Assessment of Corporate Governance Practices by STATE ENTERPRISES & PARASTATALS IN ZIMBABWE

A review of 39 Government-selected SEPs

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Office of the President and Cabinet
Ministry of Finance and Economic Development
State Enterprises Restructuring Agency (SERA)
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## Abbreviations & Acronyms

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AGM</td>
<td>Annual General Meetings</td>
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<tr>
<td>AMA</td>
<td>Agricultural Marketing Authority</td>
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<tr>
<td>ARDA</td>
<td>Agricultural and Rural Development Authority</td>
</tr>
<tr>
<td>CAAZ</td>
<td>Civil Aviation Authority of Zimbabwe</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CG</td>
<td>Corporate Governance</td>
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<td>CMED</td>
<td>Central Mechanical Equipment Department</td>
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<td>CSC</td>
<td>Cold Storage Commission</td>
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<tr>
<td>EMA</td>
<td>Environmental Management Agency</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>GMB</td>
<td>Grain Marketing Board</td>
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<tr>
<td>IDBZ</td>
<td>Infrastructure Development Bank of Zimbabwe</td>
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<tr>
<td>IDC</td>
<td>Industrial Development Corporation</td>
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<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
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<td>ISA</td>
<td>International Standards on Auditing</td>
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<tr>
<td>MMCZ</td>
<td>Mineral Marketing Corporation of Zimbabwe</td>
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<tr>
<td>MoFED</td>
<td>Ministry of Finance and Economic Development</td>
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<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>NACZ</td>
<td>National AIDS Council of Zimbabwe</td>
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<tr>
<td>NatPharm</td>
<td>National Pharmaceutical Company</td>
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<tr>
<td>NCCGZ</td>
<td>National Code on Corporate Governance in Zimbabwe</td>
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<tr>
<td>NOIC</td>
<td>National Oil Company</td>
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<tr>
<td>NRZ</td>
<td>National Railways of Zimbabwe</td>
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<tr>
<td>NSSA</td>
<td>National Social Security Authority</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Name</td>
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<td>---------</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OPC</td>
<td>Office of the President and Cabinet</td>
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<tr>
<td>PFM</td>
<td>Public Financial Management</td>
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<tr>
<td>POSB</td>
<td>People's Own Savings Bank</td>
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<tr>
<td>POTRAZ</td>
<td>Postal and Telecommunications Regulatory Authority of Zimbabwe</td>
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<tr>
<td>RCZ</td>
<td>Research Council of Zimbabwe</td>
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<tr>
<td>REA</td>
<td>Rural Electrification Authority</td>
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<td>RPAZ</td>
<td>Radiation Protection Authority of Zimbabwe</td>
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<td>SEPs</td>
<td>State Enterprises and Parastatals</td>
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<td>SERA</td>
<td>State Enterprises Restructuring Agency</td>
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<td>SIRDC</td>
<td>Scientific and Industrial Research and Development Centre</td>
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<td>SOE</td>
<td>State-owned enterprise</td>
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<tr>
<td>TIMB</td>
<td>Tobacco Industry and Marketing Board</td>
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<tr>
<td>USF</td>
<td>Universal Services Fund</td>
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<td>ZACC</td>
<td>Zimbabwe Anti-Corruption Commission</td>
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<td>ZERA</td>
<td>Zimbabwe Electricity Regulatory Authority</td>
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<tr>
<td>ZESA</td>
<td>Zimbabwe Electricity Supply Authority</td>
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<tr>
<td>ZETDC</td>
<td>Zimbabwe Electricity Transmission and Distribution Company</td>
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<tr>
<td>ZIMRA</td>
<td>Zimbabwe Revenue Authority</td>
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<tr>
<td>ZINARA</td>
<td>Zimbabwe National Road Administration</td>
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<tr>
<td>ZINWA</td>
<td>Zimbabwe National Water Authority</td>
</tr>
<tr>
<td>ZIPAM</td>
<td>Zimbabwe Institute of Public Administration and Management</td>
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<tr>
<td>ZMDC</td>
<td>Zimbabwe Mining Development Corporation</td>
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<tr>
<td>ZPC</td>
<td>Zimbabwe Power Company</td>
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<tr>
<td>ZUPCO</td>
<td>Zimbabwe United Passenger Company</td>
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State Enterprises and Parastatals (SEPs) play a major role in Zimbabwe 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, where necessary, profitable, is important. It is also necessary to ensure that they operate on equal terms with their private sector counterparts. Therefore, a robust SEP sector is 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. Where applicable, they should also be profitable. 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; antiquated infrastructure and capital equipment; inadequate working capital; under-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.

Good corporate governance practices (box 1) bring a number of benefits for all entities, both private and public. These benefits include, among others:

- Better access to external finance by entities, which in turn can lead to larger investments, higher growth, and greater employment creation;
- Lower costs of capital and higher firm valuation, which make investments more attractive and lead to growth and greater employment;
- Improved operational performance through better allocation of resources and more efficient management, which can create wealth; and
- Reduced risk of corporate crises and scandals, and better relationships with stakeholders (World Bank 2014).

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1 Corporate governance provides the structure for defining, implementing, and monitoring a company’s goals and objectives, and for ensuring accountability to appropriate stakeholders (World Bank, 2014).
Good corporate governance practices benefit both individual entities and the economy as a whole in the following areas:

**Improved operational performance of SEPs.**
A recent study of 44 SEPs in the water and electricity sectors of countries in Latin America and the Caribbean region finds a positive correlation between six dimensions of corporate governance reform and the operational performance of the utilities (Andres, Guasch, Lopez, and Azumendi 2011). The dimensions include: the legal and ownership framework; the composition of the board; the performance management system of the enterprise; the degree of transparency and disclosure of financial and non-financial information; and the characteristics of staff (for example, education, salary, and benefits).

**Increased access to alternative sources of financing through domestic and international capital markets, while also helping to develop domestic markets.** As governments face continued budget constraints, better-governed SEPs are more easily able to raise financing for infrastructure and other critical services through the capital markets. In turn, SEP issuances can help develop capital markets. For example, Malaysia’s government-linked companies account for about 36 percent of the market capitalization of the stock exchange, Bursa Malaysia. In India, 41 centrally-owned SEPs account for 20 percent of the market capitalization of the Mumbai Stock Exchange. Any borrowings by SEPs in Zimbabwe through the markets will result in explicit fiscal risk to the government, and these must comply with the provisions of Zimbabwe’s Constitution.²

**Financing for infrastructure development.** Most public spending on infrastructure passes through SEPs (Akitoby, Hemming, and Schwartz 2007). By reducing internal inefficiencies, SEPs can make that spending go further. For example, a recent study suggests that of the roughly US$93 billion annual infrastructure investment gap in Sub-Saharan Africa (equal to 15 percent of the region’s gross domestic product [GDP]), nearly US$17 billion could come from savings produced by improving internal efficiencies through better governance and other means (Foster and Briceno-Garmendia 2010).

**Reduced fiscal burden of SEPs, and increased net contribution to the budget through higher dividend payments.** For example, while working to improve the governance of its major SEPs, the Lithuanian government estimated that annual dividends from better governance could be increased by 1 percent of GDP, helping to reduce its budget deficit as part of its efforts to join the Euro Area in 2014. In 2010, the Chinese government announced that it would start extracting more in dividends from its SEPs. Its aim was to force them to compete more fairly with the private sector, and to allocate resources to social expenditures. Improved governance also increases transparency of the contingent liabilities associated with SEPs, thereby reducing fiscal risk.

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Reduced corruption and improved transparency. Corruption remains a serious problem in SEPs and can affect the financial strength and valuations of the entities. It can also negatively affect investor perceptions, lead to the mis-allocation of scarce government resources, and constrain overall economic and financial growth. Better-governed entities with integrity and accountability mechanisms are likely to be less corrupt and more transparent.

It should be noted that good corporate governance alone will not necessarily improve SEP operations. Equally important are business factors to enhance performance, and some of these are external to the SEP. These are not covered in this report.

Box 1: Good Corporate Governance Practices

SEPs must design and implement corporate governance practices that comply with legal requirements and meet their particular needs. The following good corporate governance practices should be adopted by SEPs:

1. Build an effective, properly composed and structured Board of Directors and evaluate its performance. Boards should be comprised of directors who are knowledgeable and have expertise relevant to the entity’s business. They should be qualified, competent, and have strong ethics and integrity, diverse backgrounds and skill sets, and sufficient time to commit to the business of the entity.

2. Clearly define roles and responsibilities in the SEP’s organizational hierarchy. Establish clear lines of accountability among the Board, Chairperson, Chief Executive Officer (CEO), and Executive Management. Establish appropriate Board committees. Separate the roles of the Board Chairperson and the CEO: the Chairperson leads the Board and ensures that it is acting in the entity’s best interests; the CEO leads management, develops and implements business strategy and reports to the Board.

3. Create a culture characterized by integrity and ethical behavior. This must apply to directors and management, with directors setting the “tone at the top”. To create and cultivate this culture, they must adopt a conflict of interest policy and a code of ethics setting out the entity’s requirements and process to report and deal with non-compliance.

4. Evaluate performance and make principled compensation decisions. The Board should establish measurable performance targets for executive management. It should also regularly assess and evaluate performance of the executives against the set targets, while tying compensation to performance.

5. Practice effective risk management. The Board should regularly identify and assess entity risks, including financial, operational, reputational, environmental, industry-related, and legal risks. The Board should challenge management’s assumptions and the adequacy of the entity’s risk management processes and procedures.

6. Accountability, transparency and disclosure. The Board must demand financial and non-financial reporting which meets statutory and other required reporting deadlines.
SEPs in Zimbabwe face a number of corporate governance challenges. These challenges hinder their ability to perform efficiently, create value and contribute to competitiveness and economic development. Some of the challenges also affect government operations through increased fiscal risk. The challenges, among others, include the following:

The gap between the corporate governance requirements in the various laws, regulations and codes on the one hand and the level of compliance on the other is wide. This is largely caused by weak and ineffective oversight and enforcement of the requirements. It is also attributable to the fact that where there is a failure to comply or corruption has been identified, in many cases, there are no consequences. Enforcement of Section 91 of the Public Financial Management (PFM) Act can contribute to improved compliance with the PFM Act. The Office of the President and Cabinet (OPC) can bring the attention of all SEPs to Section 91 (Offences and Penalties) of the PFM Act. After the awareness drive, it should ensure that the section is applied in all cases where it is supposed to be applied, without exception. All other requirements must be given legal backing and appropriately enforced.

In some cases, the legal-institutional framework that defines the government’s role as owner of the SEP on behalf of the public needs to be clarified; objectives that justify state ownership should be reviewed and disclosed. A lack of clarity about the government’s role as owner has led, in some sectors, to the government having interests in entities that compete with each other, for example in telecommunications. This presents challenges to the operations of the SEPs.

Some SEPs are tasked with multiple unclear policy objectives and mandates (some of which are implicit/non-transparent and, in some cases, politically motivated), the performance of which is difficult to manage and monitor. Some of the original mandates have been overtaken by events over time and need revision, as is the case with the Grain Marketing Board (GMB), the Zimbabwe United Passenger Company (ZUPCO), Zimbabwe Post (ZIMPOST), and so on.

The OPC can bring the attention of all SEPs to Section 91 of the PFM Act.

Accountability oversight for SEP performance is often spread across a large number of institutional bodies with different policy interests. These include line ministries, the Ministry of Finance, the OPC, the State Enterprises Restructuring Agency (SERA), industry sector regulators, and so on. This potentially allows either excessive interference in a SEP’s decision-making process, or leaves control gaps with passive ownership and limited oversight. It also increases the risk of insiders advancing their own interests rather than those of the enterprise and the general public. This is currently a problem in a number of SEPs in the country where boards and management have taken advantage of passive ownership by the government — with limited or non-existent control and oversight. Role clarity would go a long way towards improving accountability and would lead to improved performance across the sector.

Some legal and compliance gaps lead to a lack of accountability and disclosure. There are some gaps in the law with regard to accountability and disclosure requirements. Some laws establishing certain SEPs do not make it a requirement for the established SEP to hold Annual General Meetings (AGMs). In other cases, where such establishing laws are silent about the need to hold AGMs, the established SEP is obliged to hold AGMs by other applicable legislation, for example, in the case of SEPs in the banking sector. The applicable SEPs were still not complying with the law that requires them to hold AGMs. Harmonization of the relevant statutes would enhance accountability.
Some SEPs can benefit from implementing measures that promote greater independence and professionalism of boards and management. This includes shielding them from inappropriate intervention from oversight bodies which may not be consistent with the SEP’s approved strategy, as well as unexplained board dismissals accompanied by delayed replacements. Where such dismissals are justified, there must be timely replacement.

Corporate governance requirements are currently contained in a large number of sources. Some of the sources are old laws and legislation, which have been static for a long time and are now in need of updating. This wide range of sources is also encouraging selective compliance by SEPs as to which government requirements to apply. For example, some SEPs incorporated as companies ignore the requirements of the PFM Act, wrongly arguing that they are only obligated to comply instead with the Companies Act. Where applicable, the 2 Acts must both be complied with. In some SEPs the requirements of the PFM Act are not known.

The SEP operating environment contributes to fiscal risks which need to be continuously identified, assessed and managed to minimize their impact. Some of the SEPs pose significant fiscal risk because of the challenges they face, including:

(i) uncompensated cost of quasi-fiscal activities;³
(ii) intervention with regard to SEP operations by oversight bodies;
(iii) pricing and toleration of arrears contributing to losses and liquidity challenges;
(iv) significant SEP borrowings and losses;
(v) weak SEP reporting and disclosure; and
(vi) insufficient or non-existent oversight and enforcement by the government and other regulatory bodies.

Significant SEP losses and debts have contributed to implicit and explicit contingent liabilities to the government.

³ These are continuously funded by “borrowing from the future” in the form of postponement of necessary SEP expenditures due to the lack of sufficient resources. SEPs resort to cutting down on necessary expenditures for operations, maintenance and capital investment. This leads to deterioration of the quality and coverage of services, low capacity utilization, and so on. Further, these extend into the medium and long term, thereby depleting SEP infrastructure which will, in turn, require future capital expenditures to restore and/or improve service delivery. This is evident in many service delivery SEPs in the country (especially the electricity and water suppliers), with a negative impact on the downstream competitiveness of the broader Zimbabwean economy.
High-Level Messages from the Corporate Governance Assessments

- 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. Ownership entities that have the responsibility to oversee ownership policies have an important role to play in communicating the state’s expectations regarding anti-corruption. This should contribute to effective anti-corruption enforcement. The government’s expectation about anti-corruption should also include putting into place effective internal controls, compliance programs and measures for prevention and/or early detection of corruption. In addition, the government should put into place mechanisms for promoting business ethics and the integrity of SEP operations. Sanctions must be applied on all found guilty of corruption and other types of fraud.

- SEP board composition and structure needs to be improved to enhance effectiveness. Boards must have the necessary 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 must be subjected to effective performance monitoring.

- SEPs must 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.
The corporate governance assessment was conducted through a questionnaire. The core questionnaire is based on the Organisation for Economic Co-operation and Development (OECD) Guidelines of Corporate Governance for State-owned Enterprises and the World Bank’s Corporate Governance of State-Owned Enterprises: A Toolkit.

The OECD Guidelines, originally developed in 2005 and revised in 2015, define good practices in state-owned enterprise (SOE) corporate governance, and cover areas of corporate governance such as the ownership and oversight functions, board of directors, and reporting — including external audit, transparency and disclosure. The World Bank Toolkit proposes a questionnaire for a SEP-level analysis, which analyzes the following eight main elements of SOE corporate governance, and provides international experience and good practice as a benchmark:

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

For each selected SEP in this report, we assessed these elements of corporate governance. In this context, we have only provided comments where there is an issue or where clarity is needed.

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5 World Bank Toolkit for SOE Corporate Governance: https://openknowledge.worldbank.org/handle/10986/20390
The template questionnaire from the Toolkit was adjusted to include the Zimbabwe Corporate Governance (CG) requirements from various sources (See below: Sources of SEP CG Practice Requirements in Zimbabwe). The objective was to assess the alignment of current SEP corporate governance practice against international good practice and the existing national CG practice requirements. The assessment also identified gaps in the national legislation as compared with international good CG practices.

Data collection included completion of the questionnaire by SEPs, interviews with SEP management and a desk review of SEPs documents. The questionnaire was completed by SEP management, and information was gathered through the review of documents (financial statements, SEP strategic documents, and so on). We then conducted interviews with each SEP, which in most cases included the CEO and the senior management team. The interviews were intended to obtain clarification and additional comments and information. The assessments were done by officials from the OPC, the Accountant General’s office, and the SERA.

We assessed the following 39 SEPs which were selected by the Government:

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<tr>
<th>Priority 10</th>
<th>Other 29</th>
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<tr>
<td>• Air Zimbabwe</td>
<td>• Infrastructure Development Bank of Zimbabwe (IDBZ)</td>
</tr>
<tr>
<td>• Agricultural and Rural Development Authority (ARDA)</td>
<td>• Minerals Marketing Corporation of Zimbabwe (MMCZ)</td>
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<tr>
<td>• Civil Aviation Authority of Zimbabwe (CAAZ)</td>
<td>• Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ)</td>
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<tr>
<td>• Cold Storage Company (CSC)</td>
<td>• Radiation Protection Authority of Zimbabwe (RPAZ)</td>
</tr>
<tr>
<td>• Grain Marketing Board (GMB)</td>
<td>• Scientific and Industrial Research and Development Centre (SIRDC)</td>
</tr>
<tr>
<td>• Industrial Development Corporation of Zimbabwe (IDC)</td>
<td>• Zimbabwe Electricity Transmission and Distribution Company (ZETDC)</td>
</tr>
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<td></td>
<td>• ZimPost</td>
</tr>
<tr>
<td></td>
<td>• Zimbabwe National Roads Administration (ZINARA)</td>
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6 Included in the 2016 National Budget as prioritized for reform.
Corporate Governance Environment in Zimbabwe

The strengths/weaknesses of the SEP corporate governance environment in Zimbabwe were measured against the following criteria during this assessment (See figure 1):

1. Assessing the extent to which adequate compliance requirements have been adopted and enacted.
2. Assessing the extent to which capacity to comply with the requirements has been built.
3. Assessing the extent to which oversight and regulatory entities have been strengthened, as well as their effectiveness to enforce compliance.

Other 29 (continued)

- Zimbabwe Mining Development Corporation (ZMDC)
- Zimbabwe United Passenger Company (ZUPCO)
- Agribank
- Central Mechanical Equipment Department (CMED)
- Environmental Management Agency (EMA)
- NatPharm
- NetOne
- People’s Own Savings Bank (POSB)
- Research Council of Zimbabwe (RCZ)
- Rural Electrification Agency (REA)
- Zimbabwe Energy Regulatory Authority (ZERA)
- Zimbabwe Institute of Public Administration and Management (ZIPAM)
- Allied Timbers
- Agricultural Marketing Authority (AMA)
- Hwange
- National AIDS Council (NAC)
- National Oil Infrastructure Company of Zimbabwe (NOIC)
- National Social Security Authority (NSSA)
- PetroTrade
- Tobacco Industry and Marketing Board (TIMB)
- ZimTrade
Figure 1: Pillars of Good Corporate Governance Practices Environment for SEPs in Zimbabwe


Few issues to be addressed.
Significant progress made, but more needs to be done.
Significant shortcomings to be addressed.

<table>
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<tr>
<th>Pillars</th>
<th>Elements</th>
<th>Comment</th>
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| Adequate Requirements                        | • Constitution of Zimbabwe 2013  
                                            • Laws and regulations  
                                            • Codes  
                                            • Directives  
                                            • International standards & guidelines | All of the Pillars and Elements can be further strengthened. |
| Sufficient Capacity                          | • Quality of boards and management                                      |                                                                                             |
| Effective oversight and Enforcement of Compliance | • Compliance  
                                                    • Effectiveness of oversight and enforcement mechanisms  
                                                    • Consequences                                                          |                                                                                             |
SEP CG practice requirements in Zimbabwe are currently included in various sources that are largely uncoordinated. These include the following:

- The Constitution of Zimbabwe (2013)
- Companies Act (for incorporated SEPs)
- Memorandum and Articles of Association (for each incorporated SEP)
- Various establishing laws and regulations for individual SEPs
- PFM Act
- Audit Office Act
- National Code on Corporate Governance in Zimbabwe
- CG Framework for SEPs (2010)
- CG Principles as Approved by the Cabinet (2014)

This large number of separate and largely uncoordinated sources of corporate governance requirements is, in practice, encouraging selective compliance resulting in weak corporate governance practices. Additionally, some of the laws and regulations are very old and have been static for a long time. Indeed, they have now been overtaken by events and new mandates.
Summary of Common CG Weaknesses Identified During This Assessment

The individual SEP assessments highlighted a number of common weaknesses in CG practices. These are summarized in this section. The colors below have been used to highlight the level of maturity in good corporate governance practices for each of the elements assessed.

- Green: Few issues to be addressed.
- Yellow: Significant progress made, but more needs to be done.
- Red: Significant shortcomings to be addressed.

**SEP Legal Framework**

_A clearly defined legal and regulatory framework for SEPs is essential to communicate the expectations of SEP shareholders, boards, management and wider stakeholders._

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. Mandates are defined in the establishing laws. Regarding state enterprises...

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7 Adapted from Corporate Governance of State Owned Enterprises: A World Bank Toolkit. 2014.
incorporated as companies, their mandates are established in the Memorandum and Articles of Association. Some of the establishing laws came into effect long ago when the SEP was created and operated as a vertically integrated enterprise with very little market competition. The government must clearly define the rationale for owning individual SEPs and subject these to recurrent review to ensure that the legal basis and mandates are always current and consistent with recent developments. Any public policy objectives that a SEP is required to achieve should be clearly and transparently mandated in the law.

Some mandates are general and do not distinguished between commercial and non-commercial activities. This causes difficulty in developing performance indicators for performance monitoring.

Ownership and Shareholder Protection

Current good practice increasingly calls for further clarification of the government’s role as SEP owner, reduced fragmentation of ownership responsibilities across multiple institutions, improved role clarity, and enhanced accountability of SEP results.⁸

Currently there is no overarching legislation for the governance of SEPs. Corporate governance requirements are scattered among various laws, regulations and codes developed over time. This is contributing to selective application and/or arbitrage in compliance with the various requirements.

SEPs also fall under different line ministries with different oversight approaches and capacities. This results in SEPs not being subjected to the same level of ownership oversight and control.

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 regulated. This involves removal of self-regulation (where SEPs have both operational and regulatory mandates), dealing with regulatory resistance and capture,⁹ and addressing inappropriate procurement practices where these is a risk, or where such practices are actually occurring.

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⁸ Adapted from Corporate Governance of State Owned Enterprises: A World Bank Toolkit. 2014.

⁹ In cases where the regulated entities resist or capture the powers of the regulator.
The board is central in the governance of an entity. The board bears the ultimate responsibility for the stewardship and performance of an entity. Its composition and functioning have a significant impact on the governance of the entity and therefore on its operational and financial performance. An effective board must comprise highly qualified and competent directors capable of exercising objective, independent judgment to guide strategy development and to monitor management. The board, executives, and external stakeholders must share a proper understanding of the role and responsibilities of the board to ensure that the board has appropriate autonomy, authority, and accountability in exercising its functions. Additionally, an effective board follows operating practices such as creating board committees and providing specialized training and evaluation for directors that improve board function and decision-making. Board structure and composition therefore form part of the foundation of board effectiveness.¹⁰

During the CG assessment of the 39 SEPs, we identified a number of common weaknesses in the structures and composition of boards — and the ways in which the boards operate.

Some SEPs operate(d) for extended periods without a full board. In one extreme case, a state enterprise is being run by a one-man board since 2013. Such SEPs operate(d) without the appropriate board direction necessary to meet their corporate objectives.

There are a significant number of cases in which boards changed with changes of line ministers. This affects continuity in strategy implementation. Abrupt changes in corporate strategies before the end of the strategy period can also affect SEP performance against their stated objectives. Such changes can also negatively impact performance monitoring.

Some boards do not have an appropriate balance of skills — and have not been professionalized in terms of managing potential conflicts of interest. Cumulative skills and experiences of board members must be in alignment with SEP requirements. Each Director should have relevant knowledge and skills, which could come from a combination of their industry, functional and/or management experience, as well as the right mindset to effectively contribute to the board. Board members should also not deliberate on matters involving any potential conflict of interest. Furthermore, the SEP directors need to understand and be sensitive to the national importance of SEPs, as well as the reforms pursued by the government.

Some boards are not supported by appropriate committees. The Board should establish committees to more effectively address specialized topics and issues. Although this may limit the depth of involvement of all Directors on all issues, such committees do ensure that certain specialized topics are discussed in depth by those individuals with the appropriate and relevant knowledge and insight. This enables Board meetings to be more efficient and effective, and allows the overall Board to devote more time to more critical SEP issues.

Board members should not deliberate on matters involving potential conflicts of interests

¹⁰ Adapted from Corporate Governance of State Owned Enterprises: A World Bank Toolkit, 2014.
not be of value to the Board unless it is received in sufficient time to enable members to read and absorb it prior to the Board meeting. In the absence of other statutory provisions affecting the SEP, it is recommended that meeting agendas be distributed at least 14 calendar days in advance; all Board papers and any pre-reading should be distributed at least 7 calendar days in advance. This allows Directors time to review material and, where necessary, conduct independent analyses or request additional material. The Board should reinforce this practice by refraining from considering last minute agenda items during Board meetings. Genuinely urgent matters could fall outside these timing requirements, but these should be exceptions rather than the rule.

In many cases, Board training and evaluation are not taking place. Board member training and evaluation are not common. Good practice requires and/or encourages boards to undergo regular evaluations during their directorship term. This has a number of benefits including by:

(i) understanding how board members contribute to the tasks of the board;

(ii) giving board members feedback as to how to improve their performance; and

(iii) sensitizing boards to the link between governance (compliance) on the one hand and performance on the other — both of which are necessary for an entity’s success.

The evaluation can be applied to the board as a whole, as well as to committees, and to individual board members.

Some Boards are operating without a Board Charter or similar document that sets out various requirements expected of the Board. They receive guidance from the establishing laws and PFM Act and, where applicable, from the Companies Act and other applicable legislation with corporate governance provisions. Boards would benefit from entity-specific guidance on board operations. Such guidance would be more effective if delineated in a Board Charter specific to each SEP.

A number of SEPs do not have appropriate mechanisms to manage conflict of interest and related party transactions. Although the PFM Act sets out specific mechanisms to manage conflict of interest and related party transactions, some SEPs are not complying with these requirements. The IFRS, through IAS 24-“Related Party Disclosures”, articulates disclosure requirements about transactions and outstanding balances with an entity’s related parties. The standard defines various classes of entities and people as related parties, and describes the disclosures required in respect of each of those parties, including compensation to key management personnel. However, in many cases, these disclosure requirements have not met with compliance. If in compliance, such disclosures would benefit the users of the financial statements.

Some SEPs do not insist on directors and key management staff signing confidentiality agreements. SEP board members and key management staff are in a fiduciary relationship with the entity. This means that they are obliged to act honestly and in good faith in carrying out their roles within the entity. This obligation has many components, including a duty to maintain the confidentiality of information acquired by virtue of their position within the entity. It is also good practice to require board members and key management staff to sign confidentiality agreements.
agreements as part of the Code of Ethics or similar entity document.

**Most Boards do not have the power to appoint and remove the CEO.** Such power is exercised by the line ministry. The Corporate Governance Principles approved by the Cabinet on March 4, 2014 require the CEO to report directly to the Permanent Secretary of the Line Ministry regarding operational issues on a regular basis — including briefing the Permanent Secretary on all significant decisions after board meetings. Whereas this is still common practice in many countries, good practice is increasingly calling for empowering boards to appoint and, subject to clear terms, remove the CEO. This reinforces the key function of the board in overseeing management and helps ensure that the CEO is immediately accountable to the board rather than the shareholder. An intermediate approach can also be adopted whereby the board selects the CEO subject to final approval by the line ministry.

For most SEPs, performance contracts between the shareholder(s) and the Board are not in place, rendering it impossible to effectively monitor board performance. Such contracts are important as a basis for performance monitoring of the board by the line ministry. The contract should cover issues such as:

(i) the need for adequate and reasonable managerial and operational autonomy of the board so as to facilitate achievement by the board and management of the agreed and freely-negotiated contract performance targets; and

(ii) commitment by the board and management to enhancing transparency in the management of the SEP, as well as accountability for results; and

(iii) board commitment to maintain its capacity and competence to perform the duties and undertake the functions specified under the contract.

**Objectives and Management**

During the assessment, we identified the following common weaknesses:

↓ **In most cases, CEOs are more accountable to the line ministry than to the Board.** This can cause reporting lines and operational problems if not properly managed. However, it can be corrected by ensuring the Board has a role in the appointment and removal of the CEO — and that the roles of CEO and Chairman, and who they report to, are clearly defined.

↓ **Quality and monitoring of Strategic Plans need improvement.** The content of some strategic plans needs improvement. Monitoring of the strategic plans also needs enhancement in terms of increased frequency.

↓ **A number of SEPs operate on the basis of directives from the line ministry.** In some cases, the directives have replaced outdated mandates in the establishing laws. Also, in some cases, the directives are not aligned to SEP Strategic Plans.

↓ **There is a need, where necessary, to coordinate activities with other SEPs to avoid expensive conflicts.** For example, one SEP imported buses when it had no money to pay duty, but did so without liaising with the revenue authorities. On arrival, the buses were impounded pending payment of duty. The buses were still impounded at the time of the assessment, long after their importation, thereby leading to significant loss of revenues. This is a clear case of the need to communicate and agree on arrangements before entering into transactions that impact on the jurisdiction of other SEPs.
A solid performance monitoring framework for SEPs sets out clear objectives and targets linked to SEP Strategies. This is a key ownership function which can drive financial and non-financial performance.¹¹

In the case of most Zimbabwean SEPs examined in this assessment, this monitoring framework is absent.

Financial and non-financial indicators to be monitored are not always clear for most SEPs. Each SEP must carefully select key financial and non-financial indicators¹² to ensure that each directly drives a specific strategic objective. Non-financial performance indicators are generally forward looking and important because some SEP operations include non-financial objectives.

In many cases, the SEP management was not clear as to who the monitoring entity was for some of the performance indicators. This is because of the large number of institutions which are mandated to oversee and regulate SEPs in Zimbabwe. To ensure there are no oversight and/or regulatory gaps, it is important for the oversight or regulatory institution to be clarified in the laws or codes that set out corporate governance requirements.

Frequency of monitoring is not always clarified. This leads to inconsistencies in the monitoring practices and, in some cases, no monitoring at all — as we discovered.

CEO contracts are not always tied to performance and in many cases are open-ended. CEO contracts must always be linked to performance, providing incentives and protection. Good practice also requires CEO contracts to be of fixed term with a limit on the number of times the contract can be extended.

Fiscal and Financial Discipline

Applying and enforcing financial and fiscal discipline to SEPs can reduce government liabilities, as well as simultaneously strengthen incentives for improved SEP governance and performance.¹³

During the assessment, the following common weaknesses in fiscal and financial discipline were identified:

- There are common cases of long outstanding material balances owed by/to other SEPs and the government. These balances create significant fiscal problems. They can also cause severe liquidity problems to the SEPs that are owed money by the government and other SEPs. This leads to excessive borrowing with government guarantees, or a deterioration in service delivery.

- There are many cases where the costs of public policy obligations have not been recovered from the government. These are paid for by cross-subsidies within SEP operations. This leads to:
  - (i) poor service delivery by the SEPs where funding is inadequate;
  - (ii) excessive SEP borrowings which are guaranteed by the government (contingent liabilities for the government, including implications for debt sustainability); and

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¹¹ Adapted from Corporate Governance of State Owned Enterprises: A World Bank Toolkit. 2014.

¹² Non-financial indicators should include those that predict future non-financial performance or that are important to the SEP’s strategy.

¹³ Adapted from Corporate Governance of State Owned Enterprises: A World Bank Toolkit. 2014.
(iii) overcharging of the operations that are used to cross-subsidize the cost of the public service obligations.

- Low revenue collection rates and tolerance of arrears are common problems in SEP operations. Although some SEPs are being proactive by exploring prepayment mechanisms, such as prepaid meters for electricity, the problem is still rampant. This has resulted in a deterioration in the quality and coverage of public service delivery.

Controls, Transparency and Disclosure

Transparency and disclosure are vital to holding SEPs accountable for their performance. An effective reporting regime requires SEPs to abide by the same reporting, control, and audit frameworks as other significant corporate or public interest entities; to produce financial statements according to high-quality accounting standards; to increase the effectiveness of non-financial reporting; and to disclose publicly both financial and non-financial information. A sound control environment captures and transmits relevant information in a timely and reliable manner and protects the integrity and efficiency of the SEP’s governance and operations.¹⁴

Common weaknesses identified during the assessment include:

Most SEPs do not have a clear indication of how risk is managed from within. A central function of a SEP Board is to understand the risks the entity faces, the possible consequences of the risks, and how to mitigate such risks. Effective risk-management facilitates the achievement of an entity’s objectives, while also complying with legal, regulatory, and societal expectations. It enables the entity to better respond and adapt to changing situations. During the assessment, management of some SEPs could not clearly state how they manage the many risks their entity faces in this modern environment.

Financial reporting is not always meeting statutory deadlines. One of the characteristics of high-quality financial reporting is that the reports must be produced in a timely manner. This enhances the usefulness of the information to the users of the reports. A large number of the SEPs are producing their audited financial statements long after the statutory deadlines. However, no sanction is imposed.

Many SEPs are not producing annual reports. They are simply producing audited financial statements. Annual reports enhance disclosure, both financial and non-financial, which is necessary for public interest entities. Current good practice is going further by requiring integrated reporting (as is the case with the National Code on Corporate Governance in Zimbabwe), which has even more disclosure requirements.

The majority of SEPs are not making their financial statements or annual reports available to the public. Posting these reports on SEP websites or publishing in widely circulated newspapers are common practices to enhance the required public disclosure of information by SEPs. This is against the background that the SEPs are all considered to be public interest entities.

Many SEPs are not producing annual reports.

¹⁴ Adapted from Corporate Governance of State Owned Enterprises: A World Bank Toolkit. 2014.
Many SEPs are not holding Annual General Meetings. In some cases, this has not been happening since the very inception of the SEP. Annual General Meetings are a statutory and corporate governance good practice requirement for SEPs. Attendance should be wide and include: shareholder representatives (line ministry), MoFED, SERA, OPC, external auditors, public accounts committee members, members of the public and other stakeholders.

There is common selective application of the law by some SEPs. Where a SEP is incorporated, it has to comply with the Companies Act, Establishing Act and PFM Act. In many cases, there is no compliance with the PFM Act, with the argument advanced is that it is not applicable to the company since it complies with the Companies Act. This argument is obviously not correct. SEPs must comply with all applicable laws and regulations. Indeed, it is the responsibility of the board and management to ensure that there is such compliance. The external auditors must report instances of any such non-compliance in their reports. During the assessments, it came to our attention that some managers of SEPs were not even aware that they were required to comply with the PFM Act, while others were not even aware of the very existence of the Act.

A number of SEP managers were not aware of the existence of some documents required for compliance with good corporate governance practices. These documents include:

- The National Code on Corporate Governance in Zimbabwe
- The Corporate Governance Principles as Approved by Cabinet (2014)

This issue highlights the need for continuing professional training for the management and directors of SEPs to keep them up to date with current developments.

The quality of financial disclosure in some SEPs needs improvement. The following are not always disclosed in the financial statements: government guarantees on SEP loans (explicit contingent liabilities to the government), and public service obligations and their true costs.

**Awareness of Corporate Governance Requirements**

Our assessment revealed that generally there is a high-level awareness of corporate governance requirements by SEP management. However, management cited certain issues as inhibiting compliance with good corporate governance practices, including the following:
Lack of knowledge and experience: management argues that the directors and staff lack appropriate knowledge and experience to enable compliance with good corporate governance practices. This points to a lack of capacity to comply, which can be addressed partly by providing for the relevant training.

Deficient legal framework: Management cites certain deficiencies in the applicable legislation — one being that some establishing laws for SEPs are silent regarding the need to hold AGMs. Some SEPs took advantage of this. Yet, other laws with which the SEPs are required to comply do, in fact, require AGMs to be held.

Inadequate financial resources: Management indicated that inadequate financial resources are making it impossible to hold the necessary training of boards to enhance their understanding of — and capacity to comply with — good corporate governance practices.

Lack of shareholder support: Some SEP managers argued that, in many cases, they face a lack of support from the government as the shareholder when trying to comply with good corporate governance regulations. They also argue that implementing some government directives actually works against good corporate governance practices. A lack of broad shareholder base is another impediment to good corporate governance practices. Where government is the sole shareholder, it often recommends, through the line ministry, certain practices which could have been resisted by other shareholders were it not the sole shareholder.

Resistance from key management staff is another impediment to good corporate governance practices. This can be addressed by installing an effective board and CEO.

Causes of the Current Weak Corporate Governance Practices

An entity committed to good corporate governance has well-defined shareholder rights, strong board practices and commitment, effective internal controls, and transparent disclosure.

The main causes of the current weak state of corporate governance practices in Zimbabwe SEPs include:

Lack of role clarity

In the absence of proper implementation of existing laws, regulations and codes, the government often assumes functions that should be carried out by the board. These include appointing and dismissing the chief executive officer. This provides scope for unnecessary interventions and may lead to
inconsistencies in direction and approach, and can open opportunities for corruption. This is the root cause of many of the other issues mentioned below. Unless this problem is resolved, even good boards may be rendered ineffective.

Multiple principals

The SEPs often lack a clearly identified principal or institution to exercise ownership rights. Frequently, the government exercises its ownership responsibilities through multiple actors including the line ministries, the Ministry of Finance and Economic Development, and a number of other government bodies. As a result, conflicts between the government’s ownership functions and its policy-making and regulatory functions arise. These conflicts leave the SEP vulnerable to being used to achieve short-term political goals to the detriment of their efficiency and long-term goals. Moreover, in carrying out its ownership functions, the government, or those exercising an ownership role, often set inconsistent goals, fail to monitor SEP performance closely, and fail to adequately capitalize the SEP. In cases where there are multiple principals, the role of the entity exercising ownership rights (usually the line ministry) must not be diminished; otherwise the ownership structure suffers.

Multiple goals with weak or non-existent monitoring and oversight

SEPs are commonly subject to broad mandates and public service obligations, such as providing services at stipulated prices. Some of these objectives are explicit, while others are implicit but no less important. This calls for robust oversight and monitoring by those entities exercising ownership rights to ensure that SEPs do not lose focus. When SEPs have multiple, ambiguous, and at times conflicting objectives, a practical consequence is that managers may aim to achieve all of the objectives — but end up achieving none. Others have substantial latitude to run the SEP in their own interests through addressing selected objectives, but without clear prioritization justification. The government has also often gotten involved in SEP affairs for political reasons under the cover of different policy goals and mandates. Without clear goals, assessing managerial performance is difficult, and opportunities for political and/or management capture of the SEP and its resources increase. In some cases, management develops accounting policies inconsistent with the objectives set out in the laws in order to drive wrong performance achievements.
Board composition and structure

Board composition and structure are in many cases not done to maximize board effectiveness. Some boards lack the required experience and range of competencies to: perform the classic corporate governance roles; ensure effective risk management; guide strategy; oversee management; and ensure a robust internal control system. Board appointments are very often not done with the objective of balancing necessary skills for overseeing the SEP. Board committee structures are usually not effective, with weak board expertise in important areas such as audit and risk management. Further, SEPs often go for extended periods without boards.

Non-existent or weak performance management systems

SEPs need intensified performance management systems in order to perform well and meet expectations. Many SEPs have not developed performance indicators that are linked to SEP strategy and targets, which are then monitored, evaluated and used to determine board and senior management remuneration.

Inadequate transparency and accountability

Although publicly owned, many SEPs in Zimbabwe have a culture of weak internal controls and processes, inadequate accounting practices, weak compliance procedures, and low levels of financial and non-financial disclosure. Very few hold AGMs. Many of these problems stem from the lack of a clear performance-monitoring system to ensure accountability and responsibility for performance, particularly of the board and the chief executive officer. A lack of transparency and disclosure is undermining the ability of many SEPs to conduct performance monitoring, thereby limiting accountability at all levels—and creating conditions that increase opportunities for corruption.

Weak to non-existent enforcement and consequence regimes

Although corporate governance requirements through the various laws, regulations and codes and standards are well documented and form a good base for good corporate governance practices, weak compliance and ineffective enforcement regimes prevail. In some cases, there is no enforcement at all. This is in addition to the general lack of deterrent consequences in practice for transgressors, thereby leading to repeated non-compliance with the existing corporate governance requirements. Although Section 91 of the PFM Act provides for penalties pertaining to various offences committed by accounting officers, accounting authorities and any person found guilty of specified offenses, the section is rarely applied in practice. In this regard, the majority of the SEPs we assessed were not even aware of this section of the Act.
Recommendations to Address the Root Causes of the Current Weak Corporate Governance Practices

Increased political will and commitment to fight corruption are preconditions to the success of all other initiatives to improve corporate governance practices. Currently cases of non-compliance with good corporate governance practices are many and corruption is rife. However, no deterrent action is taken against perpetrators and in some cases they appear to be protected. Until this problem is addressed, all other efforts aimed at improving corporate governance practices will not have the desired results.

SEPs in Zimbabwe need to focus on both compliance and performance. A different approach should be adopted for each. Our findings show that most SEPs in Zimbabwe are not only failing to comply with good corporate governance practices, but are also not performing well for various reasons. In addition to compliance with good corporate governance practices, boards also have a heavy responsibility to ensure that the SEPs perform and contribute positively to the country’s GDP and effective service delivery. SEPs can only achieve these two enterprise objectives by adopting an Enterprise Governance Framework which addresses both requirements. In this context, the strengths of one do not make up for weaknesses in the other. Only when both are complied with can they serve to complement each other.

Improve the legal and institutional framework that defines state ownership of some SEPs. A clearly defined legal and regulatory framework for some SEPs is essential in order to clearly communicate key expectations to SEP shareholder representatives (line ministries), boards, management, and all other stakeholders, including the general public. The mandates and objectives of some SEPs are now outdated and need updating to reflect current government policy. Government ownership policy in some sectors, for example, in the telecommunications sector, also needs to be clarified in the wake of the government taking ownership stakes in competing entities.

Professionalize boards and management, and demand more from them through effective performance management and monitoring. Require all boards to be appropriately structured, composed and supported by necessary committees. They should also be balanced in terms of skills that are supported by mandatory continuous training. Increase board objectivity by increasingly improving their independence and objectivity through a structured nomination process that is independently managed. Where boards are removed, they must be replaced without continued delays. Boards must be given appropriate authority to oversee management, including the CEO.
Improve the identification, assessment and management of the fiscal risk arising from SEP operations. SEPs must communicate in a transparent manner to MoFED’s Debt Management Unit regarding all situations and circumstances that result in fiscal risk, including the preparation and disclosure of reports on fiscal risk.

Enforce high-quality financial and non-financial reporting and disclosure within statutory deadlines. This should include ensuring that the quality of external audits meets expectations in terms of the law, regulatory requirements, and international standards on auditing. External auditors have a responsibility to detect material misstatements arising from fraud or error, and to communicate these appropriately according to terms of the Audit Office Act and International Standards on Auditing. Ensure management and the board adopt correct accounting policies in line with the laws establishing the SEP and report within statutory deadlines.

Enforce compliance with laws that drive good corporate governance practices. This should include application of deterrent sanctions on those found guilty of not complying with any of the various corporate governance requirements which are meant to oversee, regulate and give direction for SEP operations. The continued lack of effective enforcement and the total disregard of these requirements are some of the root causes of poor corporate governance practices in the SEP sector. The Zimbabwe Anti-Corruption Commission (ZACC), which should provide a thorough and robust mechanism for dealing with corruption in the public sector, has not yet proved effective, given the number of corruption cases where no action is taken.

### Good Practice Benchmarks of Corporate Governance

**Elements Assessed**¹⁵

<table>
<thead>
<tr>
<th>Element</th>
<th>Good Practice Benchmark</th>
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<tbody>
<tr>
<td>Legal framework</td>
<td>• Bring SEPs under company law and apply other laws and regulations to SEPs to create a level playing field with other entities.</td>
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<td></td>
<td>• Where appropriate, list SEPs on the stock market(s) to create capital market discipline.</td>
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<td></td>
<td>• Develop modern SEP laws and regulations,</td>
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<td></td>
<td>• Unite SEPs under a national code of corporate governance. (CG Framework for SEPs 2010, CG Principles as approved by Cabinet 2014, National code of Corporate Governance Zimbabwe (NCCGZ) have been issued),</td>
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¹⁵ Adapted from a World Bank Publication, Corporate Governance of State – Owned Enterprise A Toolkit. 2014.
<table>
<thead>
<tr>
<th>Element</th>
<th>Good Practice Benchmark</th>
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<tbody>
<tr>
<td>Ownership and shareholder protection</td>
<td>• Identify and separate state ownership functions from policy-making and regulatory functions.</td>
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<td></td>
<td>• Develop appropriate arrangements for carrying out ownership functions.</td>
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<td></td>
<td>• Create safeguards against unnecessary government interventions.</td>
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<td></td>
<td>• When necessary, centralize the state's ownership functions to bring focus, consistency, and good practices to the SEP sector.</td>
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<td></td>
<td>• Oversee and protect minority government shareholding.</td>
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<td>• Promote shareholder participation and equitable treatment of shareholders.</td>
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<td></td>
<td>• Ensure representation of minority shareholders on SEP boards.</td>
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<td></td>
<td>• Safeguard against abusing related-party transactions (for example, through related-party transactions and balance disclosures).</td>
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<tr>
<td>Board of directors</td>
<td>• Develop a structured and transparent process for board nominations.</td>
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<td>• Define the respective roles of the state (as owner), boards, and management, and empower boards with core responsibilities such as strategy setting, choosing and overseeing the chief executive officer (CEO), and managing risks.</td>
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<td>• Enhance board professionalism through the separation of chair and CEO, development of board committees, and so on.</td>
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<td></td>
<td>• Put in place board remuneration and evaluation policies and practices.</td>
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<td>• Provide training to members of the boards of directors.</td>
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<tr>
<td>Objectives, management and performance monitoring</td>
<td>• Define SEP mandates, strategies, and objectives.</td>
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<td></td>
<td>• Develop key performance indicators and targets, both financial and non-financial.</td>
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<td></td>
<td>• Establish performance agreements between SEP owners and SEP boards.</td>
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<td></td>
<td>• Measure and evaluate performance with the goal of holding SEPs accountable for results and ensuring good performance.</td>
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<tr>
<td>Fiscal and financial discipline</td>
<td>• Reduce preferential access to direct and indirect public financing by SEPs.</td>
</tr>
<tr>
<td></td>
<td>• Identify, compute, and finance the true cost of public service obligations.</td>
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<td></td>
<td>• Monitor and manage the fiscal burden and potential fiscal risk of SEPs.</td>
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### Detailed Entity Assessment Findings

**Air Zimbabwe (Pvt.) Ltd.**

#### Legal framework

**Air Zimbabwe (Pvt.) Ltd. is 100 percent owned by the government of Zimbabwe.** It is incorporated under the Companies Act and its mandates are outlined in the Articles and Memorandum of Association. The mandates are commercial and are clearly articulated.

#### Ownership and shareholder protection

**The Airline is currently operating without a Code of Ethics.** It is planning to engage consultants to develop an appropriate Code of Ethics.

#### Board of Directors

**The Board Chairman is appointed by the line minister.** There are no engineering or technical skills on the board — making the skills balance inadequate for an engineering-based company.

**The line ministry has not conducted a board performance evaluation.** The board currently evaluates itself.
Performance monitoring

The company has clear financial and non-financial indicators that are supposed to be monitored by the line ministry. However, the frequency of monitoring and evaluation is not clearly documented.

The CEO’s contract does not link remuneration to performance. Good practice for a commercial state enterprise that is expected to earn a profit is to contractually tie the CEO’s remuneration to performance.

Fiscal and financial discipline

The company has significant accounts receivable and payable with other state enterprises. This needs close monitoring to minimize fiscal risk to the government.

Controls, transparency and disclosure

The company has an in-house internal audit department. The internal audit department reports its findings to both the CEO and audit committee. The head of the internal audit department is hired and dismissed by the CEO. This arrangement may compromise the professional independence of the internal audit department.

The company has not been meeting the PFM Act and Companies Act deadlines for producing financial statements. The finance department was under-staffed for a long time, partly due to financial problems. This led to a collapse in the financial reporting system. The PFM Act requires financial statements to be submitted to the Accountant General and the external auditors (for audit) within 2 months of the year-end, and the audited financial statements to be produced within 5 months of the year-end. These are to be submitted to the Treasury, the line minister, and the Auditor General (if audited by contracted auditors). It is also not producing an annual report, which should also contain a report on corporate governance.

The company has not been holding Annual General Meetings. Holding AGMs is a Companies Act requirement, which the company has an obligation to comply with. Management plans to hold an AGM in 2016.

Awareness and Commitment to CG

Management views the lack of a broad shareholder base as inhibiting compliance with good corporate governance practices.
Agricultural and Rural Development Authority (ARDA)

Legal framework

ARDA is 100 percent owned by the government of Zimbabwe. It is incorporated under the ARDA Act and its mandates are articulated in the Act. However, there is no clear distinction between commercial and non-commercial mandates.

Ownership and shareholder protection

The ownership rights are delegated to the line ministry. However, the Authority is operating without a Code of Ethics, which is necessary to monitor conduct and behavior by both board members and staff.

Board of Directors

The Authority is operating without a Board Charter. It follows the guidance in the ARDA Act. The Chairman is appointed by the line minister.

There are no activities to enhance board performance. No board members received training in the past 3 years, and the board and its members are not evaluated in any manner.

Fiscal and financial discipline

While external borrowings are secured by the government, the Authority provides its own security for local borrowings. Although local borrowings are secured against the Authority’s assets, they still pose an implicit fiscal risk to the government.
Controls, transparency and disclosure

The Authority has not been meeting the PFM Act deadline for producing audited financial statements. The PFM Act requires financial statements to be submitted to the Accountant General and the external auditors (for audit) within 2 months of the year-end and the audited financial statements to be produced within 5 months of the year-end. These should be submitted to the Treasury, the line minister, and Auditor General (if audited by contracted auditors).

The Authority is not holding Annual General Meetings. Although AGMs are important for accountability and transparency, the ARDA Act and PFM Act are silent on the need to hold AGMs. However, the Corporate Governance Principles approved by the Cabinet in 2014 require all state enterprises to hold an AGM. It is to be attended by representatives of OPC, the line ministry, the Auditor General and other stakeholder ministries. Additionally, the National Code of Corporate Governance Zimbabwe (NCCGZ) and good corporate governance practices require public enterprises to hold AGMs.

Awareness and Commitment to CG

Management views the following as inhibiting good corporate governance practices:

- Lack of knowledge and experience
- Deficient legal framework
- Lack of broad shareholder base
- Lack of financial resources
- Lack of shareholder support
- Internal resistance from key staff, and
- Lack of political support.

Civil Aviation Authority of Zimbabwe (CAAZ)

Legal framework

The Authority’s functions combine regulatory and operational elements. To be effective, the functions of the authority need to be focused either on regulation or operations, with the other function being performed by a separate entity.
Cold Storage Commission (CSC)

Legal framework

Although the company is incorporated under the Companies Act, it is also governed by the PFM Act. CSC is not in compliance with requirements of the PFM Act.

Board of Directors

The board was dissolved in November 2015 after 3 board members resigned (and the remaining members could not form a quorum). An interim “board” composed of Ministry officials is overseeing the Authority. The Authority’s board functions including committee functions have therefore not been functional since November 2015.

The Board Chairman is appointed by the line minister.

Fiscal and financial discipline

The Authority has significant outstanding balances with the government and other state enterprises. These can be a source of fiscal risk and are evidence of a lack of fiscal discipline.

The Authority conducts business on behalf of the State. However, there are no explicit guarantees by the State regarding any losses and arrears of the Authority arising from such activities.

Awareness and Commitment to CG

The Authority identified certain issues as hindering its compliance with good corporate governance practices. These issues are: a lack of efficient internal control systems, a lack of managerial accountability, and internal resistance from key staff.

Cold Storage Commission (CSC)

Legal framework
Board of Directors

The term of the current board expired in 2013/2014. This means that technically the board has no mandate to run the company.

Other than the provisions relating to the Board as set out in the Companies and PFM Acts, the company has no Code of Ethics/Conduct or Board Charter to govern its board members.

There is no disclosure of related party transactions between board members and the Company. Additionally, the Board has no policy to manage conflicts of interest.

Board members are not required to sign a confidentiality agreement — thereby risking its affairs being divulged to third parties that may not have a right to such information.

There is no evaluation of board members or indeed of the Board as a whole. The performance of the individual board members and the Board as a whole has not been assessed.

Objectives and management

The tenure of the CEO is currently open-ended. The current CEO has served for 11 years.

Performance monitoring

There is no performance agreement between the Company and the Government (the shareholder). This means the performance of the company is not monitored against any agreed criteria.

Fiscal and financial discipline

There is a massive attachment of the company’s assets by creditors for debts owing — indicating possible fiscal indiscipline.
Controls, transparency and disclosure

The company is failing to meet financial reporting deadlines according to the PFM and Companies Acts. Management says there is no money to pay the external auditors. 

The external auditors are appointed by the Board. External auditors of a company must be appointed by the shareholders at the AGM, in this case, the Government. As of September 2016 (the date of this report), the last AGM of the company was for the 2012 financial year, that is, the company went 4 years without an AGM.

Awareness and Commitment to CG

As of the date of this report (September 2016), the senior management of the company was not aware of the National Code on Corporate Governance in Zimbabwe. The Code was introduced in May 2015. Senior management identified the following as inhibiting compliance with good corporate governance practices: a lack of knowledge and experience, and a lack of financial resources.

Grain Marketing Board (GMB)

Legal framework

The GMB Act does not clearly distinguish commercial and non-commercial mandates. The Act is outdated and does not capture all of the current mandates that the GMB is expected to perform. Currently, the GMB is essentially acting on directives covering the Strategic Grain Reserve, and a commercial division with 2 units, including the Silo Brand for packaging and the Country Feed Brand for stock feeds. The Directives are not contained in the GMB Act.

Board of Directors

Board members are not required to sign any confidentiality agreements, and the Board Chairman is appointed by the line ministry.
Performance monitoring

There is no performance agreement between the government and the enterprise/board. Additionally, there is no stipulated period of monitoring performance by the line ministry.

There is no clear indication of the financial and non-financial indicators of the enterprise to be monitored. Additionally, there is no stipulation regarding the frequency of such monitoring.

Controls, transparency and disclosure

The enterprise is failing to meet the statutory deadline for financial reporting. This includes producing financial statements, submitting them for audit, and producing audited financial statements.

Awareness and Commitment to CG

The enterprise identifies the following as inhibiting good corporate governance practices: a lack of financial resources, and a lack of shareholder support.

Industrial Development Corporation (IDC)

Board of Directors

The company has no Board Charter or other document that details the various requirements expected of the Board. The Chairman is appointed by the line minister.

There has been no board member training in the past 3 years, and there has been no evaluation of individual board members or indeed the Board as a whole.

Objectives and management

Currently, there is no policy regarding the tenure of the CEO. The current CEO has served for 25 years.
Performance monitoring

There is no performance agreement between the enterprise and the shareholder (the Government). There is also no stipulated frequency of monitoring.

Fiscal and financial discipline

There are significant accounts owed to/by other SEPs. These need close monitoring for purposes of managing fiscal risk.

Controls, transparency and disclosure

Although the entity is 100 percent owned by the Government, there is no compliance with the PFM Act and the Audit Office Act. Auditors are appointed by the Board and approved by the line Minister. Auditor appointment should be the responsibility of the shareholder and not the Board.

In addition to providing external audit services, the auditors also provide tax consultancy services. This poses a risk of a self-review threat to the professional independence of the auditors, if not properly managed.

Awareness and Commitment to CG

The enterprise identifies obstacles to complying with good corporate governance practices. In this regard, a lack of financial resources is cited as the issue.

National Railways of Zimbabwe (NRZ)

Board of Directors

The Chairman was dismissed by the line minister. This occurred when the line ministry was re-aligning its strategic vision with that of the SEPs under its purview. The line minister appoints both the Board members and the Board chairman.
Fiscal and financial discipline

The enterprise has significant balances owed to/by other SEPs. Its external borrowings are explicitly guaranteed by the Government.

The enterprise is required to have public service obligations. These are paid out of the revenues of the enterprise.

Controls, transparency and disclosure

The enterprise is failing to submit its financial statements within 2 months of year-end to the external auditors for auditing, as well as to the Accountant-General. This is because of the accounting system in use which processes transactions in batches, causing processing delays. This system needs to be updated and upgraded.

The enterprise has not been holding AGMs. The first AGM was held in 2014.

Awareness and Commitment to CG

The enterprise identifies a lack of financial resources as inhibiting its compliance with good corporate governance practices. This has led to the failure to comply with tax payment deadlines, as well as to provide the necessary training to board members.

TelOne

Board of Directors

The Board Members and Chairman are appointed by the line minister.

There has not been any board evaluation in the past. However, a formal performance evaluation of the Board was conducted in 2016. The performance evaluation covered individual board members and the Board as a whole.

A decision has been made in the past to remove some board members. Reasons for the removal are awaited from the Chairman and line ministry.
Fiscal and financial discipline

The company had significant accounts receivable and payable with other SEPs and the Government as of the end of the last financial year.

The company has significant loans explicitly guaranteed by the government, mainly legacy loans. The company also has other private loans with no explicit government guarantees.

The company has specific public service obligations. TelOne’s license requires provision of services to all people in Zimbabwe. The Universal Services Fund (USF) also requires TelOne to provide services to all people in Zimbabwe, even if it is unprofitable. Some of the costs are paid from the company’s own resources. For instance, the countrywide optic fiber backbone to provide access to all was paid from the company’s own resources, and base stations were paid from the USF.

Awareness and Commitment to CG

It is the company’s view that there are no factors hindering improvement of compliance with good corporate governance.

**Zimbabwe National Water Authority (ZINWA)**

Legal framework

Although the Act clearly stipulates the mandate of ZINWA, commercial and non-commercial mandates are not defined.

Ownership and shareholder protection

At the time of this assessment, the Code of Ethics was in draft form.
Board of Directors

Board members are not required to sign confidentiality agreements. The line minister appoints the chairperson and 4 members of the board. The other 4 board members are appointed based on expertise from a list compiled by catchment councils, which are water user bodies.

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Fiscal and financial discipline

The Authority has significant balances owed to and due from other state enterprises. These need monitoring as part of good fiscal risk management.

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Controls, transparency and disclosure

The enterprise has not been holding AGMs despite the requirement by the corporate governance principles as approved by the Cabinet in 2014 and the 2010 CG Framework for SEPs.

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Awareness and Commitment to CG

The enterprise identifies the following as hindering good corporate governance practices: a lack of knowledge and experience, a deficient legal framework, and internal resistance from key staff.

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Zimbabwe Power Company (ZPC)

Ownership and shareholder protection

A Draft Code of Ethics is in place and awaiting Board approval at the Zimbabwe Electricity Supply Authority (ZESA) group level. Once approved, all Board Members, and senior and executive management would receive a copy. New members would receive a copy in their induction package.
Board of Directors

The entire Board was once removed from office by the line minister. No explanation was given.

Currently board members are not required to sign confidentiality agreements. This will be covered under the Code of Ethics, once approved.

Objectives and management

Currently the CEO’s tenure of office is indefinite.

Performance monitoring

The performance agreement between the enterprise and the shareholder is currently in draft form.

Currently, there is no performance agreement tying the CEO’s remuneration to performance.

Fiscal and financial discipline

There are significant balances between the company and other state enterprises. These need monitoring as part of fiscal risk management.

Controls, transparency and disclosure

In addition to statutory audit work, the external auditors also conduct tax consultancy and audits. There is a threat to the independence of auditors due to self-review — if this arrangement is not carefully managed.

Awareness and Commitment to CG

The following factors are viewed by the company as hindering compliance with good corporate governance practices: a lack of financial resources, a lack of shareholder support, and lack of political support.
No Board members received board training in the past 3 years, and there has been no formal evaluation of either individual board members or the full board. The chairman of the board is appointed by the line minister.

Objectives and management

There are currently no performance agreements between the enterprise and the shareholder(s). Consequently, there are no identified financial and non-financial indicators being monitored, nor is there a stipulated monitoring period.

Fiscal and financial discipline

There are significant amounts owed by the Government for work done by/for the Government. Additionally, infrastructure bonds are guaranteed by the Government.

Controls, transparency and disclosure

The external auditors perform non-assurance services for the enterprise and group entities. This poses a threat risk to auditor independence through self-review.

Awareness and Commitment to CG

The Bank views the following as hindering the improvement of corporate governance in its operations: a lack of a broad shareholder base, a lack of shareholder support, and lack of Board support.
Mineral Marketing Corporation of Zimbabwe (MMCZ)

**Board of Directors**

The Board Chairman is appointed by the line minister and approved by the President. for the period. There was no reason cited for the removal of the board.

The Secretary for Mines and Minerals Development has been acting as/in place of the Board since December 2013. There has been a one-man board for 3 years, rendering all board and board committee responsibilities dysfunctional.

The Frequency of changes of boards is resulting in an attendant frequency of changes in top management, including top managers, acting for extended periods. The incumbent CEO has served as the acting CEO for 5 years.

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**Performance monitoring**

There are no performance agreements between the enterprise and the shareholder. This renders ineffective whatever monitoring takes place.

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**Fiscal and financial discipline**

There are significant balances owed by other state enterprises. These need close monitoring as part of fiscal risk management.

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**Controls, transparency and disclosure**

The internal audit is currently not effective for a variety of reasons. First, there are inadequate staff and internal audit tools. Second, in the absence of a board, the work of internal auditors is not being overseen, and internal audit findings are not being adequately followed up. Third, in the absence of an audit committee, the internal audit department reports all its findings to the CEO.

The corporation is failing to meet the reporting deadlines of the PFMA Act.

The Corporation has not been holding AGMs. This is despite the requirements of the CG Framework for SEPs of 2010, the CG principles approved by the Cabinet in 2014, and international good practice requirements.
Awareness and Commitment to CG

The Corporation identifies the following as hindering the improvement of corporate governance practices: a lack of knowledge and experience; a deficient legal framework; a lack of efficient internal control systems; a lack of shareholder and board support; internal resistance from key staff, and a lack of political support.

Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ)

Board of Directors

The Board Chairman is appointed by the President in consultation with the line minister. Currently, the board is serving without a substantive board chairman.

In 2015, a decision was made to remove the entire Board because of non-compliance with good corporate governance practices and excessive travel.

The tenure of service of the Director General is 3 years. However, currently there is no substantive Director General.

Currently, there is no performance agreement between the enterprise and the shareholder. An agreement is now being drafted.

Currently, there is no agreement tying performance of the Director General to remuneration.

Fiscal and financial discipline

Currently, there are significant accounts receivable from other state enterprises, including the entities regulated by POTRAZ. This requires monitoring as part of fiscal risk management.

Controls, transparency and disclosure

The entity is not producing an annual report, and is not reporting on corporate governance. Additionally, no Annual General Meetings are being held, despite various regulatory requirements.
Radiation Protection Authority of Zimbabwe (RPAZ)

Board of Directors

There is no formal evaluation of the Board as individual or full board members because they are not required to sign confidentiality agreements.

Performance monitoring

There are no performance agreements between the enterprise and the shareholder (the Government).

Scientific and Industrial Research and Development Centre (SIRDC)

Board of Directors

The entity has no Board Charter. However, board requirements are established in the Research Act and SIRDC Constitution. The OPC appoints the Board Chairman.
Awareness and Commitment to CG

Management views the lack of economic motivation as the major impediment to good corporate governance practices. Compensation from the board to the organization management is also viewed as too low.

Zimbabwe Electricity Transmission and Distribution Company (ZETDC)

Board of Directors

The enterprise does not currently have a Board. The Board was dissolved in June 2015 by the line ministry, with no reason given. At the time of this assessment (July 2016), no new Board had been appointed. This means that all board functions are not taking place, including committee functions. Both the Board Chairman and members are appointed by the line ministry.

Fiscal and financial discipline

The enterprise has significant receivable and payables balances with other state-owned enterprises. These need monitoring as part of fiscal risk management.

Awareness and Commitment to CG

The enterprise’s management cites a lack of knowledge and experience and a lack of financial resources as impeding good corporate governance practices.

Zimbabwe Post (ZIMPOST)

Board of Directors

Board members are not required to sign any confidentiality agreements.
Fiscal and financial discipline

The enterprise has significant amounts payable and receivable from other state enterprises. These need monitoring.

Controls, transparency and disclosure

The company’s accounting systems are still predominantly manual. This has resulted in the failure to meet financial reporting deadlines according to the PFM Act.

Awareness and Commitment to CG

The enterprise identified the following as hindering the improvement of corporate governance practices: a lack of knowledge and experience, a deficient legal framework, a lack of financial resources, a lack of shareholder support, and a lack of political support.

Zimbabwe National Road Administration (ZINARA)

Ownership and shareholder protection

The Authority has no Code of Ethics to guide behavior and conduct.

Board of Directors

The Board is appointed by the line minister, and the Chairman is appointed by the Board.

There is no formal evaluation of the Board, whether as individual board members or as a full board.

There is no policy in place regarding the board’s role in managing conflicts of interest including related party transactions.

Board members are not required to sign confidentiality agreements at any time.
Performance monitoring

Management has not clearly articulated the financial and on-financial indicators to monitor the performance of the Authority. This implies that no monitoring of performance is taking place.

There is no performance agreement tied to the CEO’s contract and remuneration.

Fiscal and financial discipline

The entity has significant balances payable to other state enterprises, which will require monitoring.

Controls, transparency and disclosure

The internal audit department is operating without an internal Audit Charter. A draft is in place. Additionally, not all findings of the internal audit department are followed up and acted upon.

The Authority is failing to meet financial reporting deadlines in accordance with the PFM Act. Additionally the Authority is not clear on the financial reporting framework it is using....they indicate they are using both IFRS and IPSAS.

Awareness and Commitment to CG

The following factors are identified as hindering the improvement of corporate governance practices by the Authority; lack of financial resources, and lack of efficient internal control systems.

Zimbabwe Mining Development Corporation(ZMDC)

Ownership and shareholder protection

The Corporation has no code of ethics; to guide conduct and behavior.
Board of directors

There has not been any board members training; and the board is not evaluated as individual members and as a full board.

There have been board removals by the shareholder in the past; sighting poor performance.

There is no policy in place on the board’s role in managing conflicts of interest. This is however managed by disclosures before board meetings.

Fiscal and financial discipline

The entity has significant accounts receivable and payable with other state enterprises and government. These need to be settled to improve fiscal discipline and manage fiscal risk.

Controls, transparency and disclosure

The enterprise has not been consistently meeting financial reporting deadlines in accordance with the PFM Act. This remains a continuous challenge.

Awareness and Commitment to CG

The following factors are cited as hindering the improvement of corporate governance practices by the enterprise: a lack of knowledge and experience, insufficient economic motivation, a deficient legal framework, a lack of financial resources, and a lack of shareholder support.

Zimbabwe United Passenger Company (ZUPCO)

Legal framework

The mandate of the company has changed significantly from the original one of transporting urban people at heavily subsidized rates. The urban transportation system was liberalized and opened to competition, and the subsidies were removed to facilitate open competition. ZUPCO has since moved into long-distance operations.
Currently, the company has no substantive Board Chairperson. The previous Chairperson was moved to chair the board of another state enterprise. The Board chairperson is appointed by the line minister.

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Fiscal and financial discipline

The company has significant accounts payable and receivable with other state enterprises. These need close monitoring to manage fiscal risk.

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Awareness and Commitment to CG

Management does not see any factors as inhibiting good corporate governance practices.

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Board of Directors

The Chairman and board members are appointed by the Government, the line minister and are then vetted by the Reserve Bank of Zimbabwe, as regulator of the country’s banks.

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Performance monitoring

There is no performance agreement between the Bank’s Board and the shareholders, except for meeting the terms of the mandate and all bank objectives.

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Fiscal and financial discipline

The bank has public service obligations. At times, it distributes funds to farmers at special concessionary interest rates. The cost of this is provided for in the national budget.
Awareness and Commitment to CG

Management does not see anything as inhibiting good corporate governance practices.

Central Mechanical Equipment Department (CMED) (Pvt.) Ltd.

Board of directors

The Board Chairman is appointed by the line minister.

The Board has not undergone any training because of cash constraints. Also, there have been no board evaluations for individual board members or Board as a whole.

The Board Chairman was removed by the line minister because of vision realignment.

Controls, transparency and disclosure

Financial reporting deadlines and AGM requirements of the Companies Act and the PFM Act have not been met in the past. All of these requirements are mandatory for the enterprise as it is classified both as a company and a state-owned entity.

Awareness and Commitment to CG

The following has been identified as hindering improvement in compliance with good corporate governance practices: a lack of financial resources.

Environmental Management Agency (EMA)

Ownership and shareholder protection

The Agency is operating with a draft Code of Conduct.
Board of Directors

The Agency is operating with a draft Board Charter.

The Board Chairman is appointed by the line minister.

There was no Board during the whole of the past fiscal year.

Performance monitoring

There is no performance agreement tied to the CEO’s contract and remuneration.

Controls, transparency and disclosure

The Agency has not been holding AGMs, despite various regulatory requirements.

Controls, transparency and disclosure

The Agency has not been holding AGMs, despite various regulatory requirements.

Awareness and Commitment to CG

The following factors are cited as hindering compliance with good corporate governance practices: a deficient legal framework, the lack of a broad shareholder base, and a lack of financial resources. Management comments that the codes are not enforceable under the law.

National Pharmaceutical Company (NATPHARM)

Board of Directors

The company has no Board Charter setting out the various requirements expected of board members.
The Board Chairman is appointed by the line minister.

No board members attended training in the past 3 years.

A decision was made in the past to dismiss the Chairman and some board members. The reason given was a difference in vision.

There is no requirement for board members to sign a confidentiality agreement.

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**Fiscal and financial discipline**

NatPharm has a public obligation to distribute medicines to all public institutions. This is paid for by the Government.

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**Awareness and Commitment to CG**

The company cites the following as contributing to non-compliance with good corporate governance practices: a deficient legal framework and a lack of financial resources.

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**NETONE**

**Legal framework**

The mandates of the company are clearly stated in the laws and regulations establishing and incorporating the company. However, they do not distinguish between commercial and non-commercial mandates.

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**Board of Directors**

The company has a Board Charter. However, the Charter needs to be amended in line with the provisions of the PFM Act in general, and Section 42 in particular.

The Board Chairman is appointed by the line minister.

Board members are not required to sign a confidentiality agreement.
Objectives and management

The CEO has held the position since the incorporation of the company 20 years ago. He is currently on leave to allow for a forensic audit concerning various allegations. The Acting CEO has been in the position for 3 months (at the time of this assessment).

Performance monitoring

There has never been a performance agreement between the company and the line ministry. A performance agreement between the company’s Board and the line ministry is being drawn up.

There is no performance agreement tied to the CEO’s contract and remuneration.

Fiscal and financial discipline

There are significant receivable and payable balances between the company and other state enterprises and the government. These balances need to be managed to control fiscal risk.

Management indicated that the company is not obliged to pay dividends. In terms of government policy, Net One is obligated to pay dividends.

The company has specific public service obligations and non-commercial objectives. For example, it provides network coverage to areas with low financial returns. The costs of providing these services are part of the operational and capital costs of the company, and are financed from revenue and loans raised by the company. The government does not fund these services.

Controls, transparency and disclosure

Although findings of the internal audit function are followed up and acted upon, there are instances in which some recommendations are not acted upon.

The company is failing to comply with reporting deadlines of the PFM Act, including the obligation to submit to the Treasury, the line minister, and the Comptroller and Auditor General, (if audited by contracted auditors) an annual report, audited financial statements, and the report of auditors within 5 months of year-end. The company has not been complying with the statutory requirement to hold Annual General Meetings.
Awareness and Commitment to CG

The following factors are cited by management as hindering the improvement of corporate governance practices: a lack of knowledge and experience, and a lack of financial resources (for training).

People’s Own Savings Bank (POSB)

Legal framework

Although the mandates of the company are clearly established, there are no distinctions between commercial and non-commercial objectives.

Board of Directors

The Board Chairman is appointed by the line minister.

Although directors sign declarations of interest, they are not required to sign confidentiality agreements.

Fiscal and financial discipline

The company is owed significant amounts by other state enterprises and the Government. These need monitoring to avoid fiscal risk.

Awareness and Commitment to CG

The company cites the following as hindering improvement in corporate governance practices: a lack of knowledge and experience, and a deficient legal framework.
Ownership and shareholder protection

The Council does not have a Code of Ethics.

Board of Directors

The Chairperson and Council members are appointed by the President of Zimbabwe.

Controls, transparency and disclosure

The Council has an open position for Internal Auditor. However, the position has not been filled because of a lack of resources.

Awareness and Commitment to CG

Management views the lack of financial resources as impeding compliance with good corporate governance practices.

Ownership and shareholder protection

ZARNET is operating without a Code of Ethics.

Board of Directors

Although the enterprise has no Board Charter, it is guided by the PFM Act.
The Board Chairman is appointed by the line minister.

No board members have taken board training courses in the past 3 years.

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**Awareness and Commitment to CG**

The following factors are cited as hindering the improvement of corporate governance practices: a lack of knowledge and experience, as well as a lack of financial resources.

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**Rural Electrification Authority (REA)**

**Ownership and shareholder protection**

The Code of Ethics is not being implemented.

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**Board of Directors**

The Board Charter is still in draft form. However, the board responsibilities, fiduciary duties and composition are described in the governing legislation.

The line minister appoints the Board Chairman.

No Board members have taken any form of board training; furthermore, the board members and the board as a whole are not being evaluated.

In 2014, the whole Board was dissolved when a new line minister was appointed.

There is no policy in place regarding the Board’s role in managing conflicts of interest or related party transactions.

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**Fiscal and financial discipline**

The enterprise has significant balances owing to/from other SEPs, especially the Zimbabwe Electricity Transmission and Distribution Company (ZETDC).
The enterprise has public service obligations. It subsidizes public institutions and electricity infrastructure development in rural areas. These are paid out of the Rural Electrification Levy and, in some cases, from fiscal funding.

Controls, transparency and disclosure

There are delays in producing audited financial statements. This is said to be caused by problems over fees between the Auditor General and the external auditor. At the time of this assessment (July 2016), the 2013 financial statements had not been published.

The enterprise is not holding Annual General Meetings.

Awareness and Commitment to CG

Management cites the following as hindering the improvement of corporate governance practices: a deficient legal framework and lack of a broad shareholder base.

Zimbabwe Electricity Regulatory Authority (ZERA)

Board of Directors

Both the Board and Board Chairperson are appointed by the line minister.

Fiscal and financial discipline

The entity has significant amounts receivable from ZETDC and Zimbabwe Power Company (ZPC), both state enterprises that it regulates.

Awareness and Commitment to CG

In the opinion of management, there are no issues that inhibit good CG practices.
Zimbabwe Institute of Public Administration and Management (ZIPAM)

Board of Directors

There is no Board Charter or other document that sets out the various requirements expected of the Board. However, there are Terms of Reference developed by the line ministry, which the Board is expected to fulfill. The board is also guided by the Corporate Governance Framework 2010, the National Code on Corporate Governance (NCCG), and the PFM Act.

The line minister appoints both the Board and Board Chairman.

The Board is less than one year old, and has not yet been evaluated. A performance contract between the Board and the line ministry has been drafted.

Currently, there is no policy in place regarding the Board’s role in managing conflicts of interest or related party transactions.

Board members have not been required to sign confidentiality agreements.

Controls, transparency and disclosure

The entity has not complied with the financial reporting deadlines of the PFM Act.

The entity does not produce an annual report and a report on corporate governance.

The entity has not held any AGMs in the past. The management is also not aware of the entity’s obligations regarding disclosure to the public as a public interest entity.

Awareness and Commitment to CG

Management is of the view that there is nothing hindering the improvement of corporate governance in ZIPAM, and that they are making every effort to be 100 percent compliant.
Board of Directors

The line minister appoints both the Board Chairman and CEO.

No board training has taken place in the past 3 years.

The Chairman and CEO recently had their contracts terminated according to mutual agreements with the line ministry.

Fiscal and financial discipline

The company has significant balances payable to other SEPs. These need monitoring to manage fiscal risk.

Controls, transparency and disclosure

The company is failing to meet financial reporting deadlines. As a company owned by the government, it has an obligation to comply with reporting requirements in accordance with the Companies Act and the PFM Act.

Awareness and Commitment to CG

In the opinion of the management, the following factors are hindering improvement of corporate governance practices including a lack of: (i) knowledge and experience; (ii) financial resources; (iii) efficient internal control systems; (iv) shareholder support; (v) managerial accountability; (vi) internal resistance from key staff; and (vii) political support.
Agricultural Marketing Authority (AMA)

Board of Directors

There is no Board Charter or other document that sets out the various requirements expected of the Board. However, the Board is guided by relevant provisions of the PFM Act.

The Board Chairman is appointed by the line minister.

Controls, transparency and disclosure

The Authority has not been holding AGMs, despite various regulatory requirements.

Awareness and Commitment to CG

In the opinion of the management, a lack of financial resources is hindering the improvement of corporate governance practices.

Hwange Colliery Ltd.

Ownership and shareholder protection

The company currently has no code of ethics. One is now being prepared.

The Company is tri-listed. Shareholder relations are governed in terms of the Company’s Memorandum and Articles of Association and listing requirements.

Board of Directors

Currently, there is no Board Charter or other document that sets out the various requirements expected of the Board. The Charter is being developed and the Board is derives its duties from the Companies Act.
The Board appoints the Chairman, and the shareholders appoint Board members.

No board member training has taken place in the past 3 years, and there has been no evaluation of the board or its individual members.

In the past, the chairman, entire board and individual board members have been removed from their positions by the shareholders. This was done in the ordinary course of shareholders exercising their rights.

Fiscal and financial discipline

There are significant balances owed to/by other state enterprises. The company is working on mechanisms to better manage these balances and improve fiscal discipline in the future.

The company has various public service obligations, including regulated rentals for employees. The company finances these costs.

Controls, transparency and disclosure

The company has an internal audit function, but it does not operate under an Internal Audit Charter.

The company is not meeting its statutory financial reporting deadline for producing audited financial statements.

Awareness and Commitment to CG

In the opinion of the management, a lack of financial resources is hindering the improvement of corporate governance practices.

National AIDS Council (NAC)

Board of Directors

The Board Chairman is appointed by the Minister and ratified by the Board. Board members are appointed by the President of Zimbabwe.

There is no requirement for Board members to sign confidentiality agreements.
Objectives and management

The tenure of the CEO is open ended. The current CEO has served for the past eleven years.

Controls, transparency and disclosure

The Council has not been holding AGMs, despite existing regulatory requirements.

Awareness and Commitment to CG

In the opinion of management, the following factors are hindering the improvement of corporate governance practices: a lack of knowledge and experience, and insufficient economic motivation.

National Oil Company (NOIC)

Board of Directors

Currently the Board is operating without a Board Charter. However, a draft is in place and awaiting approval.

The Board Chairman is appointed by the line minister.
In 2015, the whole board was removed from office. It was replaced within 3 months.

Currently, there is no operational policy in place regarding the Board’s role in managing conflicts of interest or related party transactions. However, a draft is in place, but has yet to be approved by the Board.

Awareness and Commitment to CG

Management’s opinion is that there are no impediments hindering compliance with good corporate governance practices.
National Social Security Authority (NSSA)

Ownership and shareholder protection

The legal owner is the government. However, stakeholder interests/rights are exercised through a Tripartite Board Arrangement as set out in the NSSA Act. The tripartite arrangement is among the three stakeholders representing the respective interest groups, including the Government, employers, and employees.

Board of Directors

The Authority operated without a Board from October 2013 to July 2015. The Board and Chairman are appointed by the line minister on recommendations made by the representatives of the three stakeholder groups.

The new board has not been trained on board issues. They just received training to understand the role and function of the NSSA.

Fiscal and financial discipline

The Authority has public service obligations, that is, non-commercial objectives through its subsidiary. The National Building Society offers loans to NSSA members at interest rates lower than market rates, and the cost is internally financed.

Awareness and Commitment to CG

Management views the following factors as hindering the improvement of corporate governance practices: A lack of knowledge and experience, insufficient economic motivation, a deficient legal framework, and a lack of political support.
The Board was dismissed by the line minister in September 2015. Since then, the line ministry is acting as the board, and normal board functions are not taking place — including committee activities.

The line minister appoints the Board Chairman.

Objectives and management

There is no stipulated tenure for the position of CEO. The current CEO has been acting for 18 months and is still in an acting mode.

Performance monitoring

There is no performance agreement tied to the CEO’s contract and remuneration.

Fiscal and financial discipline

There are significant accounts receivable from other state enterprises and from the Government. These need careful monitoring to manage fiscal risk.

Controls, transparency and disclosure

The company has never held an AGM, and no annual report has ever been produced. It only produces management accounts.
Awareness and Commitment to CG

Management views the following factors as hindering the improvement of corporate governance practices by the company: a lack of knowledge and experience, insufficient economic motivation, and a lack of financial resources.

Tobacco Industry and Marketing Board (TIMB)

Ownership and shareholder protection

The enterprise does not have a code of ethics, which is necessary to guide behavior and conduct.

Board of Directors

There is no Board Charter or other document that sets out the various requirements expected of the Board. Board operations are guided by the PFM Act.

The Chairman is appointed by the line minister.

There is no policy in place regarding the Board’s role in managing conflicts of interest or related party transactions, and board members are not required to sign any confidentiality agreements.

Objectives and management

Currently, there has is no stipulated tenure for the CEO position.

Awareness and Commitment to CG

Management is of the view that the legal framework deficiency is contributing to the failure to exercise good corporate governance practices.
Board of Directors

Five Board members including the Chairman are appointed by the line minister, and the other four are appointed by Zimtrade members.

There is no Code of Ethics and the Board Charter is currently in draft form. Board activities are currently guided by ZIMTRADE’s Constitution.

No board evaluation has taken place in the past.

Board members are not required to sign any confidentiality agreements.

Performance monitoring

There is no performance agreement between the shareholder and the entity.

The CEO’s performance agreement is still being worked on.

Fiscal and financial discipline

In terms of the understanding reached at the formation of ZimTrade (Red Book), the institution is supposed to be funded 50 percent by the Government and 50 percent by the private sector. Currently 100 percent of the income is from the private sector. For its part, the Government has not been able to meet its obligation.

Awareness and Commitment to CG

According to management, there are no issues that can be regarded as impeding good corporate governance practices.