

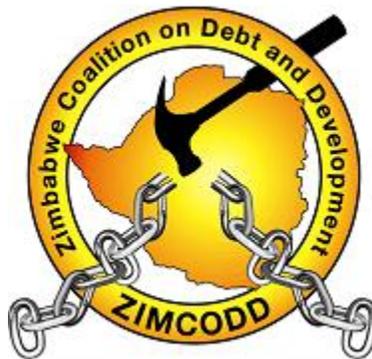
STATE-OWNED ENTERPRISES PERFORMANCE AND COMPLIANCE SURVEY



SOUTHERN AFRICAN PARLIAMENTARY SUPPORT TRUST (SAPST)

In partnership with

ZIMBABWE COALITION ON DEBT AND DEVELOPMENT (ZIMCODD)



Investing In People for Social and Economic Justice

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EXECUTIVE SUMMARY

This report presents findings of an assignment entitled “**State Owned Enterprises Performance and Compliance Survey in Zimbabwe**” conducted by the Southern African Parliamentary Support Trust (SAPST) in collaboration with the Zimbabwe Coalition on Debt and Development (ZIMCODD). It was aimed at establishing the performance of State-Owned Enterprises (SOEs) and their compliance with relevant regulatory frameworks and recommendations from the Auditor General (AG) and Parliament. The study employed both qualitative and quantitative research methods consisting of review of literature and reports, in-depth interviews with key stakeholders and a survey using a structured questionnaire on a selected sample of 31 SOEs.

The study established that there was adherence to the provisions of the constitution in terms of the existence of the relevant Acts that govern SOEs operations. The majority of these entities were established through specific Acts of Parliament while those more commercially-oriented were established under the provisions of the Companies Act [Chapter 24:03]. However, constitutional principles on sound public financial management were not fully understood by the SOEs, with more than 80% of them unaware of Section 298 of the Constitution.

The 10 most prevalent findings pertain to inadequate documentation (44.7%), management of assets (44.7%), revenue management (42.6%), going concern status (40.4%) and regulatory compliance (36.2%). Furthermore, receivables management (29.8%), operational inefficiencies (27.7%), corporate governance (25.5%), management override of controls (23.4%), and policies and procedures (21.3%) were also highlighted as key issues in SOEs. At least 44.7% of SOEs, 40.6% of appropriation accounts, 40% of fund accounts and 25% of local authorities failed to maintain asset registers, perform periodic verifications of assets, perform valuations and assessments of impairment and residual values. However, no penalties as prescribed in the law, had been applied despite the occurrence of numerous cases of fraud, wastage, abuse and gross mismanagement of public funds and assets.

The study established that provisions allowing for annual financial statements submissions and presentations to Parliament were elaborate legal provisions to strengthen accountability by ministries and engender transparency. However, there was lack of adherence to Section 194 of the Constitution as read together with Section 83 of the Public Finance Management Act (PFMA), which requires the State to take measures, including legislative ones, to promote the values and principles governing public administration, including timeous production of annual reports and audited financial statements. However, a perusal of SOEs’ annual reports revealed that all the entities had not fully complied with this provision. A large number was reported to be producing audited financial statements long after statutory deadlines. There were no sanctions or penalties imposed to deter such behavior.

More than 80% of the SOEs had not appeared before the relevant portfolio committees of Parliament to discuss their budget proposals for the succeeding financial year, in contravention of sections 299 and 323 Sub-section 2 of the Constitution. Although the Constitution provides that each commission must have its stand-alone lines in the estimate of expenditures, this was not effectively implemented thus compromising the independence of the commissions and related institutions.

The failure by SOEs to regularly report to Parliament was deemed to be partly due to lack of clarity on the roles of the numerous institutional bodies tasked with provision of oversight on the entities. This has led to lack of accountability and poor performance. Poor accountability and disclosure were also caused by some legal and compliance gaps given that laws establishing SOEs were not harmonized. Some laws did not make it mandatory for them to hold Annual General Meetings (AGMs). Furthermore, slow implementation of recommendations from the AG and Public Accounts Committee (PAC) was noted as a trend with many of the entities. Out of the 435 recommendations made in the preceding year by the AG, only 24.8% were fully implemented while 19.5% were partially implemented. The majority of the recommendations, at 55.6%, were not implemented at all. There were no robust instruments to track and monitor implementation of recommendations.

Corporate governance issues were found to be pervasive across the four entity classifications of SOEs, appropriation accounts, fund accounts and local authorities. The highest prevalence being in SOEs. The study found that between 2013 and 2018 corporate governance matters dominated the issues of concern to the AG among the SOEs spectrum. During this period, at least 133 corporate governance issues were raised annually from the 43 state entities audited per year. The issues were specifically related to failure to constitute a substantive board, absence of board sub-committees, incapacitated audit and other board committees, inadequate board and board sub-committee meetings, and failure of the internal audit function to discharge its mandate. There was a general lack of oversight of the audit committee in the management of the SOEs.

In some instances, new boards were not constituted to replace those whose tenure had lapsed. In cases where full board and board committees were constituted, issues such as infrequent board meetings and the subsequent failure to exercise appropriate oversight were noted. Also of concern was the failure by members of some boards to disclose interests in contracts, leading to conflict of interest. Although 96.6% of the SOEs indicated that board members were scheduled to meet once every quarter, the survey established that issues such as failure to notify board members about meetings on time negatively affected board effectiveness. Furthermore, at least a fifth of the boards operated without a board charter or similar crucial documents.

All the surveyed SOEs indicated that they had existing strategic plans, however, the effectiveness of these plans was compromised by lack of resources to implement them. The research found that 33.3% of the entities had a whistle blower policy, while the remaining 66.7% did not have any and yet this was critical in unearthing misdemeanors. The situation was compounded by the absence of legislation to protect whistle blowers.

Although the Procurement Regulatory Authority of Zimbabwe (PRAZ) has developed practical tools to facilitate the implementation of the law on procurement, the uptake of these instruments, their application and usage were found to have remained very low. An analysis of the occurrence of procurement-related problems in the AG's reports between 2013 and 2018 showed that the number of cases rose from 16 in 2014 to 47 in 2018.

Forty of the SOEs had going concern issues and operational inefficiencies where entities were incapacitated due to inadequate human and material resources. The analysis showed that the SOEs were making perennial losses and, therefore, had no capacity to provide quality goods and services as laid out in their mandates. According to the AG's reports, material uncertainty significantly compromised the entities' ability to continue as going concerns. There were also several cases of inter-parastatal debt which resulted in ballooning of losses. Low revenue collection and seeming tolerance of arrears were common problems in SOEs operations although some were being proactive by exploring such mechanisms as prepaid meters for electricity and water. Some SOEs had shifted away from, or diluted, their core mandates, for instance the Grain Marketing Board (GMB) and the Central Mechanical Equipment Department (CMED).

To address these issues, measures should be taken that include provision of training on the Corporate Governance Act for MPs and Committees so that they effectively assess adherence to legislative provisions. Parliament should enforce the adherence to the already existing corporate governance systems and begin to hold corporate executives accountable for the performances of enterprises they preside over. The appointment of persons to SOE boards should be undertaken by Parliament in a similar manner in which it is involved in the appointment of commissioners. In addition, performance appraisals should be established to inform re-appointments and dismissal of board members. Furthermore, Parliament should take the lead in the enactment of a robust national whistle-blowing legislation given that it is a key element in the first line of defense against corporate malpractices in the public sector.

Parliament should align the PFMA with Section 308 and penalties must be specified in the Act and enforced for such breaches. Constraints related to low capitalization of SOEs should be attended to so they improve their capacity to deliver. The pricing of goods and services produced by commercially-oriented SOEs needs to be done appropriately so that they do not continue to underprice and thus incur losses in the process. Furthermore, Parliament should corroborate with SOEs and their respective line ministries on the availability, quality and implementation of the

performance measurement tools. It should ensure that the SOEs are complying with all periodic and annual financial reporting requirements and external audits, delivering them on time.

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ACRONYMS

Abbreviations

AG	Auditor General
Air ZIM	Air Zimbabwe
Bol	Boards of inquiry
BoS	Boards of survey
CAAZ	Civil Aviation Authority of Zimbabwe
CEO	Chief Executive Officer
COURIER	Courier Connect (Private) Limited
CSC	Cold Storage Company
JENA	Jena Mine Private Limited
MARANGE	Marange Resources (Private) Limited
MD (LTD)	Minerals Development (Private) Limited (Elvington Mine)
MoF	Ministry of Finance
MoHTESTD	Ministry of Higher and Tertiary Education, Science and Technology Development
MP	Member of Parliament
MP	Member of Parliament
NETONE	NetOne (Private) Limited
NHS	National Handling Services (Private) Limited
NMMZ	National Museums and Monuments of Zimbabwe
NRZ	National Railways of Zimbabwe
NSSA	National Social Security Authority
NUST	National University of Science and Technology
OPC	Office of the President and Cabinet
PAC	Public Accounts Committee
PAYE	Pay as you earn
PFMA	Public Finance Management Act
POSB	Post Office Savings Bank
POWERTEL	Powertel (Private) Limited
PoZ	Parliament of Zimbabwe
PPE	Property, plant and equipment
RMS	Road Motor Services (Private) Limited
SAPST	Southern African Parliamentary Support trust
SERA	State Enterprises Restructuring Agency
SGR	Strategic Grain Reserve
SMEDCO	Small and Medium Scale Enterprise Development Corporation
SOE	State Owned Enterprise
TELONE	TelOne (Private) Limited
TIMB	Tobacco Industry Marketing Board
ToR	Terms of Reference
TRB	Tobacco Research Board
ZACC	Zimbabwe Anti-Corruption Commission
ZCDM	Zimbabwe Consolidated Diamond Company
ZDI	Zimbabwe Defense Industries
ZENT	ZESA Enterprises (Private) Limited
ZESA	ZESA Holdings Limited
ZESA	Zimbabwe Electricity Supply Authority
ZETDC	Zimbabwe Electricity Transmission and Distribution Company
ZIMCODE	Zimbabwe Corporate Governance Code

ZIMCODD	Zimbabwe Coalition on Debt and Development
ZIMDEF	Zimbabwe Manpower Development Fund
ZIMDEF	Zimbabwe Manpower Development Fund
ZIMPOST	Zimbabwe Post and Telecommunications Company
ZINWA	Zimbabwe National Water Authority
ZMDC	Zimbabwe Mining Development Corporation

INTRODUCTION

Introduction

The report presents findings of an assignment entitled “State Owned Enterprises Performance and Compliance Survey in Zimbabwe”. The survey was undertaken by SAPST in collaboration with ZIMCODD. The main objective of the study was to ascertain the performance of SOEs and their compliance to relevant regulatory frameworks, and the Auditor General and Parliament’s recommendations. The survey was conducted pursuant to the annual audit findings, most of which indicate lack of financial probity in SOEs, thereby contributing to the fiscal crisis in Zimbabwe. The findings from the survey are meant to contribute towards strengthening transparency and accountability in public finance management in Zimbabwe.

SOEs play a vital role in the delivery of public services and in generating domestic revenue to fund the national fiscus, therefore, improving efficiency and transparency in these state-run institutions will have a positive bearing on public finance management, particularly with regards to reduction in waste, preservation of value of assets, transparency in procurement and the efficient management of human resources. These entities provide infrastructure and services such as water, electricity, telecommunications, transportation, health, education, etc. particularly for businesses and the generality of the population. In some instances, SOEs are involved in advancing state policy, which goes towards meeting particular strategic national ideological goals (SERA, 2018). Therefore, ensuring that SOEs are accountable, transparent, efficient, effective, and viable is important for efficient allocation of resources, competitiveness, economic development and poverty alleviation.

SOEs are entities government have a stake in assets owned by the State on behalf of the public. According to the OECD, SOEs are ultimately owned by the general public and government agencies that exercise the ownership rights are answerable to the general public¹. In terms of the Constitution of Zimbabwe, Section 195, sub-section 1, State controlled commercial entities are expected to maintain commercial viability and adopt generally accepted standards of good corporate governance in their operations. Ensuring they create value for society through effective professional and transparent management and oversight is critical for good public accountability and is a precondition for creating public trust in the State.

Additionally, it is generally acknowledged particularly by the OECD², and the World Bank³ that adoption of sound corporate governance practices contributes towards performance enhancement and viability of SOEs. There is increasing recognition that poor corporate governance practices in SOEs significantly contributes to their underperformance (SERA, 2018). Indeed, Chimbari (2017) observed that unchecked corruption, political interference and bad governance practices in SOEs have become major risks to the growth and sustainability of the country’s public sector.

In an article entitled “*Parastatals sink deeper into debt*”⁴, Kairiza (2018) citing the AG, highlights that more than 20 state-run enterprises in Zimbabwe were sinking deeper into debts with liabilities running into hundreds of millions of

¹ OECD (2018), Ownership and Governance of State-Owned Enterprises: A Compendium of National Practices

² OECD Guidelines on Corporate Governance of State-Owned Enterprises, <http://www.oecd.org/corporate/guidelines-corporate-governance-soes.htm>

³ International Finance Corporation,

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/topics/state-owned+enterprises

⁴ “Parastatals sink deeper into debt” November 9, 2018 11:40 AM , by Tinashe Kairiza, <https://www.zimbabwesituation.com/news/parastatals-sink-deeper-into-debt/>

dollars as they faced imminent collapse due to poor corporate governance, mismanagement and corruption, among other problems. According to the AG report for the financial year ended December 31, 2017 on State Enterprises and Parastatals, mismanagement at entities and gross corruption, among them Air Zimbabwe, ZESA Holdings and its subsidiaries the Zimbabwe Electricity Transmission and Distribution Company (ZETDC), Zimbabwe Power Company (ZPC), and the National Railways of Zimbabwe (NRZ), “..... *have contributed to the demise of the companies*”. Other state-run entities such as the Zimbabwe National Road Administration (ZINARA), GMB and Civil Aviation Authority of Zimbabwe (CAAZ) were also reported to be in precarious positions. The report added that most of the audited parastatals were technically insolvent and tottering on the brink of collapse.

Both the 2017 and 2018 AG Reports concluded that the audit findings warrant the attention of management and those charged with governance. The audits revealed that most of the weaknesses emanated from governance and procurement issues. Most governance issues centered on absence of good stewardship over public resources. The AG reports highlighted that it is imperative that State Enterprises and Parastatals embrace provisions of the new Public Entities Corporate Governance Act [Chapter 10:31] that provide for the governance of public entities in compliance with Chapter 9 of the Constitution; and provide a uniform mechanism for regulating the conditions of service of members of public entities and their senior employees and incorporate these into their existing structures and processes. The report envisaged a situation where the performance of State Enterprises and Parastatals would greatly improve if recommendations and provisions of this Act are implemented.

This report, therefore, sought to identify the main issues surrounding the performance of SOEs and the extent to which they have complied with key provisions of the laws and good corporate governance. It also proffers some recommendations whose implementation should facilitate improvement in management, governance and performance of these entities.

Objectives of the Survey

The survey was implemented based on the following **objectives**:

1. An analysis of the extent of compliance with the relevant provisions of the Constitution and other pieces of legislation such as the Audit Office Act (*Chapter 22:18*), Public Entities and Corporate Governance Act (*Chapter 10:31*) and the the Public Finance Management Act (*Chapter 22:19*).
2. Examination of the extent of the implementation of Auditor General and Public Accounts Committee’s recommendations.
3. An analysis of the extent to which the SOEs have been able to execute their relevant mandates.
4. Development of a comprehensive set of appropriate indicators and provision of an appropriate means of attaching scores to measure progress of compliance to relevant provisions.

The study was not meant to replicate all of the issues raised by the Auditor General or those of various analyses of the Auditor General’s reports that have been undertaken by experts in the field. Instead, it attempts to give an analytical assessment from a situational point of view on what the state of affairs has been concerning the ability of the SOEs to comply with key statutory provisions.

METHODOLOGY

Methodology

The research relied on a multiple methodological approach incorporating both quantitative and qualitative methodologies. Incorporating multiple methods into a single survey “often results in a stronger, more complete study than conventional approaches relying on only one method⁵”. These approaches consisted of review of literature and reports, in-depth interviews with key stakeholders and a survey using a structured questionnaire on a selected sample of 31 SOEs.

In the literature and documentary review, SAPST was able to access a number of documents, the major ones being the AGREPORTS for the Financial Years 2013 to 2018. Also reviewed were the State Enterprises and Parastatals Reports for 2013 up to 2019. The study also reviewed the Zimbabwe Report of the Comptroller and Auditor-General on the Management of Dam Construction and Water Supply Project by the Zimbabwe National Water Authority (ZINWA). The study further reviewed other documents including pieces of legislation such as Public Entities Corporate Governance Act [Chapter 10:31]; the PFMA, the national Constitution, and others. Public Accounts Committee reports tabled in Parliament were also reviewed and so were various Acts and Statutory Instruments (SIs) establishing and operationalizing SOEs. In addition, reference was also made to a study by Clive and Associates (2019) entitled “Report on the Analysis of Auditor General’s Reports for The Year Ended 31 December 2018”.

With regards to stakeholders, interviews were conducted with a number of institutions and individuals. Key among these were the AG, PAC Chairperson, SERA, the Zimbabwe Anti-Corruption Commission (ZACC) and ZIMCODD. They provided significant insights into the issues and challenges surrounding compliance by SOEs on key statutory provisions and how these should be addressed to improve transparency and accountability and promote more efficient use of public funds.

The study also rolled out a structured questionnaire that was administered on a sample of 53 SOEs across all the main sectors of the economy. These were purposively sampled, from a list of 107 enterprises obtained from SERA. In the end, responses to the questionnaires were received from 31 of the sampled enterprises translating to a **58.5%** response rate. SAPST believes that this proportion can be used to make inferences into the entire SOE population in the country. The data was analysed using SPSS and Excel programs.

Study Limitations

One limitation was encountered and it involved the reluctance by some SOEs staff to participate and respond to the questionnaire. There seemed to be suspicion with regards to the actual motive for the survey, even after clearly explaining its purpose and objectives. The study was also launched in the aftermath of the AG 2018 report, which had raised some issues with some of the SOEs, so it appeared most of the potential respondents felt it was part of some further investigation into their conduct, hence the lack of interest and reluctance to share information.

⁵ https://www.usaid.gov/sites/default/files/documents/1870/Mixed_Methods_Evaluations_Technical_Note.pdf

STUDY FINDINGS

Study Findings

Constitutional Provisions

There are several provisions of the Constitution that guide the operations of SOEs. It is, therefore, mandatory that the entities and related stakeholders take measures to ensure that these constitutional provisions are upheld so that they do not violate the country's supreme law. The study, therefore, examined in detail the extent to which the SOEs were complying with these provisions.

Constitutional Provisions on Establishing of SOEs

The study established that there was adherence to the provisions of the constitution in terms of the existence of the relevant Acts that govern the SOE operations and Line Ministries. Every SOE that was identified in this survey had been established based on a legal framework premised largely on two platforms. The first was the establishment of an SOE under a specific Act of Parliament pertaining to that enterprise. Examples included the GMB under the Grain Marketing Board Act [Chapter 18:14], the Agricultural Marketing Authority (AMA) under the AMA Act [Chapter 18:24], the Civil Aviation Authority of Zimbabwe (CAAZ) under the (Civil Aviation Act [Chapter 13:16]), and the Zimbabwe Investment Authority (ZIA) under the Zimbabwe Investment Authority Act [Chapter 14:30].

The second basis was the formation of the enterprises under the Companies Act [Chapter 24:03]. Examples of such entities include Air Zimbabwe, National Oil Infrastructure Company of Zimbabwe (NOIC), Printflow (Private) Limited, ZESA Enterprises (Private) Limited (ZENT) and Zimbabwe Posts (Private) Limited (ZIMPOST). However, there have been instances where some companies or subsidiaries have been established outside the realms of the law. For example, according to minutes of the PAC of 2015, in 2012/13 the GMB Board established Country Feeds (Private) Limited/Hylbury Enterprises but there was no documentation showing communication between GMB and the parent Ministry, and the latter's concurrence to the establishment and operation of the company, including the appointment of the Board of Directors. Yet that PFMA compels parastatals to seek authority from the Minister to establish such enterprises -.

Constitutional Provisions on Public Financial Management

Section 298 of the Constitution outlines six principles of public financial management which state that **(1)** There must be transparency and accountability in financial matters; **(2)** The public finance system must be directed towards national development; **(3)** The burdens and benefits of the use of resources must be shared equitably between present and future generations; **(4)** Public funds must be expended transparently, prudently, economically and effectively; **(5)** Financial management must be responsible and fiscal reporting must be clear; and **(6)** Public borrowing and all transactions involving the national debt must be carried out transparently and in the best interests of Zimbabwe. Accountability means those entrusted with the custodian of public funds must account for their actions, while transparency is about honesty and openness in financial matters. Detailed and consistent reporting to the public on financial performance promotes transparency and accountability in the management of public funds.

The survey found out that these constitutional principles on sound public financial management were not fully appreciated by SOEs with more than 80% of those surveyed unaware of Section 298 of the Constitution. Related to this is Section 308 of the supreme law to do with the duties and custodian of public funds and property. Section 308 **(2)** says it is the duty of every person responsible for the expenditure of public funds to safeguard the funds and ensure that they are spent only on legally authorized purposes and in legally authorized amounts. Section 308 **(3)** further states that it is the duty of every person who has custody or control of public property to safeguard it and ensure that it is not lost, destroyed, damaged, misapplied or misused.

It is clear from the damning AG findings over the years that these constitutional provisions have not been adhered to. This is supported by findings summarised in Figure 1 showing the distribution of the findings as reported in the AG report for the Financial Year Ended December 31, 2018 on State Enterprises and Parastatals. These are presented in sunburst hierarchy format for graphic clarity showing the most prevalent to the least prevalent issues.

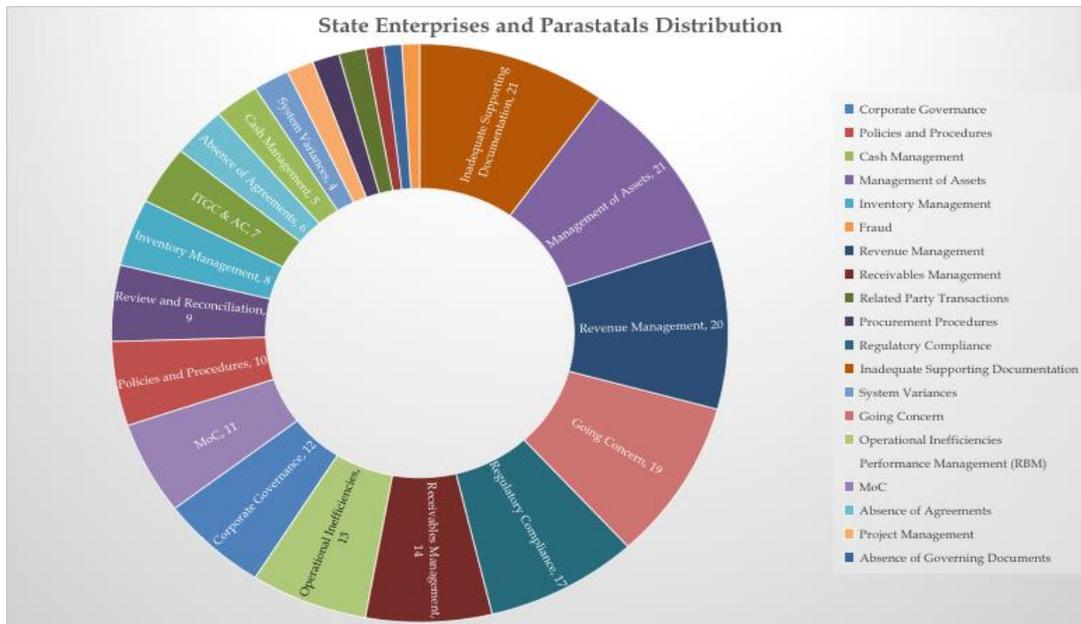


Figure 1: State Enterprises and Parastatals Findings Distribution

The ten most prevalent findings on SOEs pertain to inadequate documentation (44.7%), management of assets (44.7%), revenue management (42.6%), going concern status (40.4%), regulatory compliance (36.2%), receivables management (29.8%), operational inefficiencies (27.7%), corporate governance (25.5%), management override of controls (23.4%), and policies and procedures (21.3%).

Section 308 (4) of the Constitution requires an Act of Parliament to provide for the speedy detection of breaches to do with safeguarding public funds and assets and the disciplining and punishment of persons responsible for such breaches and, where appropriate, the recovery of misappropriated funds and property. Parts IX and X of the PFMA deal with financial misconduct by accounting authorities and employees of public entities and the penalties applied. For example, an accounting officer who mismanages or abuses public funds shall be guilty of an offence and liable upon conviction to a fine not exceeding level 10 or to imprisonment for a period not exceeding five years or to both such fine and imprisonment. However, our assessment revealed that these penalties had not been applied despite the numerous cases of fraud, wastage, abuse and gross mismanagement of public funds and assets.

The study found that 44.7% of state enterprises and parastatals, 40.6% of appropriation accounts, 40% of fund accounts and 25% of local authorities had been failing to maintain asset registers, perform periodic verifications of assets, perform valuations and assessments of impairment, and residual values which are requirements for compliance with generally accepted accounting practice. All categories, with the exception of local authorities, deteriorated in this area in comparison to the prior year.

An asset is a resource embodying economic benefits. Assets, which include equipment (motor vehicles, furniture, computer and other equipment) continued to be inappropriately managed. Included under this classification of assets are property, plant and equipment (PPE) and investment property. Where assets had been damaged or disposed of, the AG noted that, in certain instances, boards of survey (BoS) and/or boards of inquiry (BoI) were not performed.

The State is required to take measures, including legislative ones, to promote these values and principles under Section 194 of the Constitution as read together with Section 83 of the PFMA. However, the survey found that not much effort had been taken to promote these values and principles. Section 194 of the Constitution outlines the basic values and principles governing public administration. Of particular interest to this survey were the following: **(a)** A high standard of professional ethics must be promoted and maintained; **(b)** Efficient and economic use of resources must be promoted; **(c)** Services must be provided impartially, fairly, equitably and without bias; **(d)** People's needs must be responded to within a reasonable time, and the public must be encouraged to participate in policy making; **(e)** Public administration must be accountable to Parliament and to the people; and **(f)** Employment, training, and advancement practices must be based on merit, ability, objectivity; fairness, the equality of men and women and the inclusion of persons with disabilities.

Section 83 of the PFMA also requires annual reports and audited financial statements of a ministry, public entity, constitutional entity or statutory fund to include, where appropriate, particulars relating to losses arising from criminal activities; instances of unauthorised expenditure; irregular expenditure; fruitless and wasteful expenditure; criminal and disciplinary action taken; and recoveries and write-offs. A perusal of the SOEs annual reports revealed that all the entities had not fully complied with this provision. The statutes governing the operations of various public entities had not been amended to incorporate these constitutional provisions.

Constitutional Provisions on Reporting to Parliament

Section 299 of the Constitution gives Parliament the mandate to monitor and oversee expenditure by government institutions. Sub-section 1 states that Parliament must monitor and oversee expenditure by the State and all Commissions, institutions and agencies of government at every level, including statutory bodies, government-controlled entities, provincial and metropolitan councils and local authorities, in order to ensure that - **(a)** all revenue is accounted for; **(b)** all expenditure has been properly incurred; and **(c)** any limits and conditions on appropriations have been observed. **(2)** An Act of Parliament must provide mechanisms for Parliament to monitor and oversee expenditure referred to in sub-section **(1)**. It is, therefore, the duty of Members of Parliament (MPs) to ensure that constitutional bodies, Parliament and other institutions are adequately funded.

The study found that Section 323 of the Constitution which makes it mandatory for Commissions to report annually to Parliament had not been fully complied with. Under Sub-section 1 *"Every Commission must submit to Parliament, through the responsible Minister, an annual report describing fully its operations and activities, the report being submitted not later than the end of March in the year following the year to which the report relates"*. For example, key informants at ZACC indicated that the Commission had not complied at all with this provision since its establishment. Other Commissions indicated that they had been submitting the relevant reports to the respective ministers but the ministers had not been forwarding these to Parliament as required under the law.

According to the survey findings, 80% of these commissions and SOEs had not appeared before the relevant portfolio committees of Parliament to discuss their budget proposals for the succeeding financial year. This is in view of Subsection 2 of Section 323, which states that *"The Commissions and other institutions established by this Constitution must be given a reasonable opportunity to make representations to a parliamentary committee as to the funds to be allocated to them in each financial year"*. The Constitution also provides that each Commission must have its stand-alone lines in the estimate of expenditures. The idea was to enable the Commissions to manage their own budgets and cash flows to inculcate a sense of independence. Although this is now the case in the Blue Book, in practice, they have to go through the Treasury for every expenditure that they intend to make. It therefore, remains the prerogative of the MoF whether to give them the money or not and this stifles on the independence of the Commissions and other relevant statutory bodies. This compromises efficiency and ability to deliver on their mandate.

The provisions allowing for annual financial statements submission and presentation to Parliament are very elaborate legal provisions to strengthen accountability by ministries, and greater transparency in the management of public funds, but these provisions had not been fully complied with. According to one key source, the MoF was considered the biggest culprit when it came to non-compliance – including reporting to Parliament – yet it was the same ministry that

had to oversee enforcement of the Constitutional provisions. Although a large number of SOEs reported producing financial statements, these statements had been very thin on detail. There were no accompanying reports to the statements as required under PFMA. SERA (2018) said financial reporting by SOEs in Zimbabwe did not always meet statutory deadlines and yet sound financial reporting demands that reports must be produced timeously. This enhances the usefulness of the information to users of the reports. A large number of the SOEs were reported to be producing their audited financial statements long after the statutory deadlines but there were no sanctions or penalties imposed to deter such behavior in the future.

Failure by SOEs to regularly report to Parliament was reported to be partly due to lack of clarity on the roles of the numerous institutional bodies tasked with provision of oversight on the performance of these entities. Resultantly lack of accountability and poor performances became the order of the day. The oversight bodies consist mainly of line ministries, the Ministry of Finance, Parliament, the Office of the President and Cabinet (OPC), SERA and industry sector regulators. According to SERA (2018), these oversight institutions often exhibit different policy interests. The result was that the situation then allowed for either excessive interference in an SOE's decision-making process, or left control gaps with passive ownership and limited oversight. It also increased the risk of insiders advancing their own interests rather than those of the enterprise and the public. This was a problem in a number of SOEs where boards and management had taken advantage of passive ownership by the government, with limited or non-existent control and oversight. The lack of clarity about the government's role as owner had led, in some sectors, to the government having interests in entities that compete with each other. For example, in the telecommunications sector the government owned NetOne and at the same time, it was a major shareholder in Telecel Zimbabwe Limited.

The lack of accountability and disclosure was also caused by some legal and compliance gaps given that laws establishing SOEs were not harmonized and some of the laws not making it mandatory for the established SOEs to hold AGMs. Section 3.3.10 of the Corporate Governance Framework (2010) states that *"Board members shall attend Annual General Meetings and ensure that each item of business included in the notice of the Annual General Meeting is accompanied by a full explanation of the effects of proposed resolutions with the aim of ensuring that shareholder value is increased"*. Examples in which SOE legislation did not provide for the holding of AGMs included the Civil Aviation Act [Chapter 13:16] (No.7 of 1998), Acts establishing Universities, Environmental Management Act [Chapter 20:27] and others. In cases where such establishing laws were silent about the need to hold AGMs, the SOE was obliged to hold AGMs by other applicable legislation. A good example of this was found in the banking sector where the Banking Act [Chapter 24:20], Section 15F refers to *"voting at any general meeting of the banking institution's shareholders"*. However, despite these provisions the applicable SOEs were not complying, with no AGMs having been held.

Constitutional provisions and the Office Audit Act

Section 309 of the Constitution, Sub-section 2 specifies the four core functions of the AG which are (a) to audit the accounts, financial systems and financial management of all departments, institutions and agencies of government, all provincial and metropolitan councils and all local authorities; (b) at the request of the Government, to carry out special audits of the accounts of any statutory body or government-controlled entity; (c) to order the taking of measures to rectify any defects in the management and safeguarding of public funds and public property; and (d) to exercise any other functions that may be conferred or imposed on him or her by or under an Act of Parliament. The survey, therefore, examined the extent of adherence by SOEs with the provisions of the Audit Office Act (Chapter 22:18) and by extension Section 309 of the Constitution. This was in terms of what the Office Audit Act [Chapter 22:18] said about SOEs conduct, governance, reporting, and other requirements.

The study found that audits were undertaken by the AG's Office, or by private auditing companies that were seconded by the AG's Office. Figure 2 summarises the number of SOEs that have been audited on an annual basis between 2013 and 2018 from an analysis of the AG's annual audit reports. The financial statements for any particular year ending December 31 are supposed to be submitted timeously. In particular, the Public Finance Management Act [Chapter 22:19] requires that financial statements be submitted by March of the next year of the date of the accounting period under audit.

Between 2013 and 2018, an average of 42 SOEs (including parastatals) had been audited by the AG under the provisions of the Audit Act (see Figure 1). This leaves out an estimated **137** SOEs (or **76.0%** of the **179** companies⁶) that had not been audited, (or which failed to comply with the Audit Act).

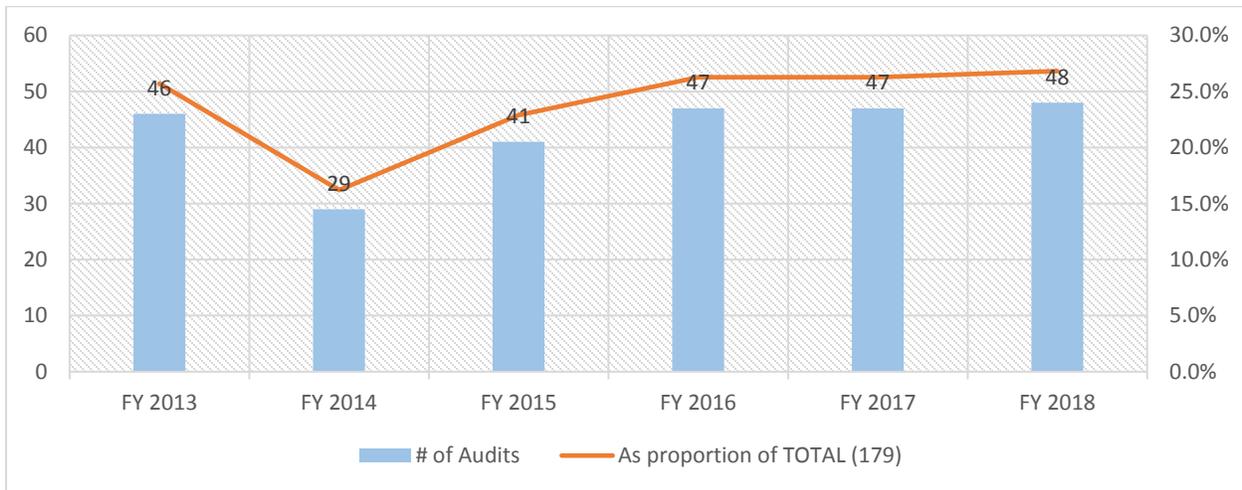


Figure 2: Number of SOEs Audited Over time

Key informants at the AG's Office highlighted that some of the 179 SOEs had been lagging behind in the completion and submission of their annual financial statements for auditing by the AG. The challenges that were cited as slowing these institutions from submitting financial statements for audits on time included lack of capacity, accounting and financial system problems and corporate governance challenges. In particular, where there was poor oversight because of a non-existent or ineffective board, management had been ineffective in producing the annual financial statements and other necessary reports. What the outcome depicted in **Figure 1** is that there was generally significant non-compliance with the requirement that SOEs annual financial accounts needed be produced on time and audited. It pointed to weak enforcement measures by line ministries and also reflected weak enforcement of corporate governance standards by the boards.

⁶ According to a Key source at the Auditor General's Office, 179 is the total number of State Owned Enterprises Parastatals that they are supposed to audit on an annual basis.

The Kind of Audit Opinion Received at the Last Audit

The outcomes of the audit reports were as summarized in Figure 3, showing that a significant proportion, 40% of SOEs, received an adverse opinion on the audits as calculated from an analysis of the survey responses for this study.

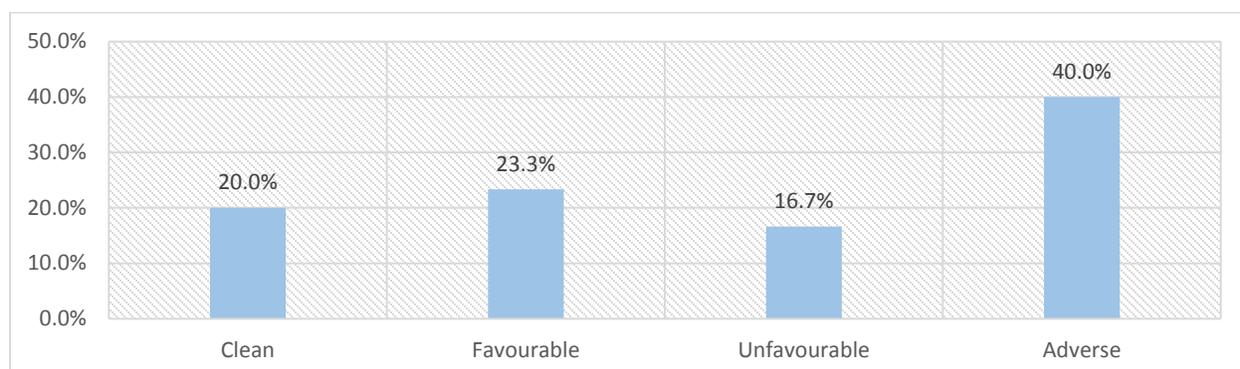


Figure 3: Type of Audit Opinion Received at the Last Audit

The survey results showed that **20%** of the SOEs indicated that they had received clean reports while **23.3%** got favorable results and **16.7%** received unfavorable opinions. This analysis was also conducted using data provided in the AG reports for the years **2013 to 2018**. Adverse opinions took up the largest proportion of the audit opinions for the years under review (see Table 1).

Table 1: Distribution of Audit Opinion over the Years

Audit Opinion	2013	2014	2015	2016	2017	2018
Unmodified/clean opinion.	4%	10%	0%	2%	3%	11%
Qualified Opinion	63%	17%	15%	19%	17%	11%
Unqualified Opinion	0%	0%	0%	5%	9%	6%
Adverse	22%	73%	66%	33%	23%	28%
Unqualified opinion with an emphasis of matter paragraph	11%	0%	15%	37%	43%	33%
Disclaimer	0%	0%	5%	0%	6%	3%
Qualified opinion with an emphasis of matter paragraph	0%	0%	0%	5%	0%	8%
Total	100%	100%	100%	100%	100%	100%

This was followed by an unqualified opinion with an emphasis of matter paragraph. The third most common category was that of qualified opinion. This outcome seemed to tally with the findings from the survey in which **40%** of the respondents indicated that the opinions that they received from the auditors were in the adverse category as shown in **Figure 3**.

Revenue Collection, Management and Debt Recovery Issues

The study also examined the extent to which the issues of revenue collection, management and debt recovery had arisen as a challenge for the SOEs. An average of 37 such cases were discovered in each of the six years under review. The outcome of the analysis based on the **2013 to 2018** AG reports was as summarised in **Figure 4**.

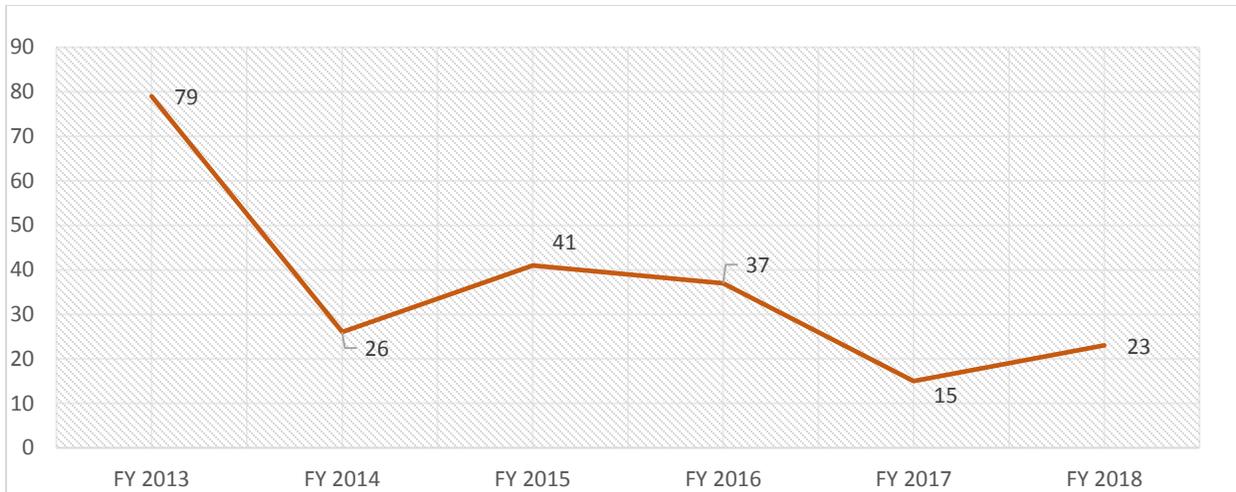


Figure 4: Occurrence of Revenue Collection, Management & debt Recovery Issues per Year

From an analysis of the AG reports, the study found that the highest number of cases totaling 79 over this period occurred at the beginning of the study period, 2013 and gently fluctuated to reach 23 in 2018. The lowest was **15 cases recorded in 2017**. Examples included the case of ZIMRA in the **2018** audits, in which it was found that the SAP system and its related e-services platform allowed the creation of duplicate contract accounts for the same revenue head under one business partner number. In addition, the SAP E-services platform was not charging civil penalties for some outstanding returns. As a result, some business partners with outstanding returns were not charged civil penalties on all outstanding returns thus leading to misstatements. It could also take the form of challenges in calculating taxes. For example, for ZIMRA in the 2018 audits it was found that some designated auctioneers were not submitting tobacco levy returns to enable assessment as required by the Income Tax Act [Chapter 23:06], hence their accounts were found to be in credit as at December **31, 2018** and these misrepresented tax statuses of such clients.

Other revenue related issues included inability to collect revenue due to the SOE, an example being the Zimbabwe Tourism Authority (ZTA) which was owed three years' rentals amounting to US\$62,500 by the Zimbabwe Defense Industries (ZDI) as contained in the 2018 audit report by the AG. The Authority was also owed **US\$62,797** by the parent Ministry of Tourism in the form of a loan. This amount had been outstanding from as far back as **2010**. Even though there had been a decline over the years from the high recovered in **2013**, these issues remained a major concern and should be significantly reduced or removed completely given the high waste they generated on the economy and the performance of the companies.

Occurrence of Employment Related Issues

The study also examined the frequency of occurrence of employment related issues in the SOEs financial reports as audited by the AG. On average, 17 such cases arose per year among the average 43 SOEs audited annually between 2013 and 2018. **Figure 5** gives a summary of the annual cases of this nature.

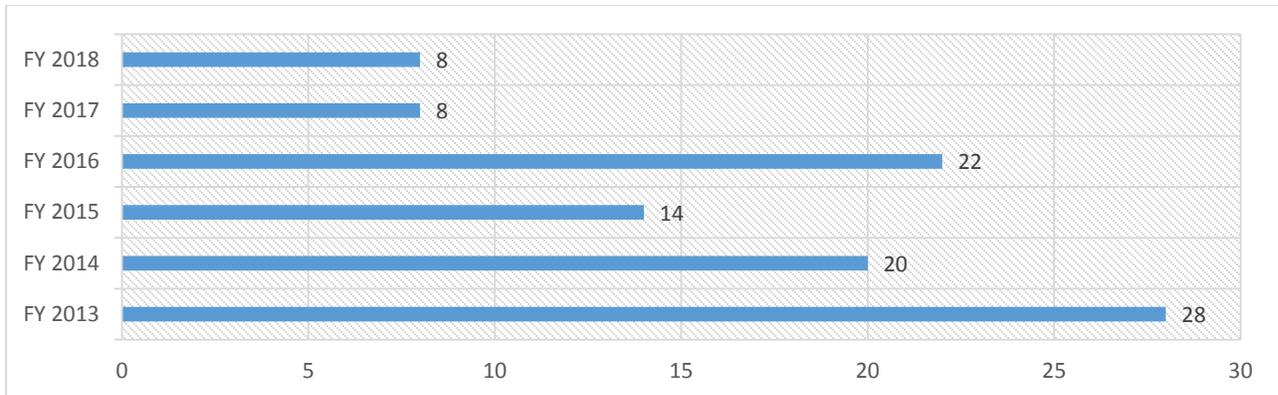


Figure 5: Occurrence of Employment Related Issues

It can be noted that over time employment related cases declined from a high of 28 in 2013 to 8 in 2018. Some of the issues that arose in this respect included not following laid down recruitment procedures for new staff. For instance, in the **2018** AG Report, the Zimbabwe Youth Council filled the positions of Assistant Director, Internal Auditor, Research Officer and Programme Officer but there was no evidence to support that these employees applied and were interviewed for the posts. There was also no evidence to support that four officers had undergone security vetting, medical examinations and were inducted as required by the Council's human resources policy. Matters to do with statutory and other deductions also came under the employment category, examples being contributions to National Social Security Authority (NSSA), Pay as You Earn (PAYE), ZIMDEF, Pension, National Employment Council and Medical Aid. For instance, the **2018** AG report observed that Air Zimbabwe had not been paying statutory and other deductions to the extent that as at **31 December 2014**, the company had a cumulative obligation of **US\$27,285,786**.

Auditor General and Public Accounts Committee recommendations

The AG and the Public Accounts Committee each issues out annual reports and special reports on audits conducted with regards to financials and other relevant aspects of SOEs. These reports also contain specific recommendations for adoption and/or implementation by the respective SOEs. In our analysis, therefore, we sought to establish the extent to which the SOEs were able to implement such recommendations. We also attempted to establish the reasons for lack of implementation in situations where these recommendations had not been taken on board.

Extent of Implementation of Recommendations from the Auditor General's Office

Figure 6 gives a summary of the cases on an annual basis raised by the AG in a preceding year, which the SOEs had partially or completely failed to address by the time of the subsequent audit. These averaged 31 cases per year between 2013 and 2018. The occurrence of such cases took an upward trajectory from **19** in **2013** to **44** in **2017**, before falling to **22** in **2018**. What this meant also was that out of an average 200 recommendations provided by the AG per year over this period, an annual average of **17.8%** of the recommendations were not implemented at the time of the next audit.

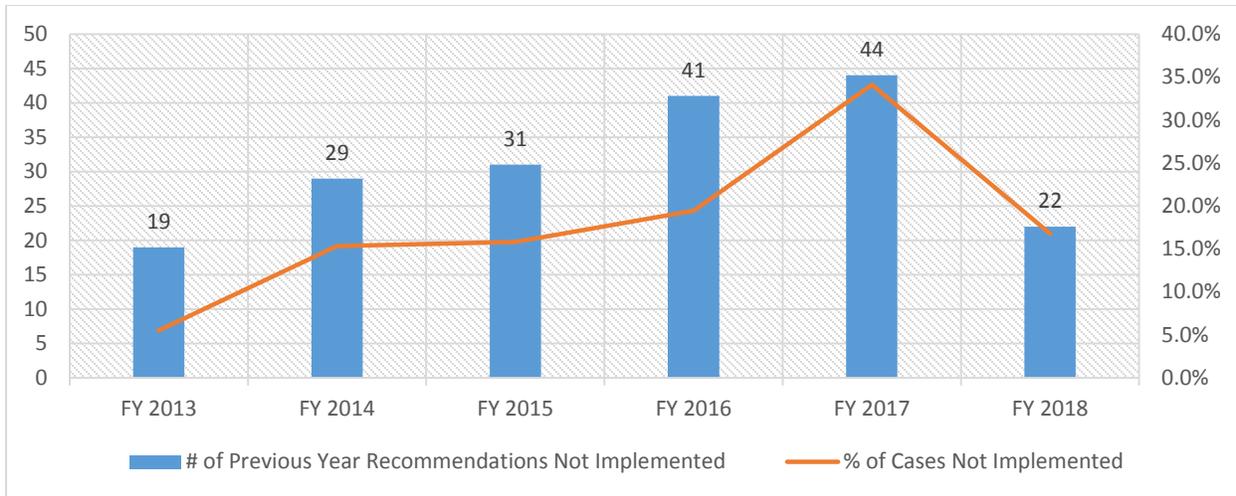


Figure 6: # of Cases of Recommendations whose Implementation Still Outstanding from time of Previous Audit

This presented a major challenge in the whole aspect of addressing the major problems affecting the performance of SOEs. It was expected that once the issues had been picked up by the AG, they should have been accorded the urgency that they deserved by board and management of each respective SOEs and should therefore, as a matter of priority, been addressed within the shortest period of time. This had not been the case.

In the AG's report on appropriation accounts, finance and revenue statements and fund accounts, the AG highlighted that out of 435 recommendations made in the preceding year, 108 (24.8%) were fully implemented, 85 (19.5%) were partially implemented and 242 (55.6%) were not implemented at all. The level of non-implementation of prior period issues was appalling (see Figure 7).

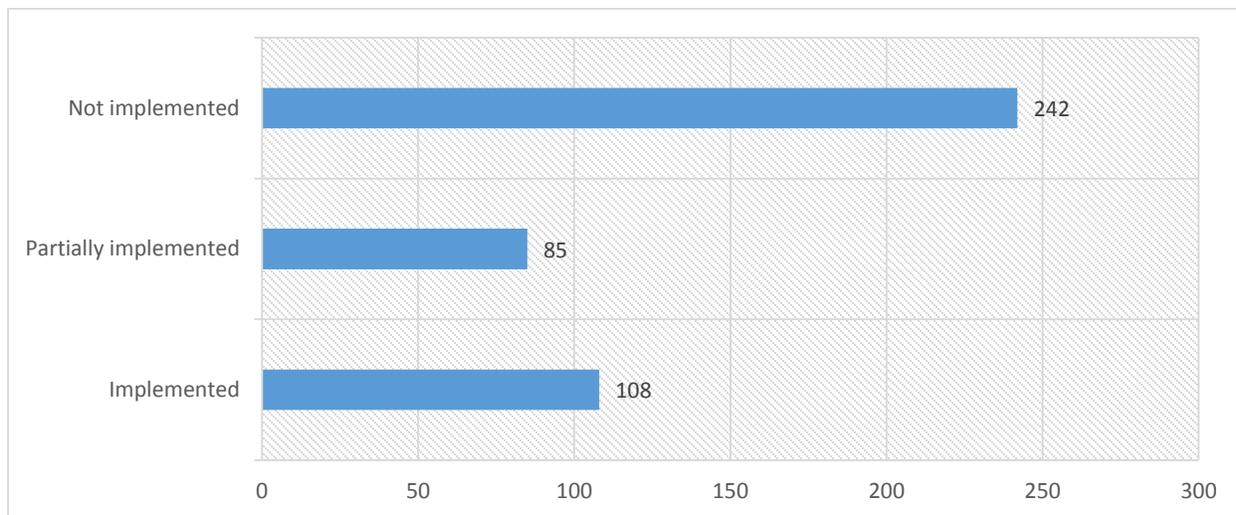


Figure 7: Implementation of Findings (Appropriation & Fund Accounts)

Without implementation of these recommendations and the treasury minutes to monitor and track the same, there would not be any improvement in the internal control environment in ministry departments. There was lack of robust instruments to track and monitor the implementation of recommendations. Examples of appropriation and fund accounts that were singled out for failure to implement any of the recommendations made by the AG in the prior year included MoF, Agricultural Revolving Fund 2017, Ministry of Transport and Infrastructural Development, Ministry of Local Government, Public Works and National Housing, Government Pool Properties Retention Fund 2017 and Ministry of Health and Child Care.

The AG also noted in the report on state enterprises and parastatals that out of the 134 recommendations made in the prior year, 124 had been resolved. **Figure 8** shows the implementation rate between **2016** and **2017**.

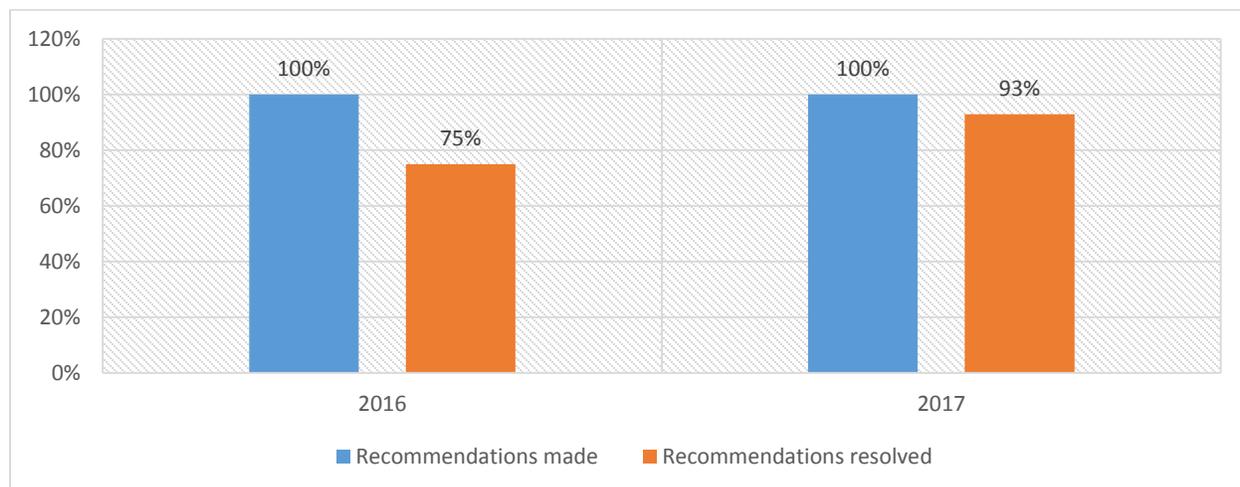


Figure 8: Implementation of Findings SOEs

While there might have been high levels of implementation by count for SOEs, prominent institutions that failed to implement the recommendations of the AG from the prior year included ZMDC, NSSA, ZINARA and Allied Timbers Zimbabwe (Private) Limited.

Corporate Governance and State Owned Enterprises

The study found that corporate governance requirements were largely based on old laws and legislation, which had been static for a long time and needed to be updated. This wide range of sources was also encouraging selective compliance by SOEs as to which government requirements to apply (SERA, 2018). For example, some SOEs incorporated as companies, ignored the requirements of the PFMA, wrongly arguing that they were only obligated to comply instead, with the Companies Act. Where applicable, the two Acts must both be complied with. In some SOEs, the requirements of the PFMA were not known.

Corporate governance findings were pervasive across the four entity classifications with the highest prevalence being in state enterprises and parastatals. In these, the AG noted that corporate governance issues specifically related to failure to constitute a substantive board, absence of board sub-committees, inadequately capacitated audit and other board committees and inadequate board and board sub-committee meetings. Failure of the internal audit function to discharge its mandate and general inadequate oversight of the audit committee in the management of the state enterprise or the parastatals also compromised corporate governance tenets. In some instances, new boards were not constituted once the board tenure had lapsed. However, in cases where full board and board committees were constituted the corporate governance observation related to inadequate frequencies of board meetings hence failure to exercise appropriate oversight on the SOE operations. Also of concern across the years was the failure by members of some boards to disclose interests in contracts, leading to conflict of interest.

The study, therefore, reviewed adherence by the SOEs to some of the key principles of the Public Entities and Corporate Governance Act (Chapter 10:31). Published in the Government Gazette 21st July 2017 [GN 335/2017], this Act provides for the corporate governance of public entities, that is to say statutory bodies (parastatals), certain constitutional commissions, and commercial entities that are owned or controlled by the Government. Section 194 of the Constitution deals with “Basic values and principles governing public administration”, sub-section (1), (a) “a high standard of professional ethics must be promoted and maintained” (f) “public administration must be accountable to Parliament and to the people”. (k) “employment, training and advancement practices must be based on merit, ability,

objectivity, fairness, the equality of men and women and the inclusion of persons with disabilities". Sub-section (2) states that "Appointments to offices in all tiers of government, including government institutions and agencies and government-controlled entities and other public enterprises, must be made primarily on the basis of merit".

The Act also gave effect to the National Code on Corporate Governance Zimbabwe (ZIMCODE) to the extent that it applied to public entities. In SOEs, as with private enterprise, suppliers of finance were separate from managers that run the enterprise. The state that provided the initial funding allowed board of directors appointed by the state to run the enterprise. Corporate governance had long been adopted by countries in developed economies to improve the performance of organizations. However, this had not been the case in Zimbabwe's SOEs hence accusations of lack of will to implement recommendations for good governance and transparency. Among some of the key elements, the code critically evaluated issues of corruption in the public and private sectors, corporate disclosure, communication and mechanisms for creating trust between shareholders, boards, management and employees.

The study found that almost all internal control issues had an element of non-compliance with policies and procedures. The analysis of the AG's Reports made reference to policies and procedures as proffering inadequate control, where the AG highlighted total or partial absence of documented policies and procedures in an organisation. This notwithstanding the number of policies raised as missing. This observation was pervasive across state enterprises and parastatals, appropriation accounts, fund accounts and local authorities. The entities reviewed did not have certain key policies and procedures documented. Among the non-existent policies and procedures were risk management policies, finance policies and procedures and ICT policies and procedures (addressing disaster recovery issues, business continuity, security and other general and application controls), and human resources policies.

Examples of entities where concerns pertaining to the absence of critical policies and procedures included the University of Zimbabwe (UZ), which operated without the following policies: risk management, related party transactions, fraud response, disaster response, capitalisation, records management, network security and student accommodation. While there were UZ finance regulations, these were outdated and needed to be reviewed. Another example was that of the Special Gold Unit Fund under the Ministry of Mines and Mining Development, which operated without a risk management policy.

From an analysis of the AG's reports over the period 2013-2018, the study found that corporate governance matters dominated the issues of concern to the AG among the SOEs spectrum and over this period, out of an average 43 SOEs audited per year, the average annual number of corporate governance related issues raised by the AG had been 133. This translated to an average of **three** corporate governance- related issues per enterprise per year. It should, however, be noted that over this period, the number of corporate governance- related issues have gone down from an average of **four** per enterprise per year in **2013** to two in **2018**. It is nevertheless significant that some SOEs still faced these challenges given the efforts made over the years towards structural reforms. It was also envisaged that the promulgation of the Corporate Governance Act towards the end of **2018** would speed up the process of strengthening the corporate governance area in the public sector.

Appointment, tenure and conditions of service of boards of the public entities

The study examined the existence of the board of directors in the surveyed companies and the results showed that 87.1% of the SOEs had boards in place while 12.9% that did not, among the 31 sampled companies (see Figure 9). Boards are one of the central features of good corporate governance given that they provide policy direction and general oversight on the operations of an enterprise.

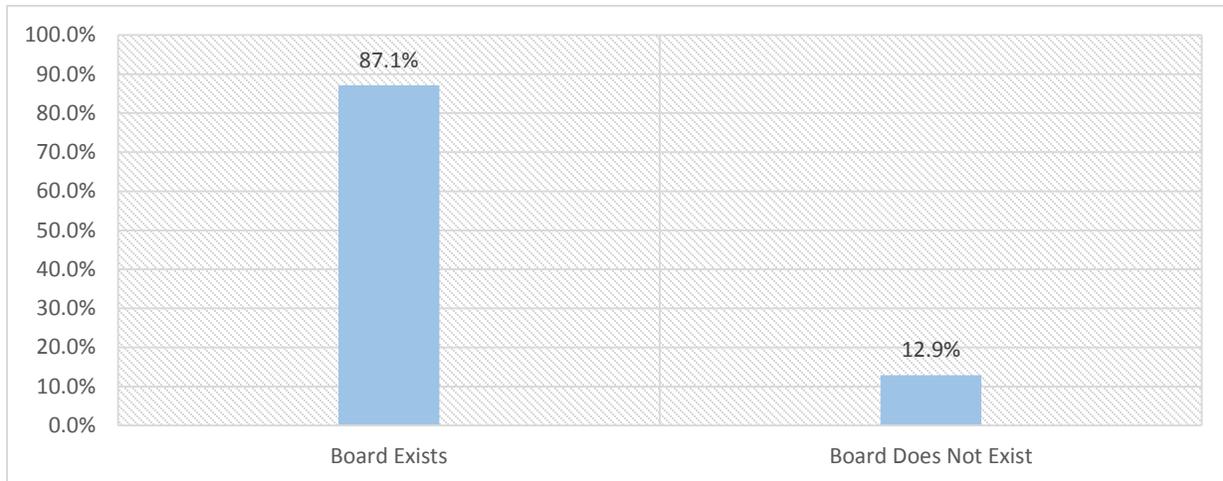


Figure 9: State of the Board of Directors of SOEs

The reasons for the non-existence of boards varied among those that did not have them in place. Some institutions, for example, Zimbabwe Manpower Development Fund (ZIMDEF), no board was in place because under Section 23 of the Manpower Planning and Development Act of 1996, which birthed the organisation, there was no provision for the establishment of a board. Instead, the company's management through the Chief Executive Officer (CEO) reported directly to the Ministry of Higher and Tertiary Education, Science and Technology Development (MoHTESTD). However, discussions with a high ranking official in the MoHTESTD informed the research team that the Manpower Planning and Development Act was under review to ensure that it allowed for more effective oversight on the ZIMDEF Fund through appointment of a board and the incorporation of other corporate governance principles.

Other situations observed by the survey included those SOEs whose boards had been dissolved for one reason or another and new board appointments were still to be conducted. Two examples included ZESA and CAAZ. The ZESA Board had been removed from office at the beginning of June 2019 when a new Minister of Energy and Power Development (MoEPD) came into office. This was two months after the previous minister had appointed the board. The new Minister cited failure by the board to *"appreciate the urgency of the situation we are in"* concerning electricity supply shortages. The minister indicated that he would not rush to appoint a new board, as long as he would get the right people for the task. *"(It will take) as long as it is necessary. We will get the right people; people who will give the nation and the market the right signals that we are serious about turning around ZESA. So those are the women and men that I will be looking for"*.

According to the AG 2018 report, ZIMRA did not have a properly constituted board and as a result, the board failed to constitute sub-committees including the pertinent audit and remuneration committees. According to a key source at SERA, there were also a significant number of cases in which boards changed with changes of line ministers and this affected continuity in strategy implementation. Abrupt changes in corporate strategies before the end of the strategy period can also affect SOE performance against stated objectives. Such changes could also negatively influence performance monitoring.

⁷ "Zesa board fired", Africa Moyo, Harare Bureau, The Chronicle, 8 Jun, 2019, <https://www.chronicle.co.zw/zesa-board-fired/>

⁸ "Zesa board fired", Africa Moyo, Harare Bureau, The Chronicle, 8 Jun, 2019, <https://www.chronicle.co.zw/zesa-board-fired/>

Commenting on its findings on NSSA in 2014⁹, the PAC observed that there was a corporate governance crisis in NSSA “and most parastatals”. The Committee highlighted that there were major weaknesses, which if not addressed “*would continue to create headaches for government*”. Parastatals were left to run for more than six months or even up to year without boards. When new boards were appointed it was very difficult to understand the criteria used as their competencies did not relate to the operations of the institutions they were to oversee. For example, the PAC in a June 2018 report on ARDA implored the government to review the composition of the ARDA Board to comply with the provisions of the Public Entities Corporate Governance Act requiring board members to have certain relevant expertise. The PAC further observed lack of a proper policy for the SOEs to operate effectively and efficiently.

The survey found that the new minister of transport had dissolved the previous CAAZ Board in January 2019 after the board had been appointed by a former minister in 2016. According to the new minister, the board was dissolved “*with immediate effect as it was failing to meet the requirements of the CAAZ Amendment Act*”¹⁰. Therefore, at the time of the study, seven months on, no new board appointments had been done for the company. The other scenario in which a board was not in place was that of Petrotrade (Private) Limited in which the term of office of the board members had expired and new members were yet to be appointed. However, it should be noted that in some situations, for example, the Post Office Savings Bank (POSB), the incumbent board members continued to play their oversight functions even after their term of office had expired as they waited for the appointment of new board members. This ensured that a vacuum was not immediately created in terms of the provision of oversight functions to the SOE .

One important element in the appointment of board members and their effectiveness in the oversight function is stability. Therefore, the frequent appointment and removal of board members would violate this important principle. There has been a general trend in which newly appointed ministers tended to immediately dismiss existing board members immediately on their assumption of office. A key source at the AG’s Office jokingly put it as “*muvhimi anofamba nembwa dzake*”¹¹, implying the any new minister would want to have his/her own people to take charge. Therefore, the expectation among board members across the SOE spectrum would be that once there was a change in the minister, they were likely to immediately face the chop simply because the minister would bring his/her own people. It also followed that the management of the SOEs would have their allegiance more towards the minister and not the board given the huge powers that the minister possessed. In this respect, Chimbari (2017) highlighted the need for a paradigm shift in the way the State runs SOEs. By treating the SOEs as the corporate bodies that they were presumed to be and refraining from exerting undue interference and political pressure on the corporate management.

The study also found that some boards were not supported by appropriate committees and this compromised their efficiency and effectiveness. The Board should establish committees to more effectively address specialized topics and issues. Although this may limit the depth of involvement of all Directors on all issues, such committees do ensure that certain specialized topics were discussed in depth by those individuals with the appropriate and relevant knowledge and insight. This enables Board meetings to be more efficient and effective, and allows the overall Board to devote more time to critical SOE issues. As reported by the AG, ZIMRA did not have a properly constituted board, resultantly, the board failed to constitute board sub-committees including the pertinent audit and remuneration committees.

Most Boards did not have the power to appoint and remove the CEO given that such power was exercised by the line ministry¹². The Corporate Governance Principles approved by the Cabinet on March 4, 2014 required the CEO to report directly to the Permanent Secretary of the Line Ministry regarding operational issues on a regular basis – including briefing the Permanent Secretary on all significant decisions after board meetings. Whereas this was still common practice in many countries, good practice increasingly calls for empowering boards to appoint and, subject to clear

⁹ Report of the Public Accounts Committee on the Examination of Accounts for the National Social Security Authority for the years ending 31st December, 2011 and 2012, Presented To Parliament in July, 2014

¹⁰ “**Matiza dissolves CAAZ board**”, Tinashe Makichi, [Business Writer](https://businesstimes.co.zw/matiza-dissolves-caaz-board/), Business Times, January 24, 2019, <https://businesstimes.co.zw/matiza-dissolves-caaz-board/>

¹¹ Key Informant Interview, Auditor General’s Office, 23 August 2019

¹² Key Informant Interview, SERA, 7th October, 2019

terms, remove the CEO. This reinforces the key function of the board in overseeing management and helps ensure that the CEO was immediately accountable to the board rather than the shareholder. An intermediate approach could also be adopted whereby the board selected a CEO subject to final approval by the line ministry. The survey found that in the majority of SOEs the CEO was appointed by the parent ministry and not the board. There may be need to amend the corporate governance management act in order to incorporate a provision for the active participation of the board in the appointment of the CEO.

Number of Board Members Appointed

The number of members appointed to the board, and the diversity of their skills set are some of the important aspects that determine the likely effectiveness of the board and its ability to discharge its oversight and advisory duties. This is also the case given that board members generally chair subcommittees to oversee some corporate governance functions of the organisation. For example, key sources at the AG's office highlighted that there should be separation between the Finance Committee and the Audit Committee of the SOEs, and that for proper oversight these subcommittees must not be chaired by the same board member. The research, therefore, sought to establish the average sizes of the boards across the SOEs that were surveyed and the results were as summarised in **Figure 10**.

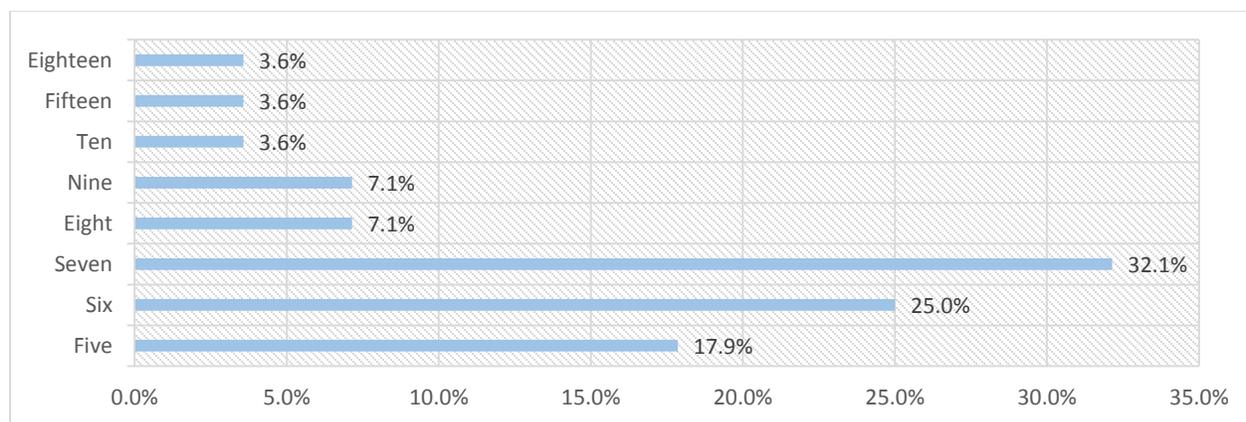


Figure 10: Number of Board Members Appointed by SOEs

According to the survey results seven-member boards were the most common, as reflected in 32.1% of the SOEs, followed by six (25.0%) and five (17.9%). It should be noted that the size of the board should also be commensurate with the size of the institution and possibly sector as well. For example, Agribank had a board membership of **18**, while ZIMSEC had **15** members. However, at the end of it all, there should be a sufficient number of board members with adequate skills-base diversity that would be able to effectively facilitate the undertaking of major corporate governance activities in key departments such as Audit, Finance, Human Resources, Operations, etc.

The survey also observed that there were several situations in which not all the members of the boards were appointed, with some positions having been left vacant so that the members could be appointed at a later stage. For example, at the time of the study the GMB had **eight** board members, with the appointment of the ninth board member having been delayed to a future date. In the case of NSSA, three other board members were still to be appointed at the time of the study. It was highlighted that the Minister needed more time to consult with employer and employee organisations. The Tobacco Industry Marketing Board (TIMB) also had eight members who were appointed with the ninth member said to have to be appointed at a later date. The delays in appointing complete profiles of board members compromises the effectiveness of the boards since there would be limitations on the diversity of the board and this limited the division of corporate governance responsibilities.

Regularity of Meetings of Boards

At least 96.6% of the SOEs in the survey indicated that the board members were supposed to meet once every quarter (three months). The frequency with which board meetings are conducted and the regularity of such meetings are an important aspect that determines the effectiveness of the board. According to the analysis by Clive & Associates (2019) in cases where full board and board committees were constituted there were issues related to inadequate meeting frequency. This resulted in failure to exercise appropriate oversight on the operations of the organisations. Also of concern across the years was the failure by members of a board to disclose interests in contracts leading to conflict of interest.

It was also established that notices for board meetings and board materials were in some cases circulated too late and this negatively affected the effectiveness of the boards¹³. Even the highest quality information and material would not be of value to the Board unless it was received in sufficient time to enable members to read and absorb it prior to the Board meeting. Board members would not be effective if not given adequate time to review material and, where necessary, conduct independent analyses or request additional material. Late presentation of notices and materials resulted in the Board considering last minute agenda items during Board meetings. Genuinely urgent matters could fall outside these timing requirements, but these should be exceptions rather than the rule.

The issue of abuse of allowances paid to the board members of SOEs was raised in some of the reports. For example, the AG's Report on Parastatals for **2018** found that for ZINARA in an audit of the financials ending **31 December 2017**, there was no evidence of approval from the parent ministry for the representation allowances that were being paid to the board members whenever they attended workshops and other non-board/committee meetings. In another example, for financial year ending **31 December 2017** for the Tobacco Research Board, the **2018** AG's report found that the board reviewed board fees and sitting allowances upwards but there was no documentation to support the approval from the parent ministry as required by Section **12** of the Tobacco Research Act [Chapter **18:21**]. The total variation between the approved rates by the relevant ministry and the rates reviewed by the board was **\$25,800** and the total variation of the approved sitting allowances by the ministry and current sitting allowances reviewed by the board was **\$4,600**. The two institutions, therefore, ran the risk of financial losses due to payment of unapproved board expenses.

In addition, in the case of Air Zimbabwe (Private) Limited, no minutes of board and management meetings were available for the period under review. The national airline was audited for the years ended **31 December 2012** to **31 December 2014**. There was, therefore, need for boards to ensure that board fees and sitting allowances were appropriately approved by the relevant authorities before disbursement.

Existence and Effectiveness of Board Charters

A key informant at SERA reported that some boards were operating without a Board Charter or similar document that sets out various requirements expected of the Board. They receive guidance from the established laws and the PFMA and, where applicable, from the Companies Act and other applicable legislation with corporate governance provisions. Boards would benefit from entity-specific guidance on board operations. Such guidance would be more effective if delineated in a Board Charter specific to each SOE.

Accordingly, the survey found that board charters were in place in 80.6% of the SOEs and the board charters were there to give guidance on how the board of directors would operate and how the key aspects and functions of corporate governance would to be administered. The study also sought to establish the extent to which the board charters had been useful in guiding corporate governance in the institutions. The findings on the effectiveness of these board charters are summarised in **Figure 11**, and they show that the board charters were not yet popularly viewed as very useful in enabling the SOEs to achieve their mandates.

¹³ Key Informant Interview, SERA, 7th October, 2019

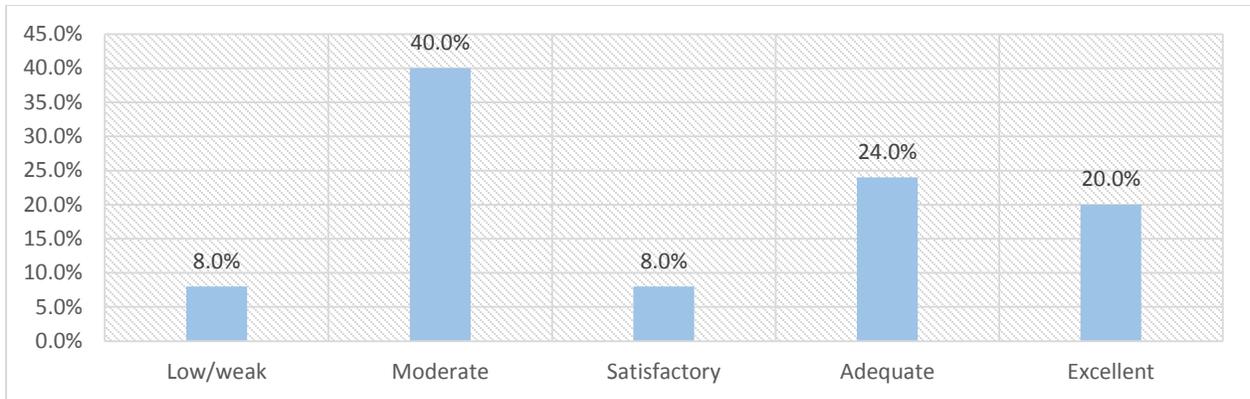


Figure 11: Organizations' Rating of Effectiveness of their Board Charters

The majority of the respondents, 40%, regarded the impact of board charters as moderate, while only 20% were at the extreme end, highlighting that they were an excellent way of achieving corporate governance objectives. This outcome could be a result of the fact that the corporate social responsibility issues were still a new phenomenon in most of the SOEs. As highlighted above, the Public Entities and Corporate Governance Act was gazetted in July **2017** and became effective in terms of its implementation towards the end of **2018**. Work on sensitizing staff in SOEs by respective line ministries or by other stakeholders on corporate governance issues and the relevant provisions of the Act was still to be undertaken at the time of the survey.

Existence and Effectiveness of Strategic Plans

All the surveyed SOEs indicated that they had existing strategic plans, however, their effectiveness differed between the organisations. The extent of the effectiveness of the strategic plans is summarised in **Figure 12**. The story being expressed by **Figure 12** is that strategic plans were in existence but they were not making a major impact on the performance of SOEs. Only **16.1%** of the enterprises felt confident that their strategic plans would enable them to achieve their organizational objectives and, therefore, mandates.

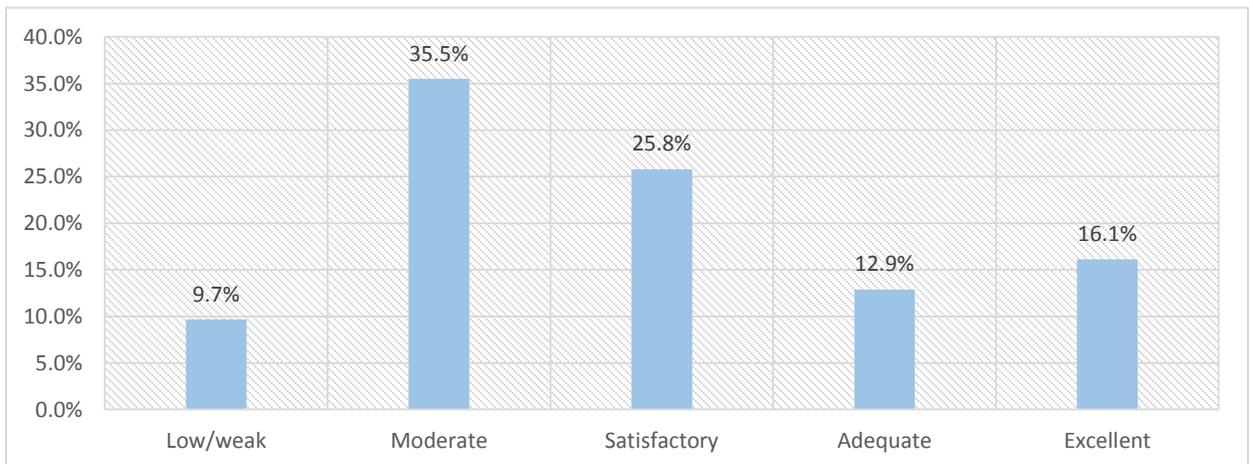


Figure 12: Organizations' Rating of Effectiveness of their Strategic Plans

The major reasons given for the low impact of strategic plans was the lack of resources to implement the set plans. For others, such as the NRZ and Air Zimbabwe, the organizations' turnaround strategies, which involved bringing in strategic partners, were taking too long to materialize. According to a key informant at the AG's Office, the quality and monitoring of Strategic Plans needed improvement. In addition, the content of some strategic plans needed improvement while monitoring of the strategic plans also needed enhancement in terms of increased frequency.

Existence and Effectiveness of Code of Ethics

The study also sought to establish if the SOEs had some code of ethics and the extent to which these were being utilized effectively, with 67.7% highlighting that they had these while 32.3% did not have. Those that did not have indicated that they did not know about the issues involved. Others noted that the codes were not relevant in their type of industry or sector. Among those that indicated having the code of ethics in place, highlights of the effectiveness of these are provided in **Figure 13**.

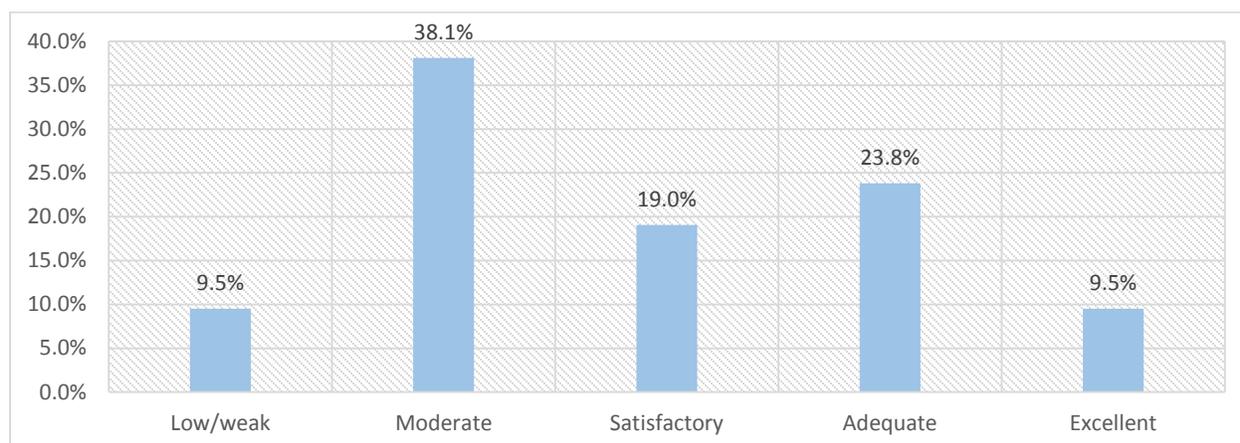


Figure 13: Organizations' Rating of Effectiveness of their Code of Ethics

On one extreme 9.5% of the SOEs surveyed felt that the code of ethics effectiveness was very little, followed by 38.1% who thought it was moderate. On the other extreme, 9.5% thought the codes of ethics were excellent, while 23.8% felt that the codes of ethics were adequate. What it showed was that the SOEs generally lacked an appreciation of the importance and relevance of the code of ethics to their enterprises. It will also be important for MPs, especially those in the relevant portfolio committees, to have a strong appreciation and understanding of these matters in order for them to play a more effective oversight role.

Extent of Asset Declaration by the Board and Senior Staff

One key component of good corporate governance in the public sector is the declaration of assets in order to present a basis to identify unjustified amassing of wealth, which could be a result of misuse of public funds. It is also important to prevent situations of conflict of interest among the board members and senior organizational staff. The study, therefore, explored the extent of asset declaration and found that 54.8% of the organisations highlighted that their board members and senior staff had declared their assets to the OPC. The other 45.2% reported that they had not made any such declarations.

It was, however, not possible to triangulate these figures given that the research team was not able to pin down an appointment with officials from the OPC due to time limitations. However, some of the organisations who had not done so, for example, the National Arts Gallery, indicated that they were in the process of complying (preparing the relevant documentation) with this aspect of good corporate governance principles. It was, therefore, difficult for SOEs to develop appropriate mechanisms to manage conflict of interest and related party transactions. Although the PFMA sets out specific mechanisms to manage conflict of interest and related party transactions, some SOEs were not complying with these requirements.

Existence of Audit Committee and its Effectiveness

One fundamental aspect of good corporate governance is the existence of an effective audit committee and the survey results show that 86.7% of the SOEs responded in the affirmative, while the remaining 13.3% indicated the unavailability of the audit committees. According to a key informant at the AG's office¹⁴, the ideal situation should be to

¹⁴ Key Informant Interview, Auditor General's Office, 23rd August, 2019

separate functions of the Finance Committee from those of the Audit Committee, especially for larger enterprises. This implied that among the board members there should be at least **two** people conversant with finance and auditing issues who should then split the roles. The **86.7%** could be considered a relatively high compliance ratio. **Figure 14** suggests that the audit committees were regarded as being quite effective with **73.1%** of the organisations indicating that the performance of the audit committees was satisfactory or better.

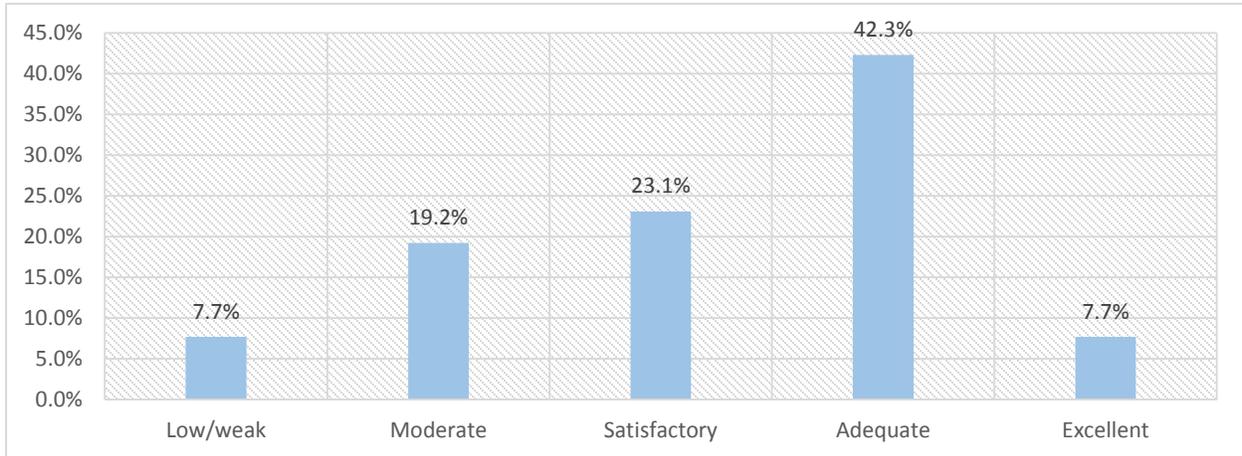


Figure 14: Organizations' Rating of Effectiveness of their Audit Committees

As has been highlighted above, it would be important for the relevant portfolio committees of Parliament to be well acquainted with issues related to audit committees so that they would be in a position to play a more effective oversight role on the financial compliance aspects of the SOEs.

Existence of Whistle Blower Policy and its Effectiveness

The research found that 33.3% of the entities had a whistle blower policy, while the remaining 66.7% did not have any. Whistle blowing raises awareness on activities that are detrimental to the performance of an organisation. It could be reporting on a case of theft, or it could be a report on an incident of grand corruption, it is part of promoting good corporate governance by organisations. It, therefore, also is a major aspect of the principles under the Public Entities and Corporate Governance Act (*Chapter 10:31*). The Act has a provision for the development and implementation of a whistle blower policy by the public entities. Concerning the perceived effectiveness of the whistle blower policies, **Figure 15**, gives the overall impression.

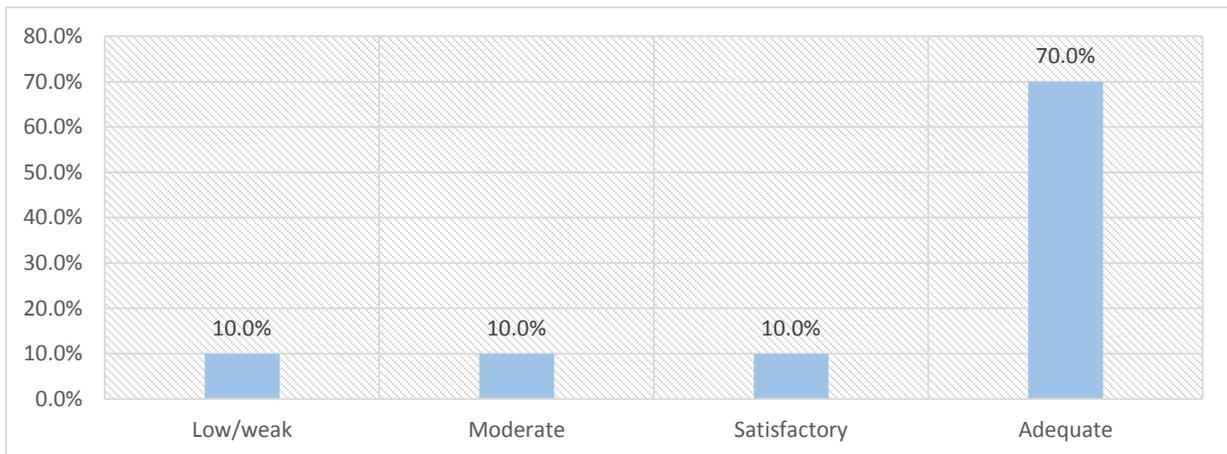


Figure 15: Organizations' Rating of Effectiveness of their Whistle Blower Policy

This is an area of corporate governance that needed to be enhanced given the low proportion of entities that are adopting the principle of whistle blowing. Some have also highlighted that it was usually the larger companies that were more likely to have some whistle blowing platforms. For example, organisations such as ZIMRA and ZESA have some hotlines through which they encourage any member of the public to report, for example, on corruption or theft of copper wires. An increase in the practice of whistle blowing concepts could, therefore, lead to enhanced accountability and transparency by office bearers in particular, and the public at large.

The study, however, noted that for any corporate governance system to be effective, it needed to be supported by a comprehensive and effective whistleblowing framework, but this was not the case in Zimbabwe where whistle-blowing protection was not legislated and was left at the level of an individual SOE. Such a framework would have facilitated exposure of misconduct and corporate malpractices, particularly so if the system, the ZIMCODE, was not a principle-based one where compliance was voluntary. The Organisation of Economic Cooperation and Development (2015) underlined that the protection of whistleblowers who disclose wrongdoing in the public sector was recognised as the core of the public sector integrity framework.

It was, therefore, an essential element for safeguarding the public interest, and promoting a culture of public accountability. Notable best practices included the UK, which had the Corporate Governance Code providing for whistleblower protection under the Public Interest Disclosure Act (PIDA) of 1998. In the USA, whistleblower protection was provided under the Whistleblower Protection Act of 1989. It was interesting to note that in Zimbabwe whistleblowers did not have protection, with the situation compounded by the Official Secrets Act (Chapter 11:09) which prevented employees of SOEs from disclosing information about activities happening inside their enterprises. This made the public disclosure of corporate malpractices by potential whistleblowers in SOEs a risky endeavor.

The Public Finance Management Act

Part 4 of the Constitution is about safeguarding of public funds and assets and in section 308, it is stipulated that it is the duty of every person who is responsible for the expenditure of public funds to safeguard the funds and ensure that they are spent only on legally authorised purposes and in legally authorised amounts. It is also the duty of every person who has custody or control of public property to safeguard the property and ensure that it is not lost, destroyed, damaged, misapplied or misused. An Act of Parliament must provide for the speedy detection of breaches of provisions to safeguard public funds and assets and the disciplining and punishment of persons responsible for any such breaches, hence the promulgation of the Public Finance Management Act (*Chapter 22:19*).

The research, therefore, further examined the relevant provisions governing financial management and compliance by SOEs as enshrined in the PFMA. This Act was gazetted and came into operation on 28 October 2016. It is, therefore, a much recent piece of legislation that governs the conduct of business by public entities. The Act provides for the control and management of public resources and the protection and recovery thereof; the appointment, powers and duties of the Accountant-General and of his or her staff; the national budget; the preparation of financial statements; the regulation and control of public entities; general treasury matters; the examination and audit of public accounts; for matters pertaining to financial misconduct of public officials; the Audit and Exchequer Act [*Chapter 22:03*] and the State Loans and Guarantees Act [*Chapter 22:13*].

While section 15 of the PFMA compels every minister to lay before the National Assembly the annual report and financial statements and the audit report on those statements, within one month after the accounting officer receives the report, the study found that this has not been consistently observed. Ministers are also required to lay before the National Assembly the findings of a disciplinary authority, and any sanctions imposed by such authority, which presided over a case of financial misconduct against officers in the government entity in terms of sections 87 and 88. If a Minister fails to lay the statements within six months after the end of the financial year to which those statements relate, the Speaker of the National Assembly shall require the Minister concerned to give a written explanation to the House setting out the reasons for such failure. The AG may also issue a special report on the delay.

Submission of Budget Estimates and Annual Work Plans to the Ministry of Finance

All the SOEs in the survey indicated that they made submissions to the MoF on the proposed expenditures every year with 83.3% highlighting making the submissions towards the year end, 6.7% in November and 10% in December (Figure 16). Every year, as part of the budget cycle, public entities are required to submit their expenditure, and possibly revenue, estimates for the upcoming financial year. These would then assist and be used by the MoF officials to develop the consolidated budget and revenue estimates for the country.

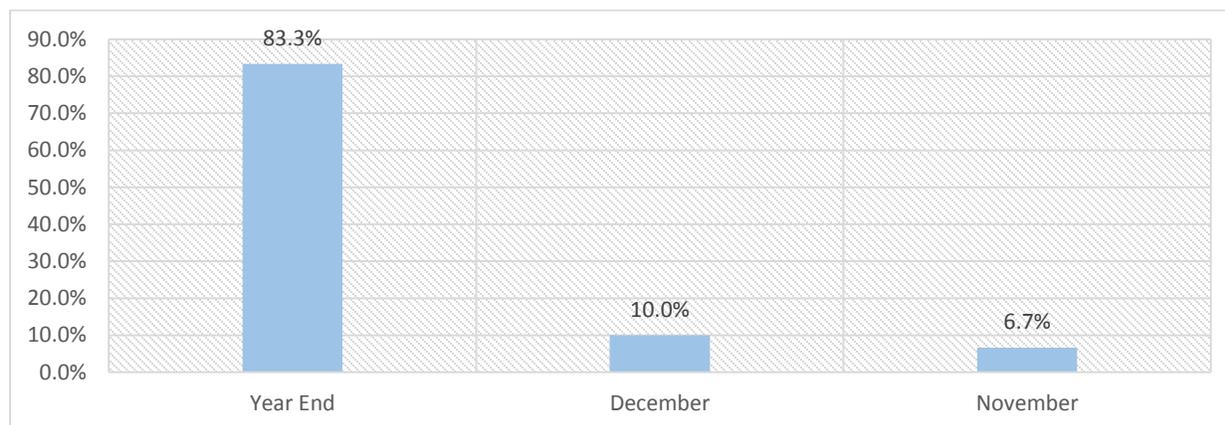


Figure 16: Time of the Budget Cycle in Which Estimates of expenditure are Sent to MoF

Given that 'year-end' is a relative term, we presume it could mean anytime in the second half of the year. Indeed, the budget cycle starts much earlier in the year, so it would be much more beneficial if the estimates were received by the MoF much earlier in the year so that they would have adequate time for the consolidating and estimating exercise.

Extent of Utilization of Funds Allocated

Figure 17 shows that overall, 70% of the public entities surveyed had expenditures that exceeded the budget allocated for the year. Those that enjoyed a balanced budget were 23.3%, while 6.7% registered some surplus (expenditures being lower than what they received). Sound financial management, everything being equal, requires that one lives within the confines of the budget.

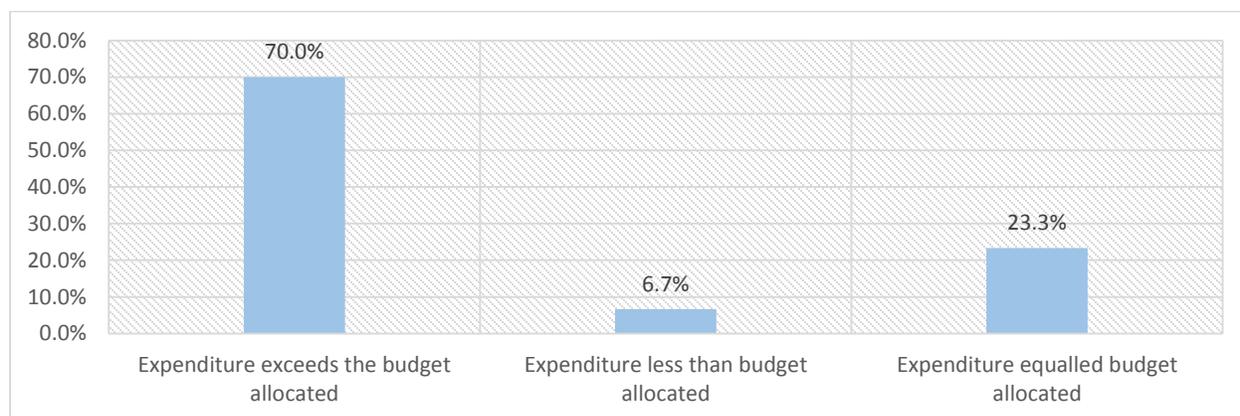


Figure 17: Extent of Utilization of Funds Allocated in the Annual Budget

This should be a worrying trend and outcome for the MoF because it results in the need for supplementary budgets. It should also be a worrying trend for the MPs and portfolio committees because it could be a pointer to misuse and or inefficient use of public funds. The reasons given for the over expenditures included inadequate initial allocation and unanticipated increases in prices of goods and services.

Extent of Keeping Complete Records of Financial Affairs of the SOE

The SOEs were requested to indicate if they kept complete records of their financial affairs. Those that responded in the affirmative comprised of 96.8% of the sample, while only 3.2% indicated otherwise. In terms of the rating of their performance on this aspect, the responses were as summarised in **Figure 18**.

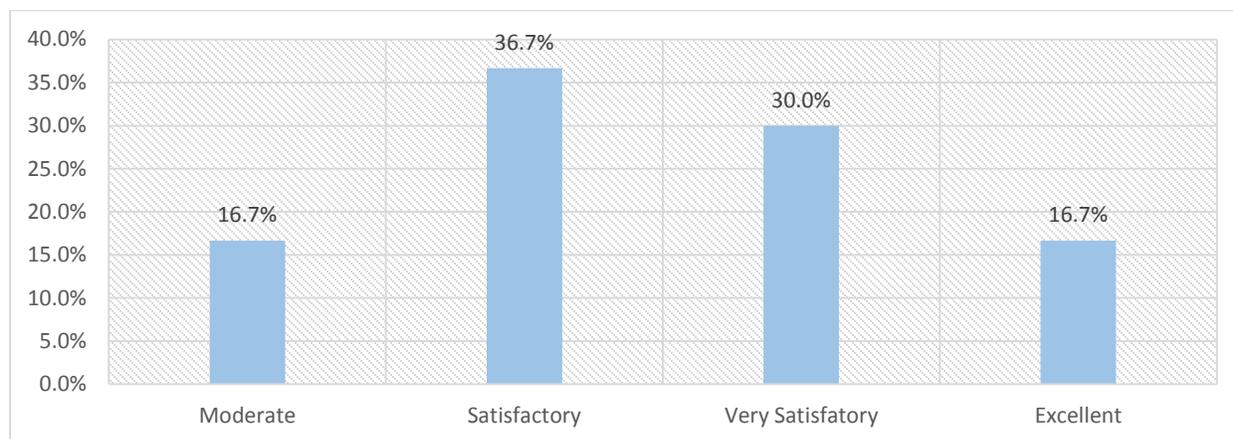


Figure 18: Rating on Performance of Keeping Complete Records of Financial Affairs of SOE

It showed that **83.3%** of the SOEs regarded their performance in keeping complete financial records as satisfactory or better. This showed that this was an area that still lagged behind in terms of the SOEs being compliant to the keeping of complete records of their financial affairs. Portfolio committees, and indeed the MoF, would aim to ensure that every SOE produced complete sets of financial records, which would reflect a true picture of the health of the institution.

Extent of Production of Quarterly Financial Statements of the SOE

Part 4 of the PFMA deals with the preparation and reporting of financial statements by ministries. Section **33 (2)** compels every ministry to submit quarterly financial statements and accompanying reports to the appropriate portfolio committee within **60** days of the end of the respective quarter. Section **33 (3)** requires the Accountant General to prepare consolidated quarterly financial statements for presentation by the Minister to the National Assembly and to the appropriate parliamentary portfolio committee within **60** days of the end of the respective quarter.

At least 96.8% of the surveyed SOEs indicated that they produced quarterly financial statements. Figure 19 shows that the bulk of the institutions, 86.7%, sent the quarterly financial statements to the MoF.

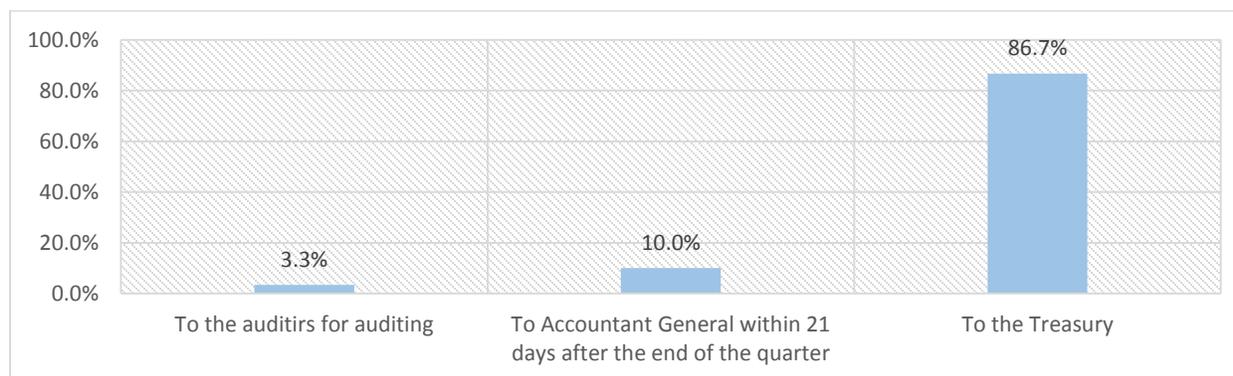


Figure 19: Institution Where the Quarterly Financial Statements are Sent

Ten-percent of the SOEs indicated sending their financial statements to the Accountant General, while **3.3%** reported that they sent them to auditors. This is an area that needed to be addressed by the authorities and Parliament should take a leading role given that the submission of regular financial reports is important to guard against and detect any

corporate malpractices. It enables the early detection of problems and it would make it possible for corrective measures to be established well before the problems degenerate. The regular production of the quarterly financial reports would also make it easier for the construction of the annual financial reports. This would enable the SOEs to produce the annual reports within the prescribed timeframe at the end of each fiscal calendar.

Submission of Annual Report on Activities and Annual Audited Reports

Every accounting officer of a ministry, constitutional entity or public entity shall submit to the National Assembly the annual report and the audited financial statements within 30 days of the completion of the audit. Section 35 requires every accounting officer of a ministry to submit to the respective portfolio committee unaudited annual financial statements within 90 days of the end of the financial year. The MoF shall, within 90 days of the end of the financial year, submit to the National Assembly the unaudited consolidated annual financial statements. Ministries submit annual financial statements to their respective portfolio committees within 30 days of the tabling of the Auditor General's report before the National Assembly. The MoF is required by law to submit to the National Assembly audited consolidated annual financial statements within 180 days of the end of the financial year.

All the entities in the sample indicated that they submitted annual reports of their activities as prescribed in the PFMA. At least 96.7% reported that they submitted their annual audited reports and financial statements within five months after the end of the fiscal year to the Treasury and the AG. This was also way beyond the 180 days of the end of the financial year as prescribed under the Act. Other SOEs, for example, the National Arts Gallery reported that they were late with the submissions of the annual reports of activities, financial statements and audited reports because they had inadequate skills within the organisation. The fact that there were still some SOEs that were unable to adequately prepare financial records for submission and auditing remained a major concern and pointed towards an area that still needed the attention of the Portfolio committees to ensure that it was addressed comprehensively.

Annual reports enhance disclosure, both financial and non-financial, which is necessary for public interest purposes. Current good practice is going further by requiring integrated reporting (as is the case with the National Code on Corporate Governance in Zimbabwe), which has even more disclosure requirements. It was also found that the majority of SOEs were not making their financial statements or annual reports available to the public. Posting these reports on SOEs websites or publishing in widely circulated newspapers were common practices to enhance the required public disclosure of information by SOEs. This was against the background that the SOEs were all considered to be public interest entities.

Public Procurement in SOEs

Recent reforms in Public Procurement resulted in the enactment of the Public Procurement and Disposal of Public Assets Act [Cap 22:23] in October 2017. The Act became operational on 1 January 2018 through SI 152 of December 2018. The Procurement Regulations, Public Procurement and Disposal of Public Assets (General) Regulations, 2018 were gazetted through SI 5 of 19 January 2018. The Act created PRAZ, which is a regulatory, and oversight body responsible for setting standards, issuing guidelines and monitoring compliance. PRAZ also ensures that public procurement and the disposal of public assets in Zimbabwe is done in a manner that is transparent, fair, honest, cost-effective and competitive.

Unlike in the past, the Authority is no longer involved in the adjudication and awarding of tenders. The awarding of tenders is being undertaken by accounting officers in various State departments and SOEs, with the authority only playing a supervisory and monitoring role to ensure Government entities comply with the Act and other set standards. As part of its mandate, PRAZ has developed practical tools to facilitate the implementation of the law, including standard bidding and contract documents. The organisation has, in addition, come up with an Electronic Government Procurement Strategy, also known as e-GP.

However, the uptake of these instruments, their application and usage were still very low at the time of the survey given that the changes to the public procurement procedures were still new. Procurement performance had remained an area of interest to the fiscal authorities, Parliament and other stakeholders due to low level of

performance of SOEs, high levels of corruption, failing contracts and variations in contract prices in the public sector, resulting from lack of adherence to procurement regulations. The misuse of public funds had culminated in high levels of corruption, inefficiency and defied the procurement general principles of fairness, competitiveness, transparency, equitability and cost effectiveness (see also Sandada and Kambarami, 2016). Despite the presence of the regulations, and the attendant reforms, public officials continued to manipulate tender procedures for personal gain. This called for improved political will to enforce the law on errant behavior.

An analysis of the occurrence of procurement related problems in the AG's reports over the period 2013 and 2018 showed that the number of cases identified increased from 16 in 2014 to 47 in 2018 (see Figure 20). As a result, there was an average occurrence of **28** of these cases every year between **2013** and **2018**.

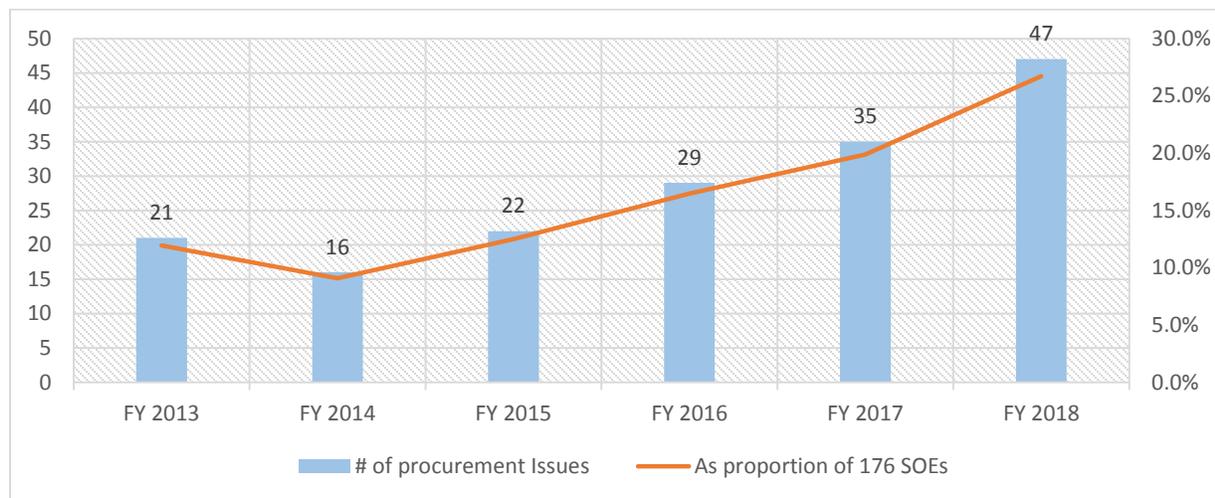


Figure 20: Level of Occurrence of Procurement Issues in the AG's Reports

Some of the major procurement issues highlighted in the reports by the AG's office included projects undertaken but without evidence to suggest that the projects were subjected to tender processes as was the case with ZINARA in 2017. For Agribank in **2013**, procurement of goods and services at Masvingo Branch was undertaken without any supporting documents as required by policy. In the case of MMCZ in **2017**, the corporation entered into a contract with a security company for provision of services at the Head Office and corporation's house but there was no agreement for additional security services that were also provided by the security company for management residence and Dhonjani project during that year.

In some cases, highlighted by the AG's reports, for example, ZMDC in 2013, no documentation was availed to substantiate that a competitive bidding process or quotations were sought from other suppliers. The supplier was also not on the corporation's list of approved suppliers. The rationale for changing from traditional suppliers to new suppliers was not documented. Review of the contract files for ZESA Enterprises in **2013** indicated that significant work had commenced on some AfrexZim projects, whose contract forms were not signed. In addition, the inventory holding levels for the company had increased from **263** days at December **31, 2012**, to **306** days at December **31, 2013**. The high inventory levels resulted in inventory items being held for longer periods thus affecting negatively on the company's working capital.

The AG Report for 2019 highlighted the case of goods being paid for by some SOE's, but without the suppliers delivering the products for over several years down the line. Notable cases included Zimbabwe Electrification Transmission and Distribution Company (ZETDC), which had not taken delivery of transformers nine years after making a payment of **USD4.9 million** to Pito Investments. The same contractor was also paid in advance an amount of **USD561, 935** by the Zimbabwe Power Company (ZPC) in **2016** and by **2019** had not delivered. In addition, ZPC also paid **ZAR196, 064** in **2016** to York International for gas that had not been received by **2019**. The GMB also made an

advance payment for maize worth **\$1,014,163** in **2016**, and at the time of the AG's Report in **2019**, the consignment had not been delivered.

Another case was that of the two-year delay in the construction of the 100 MW Gwanda Solar plant valued at US\$50 million which was supposed to have started operating and contributing towards the country's energy needs by December 2017. However, by the time of this survey in August **2019**, the construction of the plant had not commenced because the contractor, Intratek Zimbabwe (Private) Limited, did not have the requisite technical and financial capacity to implement the project. The company was awarded the tender in **2015** and was paid **US\$5 million** by ZPC for pre-commencement work without a bank guarantee¹⁵. It was, therefore, estimated that by June **2019** the loss of sales to ZESA was equivalent to **500GWhs** (Gigawatt hours) which translated to a potential revenue loss of **US50 million**.

Extent of execution of Relevant Mandate by State Owned Enterprises

The study further examined the execution of relevant mandates by SOEs. The mandates of the various SOEs are specified in the relevant Acts and/or SIs that govern their establishment and operations. Section **195** of the Constitution highlights that state-controlled commercial entities or companies and other commercial entities owned or wholly controlled by the State must, in addition to complying with the principles set out in section **194 (1)**, conduct their operations to maintain commercial viability and abide by generally accepted standards of good corporate governance. The pursuit of these principles should be prerequisites in order that SOEs are able to deliver on their mandates. SERA and the OPC produced a report on the Performance Management Guide for State Enterprises and Parastatals in Zimbabwe in **2018** and they summarised some of the main challenges impacting on the performance of SOEs in Zimbabwe as presented in **Table 2**.

Table 2: Challenges Faced by SOEs in Zimbabwe

Challenge	Description
Inadequate capitalization	SOEs largely rely on depressed revenue (due to the state of the economy), debt and other sources of finance including government transfers to fund basic operations. When the country adopted a multicurrency regime in 2009 with the US\$ as the main functional currency, most SOEs started with very low capital bases and few have been able to raise capital from the markets. The government has no resources to capitalize these SOEs. This left SOEs with inadequate funding to fund capital projects especially rehabilitation and upgrading of infrastructure in the capital-intensive sectors like utilities and network. Examples are SOEs in the electricity, water, telecommunications, transport sectors, etc.
Below-cost pricing/failure to recover costs	Some tariff structures are kept artificially low and prevent full cost-recovery by SOEs. Compensation from treasury may be required for non-commercial services and this has not been forthcoming in some cases because of limited cash resources. The fact that many SOEs in Zimbabwe are established and operated with both commercial and non-commercial objectives compounds this problem.
Current activities are no longer supportive of the original mandates of SOEs because of changed/ additional mandates or Government directives	Activities in some commercial SOEs are remnants of initial investment decisions, which have been overtaken by events over the years, as a result of lack of ability to adjust to changing situations and circumstances. Mandates have changed over time in for example, urban transport, grain management and business models have not responded appropriately to the changes in mandates.
Failure to collect money for services	Failure to collect on services provided led to underfunding of some SOEs.
Inadequate reporting and monitoring systems	Inadequate reporting and monitoring is common and does not allow for the transparency, accountability and governance requirements for SOEs. It further does not help early exposure to situations where SOEs may be over or under financed, and it ultimately shields SOEs from misuse of public funds, corruption, and from disclosing inefficiencies where they exist.
Ineffective Boards	Most SOE Boards require enhanced professionalism, improved composition and structure, and shielding from any unwarranted external interference in order to enhance their effectiveness.

Source: Performance Management Guide for State Enterprises and Parastatals in Zimbabwe, OPC & SERA

What Table 2 shows is that issues of low capitalization, if not adequately attended to, would result in poor service delivery by SOEs. The pricing of goods and services supplied by SOEs are always a major issue given that these are often decided on social and political basis and often result in underpricing and the realization of losses by the enterprises. Sticking to their core business would enable effectiveness by SOEs and reduction in waste. Weak reporting

¹⁵ "Chivayo costs Zesa a hefty US\$50 million: Minister Chasi", The Sunday Mail, www.sundaymail.co.zw

and monitoring systems especially where boards of the SOEs are weak may result in inability to deliver on mandates. The study also sought to triangulate the findings from the survey with the AG's reports over the **2013** to **2018** period on the performance of some of the enterprises in terms of their ability to deliver goods and services.

About 40% of the state enterprises and parastatals audited, reported and analysed, had going concern issues that were noted. Going concern relates to whether an entity will continue in operational existence for the foreseeable future where the foreseeable, normally in the next 12 months from the date the audit report is signed. In the current year, the study included creditor balance build up due to failure to pay for services and/or goods received in this category as a potential going concern indicator. This was mainly due to the difficult operating environment and inadequate revenue and receivables management. The going concern challenges were notable from indicators such as Negative capital position; incessant losses; Net current liability position; and Increasing borrowings and payables.

Coupled with the going concern issue above was the issue of operational inefficiencies where entities were incapacitated due to inadequate human and material resources. This had led to the various entities failing to deliver services adequately to the public. The AG raised this issue in **38.9%** of local authorities, **28.1%** of appropriation accounts and **27.7%** of state enterprises and parastatals. The analysis showed that the SOEs were making perennial losses and, therefore, were noting a position to provide quality goods and services as laid out in their mandates. Table 3 gives a summary of the profitability status of selected SOEs as reported in the AG's reports.

Table 3: Profitability Status of Selected SOEs Registered as Companies as Reported in AG's Reports

SOE	2013	2014	2015	2016	2017	2018
Air ZIM	(\$36,168,787)	(\$27,721,501)				
JENA	(\$7,340,389)	(\$4,792,850)				
MD (PVT) LTD			(\$1,903,167)			
CSC	(\$9,900,228)					
MARANGE		(\$1,492,755)				
NHS	(\$1,758,167)					
NMMZ	(\$1,192,311)	(\$799,035)	(\$338,127)			
NRZ	(\$49,103,769)	(\$31,607,218)	(\$40,887,993)	(\$59,768,613)	(\$51,992,503)	(\$43,782,929)
NETONE	(\$4,841,276)	(\$7,005,036)				
POWERTEL	(\$164,588)	(\$1,157,185)	(\$497,380)	(\$2,687,788)	(\$3,097,231)	
RMS				(\$3,104,529)	(\$2,276,505)	
TELONE					(\$39,456,452)	(\$21,853,192)
ZCDM				(\$7,445,606)		
ZENT		(\$7,086,452)	(\$9,046,855)	(\$12,451,369)		
ZMDC	(\$24,387,958)	(\$49,651,489)		(\$16,738,368)	(\$3,844,847)	
ZESA	(\$12,683,742)					
ZETDC			(\$111,474,084)			
ZIMPOST	(\$5,962,348)	(\$7,158,350)	(\$7,399,936)			
COURIER CONNECT	(\$183,531)	(\$258,673)				

Source: Auditor Generals' Reports on Parastatals and State Owned Enterprises for 2013 to 2018

According to the AG's reports, these companies' conditions indicated the existence of a material uncertainty that cast significant doubt about their ability to continue as going concerns. For the Road Motor Services (Private) Limited, it was established that included in the total liabilities were statutory obligations due to ZIMRA of **US\$3,062,363** owed in **2016** and **US\$3,693,496** owed in **2017**. In the case of TelOne (Private) Limited, the AG highlighted that the entity had significant loans and borrowings amounting to **\$503,797,061** as at **31 December 2018** principal plus interest accruals. Fixed-term borrowings approached maturity without realistic prospects of renewal or repayment.

Many cases of inter-parastatal debt were also picked in the survey, for example, in 2017, the ZPC was failing to service its long-term loans. As a result, the majority of long term loan balances were due and payable, however, the major

customer, ZETDC, was failing to recover amounts owed to it by its customers which was affecting its ability to pay amounts it owed to the group companies. Another example is the case of MMCZ, the AG noted in the **2018** audit report that Mellofielde Chemicals (Private) Limited, a subsidiary of MMCZ had not been trading during the preceding four years, a situation that had negative implications on the performance of MMCZ itself. In CAAZ's case, the AG in the **2018** report observed that the bulk of the **\$44.1 million** of debtors' value of the SOE was attributed to Air Zimbabwe, National Handling Services (NHS) and Catercraft. The Airline was under Judicial Administration and CAAZ was awaiting the outcome of the Administration process. The NHS was owing the CAAZ **\$5.8 million** and NHS attributed nonpayment of the outstanding debt to nonpayment by Air Zimbabwe, which was its major client. Catercraft owed CAAZ **\$1.2 million** and was paying **\$1,000 per month** against an average invoice of **\$10,000**. The company attributed nonpayment to low business and nonpayment by Air Zimbabwe.

In the case of Powertel (Private) Limited, the study found that the company had failed to fully pay for POTRAZ licence fees and as at 31 December 2018 it owed POTRAZ US\$3,280,000. Powertel was failing to connect new customers with a long outstanding backlog. As at December **31, 2018**, the company had installation fees liability amounting to **US\$865,342** emanating from customers that were still to be connected. Even the State Lotteries Fund had not been spared, as it faced severe liquidity challenges that resulted in the company's inability to pay creditors. The Fund was also unable to meet its mandate to donate to charity and areas stricken by natural disasters.

The study found that some of the key SOEs were operating with net liabilities, that is, current liabilities being higher than current assets, and thus not in a position to meet short term financing obligations. The relationship between current assets and current liabilities are also a measure of the health of an enterprise. For example, when current assets are greater than current liabilities, the company would be able to meet its short-term expenditure obligations as it could easily liquidate the current assets. Due to the persistence of the net liability positions and the huge amounts involved, the AG's reports designated these entities (**see Table 4**) as having conditions that indicated the existence of material uncertainties, which cast significant doubt on the companies' abilities to continue as going concerns.

Table 4: Net Current Asset Position of Selected SOEs at the Time of Audits by the AG's Office

SOE	2013	2014	2015	2016	2017	2018
CAAZ	(\$194,321,379)	(\$210,227,627)	(\$174,381,507)		(\$207,756,363)	(\$199,728,126)
ZINWA		(\$9,114,738)	(\$17,800,893)			
ZIMPARKS			(\$6,252,778)	(\$3,072,806)		
FORESTRY			(\$117,425)	(\$3,370,550)		
SRC				(\$823,705)	(\$1,026,317)	
Air ZIM	(\$208,351,647)	(\$231,799,986)				
Allied Timbers			(\$7,231,449)	(\$11,813,610)		
JENA	(\$13,576,924)	(\$17,631,940)				
MARANGE	(\$52,598,293)	(\$74,749,172)				
NRZ	(\$109,124,920)	(\$131,131,446)	(\$170,912,721)	(\$219,573,666)	(\$256,535,751)	(\$286,427,125)
NETONE	(\$81,206,009)	(\$55,616,801)			(\$228,618,683)	(\$59,381,639)
POWERTEL	(\$4,336,335)	(\$9,121,211)	(\$1,664,208)	(\$2,997,827)	(\$6,404,180)	(\$9,714,036)
TELONE	(\$178,215,996)	(\$163,431,710)	(\$98,961,201)	(\$111,927,596)	(\$144,207,031)	(\$190,003,192)
ZENT		(\$16,552,540)	(\$11,736,440)	(\$26,461,480)		
ZMDC	(\$52,598,293)	(\$89,916,504)		(\$59,361,388)	(\$62,932,032)	
ZESA	(\$67,367,127)	(\$65,321,490)	(\$66,178,819)	(\$67,998,471)	(\$84,167,798)	(\$92,118,178)
ZETDC			(\$771,383,372)	(\$648,557,731)	(\$687,327,440)	(\$802,807,425)
ZIMPOST	(\$15,076,627)	(\$23,341,614)	(\$28,456,898)			

SOE	2013	2014	2015	2016	2017	2018
SMEDCO		(\$1,559,635)	(\$1,140,259)	(\$1,136,791)		
NUST			(\$16,963,826)	(\$20,816,565)	(\$23,030,699)	(\$27,665,949)

Source: Auditor Generals' Reports on Parastatals and State Owned Enterprises for 2013, 2014, 2015, 2016, 2017 and 2018

The survey found that there were also a significant number of the SOEs that were saddled with long term domestic and foreign loan obligations, which they were not in a position to service and/or repay. For example, CAAZ in 2017 had **\$165,464,664** worth of overdue foreign loans and **\$100,804,250** overdue domestic loans. In 2018, the company had accumulated **\$312,283,403** overdue long-term foreign loans and **\$105,842,913** overdue domestic loans. In 2015, Agricultural Marketing Authority (AMA) had overdue loans amounting to **\$170,719,982**, while ZESA had overdue loans totaling **\$29,878,401** in 2017. ZPC was found to have **\$324,314,133** long-term overdue loans in 2015 and **\$271,202,793** overdue long-term loans in 2016. The huge loan repayment backlogs would continue to impose a major burden on the fiscal authorities if no major steps were taken to at least halt the continued accumulation of new debt and growth in interest on the loans.

The SOEs interviewed were also asked to rate the extent to which they believed they had been able to fulfill their mandates over the preceding 12 months and 43.3% of them were of the view that they performed lower than expected, followed by 16.7% that indicated that they had achieved moderate results (see Figure 21).

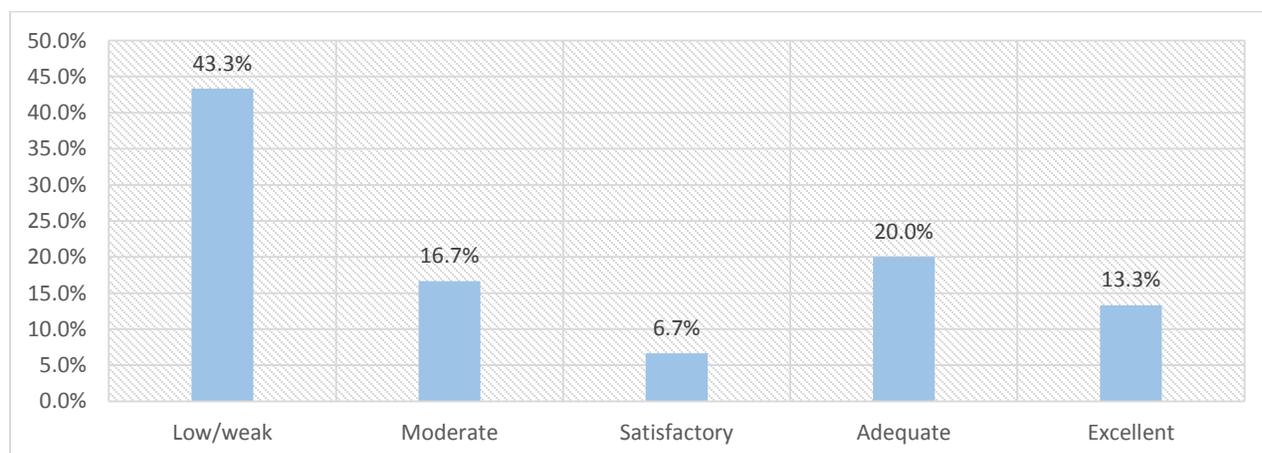


Figure 21: Rating of Ability to Fulfill Organizational Mandate by the SOEs

Those who performed satisfactorily were 6.7%, while 20% reported being just adequate and 13.3% thought they performed excellently. The major reasons provided for the low performances included inadequate foreign currency, which resulted in failure to procure required inputs and machinery. Some enterprises were unable to service long-term debts, as highlighted above, and this negatively affected their borrowing capacities.

Low revenue collection rates and tolerance of arrears were common problems in SOEs operations although some were being proactive by exploring prepayment mechanisms such as prepaid meters for electricity and water. This resulted in a deterioration in the quality and coverage of public service delivery. There were also cases where the costs of public policy obligations were not recovered from the government as would have been expected. These were eventually paid for by cross-subsidies within SOE operations leading to poor service delivery where funding was inadequate, excessive SOE borrowings which were guaranteed by the government (contingent liabilities for the government, including implications for debt sustainability) and overcharging of the operations used to cross-subsidize the cost of the public service obligations.

Some SOEs had shifted from, or diluted, their core mandate, an example being the GMB in which the PAC observed that the company had failed to maintain the stipulated Strategic Grain Reserve (SGR) levels as it had

been pursuing other more commercially oriented interests¹⁶. The Committee noted with concern that the GMB was failing to fulfill its mandate of maintaining adequate levels of the SGR hence food security could not be guaranteed. The Committee further observed that the minimum levels for SGR set in **1996** were no longer in tandem with the current realities in terms of the population of over **14 million** people. If there was adequate supervision and funding, the appropriate intervention would have been taken to avert the challenges of lower than optimal SGR.

In addition, the GMB was failing to pay farmers for maize deliveries thus taking between **25 to 300** days to pay. The late payments resulted in farmers selling to private buyers who made prompt payments but at **\$180 per tonne**, compared to the GMB rate which was pegged at **\$390 per tonne** at the time. The committee also found that the CMED as a commercial entity was not operating on sound business ethos as it continued to render services to ministries and government departments regardless of non-payment for such services¹⁷. The Committee concluded that **10 years** after commercialization CMED had failed to transform itself from a government department into a private company that runs on business lines. It, therefore, continued to look up to Government for recapitalization. It was highlighted that there was need for a robust strategy and business model premised on the correct understanding of the entity's mandate of and a deliberate re-definition of relationship to the shareholder (government).

Indicators for Measuring Progress in Performance of State Owned Enterprises

The survey also developed a comprehensive set of appropriate indicators and provided appropriate means of attaching scores. The study adapted and modified the scoring approaches utilized by the CGRS known as the Self-Assessment Tool - DASHBOARD¹⁸. This involved attaching scores to the relevant corporate governance and other attributes ranging from **1 to 5** in which the indicative key and scoring ranges are as follows: **1 = Weak; 2 = Moderate; 3 = Satisfactory; 4 = Adequate; 5 = Excellent.**

The set of indicators to be tracked on an annual basis are summarised in the table presented in Annex 1. Data will be collected on an annual basis on a sample of SOEs and this will be used to track the indicators as provided. The results for this year's survey based of **2018** AG report have been used to calculate the baseline figures.

¹⁶ First Report of the Public Accounts Committee on the Examination of the Grain Marketing Board (GMB) Value for Money Audit and Audited Accounts for the Financial Years Ended March 2011/ 2012, 2012/ 2013 and 2013/ 2014, Presented to Parliament in October, 2015

¹⁷ First report of the Committee On Public Accounts on the Report of the Comptroller and Auditor General on the Management of Government Vehicles by CMED (Private) Limited, Presented to Parliament on March, 2012

¹⁸ <https://www.proshareng.com/admin/upload/reports/CGRS.pdf>

CONCLUSION

Conclusion

Bringing more accountability in the management and governance of SOEs has generated increasing interest in the government, the private sector, the public and even the international community in recent years. This has been triggered largely by a series of governance and management scandals that have been unearthed through the audit reports coming from the AG's office on an annual basis. The PAC has also highlighted a number of cases of misuse of public funds in the SOEs that have raised the stakes.

In response, there have been attempts by government to ensure that sanity was brought into the management and governance of these institutions. As highlighted in the report, there have been some legislative and institutional reforms that have been undertaken. For example, the Corporate Governance Act has been put in place to deal with these challenges. This Act has also been accompanied by ZIMCODE to improve the standards of corporate governance in the public sector. The government has also been working to strengthen the ZACC in an effort to deal with these problems and to bring those caught on the wrong side of the law to account.

The Corporate Governance Act is being followed to a certain degree in terms of implementing the aspects of this legislation. As the results from the analysis show, a lot of work still needs to be done to ensure it has the desired effect. Establishment of relevant structures in the SOEs to improve corporate governance such as audit committees, strategic plans, whistleblower policies, etc. has been happening, although at a slow pace. Much more needs to be done to foster effective implementation.

One additional area that has been of concern has been the reluctance or inability of the SOEs to effectively and timely implement the recommendations put across by the AG and the PAC. This should be regarded as contempt and should attract penalties and censure from the authorities, including Parliament.

There has been debate concerning the effectiveness of the country's approach to correcting the corporate governance challenges through the Corporate Governance Act and ZIMCODE, emphasizing the need for a rules-based corporate governance system that would impose stringent regulatory oversight over the country's SOEs. It is argued that countries such as the USA use the rules-based approach compared to the principle-based approach through the Sarbanes Oxley Act of 2002. The Act was designed to enhance reliability of financial reporting and to improve audit quality. It strengthened corporate governance, shifting responsibility for the external audit relationships away from corporate management to independent audit committees. It instituted whistleblower programs and stricter criminal penalties for management and governance malpractices. This is the path that the committees and Parliament in Zimbabwe should consider pursuing.

RECOMMENDATIONS

Recommendations

Recommendations on Corporate Governance Issues

- **SAPST should facilitate the provision of training on the Corporate Governance Act for individual MPs and Committees so that they are able to assess the adherence by SOEs and other relevant state institutions to the provisions of this legislation.** This is because the area of corporate governance is a technical one and it has numerous aspects that will need time and effort to grasp. Poor corporate governance has also been identified as the most critical area in terms of being the root cause of the challenges being faced by the SOEs in particular, and the country in general.
- **Parliament should enforce the adherence to the already existing corporate governance systems and begin to hold corporate executives accountable for the performances of the enterprises that they preside over.** The corporate executives have already signed up to their adherence to and implementation of these fundamental principles. Therefore, it is only logical that they own up to what they have committed to.
- **SOE board composition and structure needs to be improved to enhance effectiveness, with the boards being held accountable for their actions.** Boards must have the necessary authority, competences and objectivity to carry out their functions of strategic guidance and monitoring of management.
- **It is recommended that the appointment of persons to boards of SOEs should be undertaken by Parliament just like the manner in which Parliament is involved in the appointment of commissioners.** Our observations have been that the appointment of boards by respective ministers as is currently the general practice makes the board members seemingly less accountable to Parliament. Their appointment through Parliament gives the board members more independence from the minister in the face of accusations that new ministers always seem to ‘fire’ boards to appoint their own when they assume office.
- **Performance appraisals should be established to inform reappointments and dismissal of board members.** This should be undertaken based on clearly stipulated lifespans and set targets for the board members. Parliament should be involved in the assessment of the performance of the board members.
- **There is need for a mechanism to ensure that Boards are appointed or re-appointed timeously to avoid situations in which some SOEs conduct their affairs without the oversight of the Boards.** Asking Parliament to appoint the SOE boards will also speed up the appointments particularly where their mandates have expired or where new boards should be established.
- **In the absence of other statutory provisions affecting the SOEs, it is recommended that meeting agendas of the board meetings be distributed at least 14 calendar days in advance, all board papers and any pre-reading materials should be distributed at least seven calendar days in advance.** The boards should reinforce this practice by refraining from considering last minute agenda items during board meetings. Genuinely urgent matters could fall outside these timing requirements, but these should be exceptions rather than the rule.
- **We recommend that Parliament undertake follow-up action on an annual basis with the relevant SOEs and ministries to determine the extent to which the recommendations of the Auditor-General and those of the PAC are being followed up on and implemented.** This will help avoid the last minute surprises where some of the recommendations may not have been implemented by the end of the year. This will also help in identifying and rectifying any challenges that are currently being faced by the SOEs in addressing the issues raised by the audits.
- **We recommend that Parliament take the lead in the enactment of a robust national whistleblowing (legislation) framework given that it is a key element of the first line of defence against corporate malpractices in the public sector.** It encourages employees to disclose any irregularities without the fear of retaliation and facilitates the early detection of any issues, thereby helping to prevent corporate malpractices and corruption.

- **There is need to raise awareness in all public entities on procurement legislation, public finance management and Corporate Governance Act.** In the foregoing, it has been highlighted that there is general lack of awareness of the provisions of the law on these matters and hence the level of compliance is very low.
- **We recommend that Members of Parliament align the Public Finance Management Act with Section 308 and penalties must be specified in the Act and enforced for such breaches.** There is a significant gap between the various corporate governance requirements scattered in the several laws, regulations and codes on the one side and the degree of compliance on the other. This gap can be closed by effectively enforcing compliance, and applying the penalties in the PFMA (Section 91) in the event of any transgressions. The AG has already reported rampant abuse of public funds and assets in government ministries and parastatals in her audit reports since 2009. The onus is on Parliament to follow-up on implementation of AG findings and recommendations.

Recommendations on Operational and Mandate Issues

- SAPST should support activities by MPs that are aimed at providing more scrutiny and oversight on the processes around SOEs that have been declared insolvent by the AG. **In the audit reports for 2018, 2017 and others before these, the Auditor general raises issues with a number of SOEs, examples being Air Zimbabwe, NRZ, NHS, TelOne, etc. which are highly in debt.** It is highlighted that the conditions of these enterprises indicate existence of material uncertainty that cast significant doubt on their ability to continue operating as a going concerns. What this means is that these enterprises are continuing to accumulate more debt which will continue to impose a burden on the fiscus and taxpayers. We, therefore, recommend that Parliament takes immediate measures and institute a process to resolve the status of these enterprises so that they may cease to be a burden on the economy.
- **We recommend that Parliament should have a bigger role in monitoring the use of funds extended to bail out SOEs that have been failing to deliver on their mandates.** The fundamental principle and rationale behind the creation of SOEs is that they should facilitate economic growth and development. Hence the enterprises must not impose a sustained burden on the government's finances. Examples include enterprises in the energy sectors, ZESA on electricity procurement and NOIC on the procurement of fuel and petroleum products. The GMB is also another candidate.
- **Low capitalization should be attended to in order to ensure that SOEs are able to deliver.** Various strategies could be employed to achieve this. This includes partial or complete privatization of the enterprises. It could also take the form of restructuring to ensure that the enterprises that are not for production of purely public goods and services operate on commercial basis.
- **The pricing of the goods and services produced by commercially oriented SOEs such as Air Zimbabwe, TelOne, NetOne, AgriBank, NRZ, and others need to be done correctly so that they do not continue to underprice and, therefore, incur losses.** This requires adoption of pricing and costing models that are dynamic. It also requires significant flexibility on the bureaucratic procedures that may require that approval be sought from the relevant ministry before price adjustments could be effected.
- **On the other hand, we recommend that goods and services produced by social service SOEs, those that produce public goods such as electricity, water, education, health services and even urban transport, should be priced based on models that allow for long-term sustainability.** The ZUPCO model adopted by the Government in 2019 for instance, takes into account many other issues, including the plight of the urban commuters, besides profitability. Government has a duty to provide certain basic services in the interest of social and economic justice but this should be done based on strategies that do not cripple government's capacity to deliver the same public goods and services in the medium to long term.
- **The SOE legal framework needs to be subjected to regular review to disclose explicitly the objectives that justify continued government ownership.** Where mandates have fallen behind current developments, they should be revised and updated. There is also need to revisit the mandates of some of the SOEs so that they can rediscover their core business. Sticking to their core business will enable effectiveness and reduction in waste.

Recommendations on Monitoring Performance of SOEs

While there was a general acknowledgement that many of the performance measurement and monitoring tools such as board charters, strategic plans, board committees, whistleblower plans, performance contracts with the boards and senior staff, etc. were in place for a number of SOEs, the research team is not convinced that these are being used effectively and thus failing to make an impact on performance. We, therefore, recommend that Parliament undertake the following:

- **Parliament must ensure that the government effectively exercises its ownership rights and act as an informed and active owner – ensuring that SOE governance is carried out in a transparent and accountable manner with a high degree of professionalism and effectiveness.** Given the weak state of corporate governance practices, a passive ownership model is not effective for SOEs in Zimbabwe.
- **Parliament should validate with the line ministries and SOEs the availability, quality and implementation of the performance measurement tools.** This is an important step given that the mere presence of such tools within the SOEs without their effective utilization will never guarantee the achievement of the desired results.
- **Parliament should ensure that the SOEs are complying with all periodic and annual financial reporting requirements and external audits and delivering them on time.** These are fundamental issues given that the periodic submission of reports enables the early identification of any malpractices, which would enable timely introduction of corrective measures.
- **All variances between the actual financial and non-financial results and the agreed performance as set out in the performance agreements should be documented and the reasons explained by the SOEs.** This would allow for the identification of the sources of the challenges encountered. It would also allow for the drawing of lessons and improvement in the learning processes
- **Large or unjustified variances from planned results should be reported to the line ministries and Parliament by the auditors and whistleblowers.** These should give rise to consequences administered by the line ministries under the performance agreements.
- **Periodic public disclosure and to Parliament of the SOEs performance should be made against the agreed objectives or relevant benchmarks and should act as a strong incentive for managers and boards to improve performance of SOEs.** While these entities should provide regular reports to Parliament and through the line ministries, there has been no consistency in this regard. Some SOEs have never submitted any reports to Parliament and this is an area in which the latter should focus on and put pressure to bear on the relevant ministries so that reports are prepared and submitted on time.
- **Political will and commitment to tackle corruption needs to be strengthened and this requires a whole-of-government approach that should involve the Zimbabwe Anti-Corruption Commission, law enforcement and the judiciary.** Ownership entities that have the responsibility to oversee ownership policies have an important role to play in communicating the state's expectations regarding anti-corruption. This should contribute to an effective anti-corruption discourse. The government's expectation about anti-corruption should also include putting into place effective internal controls, compliance programs and measures for prevention and/or early detection of corruption. In addition, the government should put into place mechanisms for promoting business ethics and the integrity of SOE operations. Sanctions must be applied on all that are found guilty of corruption and other types of fraud.
- **Section 28 of the PFMA should be amended to be consistent with the constitutional provision governing the presentation of the Budget to Parliament.** The same section also requires that each vote of expenditure must be accompanied by a statement of the classes of outputs expected to be provided from that vote during the year, and the performance criteria to be met in providing those outputs. This has never been fully complied with in our annual budgets for the SOEs and other institutions of the government.
- **The internal procedure manuals of most of the entities have not taken care of the important issues of gender, disability and anti-corruption policies.** We, therefore, recommend that SOEs have in place gender policies and anti-corruption policies. We further recommend that the Public Entities Corporate Governance Act be amended to that effect.

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ANNEXES

Annexes

Annex 1: Indicators for Measuring Progress in Performance of SOEs

1. Compliance with the Constitution and The Audit Act

Indicator 1.1: The Kind of Audit Opinion Received at the Last Audit (All SOEs)

Financial Year	Clean	Favorable	Unfavorable	Adverse
Based Year 2018	20.0%	23.3%	16.7%	40.0%
2019				
2020				
2021				
2022				
2023				
2024				
2025				

Indicator 1.2: Revenue Collection, Management and Debt Recovery Issues (All SOEs)

Financial Year	# of SOEs
Average 2013-2018	37
2019	
2020	
2021	
2022	
2023	
2024	
2025	

Indicator 1.3: Occurrence of Employment Related Issues (All SOEs)

Financial Year	# of SOEs	% of SOEs
Average 2013-2018	17	39.5%
2019		
2020		
2021		
2022		
2023		
2024		
2025		

2. Compliance with AG and Public Accounts Committee recommendations

Indicator 2.1: Extent of Implementation of Recommendations from the Auditor General's Office (All SOEs)

Financial Year	#% of SOEs
----------------	------------

Base Year 2018	21.0%
2019	
2020	
2021	
2022	
2023	
2024	
2025	

3. Adherence to the Public Entities and Corporate Governance Act

Indicator 3.1: Existence of a Boards (All SOEs)

Financial Year	#% of SOEs
Base Year 2018	87.1%
2019	
2020	
2021	
2022	
2023	
2024	
2025	

Indicator 3.2: Effectiveness of Board Charters (All SOEs)

Financial Year	Low/Weak	Moderate	Satisfactory	Adequate	Excellent
Based Year 2018	8.0%	40.0%	8.0%	40.0%	20.0%
2019					
2020					
2021					
2022					
2023					
2024					
2025					

Indicator 3.3: Effectiveness of Strategic Plans

Financial Year	Low/Weak	Moderate	Satisfactory	Adequate	Excellent
Based Year 2018	9.7%	35.5%	25.8%	12.9%	16.1%
2019					
2020					
2021					
2022					
2023					
2024					
2025					

Indicator 3.4: Effectiveness of Code of Ethics

Financial Year	Low/Weak	Moderate	Satisfactory	Adequate	Excellent
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Based Year 2018	9.5%	38.1%	19.0%	23.8%	9.5%
2019					
2020					
2021					
2022					
2023					
2024					
2025					

Indicator 3.5: Extent of Asset Declaration by the board and senior staff

Financial Year	#% of SOEs
Base Year 2018	54.8%
2019	
2020	
2021	
2022	
2023	
2024	
2025	

Indicator 3.6: Effectiveness of Audit Committee

Financial Year	Low/Weak	Moderate	Satisfactory	Adequate	Excellent
Based Year 2018	7.7%	19.2%	23.1%	42.3%	7.7%
2019					
2020					
2021					
2022					
2023					
2024					
2025					

Indicator 3.7: Effectiveness of whistleblower policy

Financial Year	Low/Weak	Moderate	Satisfactory	Adequate	Excellent
Based Year 2018	10.0%	10.0%	10.0%	70.0%	0.0%
2019					
2020					
2021					
2022					
2023					
2024					
2025					

4. Compliance with provisions of the PFMA

Indicator 4.1: Extent of utilization of funds allocated

Financial Year	Expenditure exceeds the budget allocated	Expenditure less than budget allocated	Expenditure equaled budget allocated
Based Year 2018	10.0%	10.0%	70.0%
2019			
2020			
2021			
2022			
2023			
2024			
2025			

Indicator 4.2: Extent of keeping complete records of SOEs financial affairs

Financial Year	Low/Weak	Moderate	Satisfactory	Adequate	Excellent
Based Year 2018	0.0%	36.7%	30.0%	0.0%	16.7%
2019					
2020					
2021					
2022					
2023					
2024					
2025					

Annex 2: List of Institutions that Participated in the Survey

1. Agribank
2. Agricultural Marketing Authority
3. Air Zimbabwe
4. Allied Timbers (Pvt) Ltd
5. CBZ Holdings
6. Chitungwiza Garment Factory
7. Civil Aviation Authority of Zimbabwe
8. CMED Private Limited
9. District Development Fund
10. Environmental Management Agency
11. Forestry Commission
12. Grain Marketing Board
13. Hwange Colliery (Pvt) Ltd
14. Industrial Development Corporation of Zimbabwe
15. Infrastructural Development Bank of Zimbabwe
16. Kingstons (Pvt) Ltd
17. Minerals Marketing Corporation of Zimbabwe
18. National Aids Council of Zimbabwe
19. National Archives of Zimbabwe
20. National Arts Council of Zimbabwe
21. National Gallery of Zimbabwe
22. National Handcraft Centre
23. National Handling Services
24. National Oil Infrastructure Company of Zimbabwe
25. National Pharmaceuticals Company of Zimbabwe
26. National Railways of Zimbabwe
27. National Social Security Authority
28. NetOne
29. People's Own Savings Bank
30. Petrotrade
31. Pig Industry Board
32. Printflow (Pvt) Ltd
33. Rainbow Tourism Group
34. Road Motor Services
35. Small and Medium Enterprises Development Corporation
36. TeOne
37. Tobacco Industry and Marketing Board
38. Tobacco Research Board
39. ZB Holdings
40. ZESA Holdings
41. Zimbabwe Broadcasting Corporation
42. Zimbabwe Consolidated Diamond Mining Company
43. Zimbabwe Manpower Development Fund
44. Zimbabwe Mining Development Corporation
45. Zimbabwe National Family Planning Council
46. Zimbabwe National Road Administration
47. Zimbabwe National Water Authority
48. Zimbabwe School Examination Council
49. Zimbabwe Tourism Authority
50. Zimpapers

51. ZIMRE Holdings
52. Zimbabwe United Passenger Company
53. State Enterprises Restructuring Agency
54. Auditor General's Office
55. Parliament of Zimbabwe
56. Procurement Regulatory Authority of Zimbabwe
57. Southern African Parliamentary Support Trust
58. Zimbabwe Coalition on Debt and Development
59. Auditor General's Office