

Zimbabwe Aggregate Report on Commercial SEPs – 2016



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1. Executive Summary

The overarching goal of state ownership is value creation. Government expects that state enterprises and parastatals (SEPs) in which the government's ownership has commercial objectives will achieve the highest possible return on invested capital over time. For SEPs where the government's ownership includes sectoral policy objectives, these defined objectives should be achieved as efficiently as possible while still achieving high returns on capital.

The board of directors and the CEO (or equivalent) are responsible for the management of the SEPs. Government's responsibilities as the owner include ensuring effective and competent boards that exercise their responsibilities in the best interest of the SEPs and the owner. As owner, the government expects good corporate governance, including high levels of transparency and disclosure from SEPs.

This report summarises the financial performance, financial position, quality of financial reporting and governance of commercial SEPs for 2016. The report captures 37 commercial SEPs; 31 wholly owned by Government and 6 partially owned, of which 4 are listed on the Zimbabwe Stock Exchange.

The wholly owned SEPs earned a total turnover of \$2,892 million in 2016, compared to \$2,769 million in 2015. The turnover of the partly owned SEPs on the other hand decreased to \$758 million in 2016 from \$881 million in 2015.

The wholly owned SEPs posted total losses of \$59 million in 2016 compared to total losses of \$250 million in 2015, while the partly owned SEPs posted total profits of \$45 million in 2016 compared to total losses of \$47 million in 2015. The partly owned SEPs paid dividends of \$374,000 in 2016 compared to \$969,000 in 2015.

Government equity in the partly owned SEPs was \$5,125 million, a modest increase on the \$5,004 million in 2015.

Total assets of wholly owned SEPs increased to \$12,057 million in 2016 compared to \$11,233 million in 2015, while those of partly owned SEPs increased to \$3,804 million in 2016, up from \$3,554 million in 2015.

Employment by wholly owned SEPs fell to 35,820 in 2016 from 36,029 in 2015.

Analysis of the Auditor General's Reports on SEPs audits indicate that there is need to improve financial reporting practices and the quality of financial reports by many SEPs. These requirements are evidenced by (a) late submission and in some cases non- submission of financial statements for audit, with some extreme cases where no financial records were kept at all; and (b) the large number of SEPs failing to get unqualified audit opinions.

Government, as part of its ongoing SEPs reform agenda, with the support of the World Bank, commissioned an assessment of corporate governance practices of 39 SEPs in 2016. The assessment concluded that problems in SEPs' governance practices contributed to their bad financial and operational performance and negatively impacted on their ability to compete. Key findings of the assessment were:

- Political will and commitment to SEP reforms need strengthening
- SEPs legal framework needs continuous review
- Government needs to exercise its ownership rights and act as an informed owner
- Board composition and structure need improvement to enhance board effectiveness
- SEPs need to be subjected to effective monitoring, enforcement and oversight
- SEPs need to observe high standards of transparency, accountability and disclosure

2. Introduction

SEPs are defined as enterprises controlled by the State and those in which the State has significant influence, *e.g.* through a substantial minority shareholding. This report captures information on 37 commercial SEPs and it does not cover non-commercial SEPs.

Consolidated financial reporting informs Government on the performance of its investments in public entities. Isolated requests by SEPs for bailouts may seem insignificant to overall government expenditure, but when viewed as a whole, the significance is evident. In that regard, this Report enables Government to develop appropriate policy interventions, aimed at contributing to improving efficiency and effectiveness in the utilization of government assets and financial resources. The presentation of overall SEPs portfolio performance also enables Government to assess the impact of its interventions in SEPs.

Sustainable commercial viability as required by the Constitution of Zimbabwe is a prerequisite for commercial SEPs to be successful, create value and meet shareholder and stakeholder expectations. Financial targets, public policy targets and sustainability targets are important instruments of governance and clarify the shareholder and stakeholder expectations on the commercial SEPs. One of the key tasks in managing ownership in SEPs is setting and tracking targets for the SEPs through the development of Strategic Plans, now a requirement of the Public Entities Corporate Governance Act. This report also allows Government, as the shareholder on behalf of Zimbabwe's citizens, to provide relevant information to the public about the performance of their portfolio of investments.

This report has been developed by the State Enterprise Restructuring Agency (SERA) taking into account the guidelines set out by the Organisation of Economic Cooperation and Development (OECD) for reporting on SEPs. Government holding in commercial SEPs represents collective ownership of the SEPs by the public and one of the tasks of the SEPs' Boards is to ensure public confidence in the SEPs. Clear communication with the owners and

stakeholders is critical to generating the needed confidence. High quality financial reporting is one of the key contributors to gaining that confidence. In addition to complying with applicable public financial management requirements and International Financial Reporting Standards, all commercial SEPs are required to present annual reports, which are important for enhanced transparency, which contributes to public confidence.

The financial data in this report were received from the SEPs covered. Information received was verified against audited financial statements, and where audited financial statements were not available management accounts were used. Portfolio aggregates therefore do not eliminate intra-portfolio transactions; assets of one SEP which constitute liabilities of another SEP will be counted on both sides of the portfolio balance sheet.

Information on submission of financial statements for audit and types of audit opinions produced was obtained from the reports produced by the Auditor General. Corporate governance information was obtained from the report produced after the assessment of 39 SEPs in 2016.

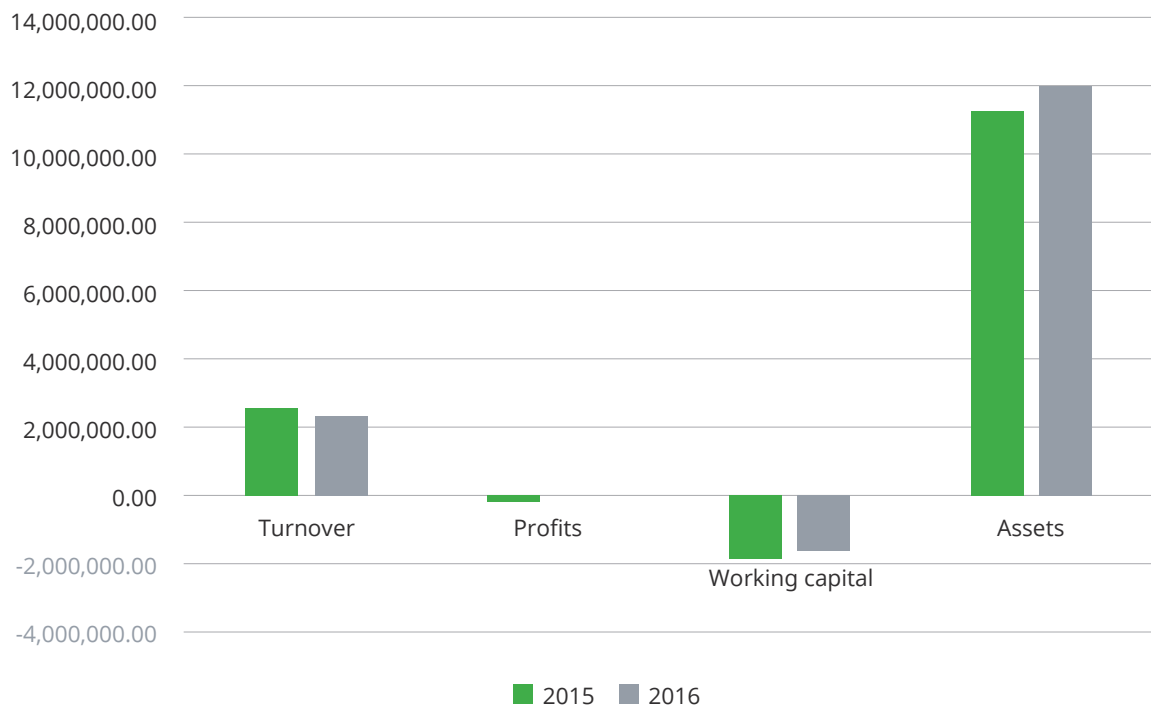
PART 1

3. Overview of the commercial SEP portfolio

WHOLLY-OWNED COMMERCIAL SEPs

The 31 wholly-owned commercial SEPs which reported data for 2016 had total assets of \$12,057 million. They cover a range of sectors, with the electricity, water, transport, agriculture, telecommunications and finance sectors dominating the asset base.

Wholly-owned portfolio headlines 2015-2016

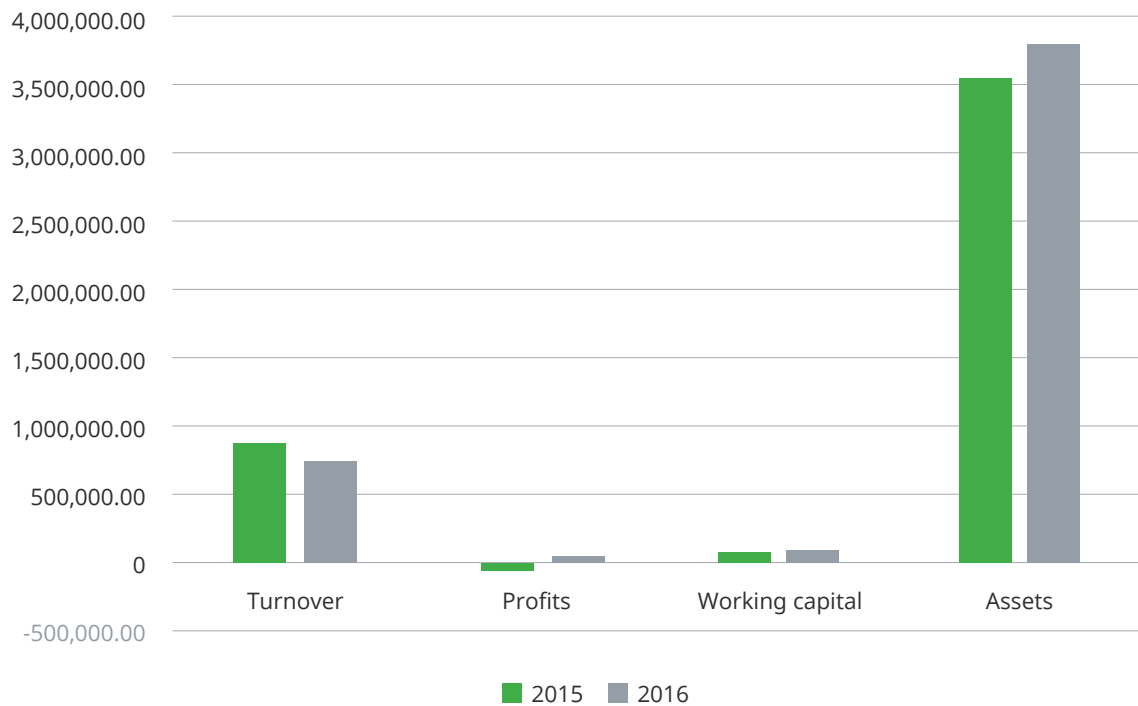


Between 2015 and 2016, assets rose from \$11.2bn to \$12.1bn, while turnover fell from \$2.5bn to \$2.3bn. Losses fell from \$250m to \$59m.

PARTLY-OWNED COMMERCIAL SEPs

The 6 commercial SEPs partly owned by Government had total assets of \$3.8bn. The largest are the National Social Security Authority (NSSA) and CBZ, which make up 55% and 34% of this portfolio respectively.

Partly-owned portfolio headlines 2015-2016



Between 2015 and 2016, the assets of partly-owned SEPs rose from \$3.6bn to \$3.8bn, while turnover fell from \$881m to \$758m. This portfolio went from a loss of \$47m in 2015 to a profit of \$45m in 2016.

4. Commercial SEP portfolio performance

This report sets out the financial position and performance of the wholly-owned and partly-owned portfolios for 2016. In each case it sets out the key contributors to the aggregate.

WHOLLY-OWNED COMMERCIAL SEPs

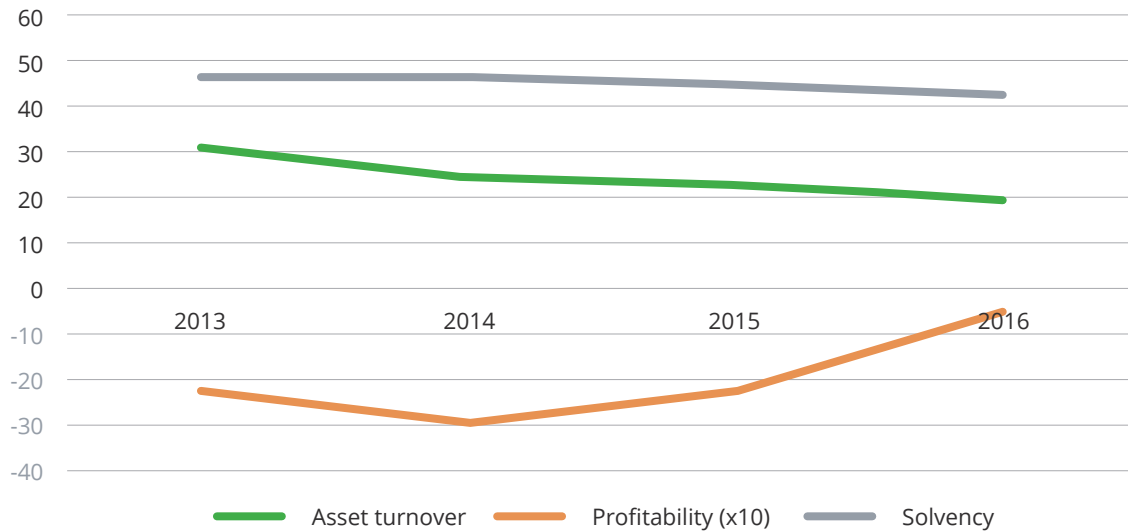
There is a wide range of size in the wholly-owned portfolio, with assets ranging from \$1.7m (New Ziana) to \$2,736m (ZPC). 2016 turnover ranged from under \$350,000 (SMEDCO) to over \$768 million (ZETDC), while earnings after interest and depreciation ranged from minus \$68 million (NRZ) to plus \$69 million (ZETDC). In aggregate:

(US\$ million)	2013	2014	2015	2016
Turnover	2,890	2,775	2,769	2,892
Number of employees	36,404	36,943	28,028 ¹	30,621
Staff costs	655	696	635	418 ²
Profit / (loss)	(208)	(324)	(250)	(59)
Total assets	9,417	11,025	11,233	12,057
Government equity	4,368	5,103	5,004	5,125
Dividends paid to the State	45	1	7	5

¹ Note that NOIC, ZMDC, and RMS failed to report figures for numbers employed in 2015, so the figure is not comparable with that for 2016 or those for 2013-2014.

² Figures for 2016 exclude ZETDC, whose staff costs in 2015 were over \$150m, so the 2016 figure is not comparable with those of earlier years.

Wholly-owned portfolio ratios (%)



Increases in Government equity overall (\$121m) come from gains in GMB (\$122m), ZETDC (\$72m) and ZINWA (\$66m), outweighing deteriorations in ZMDC (\$114m drop), NRZ (\$60m) and CAAZ (\$43m).

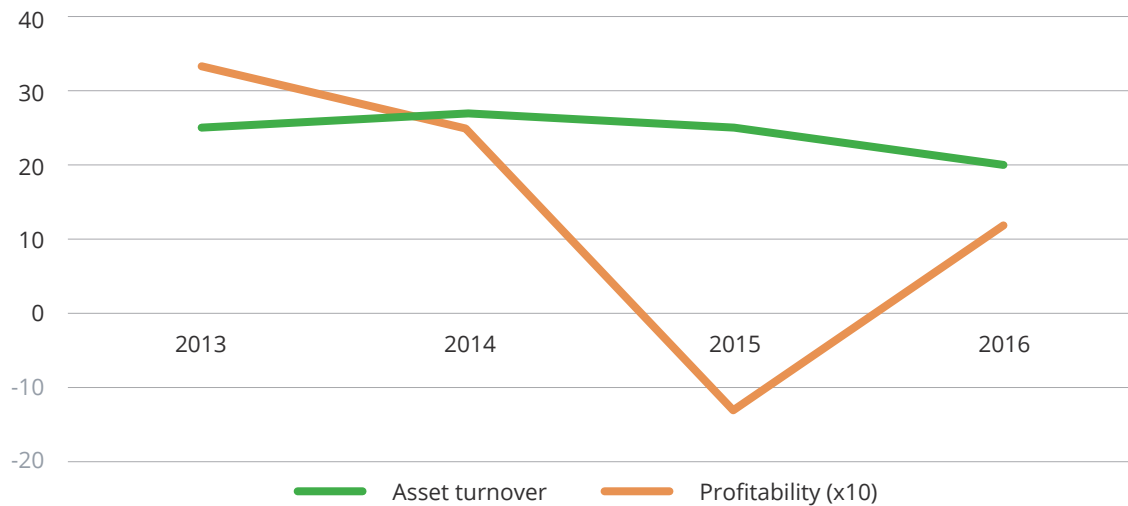
The reduction in overall losses was driven by improvements at ZETDC (from a loss of \$78m to a profit of \$72m), ZPC (turning a loss of \$8m into a profit of \$25m) and GMB (cutting losses from \$58m to \$32m). These outweighed deteriorations at TelOne (from a \$6m profit to a \$25m loss), ZMDC (from a \$8m profit to \$16m loss) and NRZ (where losses rose from \$41m to \$60m).

PARTLY-OWNED COMMERCIAL SEPS

There are only six partly-owned commercial SEPs in this portfolio: CBZ, Hwange Colliery, IDBZ, NSSA, RTG and Zimpapers. Of these, four are quoted on the ZSE: CBZ, Hwange Colliery, RTG and Zimpapers. Government shareholding ranges from 5% (TRG) to nearly 100% (NSSA). In aggregate the portfolio (as opposed to the Government share of it) returned the following performance:

(US\$ million)	2013	2014	2015	2016
Turnover	760	875	881	758
Number of employees	191	186	191	81 ³
Staff costs (\$,000)	101	81	(47)	45
Profit / (loss)	3,043	3,268	3,554	3,804
Total assets	359	937	969	374
Government equity	4,368	5,103	5,004	5,125
Dividends paid to the State (\$,000)	45	1	7	5

Figure 4: Wholly-owned portfolio ratios (%)



This portfolio is dominated by NSSA and CBZ, who make up 55% and 34% of the assets respectively. The rebound in profitability was driven by NSSA (profits increased from \$35m to \$115m) and Hwange Colliery (losses fell from \$115m to \$90m), outweighing the deterioration at CBZ (where profits fell from \$35m to \$24m).

³ Note that CBZ holdings, RTG and Zimpapers did not report staff costs in 2016 so the figure is not comparable with those of earlier years.

PART 2 | DETAILED REPORT

Wholly-Owned Commercial SEP Portfolio

FINANCIAL POSITION

Asset Base

The total assets of SEPs wholly owned by Government stood at about \$12 billion at 31 December 2016. This represents a 7% increase from about \$11 billion in 2015, as shown in figure 1. Figure 2 shows the composition of the portfolio's asset base, with the sixteen largest SEPs by assets deployed (the rest are combined as "Others").

Figure 1: SEPs Aggregate Assets for 2013-2016 Period (\$000)

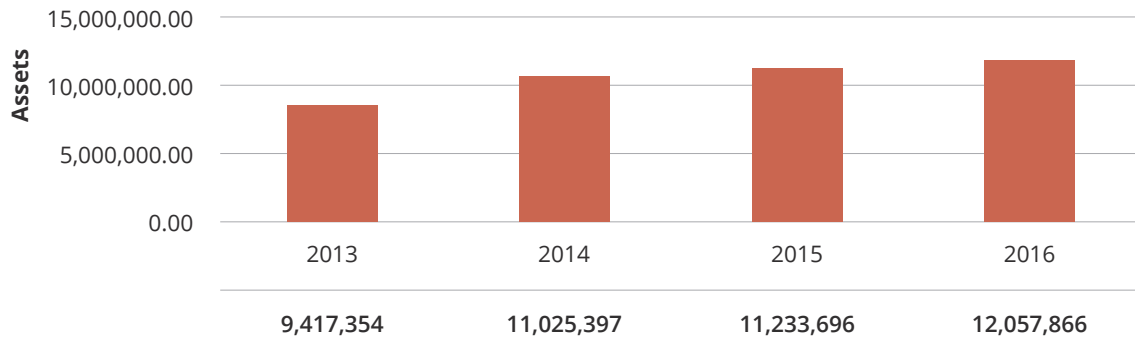
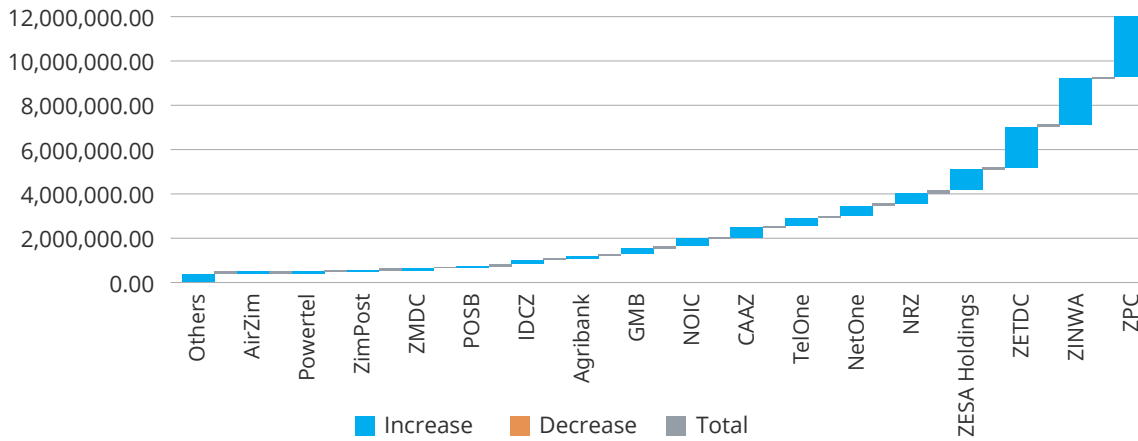


Figure 2: Wholly-owned commercial SEPs' assets 2016

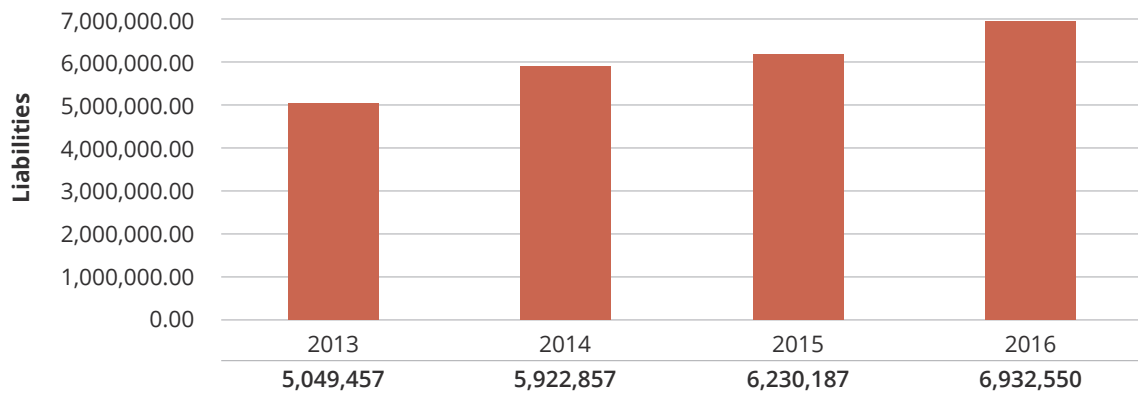


The major change in assets from 2015 to 2016 is attributable to ZETDC, ZPC, Netone and Grain Marketing Board (GMB).

Liabilities

The liabilities of all SEPs wholly owned by Government stood at about \$6.9 billion at 31 December 2016. This represented a 13% increase from liabilities of about \$6.2 billion in 2015 (see figure 4).

Figure 3: SEPs' total liabilities (\$000)



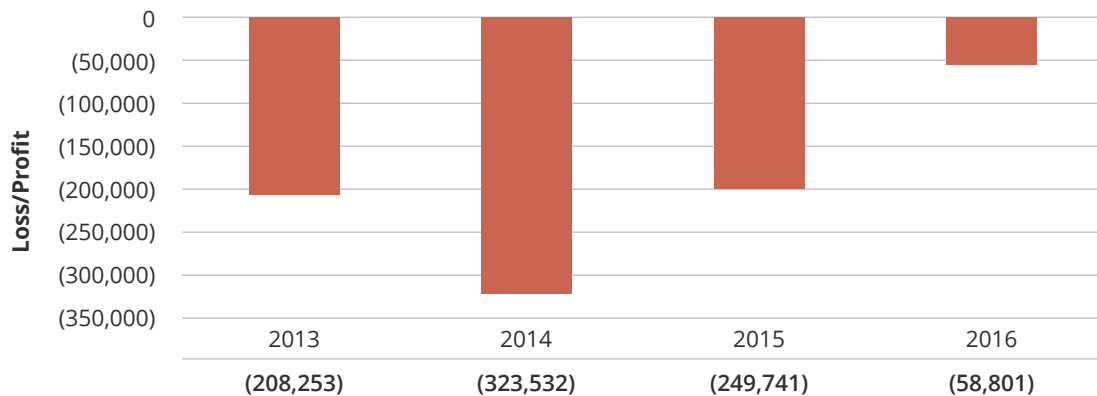
The main contributors to liabilities were ZETDC, ZPC and Telone (24%, 19% and 9% respectively). The major contributors to the change in liabilities were ZETDC, ZPC and NetOne.

FINANCIAL PERFORMANCE

Profit/Loss

SEPs wholly owned by Government made a total loss of about \$58.8 million in 2016 (figure 7).

Figure 4: Loss/Profit (\$000)

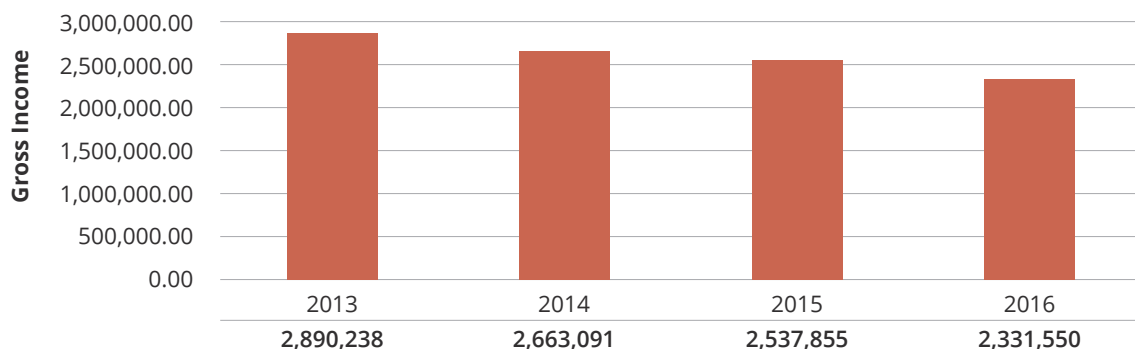


The major contributors to the loss were National Railway of Zimbabwe (NRZ), GMB, Telone and Air Zimbabwe. The losses however fell by 76% from the 2015 total.

Income

There was a general downward trend in income from 2013 to 2016 (figure 10). The fall in income from 2015 to 2016 was 11%.

Figure 5: Gross Income (\$000)

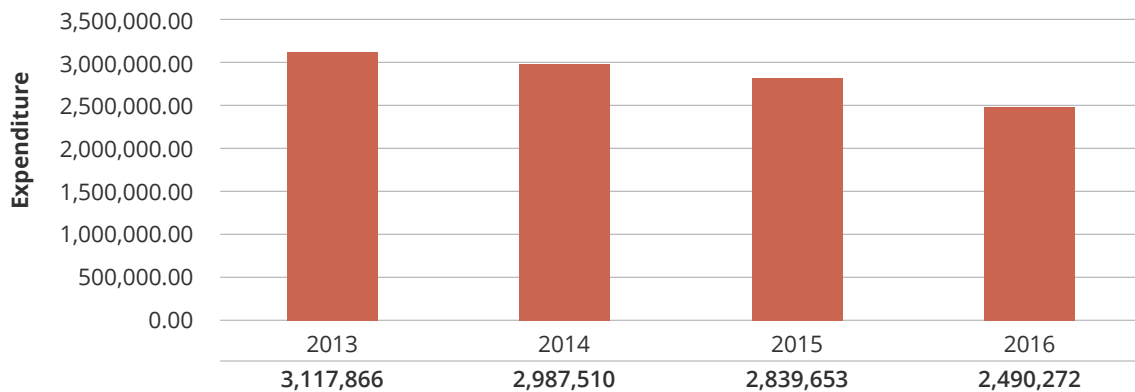


In 2016 ZETDC had the highest income, followed by ZPC and NOIC. Changes in gross income from 2015 to 2016 show that the major reductions in income were in ZETDC, ZPC and TelOne, far outweighing the increases in income in GMB and NOIC. However, it is worth noting that ZETDC and ZPC also contributed to even greater reductions in expenditure (below).

Expenditure

The total expenditure for the commercial SEPs wholly owned by Government had been falling since 2013 (figure 13). In 2016, there was a steep fall in expenditures, by 12%, from 2015. This resulted in a reduction in combined losses of SEPs.

Figure 6: Aggregate Expenditure (\$000)

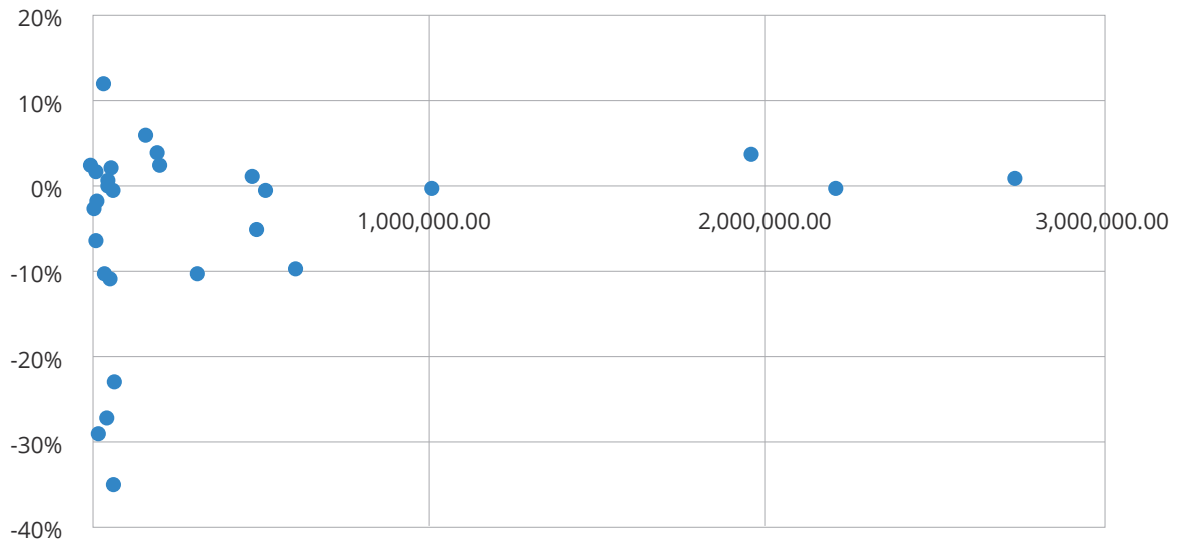


In 2016 ZETDC and ZPC dominated aggregate expenditure, making up 54% of the total. The main changes in expenditure were reductions at ZPC, ZETDC, TelOne and POSB. Of the larger SEPs, only NOIC saw a substantial increase in expenditure (from \$88m to \$116m).

Return on Assets

SEP's return on assets varied widely. The SEP which had highest return on assets was National Pharmaceutical Company (12%) followed by POSB (about 6%). The SEPs with the poorest return on assets were Air Zimbabwe (minus 35%), Zimbabwe United Passenger Company (ZUPCO, minus 29%) and ZESA Enterprises (minus 27%). Figure 6 plots the return on assets against assets employed.

Figure 6: Aggregate Expenditure (\$000)



Dividends Paid to the State

In 2016 only three wholly-owned SEPs paid dividends to the State: NOIC (\$2.9m), POSB (\$2m) and Petrotrade (\$370,000).

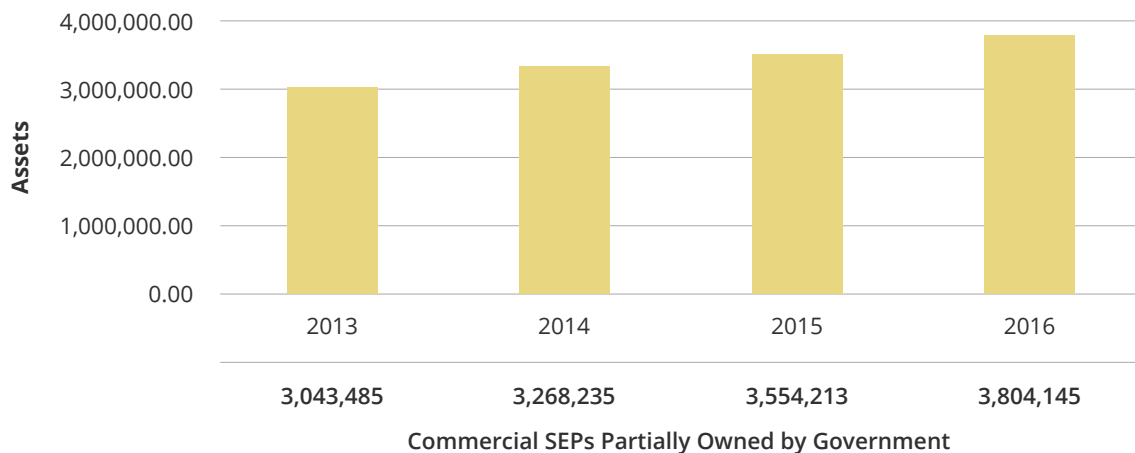
Commercial SEPs Partially Owned by Government

FINANCIAL POSITION

Asset Base

The 6 commercial SEPs partially owned by Government had an asset base of about \$3.8 billion as at 31 December 2016 as shown in figure 7 below. The asset base increase by \$250 million from 2015 to 2016.

Figure 7: SEPs Aggregate Assets (\$000)

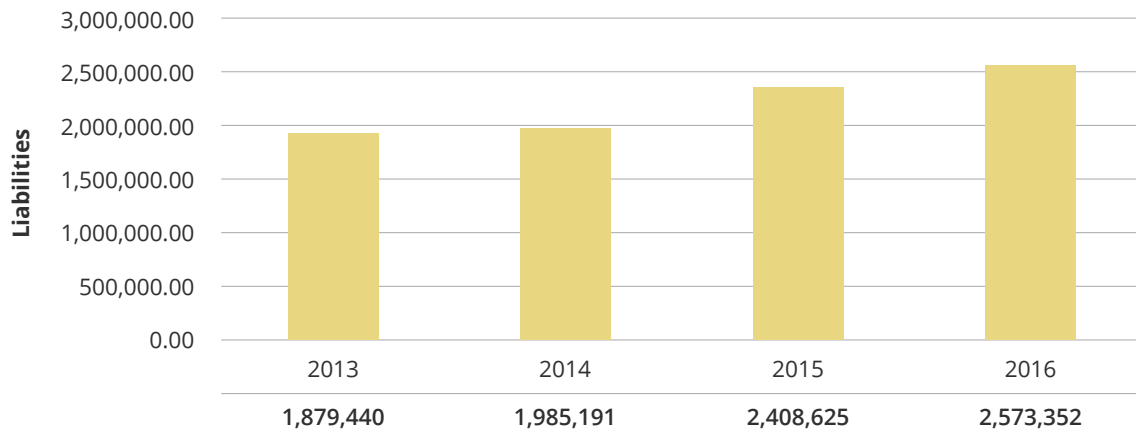


The main contributors to an increase in aggregate assets in 2015 were NSSA and CBZ Holdings which contributed to the change by 68% and 54%, respectively.

Liabilities

The total liabilities for commercial SEPs partially owned by Government stood at \$2.6 billion as at 31 December 2016. The liabilities increase by about \$165million from 2015 to 2016. Figure 8 shows the aggregate liabilities from 2013 to 2016.

Figure 8: SEPs Aggregate Liabilities (\$000)



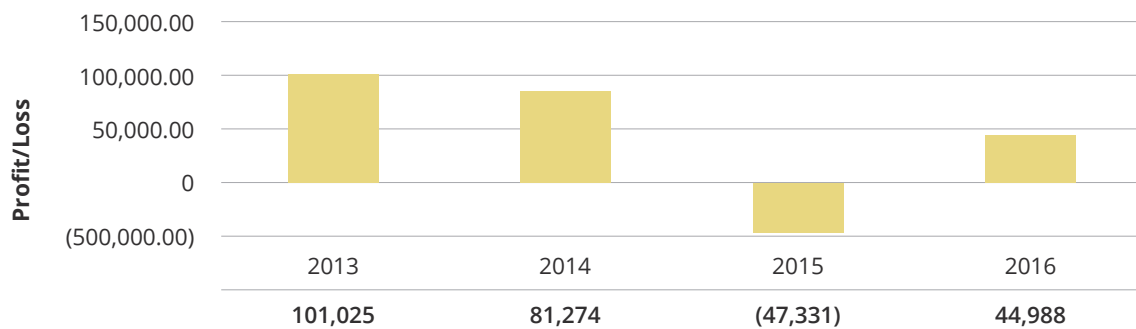
Most of the liabilities belonged to CBZ which contributed about 70% to the total liability followed by Hwange Colliery Company which contributed 14%. The main contributors to the increase were CBZ, Hwange Colliery Company (HCC) and NSSA. The increase in liabilities attributed to CBZ was about 55% of the change while both HCC and NSSA contributed 20% of the increase in the liabilities.

PERFORMANCE

Profit and Loss

The commercial SEPs partially owned by Government made an overall profit of about \$45million. The overall loss was reduced by \$92million from 2015 to 2016. This represented a reduction in loss by 195% as shown in figure 9.

Figure 9: Partially Owned SEPs Aggregate Profit/Loss (\$000)

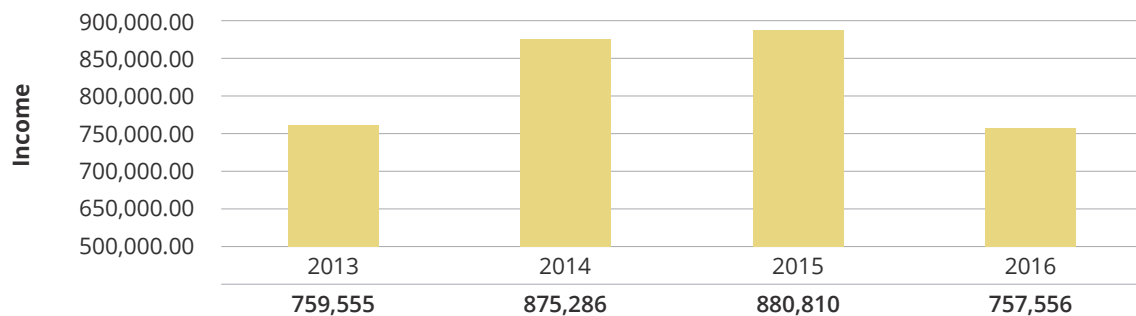


The main contributors to the reduction in losses were NSSA by 87%.

Income

The income increased from 2013 to 2015 and fell from 2015 to 2016. The income fell by 14% from 2015 to 2016 as provided in figure 10 below.

Figure 10: SEPs Aggregate Income (\$000)

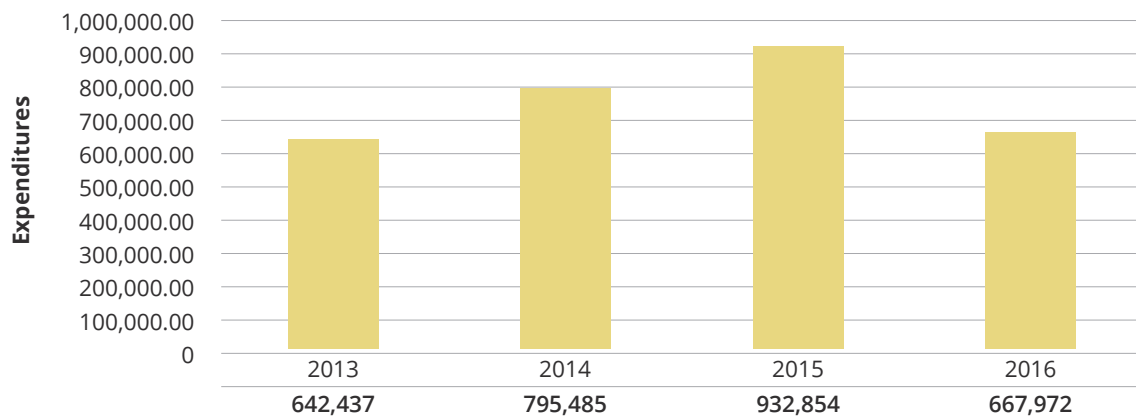


NSSA and CBZ were the main contributors to aggregate income in 2016.

Expenditure

The total expenditure increased from 2013 to 2015 and then fell in 2016. The total expenditure fell by 28% from 2015 to 2016 as shown in figure 11. This had an effect of reducing the losses for the year 2016.

Figure 11: SEPs Aggregate Expenditures (\$000)

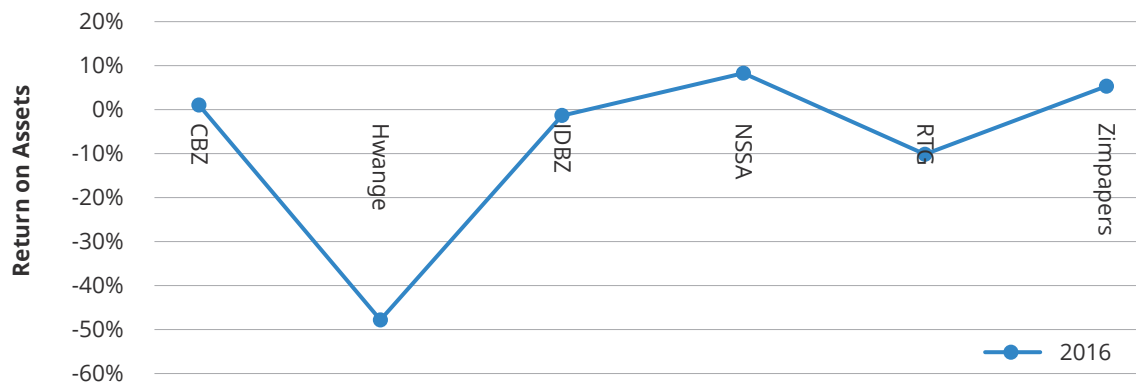


NSSA had the highest expenditure in 2016.

Return on Assets

The return on Assets for all SEPs partially owned by Government for the year 2016 was at 1.18%. NSSA had the highest return on assets which was at 9%. NSSA also had the highest increase in return on assets from 2015 to 2016. HCC had the lowest return on assets at negative 49% as shown in figure 12 below.

Figure 12: Return on Assets



PART 3

Submission of Financial Statements and Audit Opinions

LEGAL REQUIREMENTS

The Public Finance Management Act Section 49 (1) provides:

“(1) The accounting authority for a public entity shall—

- (a) *keep full records of the financial affairs of the public entity;*
 - (b) *prepare financial statements for each financial year in accordance with generally accepted accounting practice;*
 - (c) *submit the financial statements referred to in paragraph (b) within two months after the end of the financial year—*
 - (i) *to the auditors of the public entity for auditing; and*
 - (ii) *to the Accountant-General; and*
 - (iii) *if it is a designated corporate body or specified public entity, to the Treasury;*
 - (d) *submit within five months of the end of a financial year to the Treasury, to the appropriate Minister and, if the Comptroller and Auditor-General did not perform the audit of the financial statements, to the Comptroller and Auditor-General—*
 - (i) *an annual report on the activities of that public entity during that financial year;*
 - (ii) *the financial statements for that financial year after the statements have been audited; and*
 - (iii) *the report of the auditors on those statements.”*
-

Most SEPs are failing to comply with the above statutory deadline for submission of audited financial statements as demonstrated below:

LATE SUBMISSION OF FINANCIAL STATEMENTS FOR AUDIT

The Auditor General reported that as at June 30, 2017, 43 entities had not submitted their 2016 and prior years financial statements for audit. [Refer Appendix A]. The table below summarises the extent of arrears in submission of financial statements for audit.

Summary of arrears in submission of financial statements (Refer Appendix A)

Period Financial Statements not submitted	Total #: Commercials and Non-Commercials	Wholly owned Commercials	Partially owned Commercials
2009-2016	2	-	-
2011-2016	1	1	-
2012-2016	1	-	-
2013-2016	1	1	-
2014-2016	1	1	-
2015-2016	8	5	-
2016	29	5	-
Total	43	13	-

Source: Developed from the Reports of the Auditor General

Follow up by the Auditor General revealed that 30 of the 43 reported entities had submitted their financial statements for audit by March 31, 2018.

Entities that continued to lag behind in submission of financial statements for financial years up to 2016 for audit were; Air Zimbabwe (2011-2016), Evington Mine (Pvt)Ltd (2015-2016), Sandawana Mine (Pvt) Ltd (2015-2016), and Cold Storage Commission (2013-2016).

Factors identified by the Auditor General as contributing to late submission of financial statements;

- i) 10 of the entities did not have a board of directors or equivalent. In addition 17 entities had no audit committees which could have overseen the financial reporting and audit related issues.
- ii) 9 entities did not maintain complete books of accounts as evidenced by failure to record transactions as they occurred

- iii) Some extreme cases were noted at 3 entities where accounting records were not maintained and there were no accounting staff. 1 entity had transferred its accounting staff to a fellow group entity while another entity did not maintain accounting records from 2009.
- iv) 28 entities had no accounting procedures manuals. Where the accounting procedures manuals existed, some were last updated in 1979 and 1984.

AUDIT OPINIONS ON THE 37 COMMERCIAL SEPS INCLUDED IN THIS REPORT

Section 49 (2) of the Public Finance Management Act requires the financial statements of a public entity to:

“(a) fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned; “

Many SEPs are failing to have a clean/unmodified audit opinion on their financial statements as demonstrated below.

AUDIT OPINIONS ON COMMERCIAL SEPS COVERED IN THIS REPORT

Type of Audit Opinion	Companies and Corporations	Financial Institutions	Total
Clean	10	3	13
Clean with Emphasis of Matter	10	1	11
Qualified	2	-	2
Qualified with Emphasis of Matter	5	1	6
No Financial Statements ⁴	5	-	5
Total	32	5	37

Source: Developed from the Report of the Auditor General

Refer Appendix B for type of opinion issued on each commercial SEP

⁴ As at March 31, 2018

PART 4

Corporate Governance

CONTEXT

SEPs have historically been a key feature of Zimbabwe's economy including the management of public finances, public policy and service delivery. They play a major role in the provision of basic services such as water, electricity, telecommunications, transportation, health, and education. Given their importance to the economy, ensuring that the SEPs are accountable, transparent, efficient, effective and economically viable is important and key to the country's efficient allocation of resources, competitiveness, economic development, and poverty alleviation.

The SEPs are assets managed by the government on behalf of the public; as such, they are expected to perform and meet expectations. The government needs to ensure that these entities create value for society and are managed professionally and transparently. Good management is key to public accountability, and a precondition for creating trust in the government. The SEPs therefore need to operate in an environment which requires compliance with good corporate governance practices. SEPs should be subjected to effective oversight and enforcement in order to maximize their contribution to the competitiveness and development of the Zimbabwean economy.

The Zimbabwe Constitution (Section 195) requires state-controlled commercial entities (that is, companies and other entities owned or wholly controlled by the state) to conduct their operations so as to maintain commercial viability and abide by generally accepted standards of good corporate governance.

There is increasing recognition that poor corporate governance practices in SEPs significantly contribute to their under-performance. The under-performance takes the form of: loss making; inadequate, expensive and poor service delivery; excessive debts; and results in; failure to upgrade and renew infrastructure and capital equipment; inadequate working capital; un-

der-capitalization; skills deficits; vandalism and looting; and mismanagement and corruption. Thus, understanding and addressing the SEP governance challenges is a precondition to successful economic reforms in Zimbabwe.

Corporate governance is concerned with the processes, systems, practices and procedures that govern institutions. It dictates the means by which corporations are directed and managed with a view to increasing shareholder value and meeting the expectations of stakeholders. A well-defined and functioning corporate governance system helps firms including SEPs to attract investment, raise funds and strengthen the foundation for their performance.

After recognising that some of the challenges and issues that adversely affect the financial and operational performance of SEPs are results of poor corporate governance practices, Government prioritized improvement in the governance of SEPs in its reform agenda over the years and more recently under the Zimbabwe Reconstruction Fund. The reforms are part of the Government's broader efforts to set SEPs on a more efficient and sustainable path and improve service delivery as well as contribute to the country's economic development process.

In this regard, Government, with the support of the World Bank, commissioned an assessment of corporate governance practices of 39 SEPs in 2016. The assessment concluded that problems in SEPs' governance practices contributed to their bad financial and operational performance and ability to compete.

The assessment focused on the following key elements;

1. Legal Framework
2. Ownership and Shareholder(s)
3. Board of Directors
4. SEPs' Objectives and Management
5. Performance Monitoring
6. Fiscal and Financial Discipline
7. Controls, Transparency and Disclosure
8. Awareness and Commitment to Corporate Governance

FINDINGS

The following high level messages came out of the 2016 assessment of the SEPs:

- Political will and commitment to tackle corruption need to be strengthened. The fight against corruption necessarily requires a whole-of-government approach that should involve the Zimbabwe Anti-Corruption Commission, law enforcement and the judiciary. In addition, the government should put into place mechanisms for promoting business ethics and the integrity of SEP operations. Sanctions must be applied on all found guilty of corruption and other types of fraud.
- The SEP legal framework needs to be subjected to recurrent review to disclose explicitly the objectives that justify continued government ownership; where mandates have fallen behind current developments, they should be revised and updated.
- The government needs to effectively exercise its ownership rights and act as an informed and active owner — ensuring that SEP 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 SEPs in Zimbabwe.
- SEPs board composition and structure need to be improved to enhance effectiveness. Boards must have the necessary autonomy, authority, competences and objectivity to carry out their functions of strategic guidance and monitoring of management. Boards must also be held accountable for their actions.
- SEPs need to be subjected to effective performance monitoring.
- SEPs need to observe high standards of transparency and accountability — and be subject to the same high quality of financial and non-financial reporting and disclosure requirements as their private sector counterparts.
- There is a significant gap between the various corporate governance requirements scattered in the various 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 PFM Act (Section 91) in the event of any transgressions.

Commitment to addressing the above findings can contribute to enhancing the autonomy of SEPs in operational matters as well as accountability, transparency and disclosure in the use of scarce public resources. Results of the current governance status in most SEPs include insufficient/inefficient delivery of critical public services and poor performance.

Details of the corporate governance weaknesses identified in the assessment carried out in 2016 are summarised in the table below.

CORPORATE GOVERNANCE WEAKNESSES IDENTIFIED IN THE 2016 ASSESSMENT

Element Assessed	Weaknesses Identified
Legal Framework	<ul style="list-style-type: none"> • Some SEPs have mandates that have been overtaken by events and need updating in line with new developments, as well as with what the SEPs are currently doing • Some mandates are general and do not distinguished between commercial and non-commercial activities
Ownership and Shareholder(s)	<ul style="list-style-type: none"> • SEPs also fall under different line ministries with different oversight approaches and capacities • The SEP operating environment is heavily institutionalized, including the involvement of line ministries, the SERA, the OPC, the Ministry of Finance and Economic Development (MoFED), the Debt Management Unit in the MoFED, and Parliament • The SEP regulatory environment in some sectors requires further strengthening. Examples include: telecommunications, transport, electricity, water, and so on, to ensure that all SEPs are effectively externally regulated

Element Assessed	Weaknesses Identified
Board of Directors	<ul style="list-style-type: none"> • Some SEPs operate(d) for extended periods without a full board • In a number of cases boards changed with changes of line ministers • Some boards do not have an appropriate balance of skills — and have not been professionalized • Managing potential conflicts of interest and related party transactions require attention in some boards • Some boards are not supported by appropriate committees • Notices for board meetings and board material are in some cases circulated too late. This negatively impacts the effectiveness of the boards • In many cases, Board training and evaluation are not taking place • Some Boards are operating without a Board Charter or similar document that sets out various requirements expected of the Board • Some SEPs do not insist on directors and key management staff signing confidentiality agreements • Most Boards do not have the power to appoint and remove the CEO • For most SEPs, performance contracts between the shareholder(s) and the Board are not in place, rendering it impossible to effectively monitor board performance
SEP Objectives and Management	<ul style="list-style-type: none"> • In most cases, CEOs are more accountable to the line ministry than to the Board • Quality and monitoring of Strategic Plans need improvement • A number of SEPs operate on the basis of non-policy directives from the line ministry • There is a need, where necessary, to coordinate activities with other SEPs to avoid expensive conflicts

Element Assessed	Weaknesses Identified
Performance Monitoring	<ul style="list-style-type: none"> • Financial and non-financial indicators to be monitored are not always clear for most SEPs • For some of the performance indicators, in many cases the SEP management was not clear as to who the monitoring entity was • Frequency of monitoring is not always clarified • CEO contracts are not always tied to performance and in many cases are open-ended with no term limits
Fiscal and Financial Discipline	<ul style="list-style-type: none"> • There are common cases of long outstanding material balances owed by/to other SEPs and the government • There are many cases where the costs of public policy obligations have not been recovered from the government • Low revenue collection rates and tolerance of arrears are common problems in SEP operations
Controls, Transparency and Disclosure	<ul style="list-style-type: none"> • Most SEPs do not have a clear indication of how risk is managed from within • Financial reporting is not always meeting statutory deadlines • Many SEPs are not producing annual reports and are not holding Annual General meetings • The majority of SEPs are not making their financial statements or annual reports available to the public • There is selective application of the law by some SEPs • A number of SEP managers were not aware of the existence of some of the documents with requirements for compliance with good corporate governance practices • The quality of financial and non-financial disclosure in some SEPs needs improvement
Awareness and Commitment to Corporate Governance	<ul style="list-style-type: none"> • Lack of knowledge and experience • In some case directives from Line Ministries work against compliance with good corporate governance practices • Resistance from key management staff also impedes good corporate governance practices

Appendix A

2016 Financial Statements Not Submitted for Audit as at June 10 2017 (The list includes Commercial and Non-commercial SEPs)

	SEP	Years not submitted as at June 10, 2017	Status as at March 31, 2018
1	Agricultural Rural Development Authority (ARDA)	2014-2016	Submitted
2	Agriculture Research Council (ARC)	2016	Submitted
3	Air Zimbabwe	2011-2016	2011-2016 Not submitted
4	Allied Health Practitioners Council (AHPC)	2016	Submitted
5	Allied Timbers Zimbabwe (Private) Limited and its Subsidiaries	2016	Submitted
6	Anti-Corruption Commission	2012-2016	2012-2016 Not submitted
7	Broadcasting Authority of Zimbabwe (BAZ)	2016	Submitted
8	Bulawayo School of Hospitality and Tourism	2016	Submitted
9	Chitungwiza Central Hospital	2015-2016	Submitted
10	Cold Storage Company (CSC)	2013-2016	2013-2016 Not submitted
11	Courier Connect (Pvt) Ltd	2016	Submitted
12	Elvington Mine (Minerals Development) (Pvt) Ltd	2015-2016	2015-2016 Not submitted
13	Environmental Management Agency (EMA)	2016	Submitted
14	Forestry Commission	2016	Submitted
15	Harare Central Hospital	2016	Not submitted
16	Litefold Engineering (Private) Limited	2016	Submitted
17	Lotteries and Gaming Fund	2016	Submitted

	SEP	Years not submitted as at June 10, 2017	Status as at March 31, 2018
18	Medicines Control Authority of Zimbabwe (MCAZ)	2016	Submitted
19	Mpilo Central Hospital	2015-2016	2016 Not submitted
20	National Arts Council of Zimbabwe (NACZ)	2016	Submitted
21	National Handicrafts Centre	2009-2016	2009-2016 Not submitted
22	National Indigenization and Economic Empowerment Board (NIEEB)	2016	Submitted
23	National Libraries and Documentation Services	2009-2016	2009-2016 Not submitted
24	National Museum and Monuments of Zimbabwe	2016	Submitted
25	New Ziana (Private) Limited	2015-2016	Submitted
26	Pig Industry Board (PIB)	2016	Submitted
27	Road Motor Services (RMS)	2015-2016	Submitted
28	Rural Electrification Agency	2016	Submitted
29	Sabi Gold Mine (Kimberworth Investments) (Pvt) Ltd	2015-2016	Submitted
30	Sandawana Mine (Pvt) Ltd	2015-2016	Not submitted
31	Small and Medium Enterprises Development Corporation (SMEDCO)	2016	Submitted
32	State Procurement Board (SPB)	2016	Not submitted
33	Zimbabwe Academic Research Network (ZARNET)	2016	Submitted
34	Zimbabwe Electoral Commission (ZEC)	2016	Not submitted
35	Zimbabwe Human Rights Commission (ZHRC)	2015-2016	2016 Not submitted
36	Zimbabwe Institute of Public Administration and Management (ZIPAM)	2016	Submitted
37	Zimbabwe Mining Development Corporation (ZMDC)	2016	Submitted

	SEP	Years not submitted as at June 10, 2017	Status as at March 31, 2018
38	Zimbabwe National Parks and Wildlife Management Authority	2016	Submitted
39	Zimbabwe National Statistics Agency (ZIMSTATS)	2016	Submitted
40	Zimbabwe Post Properties	2016	Submitted
41	Zimbabwe Tourism Authority (ZTA)	2016	Submitted
42	Zimbabwe Youth Council (ZYC)	2016	Not submitted
43	ZIMPOST	2016	Submitted

Source: Auditor General's Report

Appendix B

Commercial SEPs Audit Opinions for 2016 Financial Statements

Wholly Owned SEPs	2016 Audit Opinion
Agricultural Bank of Zimbabwe	Unqualified
Air Zimbabwe	None- No financial statements
Allied Timbers	Qualified with emphasis of matter
Civil Aviation Authority Zimbabwe	Unqualified with emphasis of matter
CMED	Unqualified
Cold Storage Commission	No financial statements
Grain Marketing Board	Unqualified with emphasis of matter
Industrial Development Corporation Zimbabwe Group	Qualified with emphasis of matter
Minerals Marketing Corporation of Zimbabwe	Unqualified with emphasis of matter
National Handling Service	None-No financial statements
National Oil Infrastructure Company of Zimbabwe	Unqualified
National Pharmaceutical Company	Unqualified
National Railways of Zimbabwe	Unqualified with emphasis of matter
NetOne	Unqualified with emphasis of matter
New Ziana	Financial statements submitted for audit
People's Own Savings Bank	Unqualified
Petrotrade	Unqualified
Powertel	Unqualified with emphasis of matter
Printflow	Unqualified

Wholly Owned SEPs	2016 Audit Opinion
Small Medium and Enterprise Development Corporation	Qualified with emphasis of matter
Tel-One	Unqualified
Transmedia Corporation	None-No financial statements
ZESA Enterprises	Unqualified with emphasis of matter
ZESA Holdings Private Limited	Unqualified with emphasis of matter
Zimbabwe Broadcasting Corporation	None- No financial statements
Zimbabwe Electricity and Transmission Company	Unqualified with emphasis of matter
Zimbabwe Mining Development Corporation	None-No financial statements
Zimbabwe National Water Authority	Unqualified
Zimbabwe Posts	Unqualified with emphasis of matter
Zimbabwe Power Company	Unqualified with emphasis of matter
Zimbabwe United Passenger Company	Qualified with emphasis of matter

Partially owned SEPs	2016 Audit Opinion
CBZ Holding	Unqualified
Hwange Colliery Company	Unqualified
Infrastructure Development Bank Zimbabwe	Unqualified with emphasis of matter
National Social Security Authority	Unqualified
Rainbow Tourism Group	Unqualified
Zimpapers	Unqualified

Source: Extracted from the Report of the Auditor General

