

CORPORATE GOVERNANCE: THE CASE OF PARASTATALS

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Corporate Governance: The Case of Parastatals

Objective 1:

- Promoting an Enabling Environment and Effective Regulatory Framework for Business organisations and other entities
- Question 5: What is your country's approach to Corporate Governance?

Objective 2:

- Ensuring Effective Leadership and Accountability of Organisations
- Question 1: How does the Corporate Governance framework in your country provide for effective leadership of all the types of organizations listed in objective one above?
- Question 2: How does the corporate governance framework ensure accountability?
- Question 3: How does the corporate governance framework ensure timely, transparent and accurate disclosure of information on all material matters regarding the organization?
- Question 5: How does the corporate governance framework in your country ensure that organizations listed in objective one above have put in place risk management and effective internal controls mechanisms?

Corporate Governance: The Case of Parastatals

- Corporate governance is a term applied to the networks of formal and informal relationships with the management of the company and company's stakeholders including employees, customers, creditors, local communities, and society in general.
- Zimbabwe has experienced a number of corporate governance breaches: boardroom squabbles, scandals, abuse of office and corruption, particularly in the public sector (State enterprises and parastatals, SEPs) and the banking sector.
- Zimbabwe has a total of 107 SEPs which currently contribute less than 2% of the country's Gross Domestic Product (GDP). In the mid-1990s, SEPs accounted for more than 40% of the country's GDP and employed thousands.
- Political interference in the running of state entities has contributed to their declining performance & escalating debts. As of July 2018, state enterprises and parastatals owed the Zimbabwe Revenue Authority (ZIMRA) over US\$491 million.

Corporate Governance: The Case of Parastatals -

- Section 9 of the Constitution: *'The State must adopt and implement policies and legislation to develop efficiency, competence, accountability, transparency, personal integrity and financial probity in all institutions and agencies of Government at every level and in every public institution.'*
- The Corporate Governance Unit (CGU) in the Office of the President and Cabinet (OPC) has taken some positive steps in strengthening corporate governance in public entities, for example, through the enactment of the Public Entities Corporate Governance Act.
- The most notable of these were the adoption of the first Zimbabwe National Code on Corporate Governance (Zim Code) in 2015, the promulgation of the Public Entities Corporate Governance Act in 2018 and the revised Companies Act in 2020.
- The Auditor-General's Report 2018 identified challenges with Air Zimbabwe, Allied Timbers, GMB, CMED, ZINARA, NSSA,
- Board appointments and board failures, lack of an effective whistle-blowing mechanism, the role of human resource management and the restructuring of SOEs.

Corporate Governance: The Case of Parastatals - Recommendations

- Compliance with ZIMCODE and the Public Entities Corporate Governance Act for all private and public entities. This should be monitored within each sector with clear penalties or sanctions.
- Make the Public Entities Corporate Governance Act explicit in pointing out that the chairperson of the board of directors cannot under any circumstance hold an executive position.
- Respect the principle of separation of ownership and control with respect to the parent Ministry, the Board and the CEO in order to avoid nepotism and patronage.
- Strengthen the Auditor General's office so that it is able to investigate on its own and provide more regular reports and implement the recommendations.

Corporate Governance: The Case of Parastatals - Recommendations

- Put in place, effective whistleblowing systems and procedures. This needs to be done at a national level as well as empowering human resource departments to establish effective complaints mechanisms and to incentivise would-be whistle-blowers.
- Enforce greater transparency or 'full disclosure' to rebuild the faith in corporate governance, particularly for SEPs in areas such as remuneration, perks and performance indicators.
- Review the role and composition of the Anti-Corruption commission to ensure that it is not only reactive, but to include measures that are preventative. There is also concern that the commission is deterred from pursuing high level cases without political support.
- Review the role of human resources executives so that they can prevent board excesses such as overstated wages and perks, recruitment of staff and executives, communication and transparency in the organisation, etc.