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Volume 3: State Enterprises & Parastatals

Jointly prepared by the Government of Zimbabwe and the World Bank.

GLOSSARY

AfDB	African Development Bank
AFROSAI	African Organization of Supreme Audit Institutions
AMTO	Assisted Medical Treatment Orders
ARDCZ	Association of Rural District Councils of Zimbabwe
BCC	Budget Call Circular
BEAM	Basic Education Assistance Module
BOP	Balance of Payments
BSP	Budget Strategy Paper
BSP-Z	Better Schools Programme-Zimbabwe
CAPEX	Capital Expenditure
CCT	Conditional Cash Transfer
CIT	Corporate Income Tax
CNFA	Cultivating New Frontiers in Agriculture
COFOG	Classification of Functions of Government
CPI	Consumer Price Index
CSC	Civil Service Commission
DEA	Data Envelopment Analysis
DFID	Department for International Development (United Kingdom)
DPO	Development Policy Operation
DRRR	Disaster Response and Risk Reduction
DSA	Debt Sustainability Analysis
DSS	Department of Social Services
ECD	Early Childhood Development
EDF	Education Development Fund
EMIS	Education Management Information System
EMTP	Education Medium Term Plan
ETF	Education Transition Fund
FAO	United Nations Food and Agriculture Organization
FY	Fiscal Year
GDP	Gross Domestic Product
GEC	Girls Education Challenge
GFMIS	Government Financial Management Information System
GFSM	Government Finance Statistics Manual

GNU	Government of National Unity
GoZ	Government of Zimbabwe
GPE	Global Partnership for Education
HIV/AIDS	Human Immunodeficiency Virus Infection and Acquired Immune Deficiency Syndrome
HQ	Headquarters
HSCT	Harmonized Social Cash Transfer System
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technologies
IDA	International Development Association
IDBZ	Infrastructure Development Bank of Zimbabwe
IFIs	International Financial Institutions
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
I-PRSP	Interim Poverty Reduction Strategy Paper
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
KPA	Key Performance Area
LA	Local Authority
LAPF	Local Authorities Pension Fund
LEAP	Livelihood Empowerment Against Poverty program
LLECE	Latin American Laboratory for Assessment of the Quality of Education
MAMID	Ministry of Agriculture, Mechanisation and Irrigation Development
MASAF	Malawi Social Action Fund
MDA	Ministries, Departments, and Agencies
MIS	Management Information System
MLGPWNH	Ministry of Local Government, Public Works, and National Housing
MoAMID	Ministry of Agriculture, Mechanisation and Irrigation Development
MoFED	Ministry of Finance and Economic Development
MoHCC	Ministry of Health and Child Care
MoPSE	Ministry of Primary and Secondary Education
MPSLSW	Ministry of Public Service, Labor and Social Welfare
MSMECD	Ministry of Small and Medium Enterprises and Cooperative Development
MTEF	Mid-Term Expenditure Framework
MTFF	Mid-Term Fiscal Framework
MWAGCD	Ministry of Women Affairs, Gender and Community Development
MYIEE	Ministry of Youth, Indigenization and Economic Empowerment
NGO	Non-Governmental Association

NPL	Non Performing Loan
NSSA	National Social Security Authority
OAG	Office of the Auditor General
OECD	Organisation for Economic Co-operation and Development
OPC	Office of the President and Cabinet
OSISA	Open Society Initiative for Southern Africa
OVC	Orphans and Vulnerable Children
PAC	Public Accounts Committee
PASEC	Program on the Analysis of Education Systems
PAYG	Pay-As-You-Go
PCW	Public Community Works
PER	Public Expenditure Review
PFM	Public Financial Management
PFMA	Public Finance Management Act
PFMEP	Public Financial Management Enhancement Project
PICES	Poverty, Income, Consumption, Expenditure Survey
PIM	Public Investment Management
PIRLS	Progress in International Reading Literacy Study
PISA	Programme for International Student Assessment
PIT	Personal Income Tax
PLAP	Performance Lag Address Programme
PSNP	Productive Safety Net Programme
PPPs	Public-private Partnerships
PSC	Public Service Commission
PSIP	Public Sector Investment Programme
PSPF	Public Service Pension Fund
RBB	Results-Based Budgeting
RBM	Results-Based Management
RBZ	Reserve Bank of Zimbabwe
SACMEQ	Southern and Eastern Africa Consortium for Monitoring Educational Quality
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Systems Application Products
SDC	School Development Committee
SDG	Sustainable Development Goal
SDR	Special Drawing Rights
SEDCO	Small Enterprises Development Corporation
SERA - USAID	Strategic Economic Research and Analysis Program (USAID)
SERA	State Enterprises Reform Agency
SFA	Stochastic Frontier Analysis

SMEDCO	Small and Medium Enterprises Development Corporation
SMP	Staff Monitored Program
SEPs	State-Owned Enterprises
SSN	Social Safety Nets
STAP	Seasonal Targeted Assistance Program
TA	Technical Assistance
TCPL	Total Consumption Poverty Line
TDIS	Teacher Development Information System
TIMSS	Trends in International Mathematics and Science Study
TMS	Teacher Minimum Standards
UCAZ	Urban Councils Association of Zimbabwe
UCT	Unconditional Cash Transfer
UIS	Institute for Statistics (UNESCO)
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value-Added Tax
WFP	United Nations World Food Program
ZAMCO	Zimbabwe Asset Management Company
ZIA	Zimbabwe Investment Authority
ZIMASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMRA	Zimbabwe Revenue Authority
ZIMSTAT	Zimbabwe National Statistics Agency
ZIMVAC	Zimbabwe Vulnerability Assessment Committee
ZINARA	Zimbabwe National Roads Administration
ZINWA	Zimbabwe National Water Authority

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EXECUTIVE SUMMARY

This volume analyses the importance of State Enterprises and Parastatals (SEPs) in the economy, with a special focus on fiscal risks from SEPs' operations. The volume explores how the activities of SEPs such as the Zimbabwe Electricity Supply Authority (ZESA) and Grain Marketing Board (GMB) contribute to poverty reduction. The volume also reviews corporate governance issues facing SEPs.

KEY CHALLENGES

Fiscal Issues

- Though more information on the fiscal role of SEPs is now available, there is no clear control mechanism for monitoring or controlling explicit budget guarantees to SEPs.
- The overall balance of SEPs within the general government budget is difficult to establish. Though the central government is in arrears on payments for a number of services delivered, transfers to SEPs have increased and SEP tax liabilities have grown.
- Regulation of tariffs, including political direction of some decisions, has not allowed SEPs to cover long-run marginal costs. The subsidies provided through sub-economic tariffs are not effectively targeted to reduce poverty.
- The absence of effective oversight has allowed SEPs to build up extensive financial linkages – including complex mutual indebtedness – which contribute to systemic risk.
- The employment costs of SEPs, especially of key management, constitute a large share of SEP expenditures, and rose from 2011 to 2014.

Governance Issues

- Governance and oversight of SEPs are shared among a plethora of institutions, without a clear demarcation of roles.
- Some SEPs have both operational and regulatory functions, presenting conflicts of interest and undermining incentives for performance.
- Corporate governance of SEPs is patchy, with no obvious mechanism for ensuring compliance with the existing high-quality National Code for Corporate Governance.

POLICY OPTIONS

- **The GoZ could clarify the financial interrelationships between the central government budget and SEPs.** Annual reports of SEPs should report on payments arrears, outstanding tax liabilities, and budget transfers received from the central government. The central government's budget should summarize this information, and shed light on transfers between SEPs, and the size of quasi-fiscal operations undertaken by them.
- **The GoZ might realign employment costs, especially of key management and boards, to ensure results-based performance.** To complement this, the GoZ could support a clear remuneration policy for all SEPs, which gives key benchmarks on remuneration based on the financial status of SEPs.

- **Authorities could consolidate and clarify the oversight function of SEPs among relevant institutions, and clarify the roles of certain SEPs.** Authorities might restructure the institutional framework for SEPs, as the numerous institutions now involved in administering SEPs risk derailing needed reforms due to overlapping instructions. Authorities might better separate the regulatory and commercial activities in SEPs to help reduce duplication of duties, and improve accountability for performance.

- **The Government could designate an entity – an existing ministry, Agency, or unit, or a newly created body – to coordinate the reform agenda.** The Government could also explore options for exercising its ownership function. For example, the GoZ might pilot among a sample of significant commercial SEPs a more centralized ownership approach, which would follow an increasing trend in other countries.

- **The GoZ could implement the provisions of the Public Enterprises Corporate Government Bill (PECG), which might help reduce the financial losses of SEPs.** Implementing such provisions might require additional resources – both in senior decision-making time and operational staff. Piloting the full implementation of provisions swiftly in a couple of SEPs would allow the GoZ to assess support needed for scale-up, and potential challenges.

- **The GoZ could take steps to improve transparency and accountability.** For example, authorities could insist that, as required by the PECG Bill, SEPs begin immediately publishing annual reports, strategic plans, and progress reports.

- **The GoZ could improve management of its portfolio of SEPs by establishing a central database** that systematically consolidates performance information on SEPs. Such a database would allow easier identification of problems, and quicker action on corrective measures.

1 INTRODUCTION

State Enterprises and Parastatals play important roles in Zimbabwe's economy. SEPs are active in major infrastructure areas: energy, transport, communications, and agriculture. In 1980, Zimbabwe inherited 20 public enterprises thinly spread across sectors, though SEPs have since increased. Despite efforts since 1990 to privatize SEPs, Zimbabwe today has 107 SEPs[1] and this PER focuses on 38 commercial SEPs that provide public services on a cost recovery or for-profit basis. The non-commercial are mostly regulators, research boards, and tertiary education institutions Public expenditure on SEPs funds wage bills, capital investment, and direct subsidies. SEPs operate in a policy environment with many institutional actors. The State Enterprises Restructuring Agency (SERA), the Office of the President and Cabinet (OPC), the Ministry of Finance and Economic Development (MoFED), and line ministries are directly involved in monitoring SEPs. Line ministries govern most SEPs, as such ministries administer the Acts establishing these institutions. The OPC has a coordinating role in government policy and leads on the Corporate Governance Framework. The Ministry of Finance through the Public Finance Management Act is responsible for assessing the performance of these institutions. SERA was established in 2004 to replace the Privatization Agency of Zimbabwe. SERA's functions were expanded to include not just privatizing and restructuring SEPs, but also assisting in coordinating the SEPs reform programme.[2]

Though SEPs play a significant role in Zimbabwe's economy, their contribution to GDP has declined. The contribution of all SEPs to GDP fell to 13.4 percent of GDP in 2014 from 16.8 percent in 2009 (ZIMSTAT, 2016). The contribution of commercial SEPs dropped to 7.7 percent of GDP in 2014 from 9.4 percent in 2012 (World Bank, staff calculation).[3] In parallel, tax and dividend payments from SEPs declined over the years.

The GoZ has announced measures to improve SEPs' performance in several national budget statements. In the 2011 Budget Statement, the GoZ launched the first phase of a reform programme, targeting ten major enterprises, including the Agricultural Bank of Zimbabwe (AGRIBANK), Air Zimbabwe, GMB, Cold Storage Commission (CSC), Net-One, Tel-One, Zimbabwe Iron and Steel Company (ZISCO) and National Railways of Zimbabwe (NRZ). In addition, the Minister of Finance announced that the GoZ is finalising the Corporate Governance Manual for public enterprises. In the 2012 Budget, the GoZ announced measures to limit ministries' use of SEP services without payment, which aimed to contain SEPs' risk exposure to government. In the 2013 Budget, the GoZ noted the need to continue restructuring public enterprises – including 18 public enterprises identified by Cabinet, such as Allied Timbers, Air Zimbabwe, Agribank and ZESA – through commercialisation, privatisation and other strategies. The GoZ required all SEPs to comply with provisions of the *'Corporate Governance Framework for State Enterprises and Parastatals'.* Authorities also announced cascading of Zimbabwe's results based management system to all SEPs, in line with developments in central government.

In recent years, the GoZ continued to call for better SEP performance. In the 2014 Budget, the GoZ emphasized the extent to which employment costs crowd out the core business of most public enterprises. In the 2015 Budget, the GOZ provided resources to conduct audits for SEPs and launched forensic audits of some SEPs. Further, the GoZ committed to developing turn-around strategies for the ten priority enterprises to be restructured. In the 2016 Budget, the GoZ highlighted the need to

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[1] This does not include minority shareholding in some companies or subsidiaries of SEPs. SEPs operate in various market structures: natural monopolies (such as National Railways of Zimbabwe, NRZ, or the oil pipeline to Beira, NOIC), legal monopoly (such as the Rural Electrification Agency, or the postal service ZIMPOST), oligopolies (Netone in telecommunications) while the majority, albeit smaller SEPs, engage in monopolistic competition.

[2] See http://sera.co.zw/overall-functions/

[3] The data for all SEPs contribution was provided by ZIMSTAT, while data for commercial SEPs was calculated by World Bank staff from various audited financial statements. The two figures calculated on a slightly different basis, so the contribtion of non-commercial SEPs cannot be calculated by subtraction.

expedite the Public Entities Reform Agenda, in view of recent slow progress. The GoZ is finalising a Public Enterprises Corporate Governance Bill which, when enacted into law, will establish corporate governance and performance principles for SEPs, and include a requirement to remit 50 percent of after-tax profits to the Treasury. The GoZ will carry out performance audits to expedite the reform process. The auditing exercise is being led by the Office of Auditor General, with financial support from the GoZ.

Data on SEPs is fragmented and often incomplete, but this study is the first of its kind using various data sources covering multiple years. Until recently, the financial information of SEPs was only in annual reports, as no central database existed for SEP data. However, SERA was able, with World Bank support, to collect and establish a baseline database of key financial and performance indicators of SEPs. For the first time in years, this study uses data from multiple sources, including a newly created baseline database collected from audited financial statements, fiscal data from the Ministry of Finance, views and data collected from questionnaires, case studies, and reports of the Auditor General. The study focuses on only the 38 commercial SEPs in Zimbabwe. The analysis covers from 2011 to 2014, which is the last year for which audited financial information for most companies was obtainable. Figure 1 and Annex 1 list the companies and sectors targeted in this analysis.

This volume aims to analyse the importance of Zimbabwe's SEPs in the economy, especially the fiscal risks from SEPs' operations, and the impacts that SEPs such as ZESA and GMB can have on poverty reduction.[4] In addition, the volume reviews corporate governance issues for SEPs and offers policy options.

The volume is organised as follows. Section 2 explores the roles of SEPs. Section 3 examines the revenue and expenditure trends of SEPs. Section 4 analyses fiscal risks associated with SEPs. Corporate governance is explored in Section 5, while Section 6 focuses on service delivery and poverty alleviation, illuminated through case studies of ZESA and GMB.

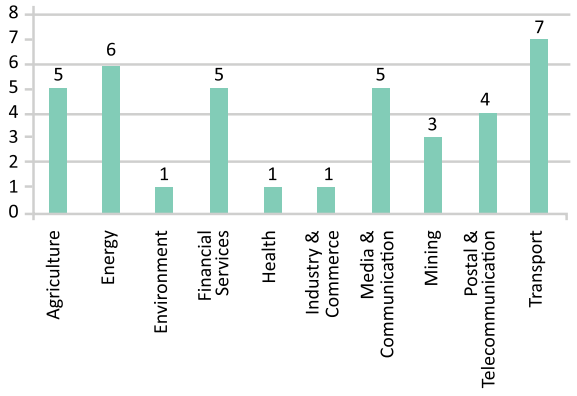
2 ROLE OF STATE ENTERPRISES IN THE ECONOMY

Some enterprises, especially in energy sector, have captured almost 100 percent market share. Some SEPs have both commercial and regulatory functions, sometimes resulting in conflicts of interest and weak accountability. The GoZ embarked on privatisation, commercialization and restructuring of SEPs to improve performance. In early 2000s, the GoZ intensified its privatization agenda. About 13 SEPs were privatized from 1980 to 2002, and privatization was thinly spread over other years. Most privatised enterprises were loss making, and they came from several sectors, including agriculture (Cotton Company of Zimbabwe, Dairy Marketing Board Zimbabwe); financial services (ZIMRE, Commercial Bank of Zimbabwe); and mining (Munyati mining).

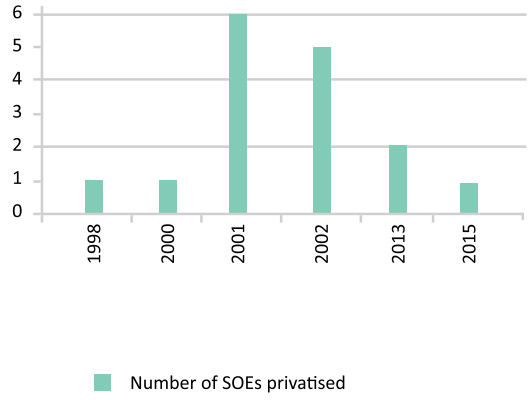
[4] This volume focus only on commercial State enterprises. State Enterprises are entities incorporated under the Companies Act where the Government holds 100 percent or fewer shares, while a parastatal is a body established by a special Act of Parliament to carry out a particular undertaking for the benefit of the public.

Figure 1: Number of SEPs and Privatised SEPs

A. Number of SEPs by sector



B. Number of privatised SEPs by year



Source: SERA, 2016

The average contribution of SEPs to GDP from 2011 to 2014 was 15.3 percent. The contribution of all SEPs to GDP fell from 17 percent in 2012 to 13.4 percent in 2014.[5] For commercial SEPs, the contribution fell from 9.4 percent in 2012 to 7.7 percent in 2014 (see Table 1).

Table 1: SEPs Value Added

	2011	2012	2013	2014
All SEPs (percent GDP)	16.4	17.1	16.0	13.4
Commercial SEPs (percent GDP)	-	9.5	8.0	7.7
Value added all SEPs (US$ billion)	1.795	2.113	2.155	1.902
Value added Commercial SEPs (US$ billion)	-	1.181	1.078	1.096[6]

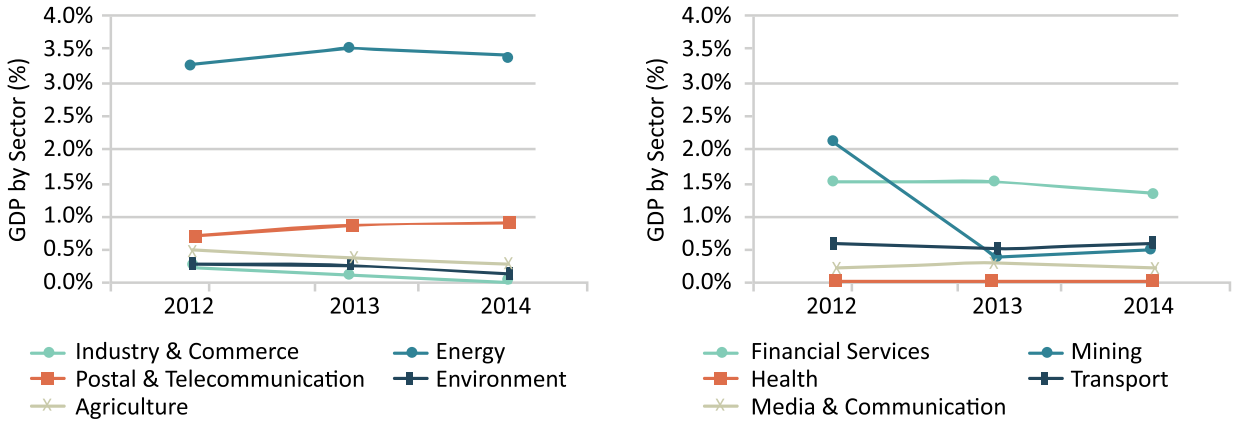
Source: ZIMSTAT, 2016 and World Bank Staff calculation

Among sectors, energy contributed the most to GDP from 2012 to 2014 (see Figure 2). The energy sector contributed between 3 and 3.5 percent of GDP during this period, followed by financial services, which contributed slightly above 1 percent each year.

[5] The data for all SEPs' value added is from ZIMSTAT. For Commercial SEPs, data was calculated by World Bank Staff.

[6] Since figures for all SEPs are calculated on a different basis from those for commercial SEPs, the contribution of non-commercial SEPs cannot be calculated by subtraction. Figures for all SEPs use total stocks, rather than the changes in stocks, in estimating Value Added.

Figure 2: Value Added Contribution by Sector



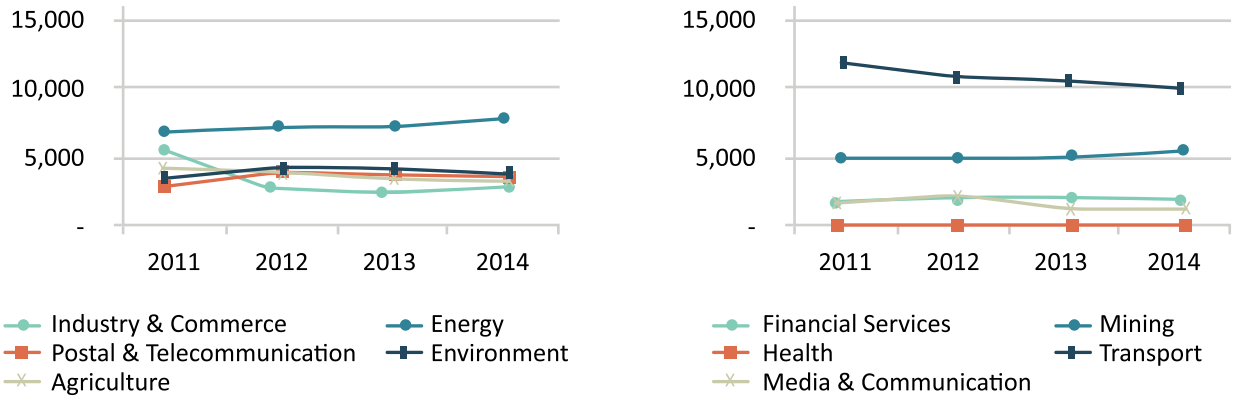
Source: Audited Financial Statement: Data compiled by World Bank Staff

The contribution of SEPs to employment has declined since 2011. The number of people that SEPs employed fell by about seven percent from about 44,000 in 2011 to 41,000 in 2014 (See Figure 3). The downward trend was driven by a difficult economic environment, leading some SEPs to retrench. From 2011 to 2014, SEPs accounted for about five percent of total formal employment in Zimbabwe, and about 18 percent of public sector employment.

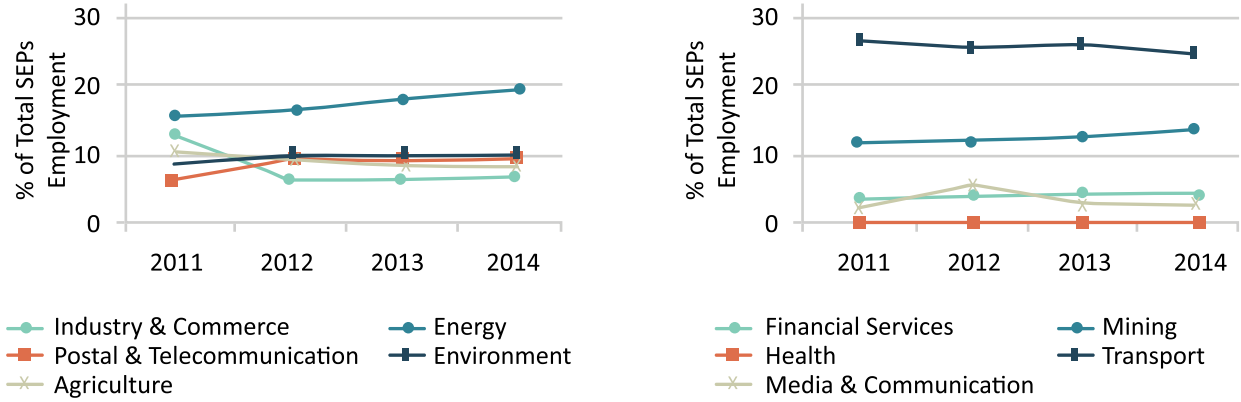
Transport provided the most employment among sectors, though the number of transport employees has declined since 2011. The decline in the number of employees in transport is partly due to poor performance, especially in road passenger and rail transportation. The energy sector had the second highest number of employees, and employment in energy gradually increased from 2011 to 2014. Only energy and mining showed persistent annual increases in employees since 2011.

Figure 3: SEPs Employment Trends

C. Number of SEPs employees by sector



D. Sector SEP employees % of total SEPs employment



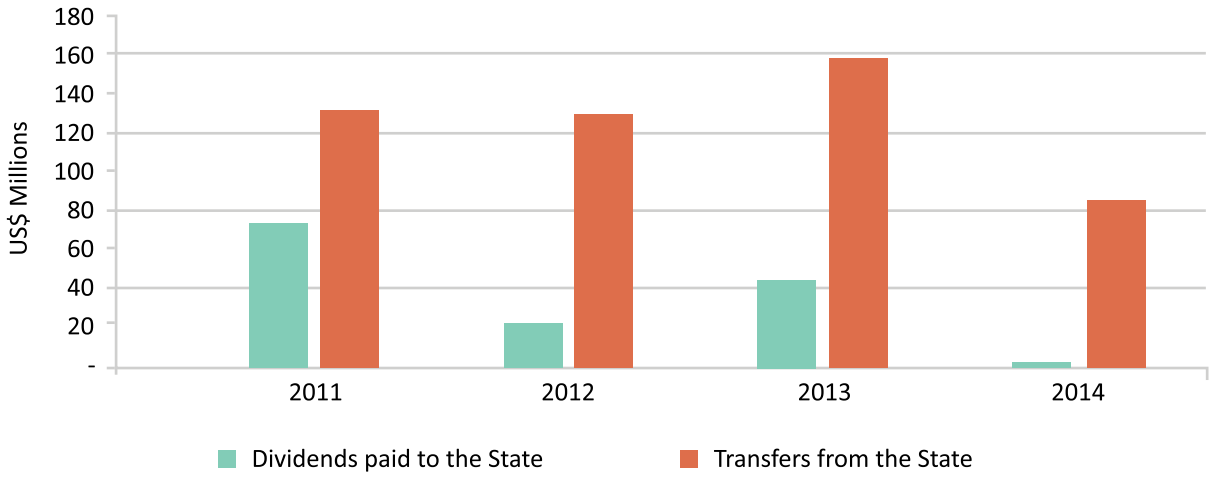
Source: Audited Financial Statement: Data compiled by World Bank Staff

Very few SEPs pay dividends to the Government. Paid dividends increased between 2012 and 2013, before declining heavily in 2014 (see Figure 4). The mining sector contributed the most dividend payments. Of the 38 commercial SEPs, only two enterprises declared dividends in 2014.

Transfers from the state are higher than dividends declared by companies. For example, the Government in 2013 received only about US$44 million in paid dividends, but the state transferred US$156 million to SEPs. In 2014, transfers were markedly lower than previous years, with the bulk of the transfers directed to two enterprises satisfying a public service obligation: the Zimbabwe National Water Authority (ZINWA), and the GMB, the latter arguably for the public policy goal of sustaining a Strategic Grain Reserve.[7]

[7] Please refer also to the discussion on Transfers, in Volume 2 of this PER.

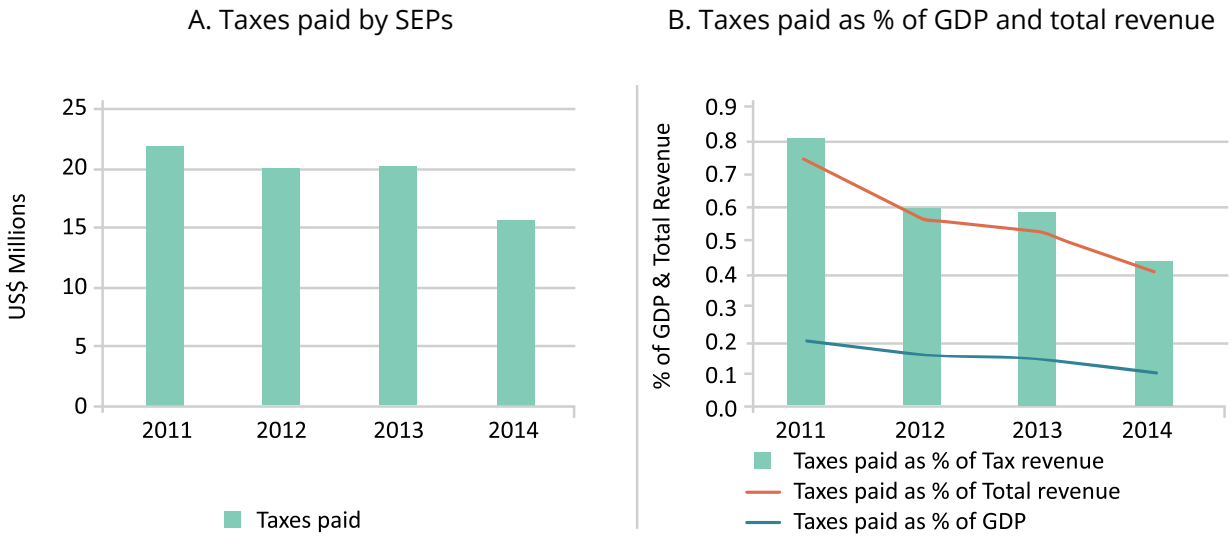
Figure 4: Dividends Paid by SEPs and Transfers by State



Source: Audited Financial Statement: Data compiled by World Bank Staff

The contribution of commercial SEPs to tax revenues declined over the full period (see Figure 5). In nominal terms, taxes from SEPs as a percent of total government revenue and GDP have trended downward, reflecting a declining contribution of SEPs to the fiscus. SEPs paid taxes of more than US$20 million in the first three years, but only US$15.6 million in 2014. The SEPs contributing the most taxes were in energy, dominated by taxes from petrol companies.

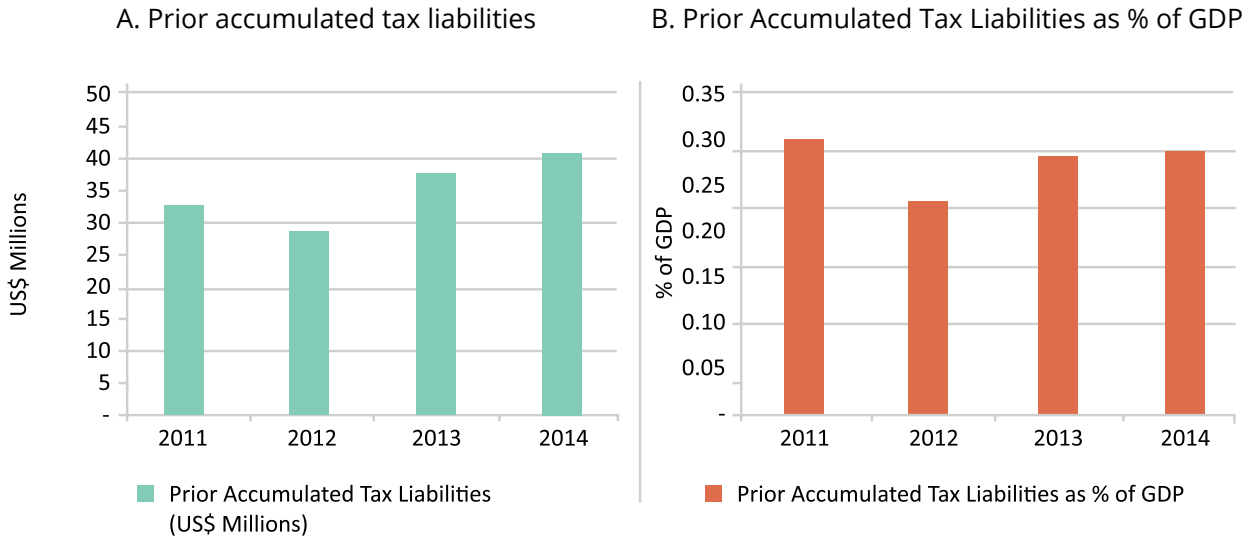
Figure 5: Taxes Paid by SEPs



Source: Audited Financial Statement: Data compiled by World Bank Staff

Accumulated tax liabilities of SEPs exceeded their paid taxes. SEPs' tax compliance is low, with accumulated tax liabilities in 2014 of US$42.1 million, against paid taxes of only US$15.6 million (see Figure 5). As percent of GDP, paid taxes were below 20 percent of GDP, while tax liabilities were over 25 percent except in 2012.

Figure 6: SEPs Outstanding Taxes

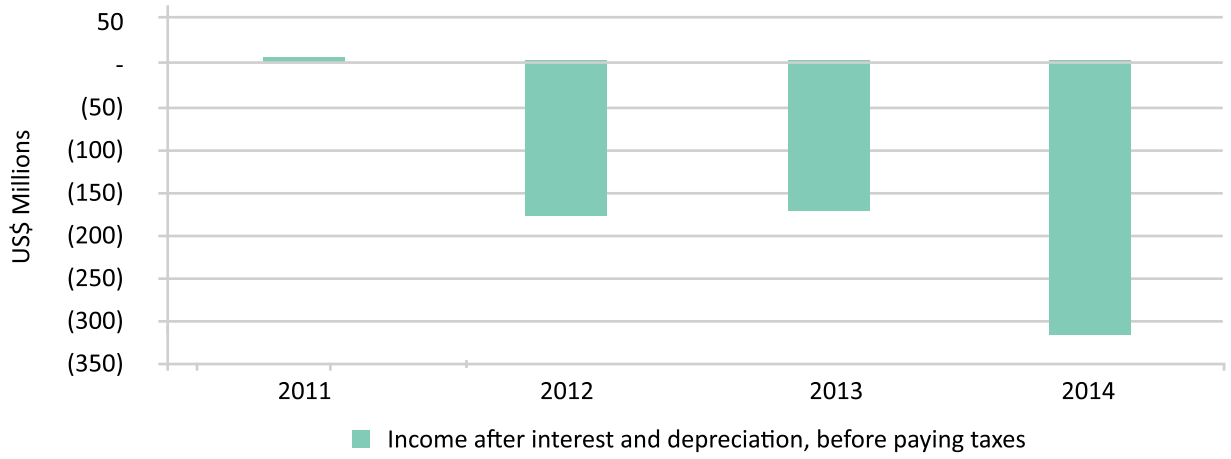


Source: Audited Financial Statement: Data compiled by World Bank Staff

3 REVENUE & EXPENDITURE TRENDS

The net income of commercial SEPs, after interest and depreciation but before paying taxes, has been negative since 2012 (see Figure 7). Losses, in aggregate, were close to 10 percent of turnover in 2014 – against close to zero in 2011. Of the 38 commercial SEPs, 24 reported losses in 2014, compared with 26 in 2011, when the portfolio as a whole broke even. 14 SEPs ran losses each year from 2011 to 2014.

Figure 7: SEPs Income After Interest and Depreciation Before Paying Taxes



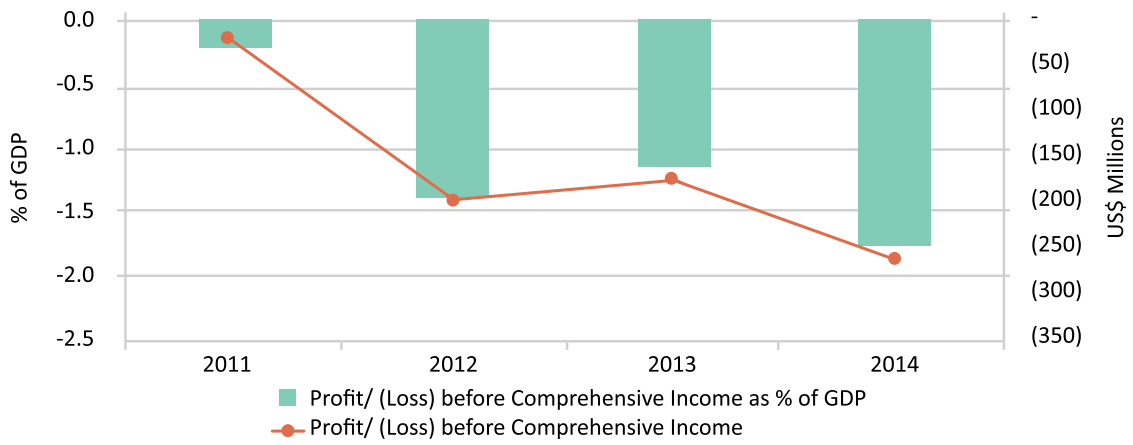
Source: Audited Financial Statement: Data compiled by World Bank Staff

In aggregate, SEPs are accumulating losses and losing equity value, thereby posing fiscal and macroeconomic risks. The profit of SEPs before other comprehensive income has been negative across the years (see Figure 8). Losses increased from US$20 million in 2011 to US$285 million in 2014. As a percent of GDP, losses increased from 0.2 percent in 2011 to 2 percent in 2014. A sector breakdown shows that financial services has operated at a profit since 2011, mainly driven by NASA. The mining sector recorded a surplus in 2011 and 2012, but thereafter operated at a loss.

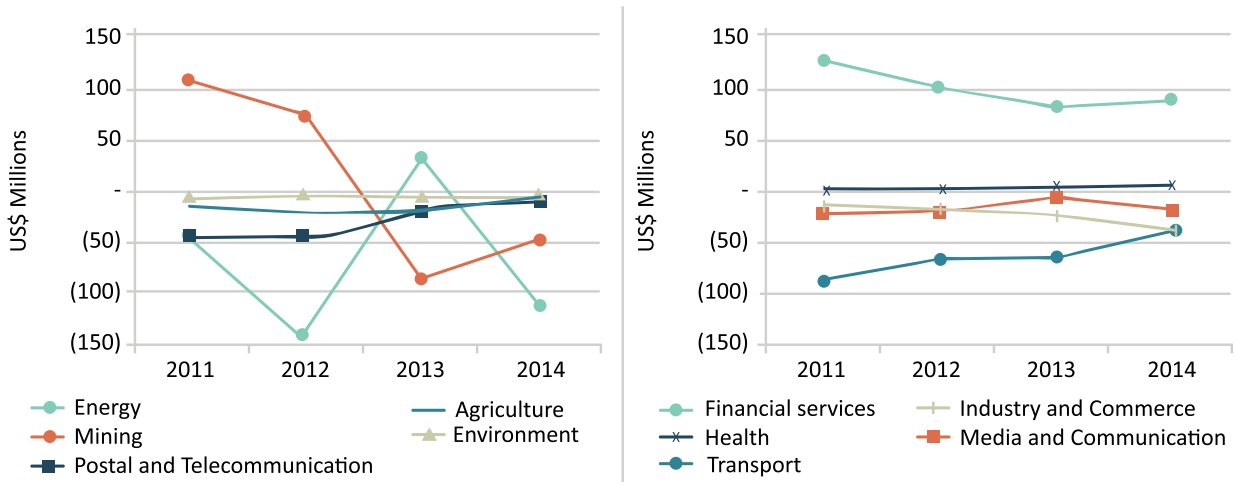
The losses of commercial SEPs are caused by many factors, including poor corporate management, the Government's failure to pay for services rendered, and sub-optimal prices. The Government owes money to most SEPs for utility bills and other costs, especially in energy, which undermines the viability of these SEPs. The continued existence of SEPs has relied on inefficient and unwise strategies, including growing arrears to private sector operators, and the Government's issuance of T-Bills.

Figure 8: Profit/Loss Before Other Comprehensive Income

A. Profit / loss before other comprehensive income



B. Profit / loss before other comprehensive income by sector



Source: Audited Financial Statement: Data compiled by World Bank Staff

Revenue Trends

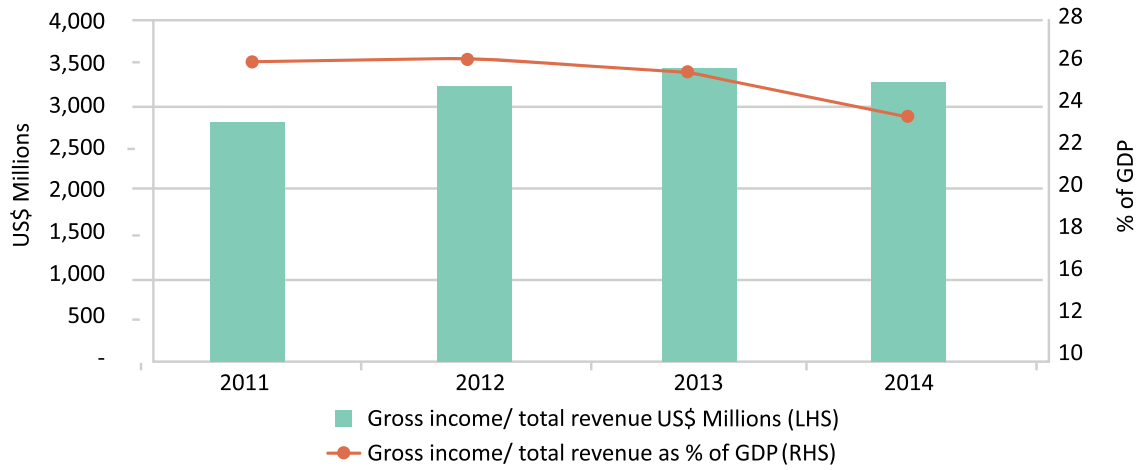
Gross income (total revenue) increased from 2011 to 2013, but declined in 2014. This followed a decline in revenues in the energy sector, the largest revenue contributor. Revenue in the energy sector increased from US$1.2 billion in 2011 to US$1.8 billion in 2013, before dropping slightly to US$1.6

billion in 2014. Gross revenue was above 20 percent of GDP across the years, but has declined since 2012 (see Figure 9).

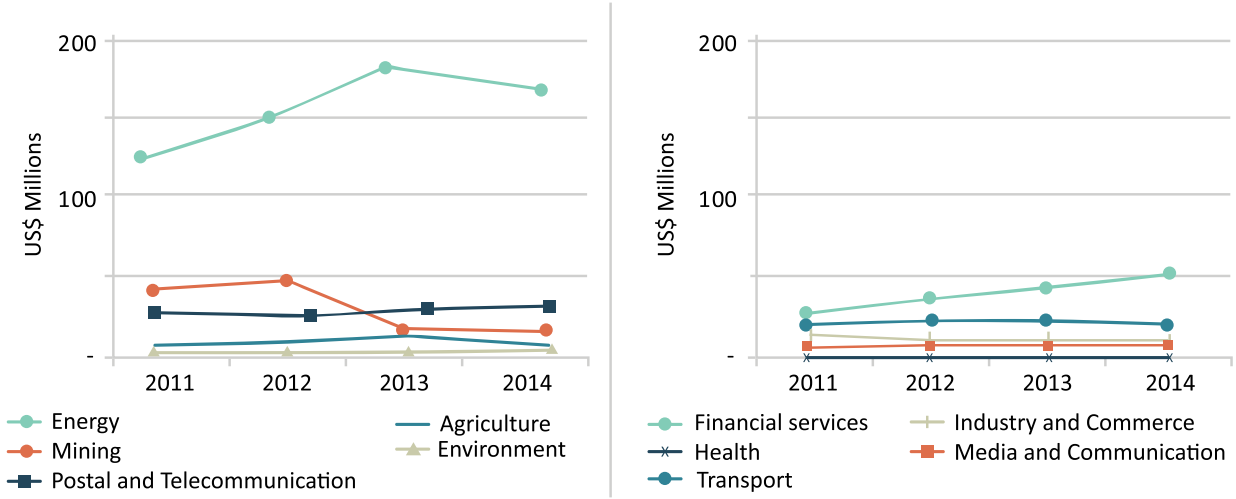
Revenue grew in financial services and postal and telecommunication from 2011 to 2014. In contrast, sectors such as mining saw revenue increase in 2011 and 2012, but fall in 2013 and 2014 (see Figure 9). The decline in mining revenue was driven by significant reduction in diamond production and sales.

Figure 9: Total Revenue

A. Gross Income/Total Revenue



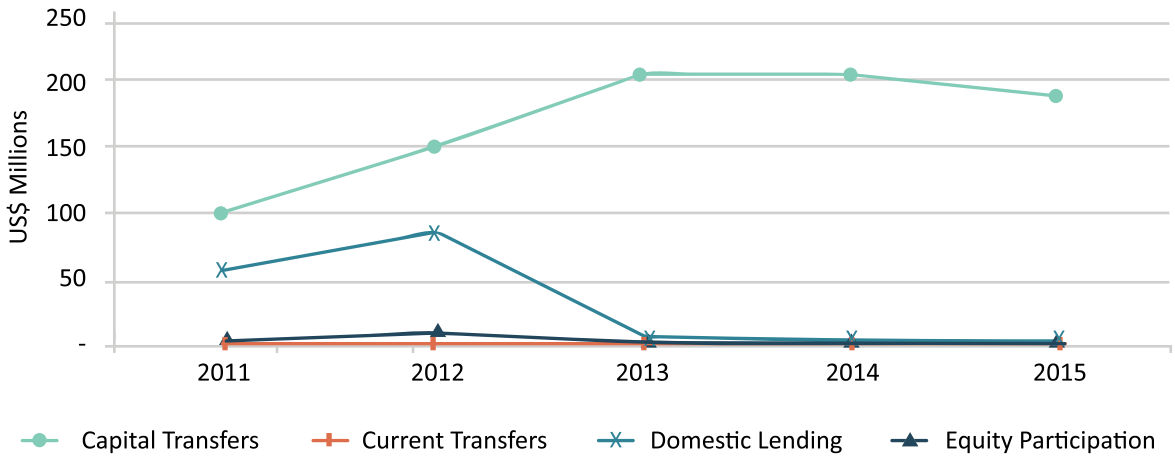
B. Total revenue by sector



Source: Audited Financial Statement: Data compiled by World Bank Staff

Though SEPs have accumulated tax arrears, the Government continues to pay transfers to them. The easy access of SEPs to transfers limits their incentives to maintain tight budgets and prudent controls. The Government paid and maintained an upward trend on capital transfers (see Figure 10). These transfers contributed to the fiscal deficits experienced over the period.

Figure 10: Transfers from the State



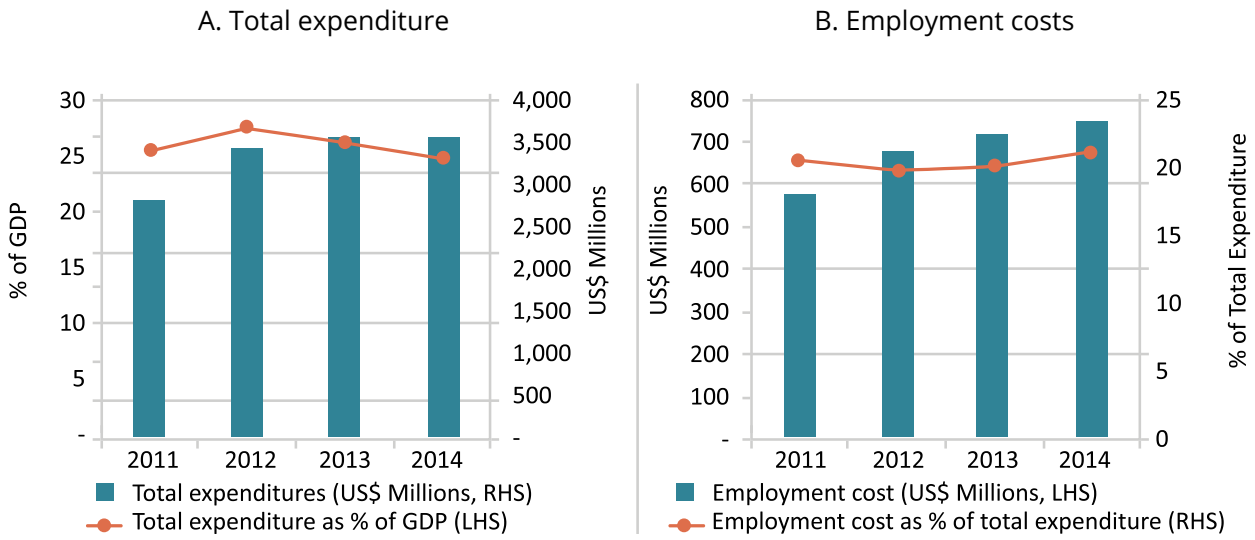
Source: Ministry of Finance

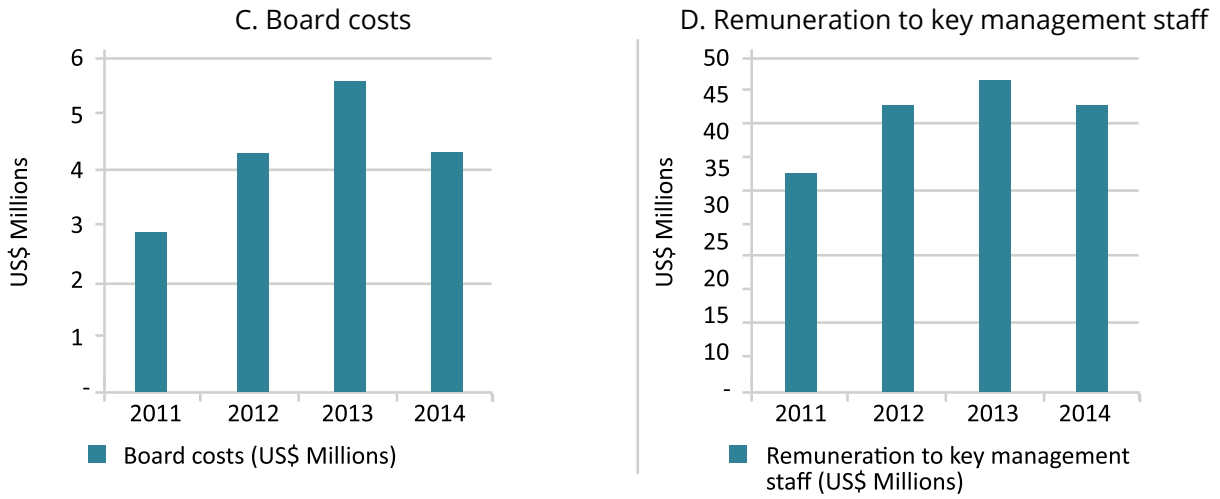
Expenditure Trends

Total expenditure has trended upward, even in 2014 when total revenue declined. Total expenditure and employment costs rose from 2011 to 2014. Employment costs as percent of total expenditure increased from 19.7 percent in 2012 to 21.1 percent in 2014 (see Figure 11).

Board costs and remuneration to key management staff have trended upward since 2011. Recurrent expenditure thus makes up a large share of the total expenditure of SEPs. The increase in Board costs is partly driven by CEOs and Boards, which in many cases set their own remuneration, while ignoring legal provisions on maximum remuneration. Such practices testify to Zimbabwe's weak oversight structure, and imbalances in accountability and reporting. Though the Auditor General has noted the high salaries of some CEOs, the GoZ has not acted promptly to fix this problem permanently.

Figure 11: Total Expenditure and Employment Cost

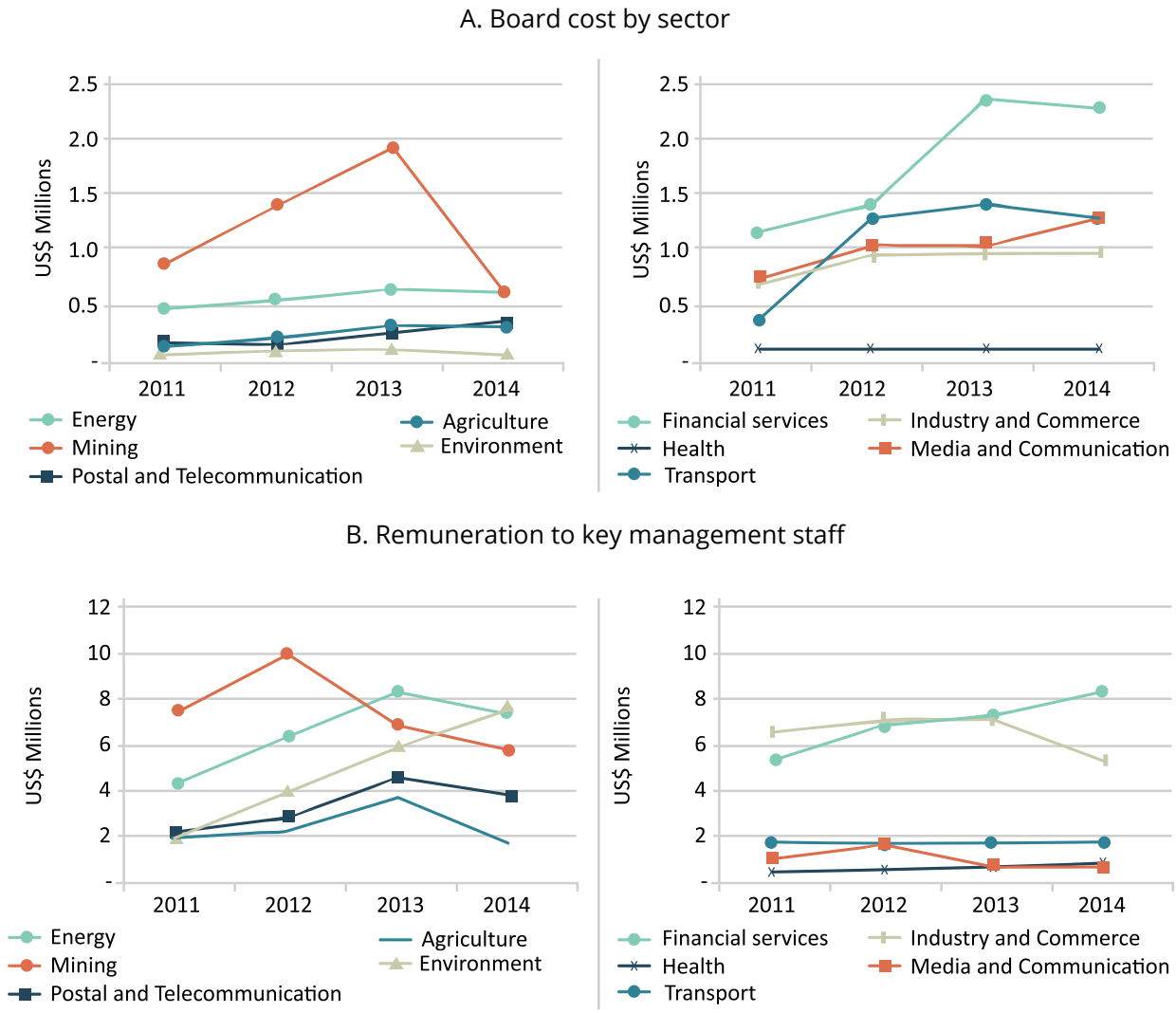




Source: Audited Financial Statement: Data compiled by World Bank Staff

The energy, agriculture, and financial services sectors trended upward in Board costs, notwithstanding these sectors' poor performance and sometimes failure to provide key services. The sharp decline in Board costs in mining is because certain SEPs, for example ZMDC, operated without a Board in the first quarter of 2014 (see Figure 12).

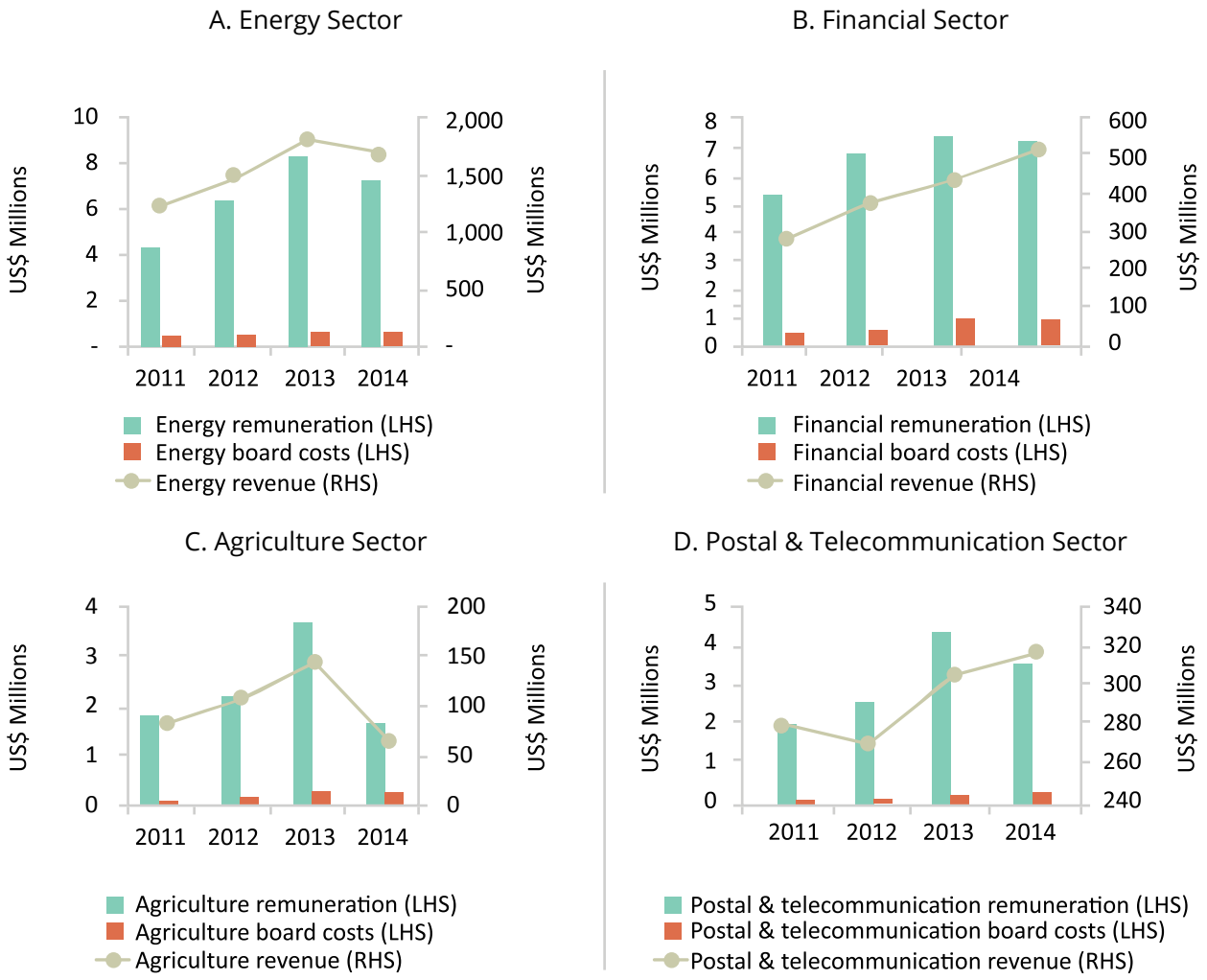
Figure 12: Board Cost and Remuneration to Key Management by Sector



Source: Audited Financial Statement: Data compiled by World Bank Staff

An analysis of the relation between remuneration and revenue performance in sectors from 2011 to 2014 reveals varying performance, and a risk that staff in underperforming sectors may be excessively rewarded (see Figure 13). For example, remuneration in energy and agriculture were in a similar range, but annual revenues in energy of more than US$1 billion were more than double those in agriculture. In addition, profits in agriculture were negative during this period. Such factors suggest that personnel in agriculture may be overly remunerated compared with their peers in other sectors. Linkages between revenue and Board costs were less clear: in energy from 2013 revenue declined as Board costs increased, while in the financial sector from 2013 revenue increased as Board costs declined.

Figure 13: Relation Between Remuneration Practices and Revenue Performance



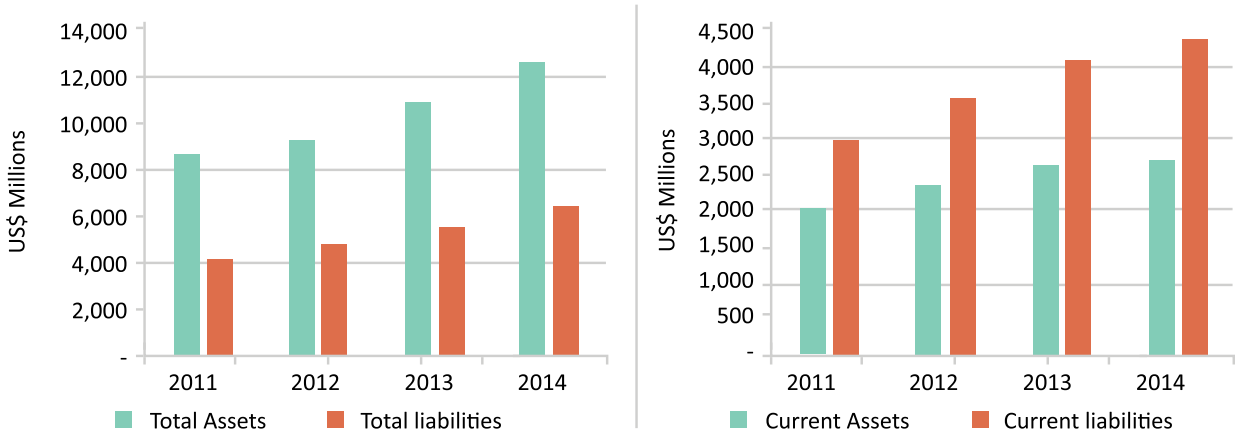
Source: Audited Financial Statement: Data compiled by World Bank Staff

4 FISCAL RISKS FROM STATE ENTERPRISES

The SEPs are major sources of fiscal risks, and consistently threaten Zimbabwe's public finances. Fiscal risks stem from the costs of sub-economic tariffs, subsidies, debts, state guarantees, and unpaid taxes. Such costs burden the government budget (see Annex 2 for a further explanation), and result in unsustainable debt levels – both for legacy and new debt.

Though SEPs' total assets are greater than total liabilities, their current assets are less than current liabilities. This current ratio, less than one, signifies an inability of companies to meet short-term financial obligations from current assets (see Figure 14).

Figure 14: Total Assets and Total Liabilities



Source: Audited Financial Statement: Data compiled by World Bank Staff

Many SEPs are illiquid (25 of 38 in 2014), and a few are insolvent and illiquid (7 in 2014). Overall, the portfolio's current net asset (working capital) position is precarious, raising questions about the financial status and sustainability of several SEPs, and their ability to be going concerns in the medium term. (see Table 2). Though total net assets are positive, part of the increase in assets comes from non-operational activities, such as revaluation of existing assets (e.g., dams), making it difficult to validate the true value of assets.

Table 2: Current and Total Net Assets (US$ Millions)

	2011	2012	2013	2014
Net current assets (US$)	-997	-1205	-1444	-1892
Total net assets (US$)	4539	4424	5369	6213

Data source: SERA / World Bank survey of audited financial statements of SEPs, 2016.

State guarantees are a major source of fiscal risks for the GoZ. Contingent liabilities for SEPs are both explicit and implicit. Explicit refers to debt guaranteed by the GoZ, while implicit refers to the expectation that the GoZ may bail out distressed SEPs. The main source of explicit contingent liabilities are external creditors. The largest creditors of the external debt of SEPs are the International Bank for Reconstruction and Development (IBRD), Kreditanstalt Fur Wiederaufbau (KFW)[8]and China Exim Bank. Currently, state guarantees are managed by the Debt Management Office in the MoFED. The Debt Management Office operates within the framework set out by the Public Debt Management Act. The Act states that the Office should assess the risks in issuing state guarantees, and monitor and report on any implicit and explicit public sector contingent liabilities. The Public Debt Management Act states the conditions under which state guarantees are to be issued and procedures for repayment.[9]

Explicit contingent liabilities have trended upward since 2011. These are liabilities explicitly guaranteed by the Government. Generally explicit contingent liabilities range from 11 percent to 13 percent of GDP (see Figure 15). These guarantees are a source of fiscal risks, as most SEPs do not have capacity to pay back debt as they operate perennially at a loss. In practice, guarantees are seemingly granted on an ad hoc basis, without clear ceilings, thresholds, and objective criteria. Moreover, some SEPs offer assets as security for new loans, thus further undermining their balance sheets, and adding to fiscal risks.

Figure 15: Explicit Contingent Liabilities

Source: Audited Financial Statement: Data compiled by World Bank Staff

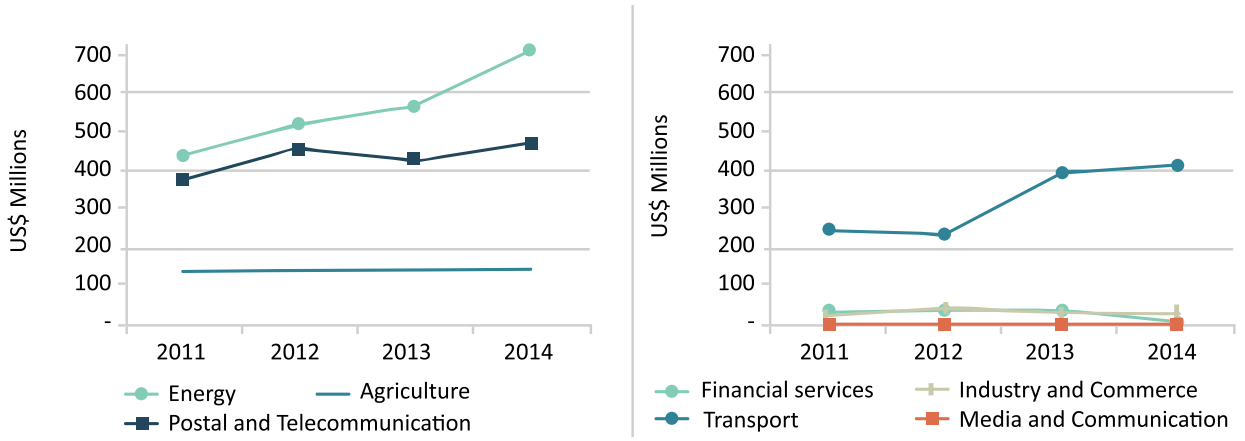
The energy sector had the highest explicit contingent liabilities, which nearly doubled from 2011 to 2014. The other two sectors with high contingent liabilities are transport and postal and telecommunication (see Figure 16). The expansion of these contingent liabilities are a result of increased investment in infrastructure in these sectors funded by external loan financing, guaranteed by the Ministry of Finance and Economic Development. The energy sector also maintained a lead in implicit liabilities, which ranged from US$178 million in 2011 to US$191 million in 2014, followed by the industry and commerce sector, which was below US$ 65 million for the whole period.

Less easily quantified explicit contingent liabilities include demand guarantees offered in Joint ventures. Where a contract or Joint Venture agreement is supported by undertakings on demand levels (e.g. for power or road usage), Government may face an unpredictable obligation to make up any shortfall in revenue.

[8] Soure: MoFED Debt Management Unit

[9] Public Debt Management Act (Chapter 22:21)

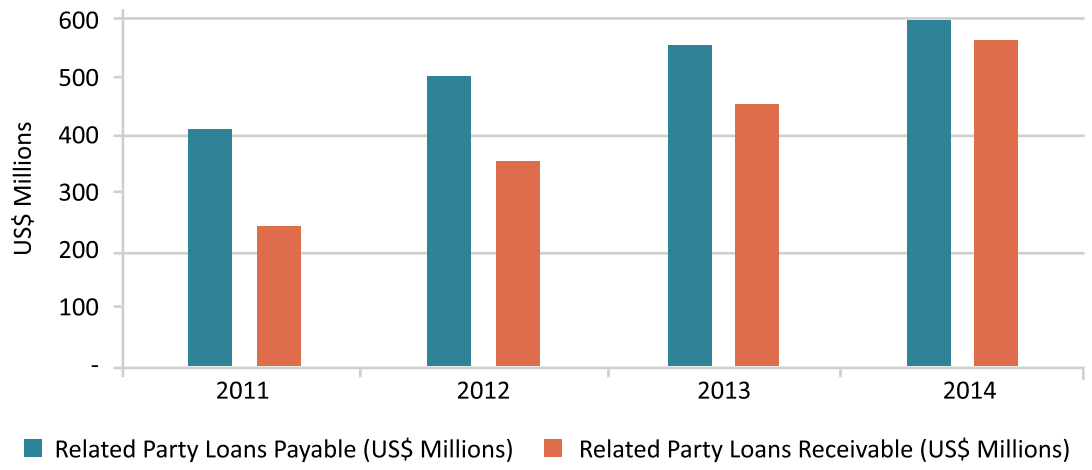
Figure 16: Explicit Contingent Liabilities by Sector



Source: Audited Financial Statement: Data compiled by World Bank Staff

The inter-linkages among SEPs through inter-SEP debts amplify fiscal risks and hinder economic adjustment. From 2011 to 2014, related party loans payable were higher than related party loans receivable.[10] Figure 17 suggests poor payment discipline between SEPs on receivables and payables. Fiscal risks are higher as companies always borrow more than they pay out, and, in aggregate, commercial SEPs are in perennial deficit. There is no legislation guiding the loans between the SOEs, and much of the linkage is due to debts on services rendered. There are also some SOEs which hold shares in other SOEs.

Figure 17: Related Loans Payable and Receivable



Source: Audited Financial Statement: Data compiled by World Bank Staff

Disaggregating by sector, the energy sector dominates in *related party loans payable* and *party loans receivable.* Mining and postal and telecommunication also have high shares of both. From 2012, agriculture had more loans payable than loans receivable. The environment, health and financial services sectors had loans receivable, but almost zero on loans payable.

[10] *Related party loans payable* are loans that SEPs need to pay to other SEPs, while *related party receivables* are loans that SEPs expect to receive from other SEPs.

Table 3: Related Party Loans Payable and Receivable by Sector

	Related Party Loans Receivable (US$ Million)				Related Party Loans Payable (US$ Million)			
	2011	2012	2013	2014	2011	2012	2013	2014
Agriculture	3.3	3.2	3.8	5.0	2.4	0.5	0.9	0.5
Energy	151.5	222.4	354.0	450.5	368.5	435.0	505.9	580.2
Environment	0.2	0.2	0.3	0.3	-	-	-	-
Financial Services	2.1	5.7	4.3	3.1	-	4.1	-	-
Health	4.5	8.0	12.2	17.9	-	-	-	-
Industry & Commerce	0.2	0.0	0.0	1.5	-	0.0	0.3	-
Media & Communication	0.9	0.5	0.2	-	3.4	4.1	3.8	1.0
Mining	0.9	26.2	26.2	26.5	16.1	26.5	23.8	9.6
Postal & Telecommunication	80.1	89.2	13.0	13.2	14.3	19.1	11.7	21.6
Transport	0.3	1.7	0.1	0.3	12.5	15.8	1.8	0.8

Many SEPs engage in quasi-fiscal activities, which creates substantial fiscal risks and undermines fiscal consolidation. Quasi-fiscal activities are activities outside normal budget operations. For example, in energy ZESA may charge below market prices and even below long-run marginal costs. In some cases, SEPs are forced to engage in politically-induced donations. Quasi-fiscal activities are not included in the budget, which therefore understates the true impacts of government policy on the economy.

5 THE ROLE OF SEPs IN POVERTY REDUCTION: THE CASE OF THE ZIMBABWE ELECTRICITY SUPPLY AUTHORITY AND GRAIN MARKETING BOARD

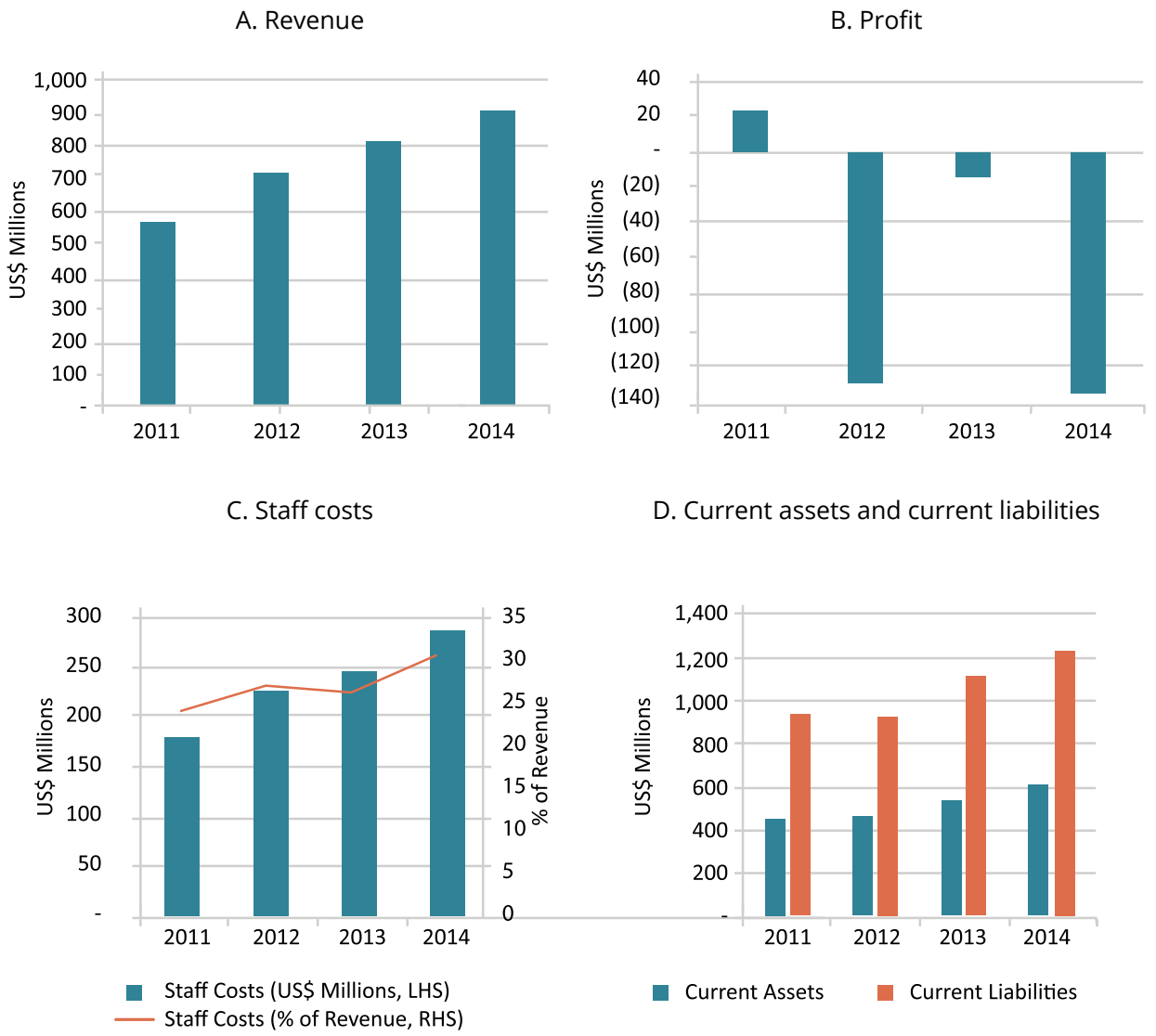
To reduce poverty, the GoZ plays a key role in providing electricity and marketing grain. The Government implements some policies to improve social welfare through SEPs. For example, the GoZ facilitates access to and use of affordable electricity through the Zimbabwe Electricity Supply Authority (ZESA), and maintains a strategic grain reserve while stabilising grain prices for farmers through the GMB. This section reviews the contributions of these two SEPs to poverty reduction.

Electricity: ZESA

ZESA has the largest market share for electricity in Zimbabwe. Until recently, the State has enjoyed a monopoly over electricity generation and transmission through ZESA, whose subsidiaries – the Zimbabwe Electricity and Transmission Company (ZETDC) and Zimbabwe Power Company (ZPC) – are responsible for power transmission and generation, respectively. Despite recent private sector participation in the sector, particularly in energy generation, ZESA still commands a lion's share of the energy market, and still monopolizes transmission and distribution.

ZESA has been operating at a loss since 2012, and its poor performance is partly due to corporate governance challenges, which also affect its subsidiaries (see Figure 18). ZETDC operated without a Board of Directors since June 2015.With regards to ZPC, the CEO's tenure of office is indefinite, and the performance agreement with the Government is still in draft form. The absence of a performance agreement tying remuneration to performance does not create demand for improved performance by the senior management. These governance challenges are not peculiar to the electricity sector but are common to the whole SEP portfolio in Zimbabwe.

Figure 18: ZESA's Revenue, Profit and Staff Costs between 2010-14



Source: ZESA Audited Financial Statements

Zimbabwe's electricity tariffs are below ZESA's long-run marginal cost (LRMC) levels and the regional average, which contributes slightly, if inefficiently, to poverty reduction.[11] Tariffs are pegged at US9,86c per KWh – compared to a regional average of US14c per KWh.

Suboptimal tariffs resulted in losses for ZESA, which affect service delivery. ZESA incurred losses of US$517 million between 2009 and 2016, despite the GoZ's allocating to it SDRs withdrawn from the IMF in 2010. In September 2013, the GoZ wrote off customer debts to ZESA of over US$80 million. This resulted in further deterioration of collection rates. As of September 2016, debts stood at US$987 million, part of which had been accumulated since 2013. ZESA is owed significant money by its customers: mining companies owe US$52 million, manufacturing US$210 million, and other commercial consumers US$436 million. Domestic consumers owe US$294 million and farmers US$84 million.

Despite the suboptimal tariffs, only 31 percent of the two bottom quintiles of Zimbabwe's population has access to the electricity (see Table 4). Most poor people are still off the grid, while about 82 percent of the richest quintile have access to electricity. Access to electricity is an important determinant to health outcomes, and associated with improved educational outcomes.[12] In addition, electricity contributes to improved productivity of individuals and firms, leading to economic growth. Access to and use of electricity is important for poverty reduction, particularly for rural populations, which in most cases expand opportunities for income generation.

Table 4: Proportion of Population With Access to an Electricity Network (Excluding Own Generation or Local Grids) by Consumption Quintile (in Percent)

Consumption Quintiles				
Lower	2nd	3rd	4th	Upper
24	38	52	68	82

Source: ZIMSTAT.

The poor spend more on electricity than the rich. Table 5 shows that the bottom forty percent dedicate slightly more of their total consumption expenditures to electricity than everyone else. Though slight, this imbalance does not contribute to poverty reduction.

Table 5: Expenditure on Electricity Relative to Total Consumption Expenditures (in Percent)

Consumption Quintiles				
Lower	2nd	3rd	4th	Upper
8	8	8	7	7

Source: ZIMSTAT.

[11] In 1991, the Ministry of Finance agreed with the World Bank on a phased programme of electricity tariff adjustments with the objective of attaining long-run marginal cost (LRMC) levels by 1995/96. The target was later moved to 2000, after several revisions and updates to the System Development Plans. However, successive Ministers of Energy have until today not implemented the LRMC tariff programme.

[12] Electricity is strongly associated with improvements in adult literacy and primary school completion rates, because it enables reading and studying in the evening and early morning hours (Barnes 1988; Brodman 1982; Foley 1990; Venkataraman 1990).

The GoZ has provided subsidies to ZESA to increase the poor's access to electricity. Poor households spend less in absolute terms compared with the rich (see Table 6). To achieve its objective of universal access to electricity, the GoZ has spent tax revenue and SDRs on loans and capital, respectively, for ZESA.[13] These subsidies ensure that ZESA continues to provide comparatively cheap electricity, in effect augmenting the purchasing power of citizens. There is, however, no targeting, and the subsidy is applied to everyone regardless of income, so richer households capture more of the subsidy than poorer households. Subsidies can also lead to inefficiencies in using resources that hobble efforts to expand and improve service delivery.[14] Total grants and loans to ZESA between 2011 and 2015 amounted to US$59.8 million, made up of domestic lending of US$46.8 million between 2011 and 2012, and an allocation of SDRs in 2010 amounting to US$13 million.

Table 6: Average Household Expenditure on Electricity by Consumption Quintile (US$)

Consumption Quintiles				
Lower	2nd	3rd	4th	Upper
12.96	18.45	25.77	31.22	49.3

Grain Marketing Board (GMB)

The GMB has a large share of the grain market, and commercial and non-commercial mandates. Established in 1931, the GMB is governed by the GMB Act, which is outdated and does not capture all of the GMB's current mandates. The GMB's non-commercial mandate is to maintain a Strategic Grain Reserve. Its commercial mandate encompasses packaging (the Silo brand) and producing stock feeds (the Country Feed brand). The Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimAsset) notes that *'in order to stimulate agricultural productivity and safeguard food security, Government will recapitalize and capacitate the Grain Marketing Board (GMB)'.* In addition, ZimAsset notes that food relief for vulnerable social groups will be taken from stocks in GMB depots. As such, the Government is selling maize to vulnerable social groups at a subsidized price of 65 percent of the market price. Such subsidies compounded by poor corporate governance have made GMB a perennial loss-maker (see Figure 19).

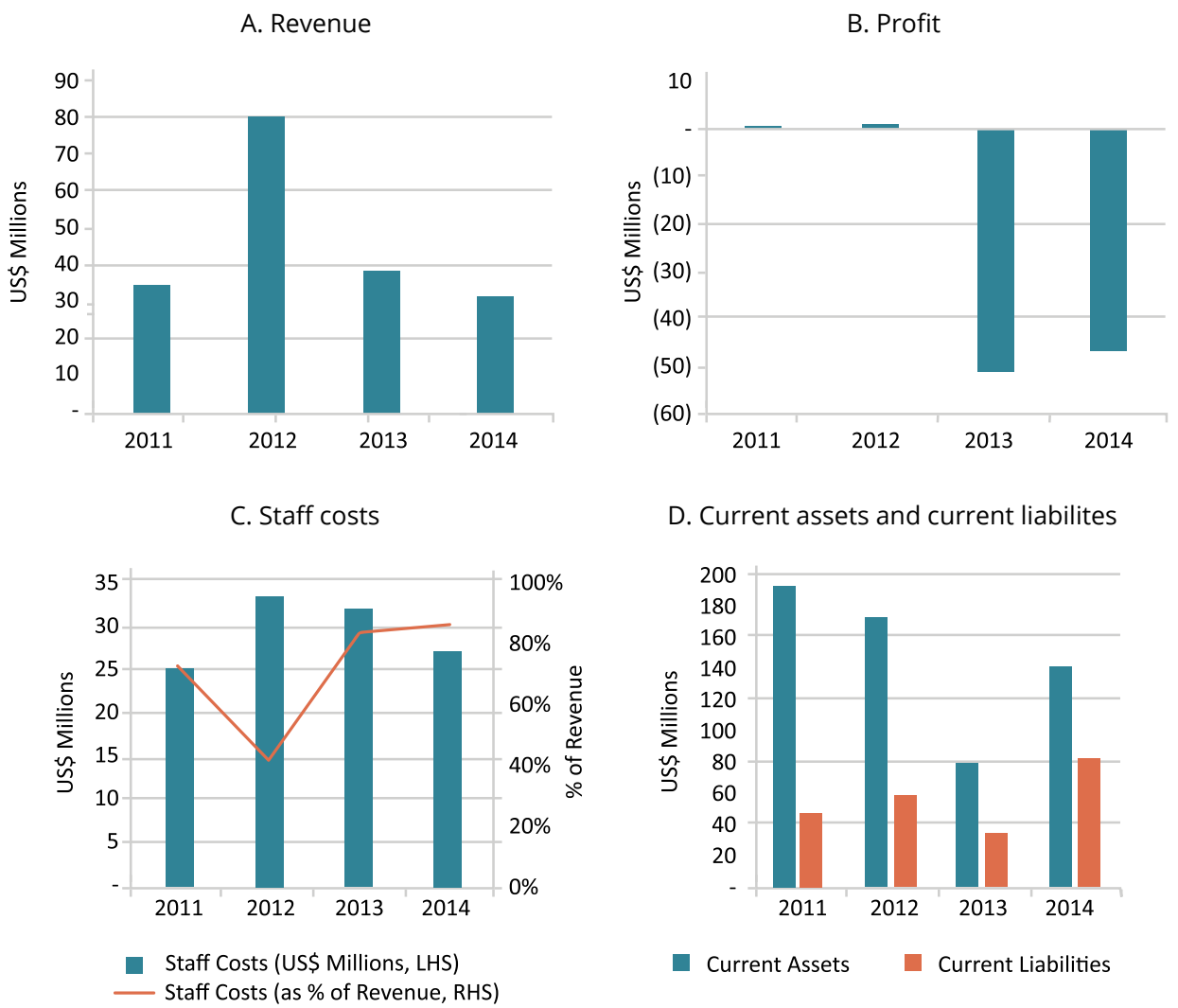
Poor corporate governance detracts from the GMB's performance. Poor corporate governance is epitomized by a Board Chairman who is appointed by the line ministry, while board members are not required to sign confidentiality undertakings or performance agreements. Other weaknesses include no clear indication of key performance indicators monitored by the line ministry, and failure to meet the statutory deadline for financial reporting The GMB has significant accounts owed to and from other SEPs and the central government, and there is no compliance with the PFM Act and Audit Office Act.[15]

[13] Special Drawing Rights (SDR) is an international reserve asset, created by the IMF to supplement its member countries' official reserves. SDRs have been lent to SEPs by the Government.

[14] The World Bank. 2005. Water, Electricity, and the Poor: Who Benefits from Utility Subsidies?

[15] Auditors are appointed by the Board and approved by the line Minister. Auditor appointments should be the responsibility of the shareholder – not the Board. In addition to providing external audit services, auditors provide tax consultancy services. If note properly managed, this poses a risk of self-review, and a threat to the professional independence of the auditors.

Figure 19: GMB's Revenue, Profit and Staff Costs



(Source: GMB Audit Reports)

Zimbabwe is consistently food insecure, though the Government understands that food security is important to the health and productivity of the poorest citizens. Zimbabwe's 2014/15 agricultural season registered a 51 percent decline in maize production compared with the 2013/14 season, in the wake of *El Nino*-induced drought. According to the July 2015 report of the Zimbabwe Vulnerability Assessment Committee (ZimVAC), the drought resulted in 1.5 million people – 16 percent of the rural population[16] – having insufficient means to meet their minimum food needs during the 2015/16 season. This number represented a 164 percent increase in people facing food insecurity from 2013/14, but was only a little above the five-year average for Zimbabwe. Consistent food insecurity has resulted in high chronic under-nutrition, despite some recent improvements.[17]

The Government has subsidized GMB in its bid to ensure food security. The Government seeks to improve price and income stability for producers, guarantee disposal of surplus production, and maintain a strategic grain reserve.[18] Achieving these goals comes at large cost to the Government, which continuously subsidizes the losses of GMB. In line with ZimAsset, the Government provided

[16] The World Food Program (WFP) notes that 30 percent of Zimbabwe's rural poor are considered to be 'food poor'.

[17] Only 11 percent of Zimbabwean children 6-23 months receive a minimum acceptable diet, resulting in one-third of Zimbabwe's children being stunted, or short for their age.

[18] Chimhowu, A et al. (2009). Moving Forward in Zimbabwe. Brooks World Poverty Institute, The University of Manchester.

capital transfers of $369.7 million from 2011 to 2015, and extended a loan of $54.6 million to GMB in 2013 (see Table 7).

Table 7: Capital Transfers and Loans from Government to GMB (US$ Millions)

Subsidy Type	2011	2012	2013	2014	2015	Total
Capital Transfer	61.00	62.90	104.05	105.34	36.40	**369.70**
Domestic Lending	-	54.62	-	-	-	**54.62**
Sub-total	61.00	117.52	104.05	105.34	36.40	**424.32**

The GMB consistently buys maize at above market prices, and sometimes sells maize below its purchase price, thereby contributing to poverty reduction. For example, the GMB in 2016 has offered to buy domestic white corn at a much better price (US$390 per tonne) than the private sector (US$220 – US$308 per tonne). After buying maize at US$390 per tonne, the GMB was instructed by the Government to sell maize from May 2016 at US$300 per tonne, which was down from the market price of US$460 per tonne. This approach responded to a 70-80 percent increase in maize prices on the market.

These sub-optimal prices contribute to the GMB's poor performance, which affects food security. The GMB delayed payments to farmers for maize from the 2014/15 crop, thereby eroding farmers' power to purchase inputs for the 2015/16 season, and their capacity to produce more in the coming season.

6 THE ASSESSMENT OF GOVERNANCE OF SEPs

The relative failure of SEPs partly stems from weak corporate governance of SEPs. This section presents the main findings of a corporate governance assessment of 38 SEPs from a sample of 40 selected by the GoZ. The section is based on a distributed questionnaire that followed OECD Guidelines on corporate governance of SEPs, and local corporate governance requirements.[19] Data collection work was done with World Bank support under the ZIMREF Trust Fund.

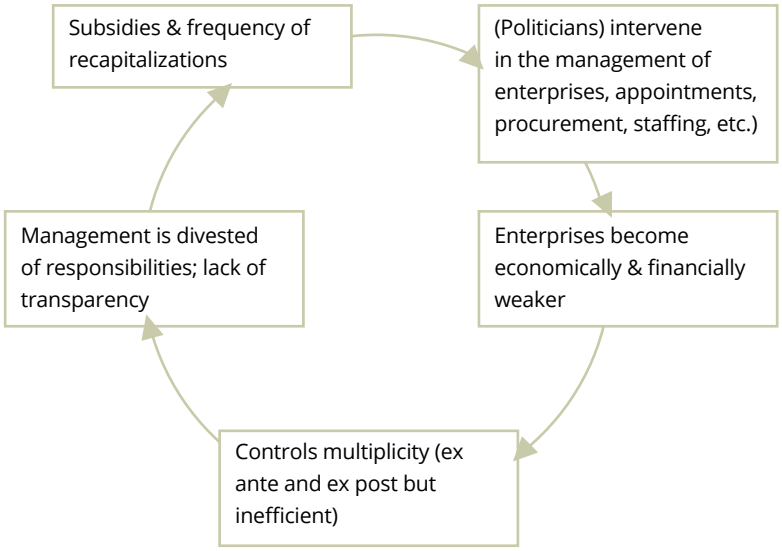
The questionnaires assessed the following corporate governance practices among commercial SEPs:

A. Corporate governance requirements: legal framework, regulatory and international good practice requirements
B. Capacity: quality of the board and management, and the entity's environment
C. Compliance: audit, regulation, monitoring, disclosure, and enforcement of requirements

[17] OECD (2015), *OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2015 Edition,* OECD Publishing, Paris. The questionnaire is based on Arrobbio, Alexandre; Barros, Ana Cristina Hirata; Beauchard, Renaud François; Berg, Alexander S.; Brumby, Jim; Fortin, Henri; Garrido, Jose; Kikeri, Sunita; Moreno-Dodson, Blanca; Nunez, Alejandra; Robinett, David; Steinhilper, Immanuel Frank; Vani, Sanjay N.; Verhoeven, Marinus; Zoratto, Laura De Castro. 2014. *Corporate governance of state-owned enterprises: a toolkit.* Washington, DC : World Bank Group.

Line ministries continue to play a major role in SEP management. Findings from the questionnaires show that the Boards of all commercial SEPs were appointed by line ministries. Yet the current appointment process does not adhere to basic corporate governance requirements on Board composition. This process has resulted in relatively weak Boards, leading to insufficient oversight. Though improving, the transparency and financial reporting of SEPs remain problematic. Weak Boards and inadequate transparency have eroded performance, and led to a "soft budget constraint"[20], which encourages managerial interference by ministries. In addition, managers from SEPs lack information on good practices and how to implement principles of good corporate governance.[21] These factors, coupled with resistance from key staff to implement reforms, has contributed to corporate governance failures in some SEPs. Poor performance seems to be the result of frequent political interventions; poor oversight; and weak Boards and corporate governance, which has led to a vicious circle (see Figure 20).

Figure 20: The Vicious Circle of Poor Governance of SEPs



Source: Raballand et al. (2015).[22]

Zimbabwe currently has no overarching legislation governing the corporate governance of SEPs. A Bill on corporate governance for public entities may be adopted relatively soon. Once approved, the Public Enterprises Corporate Governance Bill will provide such legislation. This Bill accounts for most international good practices, and is largely based on the high-quality National Code of Corporate Governance. This Code was and remains an initiative providing corporate governance standards for the public and private sectors, but is voluntary, and has not been used or adopted by SEPs. This Bill is necessary to translate the content of the Code into law and make it mandatory for SEPs. If enacted and complied with effectively, this Bill should enhance accountability and transparency in the public enterprises sector. In parallel, authorities will need to strengthen institutions that enforce relevant practices. International best practices point to clear mandates between oversight institutions of SEPs

[20] This concept was developed by Kornai to describe state-owned enterprises in socialist countries, and their tendency to be recapitalized and increasingly subsidized/financed by the state. See Kornai, János (1986), "The Soft Budget Constraint", *Kyklos,* volume 39, fasc. 1, pp.3-30.

[21] That was one of the main findings of Chavunduka et al.(2015) based on interviews of 100 staff in SEPs.Chavunduka, Muchineripi Desderio and Sikwila, Nyamazana Mike (2015), "Corporate Governance In Zimbabwe: The Zimcode And State Owned Enterprises Connection", *International Journal of Economics, Commerce and Management,* Vol. Iii, Issue 11.

[22] Raballand, Gaël, Veuillot, Gilles, Habhab, Lydia and de Meneval, Philippe (2015), Governance Reforms of State-Owned Enterprises (SEPs) in the Middle East and North Africa, mimeo.

The SEP oversight environment lacks clarity among its multiple actors: line ministries, SERA, the OPC, and the Ministry of Finance and Economic Development. The roles of each of these institutions need to be clarified and communicated to those exercising these functions. It is important to ensure there are no oversight gaps or duplicated responsibilities. Additionally, some institutions, like OPC and SERA, need assistance to build their capacity in key operational areas (particularly IT) to improve their effectiveness.

Most ownership entities do not receive sufficient relevant information on SEPs' operations on a timely and regular basis. Many of the other SEPs fail to meet reporting deadlines, and otherwise suffer from poor transparency and insufficient disclosure by management. Ownership entities may unduly interfere in SEPs' operations, or be too passive in exercising oversight, which may contribute to poor performance.

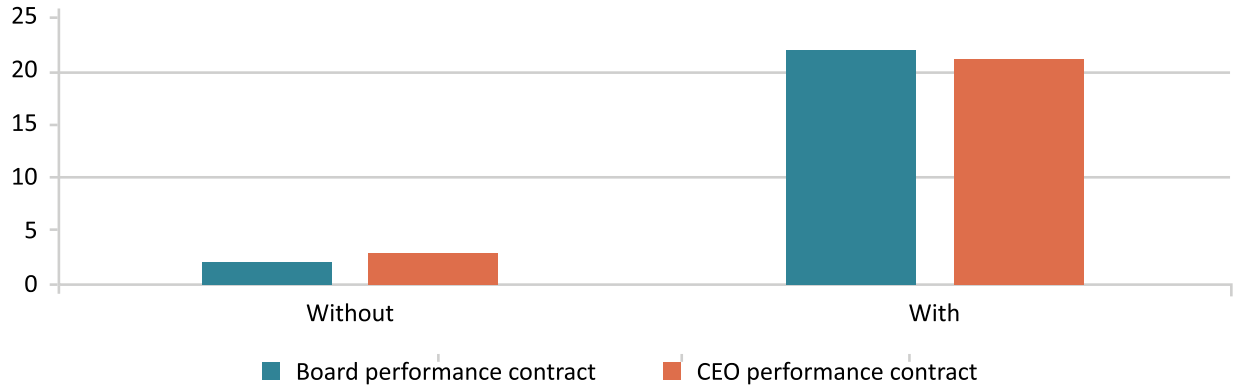
Zimbabwe's SEPs have loopholes undermining the operations of boards of directors. Thirty percent of assessed SEPs either had no Board charter or no code of ethics. SEPs suffer from other problems related to Boards: entities operating for extended periods without full Boards; Board memberships shifting with changes in line ministers; Boards having inappropriate balances of skills; inadequate Board training; and inadequately managed conflicts of interest. A study by Wushe, Shenje and Dingiswayo (2015) found such results and others.[23] The authors showed that some members sit on too many Boards (up to seven among sampled companies), and do not have the required professional expertise. International best practices suggest professionalising Boards, along with supporting effective policies for appointing Board members, formal evaluations of members, and in many cases the independence of Board members. The effectiveness of a Board relies on its structure and composition, which are not always optimized. Many Boards are not effective because members are appointed without considering their independence or the balance of skills and experiences, without professional criteria for selecting and removing Board members, and without mechanisms for replacing Board members in a timely fashion.

A common weakness of SEP management is that CEOs feel more accountable to line ministries than to Boards. This tendency was observed in all assessed SEPs. To ensure good SEP governance, the CEO must be accountable to their Board, insulated from political interferences, and required to implement a strategic plan that makes clear CEO and Board objectives.

Performance contracts are not well defined in SEPs. Performance contracts exist (see Figure 21), but are based on inadequate data and reporting, and usually do not include quantitative indicators, which makes it difficult to measure or dispute expected outcomes. Moreover, some contracts lack clarity not only on financial and non-financial indicators, but also the entity in charge of monitoring. The frequency of monitoring is not always clear. In contrast, international good practice suggests signing and implementing performance contracts between ownership institutions and Boards, to include indicators and targets making clear the success (or failure) of CEOs and Boards.

[23] Wushe, Tawaziwa, Shenje, Jacob, Ndlovu, Dingiswayo (2015), "Too many seats too little talent: an analysis of optimum number of seats for board of directors in state owned enterprises (SEPs) in Zimbabwe", Environmental Economics, Volume 6, Issue

Figure 21: Numbers of SEPs With, and Without Board and CEO Performance Contracts



Source: Audited Financial Statement: Data compiled by World Bank Staff

Most SEPs lack fiscal and financial discipline. Of the 38 assessed SEPs, 17 continue to rely on direct and indirect state support through subsidies, recapitalizations, or guarantees. The separation between SEPs' commercial and non-commercial objectives is not always clear. Overall, SEPs have not achieved financial discipline, and represent an increasing drain on the fiscus. International best practice suggests improving SEPs' financial discipline by reducing direct and indirect support; separating commercial and non-commercial objectives; and providing SEP management flexibility in various areas (e.g. human resource management).

Many SEPs still need to improve transparency and disclosure. Nearly all assessed SEPs did not meet financial reporting statutory deadlines, and their financial reports or annual reports were not posted on public websites. Some SEPs selectively applied the law. For example, some State Enterprises incorporated as companies are supposed to comply with the Companies Act and the PFM Act. However, some entities did not comply with the PFM Act, and wrongly argued that this Act does not apply to them. Others claimed ignorance of the Act's existence. A large number of the SEPs do not hold Annual General Meetings.

[22] Wushe, Tawaziwa, Shenje, Jacob, Ndlovu, Dingiswayo (2015), "Too many seats too little talent: an analysis of optimum number of seats for board of directors in state owned enterprises (SEPs) in Zimbabwe", *Environmental Economics,* Volume 6, Issue 2.
[23] 2014 audited financial reports should be published on the SERA website by the end of 2016.

ANNEX 1: SEPs & THEIR SECTORS

Company	Sector
Allied Timbers	Environment
Agricultural Marketing Authority	Agriculture
Cold Storage Commission	Agriculture
Agricultural and Rural Development Authority	Agriculture
Grain Marketing Board	Agriculture
Petrotrade	Energy
ZESA Enterprises	Energy
National Oil Infrastructure Company of Zimbabwe	Energy
ZESA Holdings (Company not the Group)	Energy
Zimbabwe Electricity and Transmission Company	Energy
Zimbabwe Power Company	Energy
Zimbabwe National Water Authority	Environment
Small Medium and Enterprise Development Corporation	Financial Services
People's Own Savings Bank	Financial Services
Agricultural Bank of Zimbabwe	Financial Services
Infrastructure Development Bank Zimbabwe	Financial Services
National Social Security Authority	Financial Services
National Pharmaceutical Company	Health
Industrial Development Corporation Zimbabwe Group	Industry and Commerce
New Ziana	Media and Communication

Company	Sector
Transmedia Corporation	Media and Communication
Printflow	Media and Communication
Zimpapers	Media and Communication
Zimbabwe Broadcasting Corporation	Media and Communication
Minerals Marketing Corporation of Zimbabwe	Mining
Zimbabwe Mining Development Corporation	Mining
Hwange Colliery Company	Mining
Powertel	Postal and Telecommunication
Zimbabwe Posts	Postal and Telecommunication
TelOne	Postal and Telecommunication
NetOne	Postal and Telecommunication
Road Management Services	Transport
National Handling Service	Transport
Zimbabwe United Passenger Company	Transport
CMED	Transport
Air Zimbabwe	Transport
Civil Aviation Authority Zimbabwe	Transport
National Railways of Zimbabwe	Transport

ANNEX 2: TYPOLOGY OF STATE LIABILITIES

Fiscal risks pertain to both explicit legal obligations (e.g., loan guarantees and public service obligations) and implicit burdens placed on the government by public expectations or by political circumstances (e.g., recurring cost of investment projects and SEP bailouts).

Table 8: Government's Direct and Contingent Liabilities

	Direct **Mandatory and predictable:**	**Contingent** **Legal or contractual obligations triggered by a discrete event that may or may not occur:**
Explicit	• Budgeted expenditure programs; • Multi-year investment contracts; • Civil service salaries; • Pensions and debt obligations.	• State guarantees for loans contracted by non-central government entities (subnational governments, SEPs, private enterprises, etc.); • State insurance schemes (for banking deposits, natural disasters, etc.).
Implicit	**Obligation or expected burden for the government which is not legal, but arises from public expectations:** • Maintaining public infrastructure; • Social security scheme.	**Non-legal obligations triggered by a discrete event that may or may not occur:** • Government intervention to avoid systemic banking sector crises; • Natural catastrophes.

Source: World Bank (2015).