share participation, local ownership, indigenisation and employee welfare. In addition, an efficient and transparent institutional framework must be put in place. To make this possible, and to further enhance and deepen wider and democratic ownership in the economy, an appropriate legal framework must be put in place.

**A NEW INSTITUTIONAL AND LEGAL FRAMEWORK**

In the light of the above discussion, a comprehensive privatisation policy and an appropriate legal and institutional framework is necessary for the implementation of the Zimbabwe PE reform programme specifically to ensure that the process is as transparent as possible, conflicts of interests are avoided, efficiency is enhanced and public accountability is strengthened. In other words, an enabling environment must be created to facilitate the reform processes. Such an institutional and legal environment would include an Act of Parliament relating to reform or privatization, the setting up of a privatization authority and related bodies and organs.

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Privatization Law
The PE reform programme should ideally be enshrined in an Act of Parliament. Such an Act — let us call it a Privatization Act — must, among other things:

(i) establish an autonomous privatization authority as the agency responsible for planning, managing, implementing and controlling the privatization of PEs;

(ii) contain a clear statement of objectives of the programme (We have already commented on the paucity and inadequacy of the objectives in the Esap I Document);

(iii) include modes of privatization, which must give a privatization authority the widest freedom in recommending a method of disposal of state assets;

(iv) authorize and limit use of proceeds from privatization to finance redundancy payments, privatization expenses, contribution to a fund (e.g. NIT) to promote broad based local participation in privatization and funding capital investment and social projects;

(v) grant management and employee buyout teams the right of first refusal for selected small companies to promote local ownership; and

(vi) set out percentages of shares to be reserved for locals, employees, etc.

The Privatization Authority

(i) must have a Board of members nominated by their respective organizations [e.g. the Zimbabwe Congress of Trade Unions (ZCTU), Employers' Confederation of Zimbabwe (EMCOZ), bankers', lawyers' and accountants' associations, etc.] and approved by Parliament to ensure maximum autonomy;

(ii) would have links with a particular Ministry, say, Industry and Commerce, to facilitate communication and reporting to Cabinet;

(iii) would be headed by a Chief Executive and be supported by adequate professional staff and full-time advisers;

(iv) must submit half-yearly progress reports detailing activities of the Authority and giving enterprise specific information. These reports must be tabled before Parliament;

(v) must be required in law to publish in the Government Gazette or other public documents such information as divestiture, bidders and bid prices, successful bidders and reasons for success, price of shares and special conditions of sale;

(vi) would be required to have negotiations done by independent negotiators and valuations done by independent contractors who must provide a certificate of valuation; and
(vii) must hold a monthly press conference and regular public fora giving interested parties the opportunity to be informed about all aspects of the programme.

National Investment Trust
The government established The National Investment Trust to ensure that a portion of the shares in privatised state enterprises is reserved for future sale to the indigenous population. However, the Trust is not yet operational and its precise functioning remains unclear. If the function of the Trust is warehousing of shares for future sales, there is less need for such a new institution as such a function can be performed 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. If the Trust is meant to be an active player in the asset market by managing a portfolio of assets the questions of ownership of the assets and beneficiaries need to be addressed. Unless this is made clear, the NIT is no more than the government managing its asset at arms’ length. If the intention is to create a wider asset ownership by indigenous people, several questions remain unanswered. Who is eligible? How much is each eligible person allowed to buy? What are the prices and conditions of purchase? Will the Trust be allowed to invest its assets in private companies and thus grow?

This fund should be set up under the auspices of the Privatization Authority to primarily address the limited absorptive capacity of the domestic market by, among other things, providing funding and implementing schemes to promote broad-based local participation through, for example, warehousing arrangements and deferment of payment for purchase of shares by employees, management and Zimbabweans. The NIT as currently conceived hangs in the air as it lacks any organic link with such institutions as the proposed Privatization Authority and an appropriate environment to make its activities sufficiently transparent.

Zimbabwe Stock Exchange Reform
There is a need to assist the ZSE to source funds to improve its capacity to respond to the demands placed on it by a wider ownership in shares, etc. and its suitability for aspects of the privatization programme.

Tax Incentives
The tax system should be made more responsive to, and supportive of, the privatization drive. A clear example of the currently negative tax environment is the fact that employees who take advantage of employee share ownership schemes are subjected to income tax on the difference between the market value of the shares and the concessionary rate they
would have paid. They are also taxable on gains made on any subsequent disposal of the shares. Companies are not allowed any deduction in respect of concessions made or any assistance given for the purpose of purchase of the company's shares by employees. In many tax jurisdictions, generous tax incentives are granted to facilitate employee share acquisition schemes. For example, in Australia there is a tax-free threshold granted to every employee in a share acquisition scheme. The requirement for a scheme to qualify for the tax incentive is that two thirds of permanent employees (with more than three years of service) need to be offered preferential terms for acquiring shares.

The tax system does currently provide a number of tax incentives which will indirectly benefit PE restructuring and privatization schemes, e.g., the tax incentives for venture capital funds, private sector participation in infrastructure development [Build-Operate (BO), Build-Transfer (BT), Build-Operate-Transfer (BOT), Build-Own-Operate (BOO) schemes] etc. However, these incentives were not specifically granted with a view to facilitating a PE privatization drive. Further specific tax incentives to expedite PE privatization could be developed, e.g., exempting from tax redundancy payments which are devoted to acquisition of shares or stake in the privatization programme.

**Natural Monopoly Regulation**

There exist monopolies among public enterprises which without some form of regulation of both prices and quality of service, the new private owners of these enterprises may be able to charge excessively high prices or provide low quality service with the undesirable consequences on efficiency and fairness to consumers.

Although the Competition Act was enacted in 1996, it did not immediately become operational as the Industry and Trade Commission it provides for had yet to be established. Sources within the Ministry of Industry and Commerce had earlier indicated that the structures of the Commission were being finalized and the Commission would be operational in early 1997, but the Commission was only put in place in February, 1998, following the January 20-22 widespread demonstrations against escalating prices of basic foodstuffs.

The Competition Act gives the Commission powers to investigate any restrictive practices and monopolies and then take decisive action to stop them.

**CONCLUSION**

Although privatisation of state enterprises has achieved the status of economic orthodoxy throughout the world, it still remains controversial
in terms of the degree and extent it should go and the pace and the form it should take. There are different economic, social, political and ideological factors which have led to the formulation, adoption and implementation of various privatisation programmes in the world.

In Zimbabwe, as in many other developing countries in general and African countries in particular, privatisation has been introduced as an integral part of the IMF and World Bank economic reform packages. Unfortunately, so far privatisation programmes as such have not been subjected to adequate consultation with, and scrutiny by, civil society in general and academics in particular, prior to, during and after implementation.

Among the most critical indicators for assessing the performance of privatisation programmes are: the depth and quality of programme design and management, appropriate legislative framework (Privatisation law), the legal authority of the privatisation body which enables it to undertake its work with minimum political interference, and finally transparency, i.e., the steps taken to inform the public about the programme and to encourage their maximum participation in the process.

Weighed against the above indicators, Zimbabwe’s privatization programme fared badly compared to international practices in general, and, in particular, four other privatizing African countries, namely Malawi, Tanzania, Uganda and Zambia. All the other countries have comprehensive policy statements on public enterprise reform and privatization, adequate legal and institutional frameworks consisting of privatization laws and autonomous privatization authorities and transparent privatization processes. Zimbabwe stands alone in not having any of the above indicators in place. Worse still, there is a proliferation of bodies and institutions with conflicting roles in Zimbabwe’s parastatal reform process. To correct these anomalies and bring the Zimbabwe privatisation programme into line with the now internationally accepted standards, we recommend that a Policy Document on Privatisation should be drawn up by a tripartite committee of government officials, labour and the private sector. This policy document should:

- outline the aims of privatisation within a broad policy framework;
- require the setting up of a transparent institutional and legal framework for public enterprise sector reform, namely a Privatisation Law and a Privatisation Authority;
- provide a definition of indigenisation and approaches thereto; and
- regulate the participation of local and foreign investors in, as well as use of proceeds from, privatisation.

Privatisation is a means to an end and not an end in itself. Therefore, in the policy document proposed above, privatisation must be conceived in its broadest sense if it is to serve national objectives of growth with
equity. The narrow approach to privatisation which is primarily divestiture should be explicitly abandoned for a broader concept of privatisation which is primarily of a non-divestiture and incremental type. It should be emphasised that the non-divestiture options offer several advantages over the divestiture options. Incremental privatisation through gradual and partial divestiture, sub-contracting, leasing, management contract, BOT, BO, ESOP are better ways of indigenising the economy which allow the development of skills and financial strength. Supported by appropriate financial and training facilities, incremental privatisation could create a conducive environment whereby the indigenisation of the economy, worker participation and a broad asset ownership can be achieved smoothly, with greater certainty and at least cost.

In those cases where there is a \textit{prima facie} case for immediate divestiture, clear guidelines should be put into place pertaining to transparency and accountability in the processes leading up to and including the actual disposal, use of the privatization proceeds and employee welfare.

In order to be able to choose appropriate forms of privatisation from a large number of available options, policy objectives must be sector and enterprise specific rather than general. This requires an in-depth analysis of each sector and each public enterprise.

Finally, in choosing any particular option of transformation for a particular enterprise, clear guiding criteria need to be spelt out. These criteria should include the strategic (social or economic) importance of the sector and the enterprise, existence or absence of competitive market, potential for indigenous participation, effect on employment and workers' welfare and the financial health of the enterprise.

References


