

RESTRUCTURING & REFORM OF STATE ENTERPRISES: INTERNATIONAL BEST PRACTICES

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INTRODUCTORY COMMENTS

- ← Chief Sec & Deputy CS. All Protocols.
- ← Personal Story– How the “3 Sisters AfDB, IMF & IBRD” Work - inspired by Dr. Mangudya’s Presentation.
- ← Yesterday’s Message from Chief Secretary Dr. Sibanda – “refreshingly frank, incisive & authoritative”.
- ← Messages from CZI President Busisa Moyo & RBZ.
- ← This is the kind of rich conversation we should have. Next, we should all commit ourselves to deliver similarly high quality engagement when it comes to implementing agreed policies, projects and programmes.
- ← Zimbabwe – Immensely blessed country in both natural and human resources. Yes, there are cruel sanctions which have wrecked untold damage. But, as Paulo Coelho wrote in his book the Alchemist - "Every blessing ignored becomes a curse."

OUTLINE OF PRESENTATION - 5 Sections

- ← Role of State & SEs
- ← What We Should Agree On
- ← The Perception of the Public
- ← What Should Be Done
- ← Conclusion

ROLE OF THE STATE & SEs

- ← From State to SEs – it is the agreed wisdom that they have key Regulatory and Catalytic Roles.
- ← Taking Care of Public Goods.
- ← No matter the sound & fury of the debate among Economists and Social Scientists; the new breed of Conservative Politicians → virtually all modern history of deep, rapid & sustainable economic transformation confirms the important role of the State – **but not just any State.**

ROLE OF THE STATE & SEs

- ← The role each State will assign itself is determined by the Vision of its Leadership and the historical circumstances they are confronted with.
- ← However, in our times, there are broad principles and parameters of good economic management which are globally expected and accepted.
- ← E.g. from postings on the CDB and CADFund websites → FDI and "market reforms" "Proposal for Improving Chinese Private Investment in Africa" ... or that they see "unstable political and security situation in some African regions" as obstacles and challenges to doing business
- ← Responsible States which Pay their debts (NDRC).

ROLE OF THE STATE & SEs

- ← Examples of robust State “interventions” ...
- ← At the Beginning of the 1870s, Japan embarked on a period of industrialisation. A core part of this was the laying of the basic infrastructure, with priority being given to developing the rail network. During the years 1870 to 1874, one third of government investment went on the railways.

ROLE OF THE STATE & SEs

- ← From Singapore to South Korea, Malaysia, China, Brazil and Rhodesia, etc, the story is the same. The State and State Enterprises played a critical role.
- ← *(NB ... Brazil National Development Bank (BNDES) from 1952 ...industrialisation & infrastructure. It is still going strong and now also operates on the global space. But it has remained faithful to its core mandate ...Jan-Aug 2015 Disbursements amounted to \$22 billion of which \$9 billion went to infrastructure).*
- ← Closer home → robust transformations in countries such as Ethiopia & Rwanda ("Focus & Discipline").

ROLE OF THE STATE & SEs

- ← For Some Scholars → unequivocal advantages of strong State and SEs in what they call a “late-developing economies”.
- ← A point late President Nyerere, in his characteristic biting humour, also made in a Speech in 1995 ... (in same Speech he also spoke of the difference between African & Asian Corruption!!!)

ROLE OF THE STATE & SEs

- ← States made direct intervention, including through Policies
- ← Indirect interventions through tailor-made State Enterprises.
- ← At Independence Zimbabwe inherited 20 SEs – promoted, protected Minority Interests.
- ← Currently nearly 100 (97).

WHAT WE SHOULD AGREE ON - 10 POINTS

- ← These State Enterprises are necessary cogs in the development wheel.
- ← However, in reality, not all SEs - whether it is here or in other countries - make a positive contribution. Some end up drifting from their mandates.
- ← For SEs to play their role efficiently, effectively and have sustainable results, I agree with those who say there are 10 checklist points we should subscribe to:
- ← 1) they must first come out of a robust national development planning process, and are linked to national development priorities. Their mandates should be clear and aligned to the State's national goals.

WHAT WE SHOULD AGREE ON

- ← 2) **Strategy setting and portfolio:** should have a clearly defined, communicated and consistent strategy (including definition, purpose, role, function and objectives). Furthermore, each SE must create and maintain a portfolio which is reviewed periodically.
- ← 3) **Governance and Management:** must have Governance policies and practices that streamline points of contact between regulators, agencies, the Government itself and the SEs.
- ← Appropriate legal frameworks to support and enable SE performance.
- ← 4) **Standard monitoring methods:** setting a monitoring & evaluation criterion, based on a clearly defined purpose of each SE, is critical to their success.
- ← Imperative that there be clear linkages to economic and socio-political KPIs.

WHAT WE SHOULD AGREE ON

- ←5) **Management and Operations:** SEs must have sufficient operational independence; distinctly articulated access to adequate funding; and ability to attract and retain quality skills and human resources.
- ←6) **Viability and Operational Effectiveness:** the ability to add value to national development and transformation plans is critical if the SE is to remain relevant.
 - ←Should be evaluated based on the SE's ability in the current situation and ability in the future to meet national strategic goals.
- ←7) **Governance and Ownership:** Appropriate governance and ownership model, policy, legislation, and implementation framework → to enable the SEs to be viable and effective.

WHAT WE SHOULD AGREE ON

- ←8) **Procurement Standards & Processes:** at both the SE & national levels must be based on transparency, fairness, non-discrimination, efficiency, effectiveness, protection of public property and public interest, and accountability.
- ←Many projects in Africa have been poorly executed; stalled or abandoned because of poor procurement practices. It is important to get it right, in a transparent manner.
- ←9) **Performance Management System:** Logically, all these foregone “DNA imprints” must be in place before and go beyond mere performance contracting.
- ←Still, it is necessary that there should be a performance management system whose general principles are common to all the SEs.

WHAT WE SHOULD AGREE ON

- Such a system should:
 - a) Be based on an SE performance scorecard developed by the central authority responsible for the SEs.
 - b) Be aligned to the developmental goals;
 - c) Be linked to the performance reporting systems of the oversight authority;
 - d) Have standardized reporting guidelines for SEs;
 - e) Be based on the mandates and strategic objectives of the SEs;
 - g) **MUST Include monitoring and evaluation of collaboration amongst SEs;**

WHAT WE SHOULD AGREE ON

- g) Include customer (user) satisfaction indices customized for each SE, measured regularly (annually) through independent surveys conducted by independent auditing or research entities; and,
- h) Assess SEs based on outputs of the value chain that the particular SE contributes to through its activities (total impact assessment).

10) Finally, Remuneration!

There should be a single remuneration policy to guide compensations in the Government Owned entities.

WHAT WE SHOULD AGREE ON

- For Commercial Corporations, the international best practice is to align remuneration to the market in order to attract and retain suitable professionals for the large commercial entities
- *(Source .. From the Kenya Presidential Task Force on Parastatal Reforms: South African Case Study)*

THE BIG BUT ...

- ← We should agree on all these best practices. But, there is a BIG BUT ...
- ← The Herald of Tuesday 10 November had two interesting pieces which have some useful pointers for today's discussion – ***Leader & Comment*** and ***IMF's MD's comments on behavioural reforms among Bankers***
- ← In a Speech to the New York Fed last week (05/11) entitled ***"The Role of Personal Accountability in Reforming Culture and Behavior in the Financial Services Industry"*** Christine Lagarde said:
 - "regulation and governance are only two pillars of a framework that can instill ethical behaviour in finance. The individual is the third pillar without which there can be no equilibrium."**
- ← Replace "finance" with SEs ...

THE PUBLIC PERCEPTION

- ← Let me now turn to Public Perception and state the obvious – without in any way implying it is the whole truth or that I necessarily fully ascribe to the sentiments – The majority of the Zimbabwean Population don't hold us and the SEs we have the privilege to lead in high esteem.
- ← Individually, and collectively, we need to demonstrate **standards of behaviour and delivery of results** which will endear us a little bit more to our people.
- ← We need to counteract what many now see as **a widespread and brazenly displayed culture of Entitlement, Exception and a management style which at times appears to be excessively discretionary.**

THE PUBLIC PERCEPTION

- ← Meanwhile, I understand that the public enterprise sector in Zimbabwe has, over the past three decades, gone through various phases of restructurings. Needless to say this was intended to improve performances.
- ← Dr. Gideon Zhou, of UZ, in a Study published in the International Journal of Humanities and Social Science in October 2012, submitted that each decade reflected a distinct restructuring approach.
 - In the first post-independence decade public enterprise restructurings were **state-initiated and expansionary**, fundamentally concerned with reconstituting public enterprises into **majority-interest-driven entities**.

THE PUBLIC PERCEPTION

- Second decade restructurings had an **externally-driven bias**, emphasizing the **rolling back** of the public enterprise sector through liberalization, deregulation, commercialization and privatization.
- Third decade restructurings took the unbundling route, breaking state monopolies into small, business-oriented entities (*e.g ZESA*).

After further detailed analysis of the experience under these various efforts, he concluded that, three decades down the line, the public enterprise sector in Zimbabwe remains a **sad tale of loss making and debt-ridden entities with a voracious appetite for fiscal support.**

THE PUBLIC PERCEPTION

← He then, rhetorically, poses a question
*...Could this have been a case of
misdiagnosing the ailment and
prescribing a wrong prescription OR, a
case of correct prescription in wrong
hands?*

THE PUBLIC PERCEPTION

- ← If indeed it is the case that there has been widespread failure, I am also tempted to raise the question WHY in a different form – especially in view of the depth of talent among us ...
- ← In fact my question is best formulated through quoting something President Buhari said on Wed 11/11 during the Swearing in Ceremony of his new Cabinet

THE PUBLIC PERCEPTION

- ← "I have also been conscious of the need not to repeat such mistakes of the past where ***the right people were allocated the wrong portfolios*** which translated into their performing poorly to our collective detriment despite their obvious capability."
- ← Have we at times suffered from this phenomenon by maybe having the right Managers in the wrong SE?

WHAT SHOULD BE DONE?

- ← Finding answers to questions such as these is why we are here today; & why we were here last year.
- ← Let me be modest and say that, instead of proposing a list of answers and prescribing what must be done, I await the outcome of our collective wisdom and, after that, **resolute implementation of agreed actions and behavior change.**

CONCLUSION

← Yesterday, my Brother Busisa said a good Speech should end with a quotation. Allow me to do the same! Mine comes from the Ivorian Tidjane Thiam, who is hailed as one of Africa's brightest. Since June this year, he is the Chief Executive of Credit Suisse. Previously he was first the Chief Financial Officer and then Chief Executive of the Prudential PLC, London. In a Dinner Speech in London early last month he had this to say about **debt & development prospects in Africa**:

CONCLUSION

- ← **"You cannot control your economic destiny if you are not able to mobilize savings and then turn them into productive investment. If you can't develop infrastructure, if you can't develop the energy, if you can't provide clean water, if you don't have roads, there is absolutely no future possible."**
- ← Here in Zimbabwe, in recognition of the importance of these sectors as key enablers, the Govt has, since Independence, set up a number of SEs in these sectors, including the IDBZ, to spearhead its development efforts.

CONCLUSION

- ← Some of the SEs are represented in this Workshop. Dare I say that **the moral, professional and national challenge we face is:- are we managing these SEs in a manner that addresses this heavy responsibility?**
- ← Yesterday, Dr. Kateera graphically reminded us about how we are spending a disproportionate amount of our Budget on Personnel Expenses. If what I quoted has some truth, and I believe it does, then we are not going to go far - unless we commit ourselves to change.
- ← Finally .."**when in a hole, the first thing to do is to stop digging.**"

THANK YOU, TEAM ZIMBABWE!