



EVOKING SUPPLY SIDE RESPONSE THROUGH PRIVATISATION AND FOREIGN CURRENCY GENERATION

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MONETARY POLICY STATEMENT**

DELIVERED BY

THE GOVERNOR OF

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INTRODUCTION

- 1 In most countries the private sector plays a key role in steering economic growth and development. The participation of the private sector in the agriculture, manufacturing, mining and service industries ensures the efficient provision of goods and services in the economy.
- 2 The Government complements the responsibility of the private sector in economic growth by monitoring, regulating and providing a conducive business environment through infrastructure and public services provision. Government's role in infrastructure and public goods and services provision diminishes as the economy grows.
- 3 Privatization is one way to ensure that the private sector actively participates in wealth creation through the provision of goods and services, while Government oversees the activities of all sectors of the economy.
- 4 Privatization is the transfer of enterprise ownership and control from the public to the private sector. The transfer techniques can take the form of disposal of an enterprise to a strategic investor, a public offer, joint venturing, liquidations, employee/management buyouts or a combination of some or all the techniques.
- 5 In carrying out such transfers, the three essential components involved include:
 - i) Management responsibility,
 - ii) Assets (with or without liabilities) or the rights to use assets; and
 - iii) Personnel.

- 6 Governments across the world are involved in business enterprise and wealth creation activities, in partnership with the private sector. There is, however, considerable variation in the scope and scale of Government involvement in the production and marketing of goods and services from country to country.
- 7 Government's involvement in the economy reflects the desire to mitigate against the effects of market imperfections and the attendant distributional effects. A recurring theme has been the need to cushion the vulnerable groups in society from the excesses of market forces, through deliberate welfare redistribution measures, such as subsidies and related interventions.
- 8 Progressively, Governments have, thus taken up strategic stakes in various sectors of the economy to influence and guide economic activity, particularly the production and marketing of goods and services.
- 9 Most Governments have, however, significantly scaled down on direct business enterprise, preferring to concentrate on the core Government business of providing social welfare services such as health and education, as well as national security, peace and stability.
- 10 This has been achieved mainly through extensive divestiture and public enterprise reforms, in many Sub Saharan African economies and other parts of the world. In these countries there has been significant supply side response and these economies have grown tremendously over the years.

THE GOVERNMENT OF ZIMBABWE'S CONTRIBUTION IN THE PRODUCTIVE SECTORS

- 11 In Zimbabwe, since independence in 1980, the Government gained extensive stakes in various key sectors of the economy, such as agriculture, manufacturing and mining.
- 12 This was in addition to the public enterprises that were already operating directly under the various Ministries. Government involvement in business extended to all major areas of economic activity which include:-
- Manufacturing through the Industrial Development Corporation (IDC);
 - Mining through the Minerals Marketing Corporation of Zimbabwe (MMCZ);
 - Water – through the Zimbabwe National Water Authority (ZINWA);
 - Agriculture through the Agricultural Rural Development Authority (ARDA); and
 - Marketing institutions such as the Grain Marketing Board (GMB) and the Agricultural Marketing Authority (AMA).
- 13 In an effort to improve water management and coordination, Government established the ZINWA in 1997 to manage the production and distribution of water in the country. ZINWA replaced the Government Department of Water Management and the Regional Water Authority (RWA).
- 14 Under the initial arrangement, ZINWA provided bulk water while the distribution remained under the management of Local Authorities.

- 15 Eventually, in 2005, ZINWA took over the whole water distribution chain from production to distribution as a result of the failure by most local authorities to provide adequate clean water for both industrial and human consumption.
- 16 Between 1991 and 1995, Government undertook a public enterprise reform process designed to unlock value through disposal of public entities and commercialization.
- 17 Under the parastatal reform framework, entities such as Dairibord Zimbabwe Limited (DZL), Cotton Company of Zimbabwe (Cottco) and CBZ Holdings were privatized, as Government disposed its controlling shareholding. The privatized entities have since continued to make significant contribution to the economy, generating increased output, foreign exchange and employment.
- 18 It is in recognition of the positive contribution of privatization that there is need to review the current range of public enterprises and Government shareholding in different sectors of the economy, with a view to unlocking value through undertaking further privatization and disposal of targeted shareholding.
- 19 Through this strategy, the country would stand to benefit, not only from relieved burden on the fiscal budget, but also through the effective defence of the external value of the Zimbabwean dollar on the back of the foreign exchange to be raised through privatization.
- 20 The tables below show the list of major public enterprises where Government has 100% shareholding and Government shareholding through the Reserve Bank of Zimbabwe (RBZ).

LIST OF PARASTATALS WITH 100% GOVERNMENT SHAREHOLDING

	Public Enterprise	Government Shareholding
1	National Railways of Zimbabwe	100%
2	ZESA	100%
3	Cold Storage Company (CSC)	100%
4	NOCZIM	100%
5	Zimbabwe National Water Authority	100%
6	District Development Fund	100%
7	Grain Marketing Board	100%
8	Air Zimbabwe	100%
9	ARDA	100%
10	Telone	100%
11	Netone	100%
12	Industrial Development Corporation	100%
13	Zimbabwe Mining Development Corporation	100%
14	Minerals Marketing Corporation of Zimbabwe	100%
15	CMED	100%
16	ZINWA	100%

BENEFITS OF PRIVATIZATION AND COMMERCIALISATION OF PUBLIC ENTERPRISES

Foreign Exchange Inflows

- 21 Increased foreign exchange inflows could be realized through the participation of foreign investors in joint ventures and strategic partnerships.

- 22 The improved foreign direct investment inflows, coupled with increased access to offshore lines of credit would avail more foreign exchange resources, critical for economic recovery and sustained growth and employment.

Improved Performance

- 23 Privatization is expected to improve efficiency and productivity of privatized entities. Efficiency will be promoted through several means, which include introduction and enhancement of value addition. Further efficiency gains are realized through commercially driven structures, free from civil service rigidities.
- 24 The engagement of private strategic partners is also likely to bring the much needed expertise and leads to diffusion of technology. This significantly improves the efficiency of these enterprises, as well as increasing capacity utilization. Further, technology transfer would underpin factory refurbishment and increase productivity.

Relieving the Administrative and Financial Burden on Government

- 25 Privatization is also aimed at relieving financial and administrative burden from Government in undertaking, maintaining and supervising public entities.
- 26 The policy is, thus, designed to relinquish management to the private sector and allow the Government to concentrate on traditional functions such as facilitating growth, welfare distribution objectives and maintaining peace, security, law and order. This would result in decreased budget deficit and reduce the fiscal drain by parastatals.

- 27 In the case of Zimbabwe, over the years, many parastatals have continued to impose a significant burden on the fiscus, a position which has undermined the quick turnaround of the economy.
- 28 Government should instead fund capital projects in the development of infrastructure such as dams for irrigation. This evokes supply response in the agricultural sector.

Facilitate Economic Growth

- 29 In the context of facilitating economic growth, privatization provides opportunities for the private sector to expand its role in economic productivity and development. The commercial and profit orientation of the private sector provides impetus for further growth.
- 30 Through higher efficiency gains and profit deployment, Government obtains additional revenue to finance other socio-economic development initiatives.
- 31 Privatization also improves capacity utilization, thereby enhancing economic growth. Most public enterprises are currently operating below 10%, which is directly retarding the capacity of the private sector to grow.
- 32 There is a symbiotic relationship between the performance of parastatals and growth of the rest of the economy. For example, an inefficient ZESA will cripple the whole industry including major sectors such as manufacturing, agriculture, mining and tourism.
- 33 Additionally, problems at Hwange will undermine electricity generation, steel production at ZISCO, tobacco curing, mineral processing and general industrial heating.

Improvement in Investment and Export

Potential

- 34 Joint venture initiatives with foreign partners are likely to improve access to international capital markets. The engagement of foreign strategic partners has potential to improve the quality of goods and services provided to the rest of the world, and further enhancing export competitiveness.

Success Stories of the Zimbabwe Privatization Process

- 35 Notable companies that were privatized successfully in Zimbabwe include CBZ, Cotton Company of Zimbabwe, Dairibord Zimbabwe Ltd and Zimbabwe Reinsurance Company.

Dairibord Zimbabwe Limited's Privatization Experience

- 36 Dairibord Zimbabwe Limited (DZL) is a successor company to the Dairy Marketing Board (DMB), a parastatal company that was established in 1953 to receive all milk supplied by registered producers, process and distribute the milk and milk products at prescribed prices.
- 37 DZL established itself as a well managed and transparently run organization. The period 1994 to 1997 saw the company gaining public confidence which enabled it to successfully list on the Zimbabwe Stock Exchange in September, 1997, making it the first Parastatal to be privatized.
- 38 After being run for 4 years, from 1994 to 1997, DZL was privatised through listing on the Zimbabwe Stock Exchange in September 1997. As a show of public confidence in the organization and the privatization process, the counter was over subscribed.

39 The benefits of successful privatization can aptly be summed up by the current status of DZL:

- iv) The company is highly profitable and well capitalized.
- v) DZL is achieving real growth in sales volumes, both on the domestic and on the export market.
- vi) DZL is a net foreign currency earner.
- vii) There are no longer financing operational deficits as was the case with DMB.
- viii) Government is collecting corporate tax, and not subsidizing operations.
- ix) DZL is contributing towards employment.
- x) DZL is cash rich and finances its own capital projects.
- xi) Employee motivation is high as the company can now afford market-related conditions of services.
- xii) The value addition thrust has ensured a wider product choice for consumers.
- xiii) The company has established itself as a regional player having acquired some subsidiaries within its value chain.

The Cotton Company of Zimbabwe Limited

40 The Cotton Company of Zimbabwe was born out of the privatization of the Cotton Marketing Board (CMB). The privatization of CMB started off with commercialization of the parastatal in 1992. The CMB, like any other parastatal was a drain on the fiscus.

Benefits of Privatizing Cottco

- i) Cottco is now one of the blue-chip companies listed on the Zimbabwe Stock Exchange.
 - ii) The company is profitable and has reduced Government fiscal burden.
 - iii) The company is one of the top exporters, racking in millions of US dollars from cotton exports.
 - iv) Opening up of the cotton sector has enhanced competition resulting in increased cotton output and fair compensation to growers.
- 41 In all these recommended privatization cases, full regard ought to be taken of national strategic and security considerations, which dictate that Government remains the main shareholder in such cases.

STRATEGIES FOR PRIVATISATION AND COMMERCIALISATION.

- 42 The following options can be espoused by Government in order to minimize the dependence of parastatals and Local Authorities on the fiscus for funding :
- i) Commercialize only where public enterprises are allowed to charge economic and viable tariffs for service provision;
 - ii) Commercialize and privatize e.g. Cold Storage Company; and
 - iii) Transfer service provision to Local Authorities and commercialize. In this case, the provision and distribution of water can be commercialized and transferred from ZINWA to Local Authorities.

A CASE FOR THE COMMERCIALISATION OF ZINWA

- 43 Zimbabwe is well endowed with water resources in the form of dams, rivers and underground sources, which are sufficient to meet the country's water requirements.
- 44 This notwithstanding, the country has been experiencing persistent water shortages for industrial and domestic use as well as irrigation due to failure to fully harness water resources coupled with management challenges confronting the responsible authorities.

- 45 ZINWA, however, faces greater challenges in water production and distribution. Its capacity to effectively provide clean water to the whole country has been constrained by:
- i) Deteriorating water reticulation infrastructure;
 - ii) Increasing urban population that can no longer be supported by the existing capacity;
 - iii) Lack of resources to replace old pipes and pumps;
 - iv) High frequency of pipe bursts and water leakages;
 - v) Inadequate human and financial resources;
 - vi) Ineffective water costing, billing and revenue collection systems;
 - vii) Foreign currency shortages to import chemicals and spares; and
 - viii) Managerial and technical challenges.

Government Interventions

- 46 In a bid to alleviate water shortages, the Government through RBZ financed various ZINWA projects to improve treated water production and sewage reticulation.

- 47 Notably, one such intervention is the Dam Construction Facility under which a total of \$50.3 billion was availed to ZINWA by June 2007 to support construction of dams and for various accelerated irrigation rehabilitation projects.
- 48 In the last quarter of 2008 alone, the Reserve Bank availed Z\$375 quadrillion, US\$1 million and a fleet of vehicles to ZINWA towards the provision of clean water following the outbreak of the cholera epidemic in the country.

Support to ZINWA to Fight the Cholera Outbreak

Intervention	Purpose
Procurement of water pumps.	To replace the broken down water pumps.
Disbursement of US\$1 597 093	Importation of water treatment chemicals.
Disbursement of Z\$374.2 quadrillion.	Working capital to repair and install pumps, and other equipment.
28 Single-cab Vehicles.	To provide transport for Zinwa engineers when attending to maintenance work.
60 000 litres of petrol; and 30 000 litres of diesel.	To provide transport for Zinwa engineers when attending to maintenance work.

- 49 Despite Government intervention in ZINWA, most cities and towns continue to face challenges relating to availability of adequate clean and safe water for domestic, industrial and agricultural uses.

- 50 The challenges of the ageing equipment inherited by ZINWA, in Harare have seen at least 40% of the total water produced by the parastatal being lost through leakages in the process of distribution.
- 51 Most glaringly, ZINWA's inefficiencies have resulted in the outbreak and spread of cholera in Harare and the rest of the country. This adverse development has been caused by the contamination of drinking water by incessant sewage pipe bursts.

Recommended Water Management Strategy

- 52 Despite the support extended to ZINWA, it remains evident that the parastatal continues to under-perform on its key result areas.
- 53 Against this background, it is recommended that Government reassigns the roles of water production and distribution back to Local Authorities.
- 54 This is in view of the fact that Local Authorities have wider and diversified revenue bases that can be used to maintain and sustain the country's water reticulation infrastructures.
- 55 In addition, Local Authorities have stronger balance sheets that enable them to borrow from the open markets for purposes of financing effective water management systems.
- 56 The role of ZINWA should be confined to bulk water supply, dam construction and research and development.

57 In addition to revoking supply-side response from the privatization and commercialization of parastatals and rehabilitating the infrastructure, the availability of foreign currency is fundamental to enhance the production of goods and services in the economy.

FOREIGN EXCHANGE GENERATION STRATEGIES

58 The country's foreign exchange situation remains critical. This has made it difficult for the country to supply adequate goods and services and provide for critical imports such as food, fuel, electricity and drugs.

59 The challenge is, therefore, to find ways and means of mobilizing foreign exchange for Government, industry, Small to Medium Enterprises (SMEs) and the vulnerable groups of our society. It is against this background that immediate and urgent measures be adopted to generate foreign exchange.

60 As alluded to, Government should restructure and accelerate the privatization of non performing Public Enterprises with potential to perform and generate foreign currency.

Foreign Exchange Generation and Savings

61 The increase in the economy's productive capacity occasioned by foreign participation in the country's public enterprises will also create scope for increased local production of goods and services, some of which are currently being imported.

62 This releases foreign exchange for the importation of critical intermediate inputs, as well as petroleum and other products, which cannot be produced locally.

- 63 The public enterprise privatization process could be designed to culminate in the listing of the enterprises on the Zimbabwe Stock Exchange, through public offering. Privatized companies contribute to the fiscus through increased taxes. Enhanced performance implies more tax remittances to Government.

Concessioning

- 64 In strategic public enterprises such as the National Railways of Zimbabwe (NRZ) and NOCZIM, Government would need to retain its ownership. Significant benefits can be derived from concessioning, which enables the retention of ownership while allowing for some lease arrangement.
- 65 Examples of concessioning include:
- Concession of the NRZ can easily be structured with a regional reputable rail operator who will then provide freight and passenger service;
 - In the case of NOCZIM, the pipeline and the storage facilities offer opportunities for concessioning; and
 - The recapitalisation of Air Zimbabwe can also be arranged through inviting a strategic investor. Alliances are now a common feature in the airline industry.

Mining Royalties

- 66 Substantial foreign currency resources can be mobilized through a more rigorous and intensified mining sector royalties collection in foreign currency.

Organized Diamond Mining

- 67 Formalization of mining activities at Chiyadzwa is a key source of Government revenue. It is envisaged that the revenues from the diamond mining venture can assist the country.

Attracting Remittances

- 68 Government can issue a foreign denominated bond to non-resident Zimbabweans to further mobilize free funds. The bond should be structured in such a way that it is secure and attractive from the investors' point of view.
- 69 The Government's stake in public enterprises and financial institutions can be disposed to diasporants. This will raise significant foreign exchange flows currently locked up in shares.

Joint Ventures and Strategic Partnerships

- 70 Foreign exchange inflows can be realized through the participation of foreign investors in joint ventures and strategic partnerships particularly in the Small to Medium Enterprises (SMEs).
- 71 The engagement of foreign strategic partners brings the much needed expertise and leads to diffusion of technology. This significantly improves the efficiency of these enterprises as well as reducing their excess capacity.

Issuance of Foreign Currency-Denominated Bonds

- 72 Government can mobilize foreign exchange from foreign capital markets, through issuance of a foreign currency denominated bond, through a

selected manager. This is necessary, so as to circumvent current sanctions and negative perceptions about Zimbabwe. Proceeds from the bonds would go towards servicing foreign obligations, particularly those that have a potential to resume disbursements.

- 73 Issuance of this bond will also be targeted at non-resident Zimbabweans.

International Engagement

- 74 Government should take bold initiatives to engage the country's creditors, with a view to easing the pressure on foreign exchange requirements, while at the same time restoring good relations with external financiers.
- 75 Particular focus should be on those creditors who are likely to disburse and put in place rescheduling arrangements.

Product Beneficiation

- 76 There is urgent need for Government to provide tax incentives to promote value addition at company level. Notably, the establishment of a platinum refinery would facilitate the beneficiation of such minerals as the platinum group of metals (PGMs).
- 77 Financial resources should also be availed to research institutions such as SIRDC to enhance their ability to undertake research in areas promotive of exports and import substitution.

Additional Export Capacity

- 78 Government should underwrite and broaden the setting up of bonded warehouses in selected markets with potential for expansion. The capacity

of small to medium enterprises to export should be enhanced through the establishment of export houses, which will facilitate movement of exports.

- 79 Activities of cross border traders should be coordinated to ensure that their foreign exchange earnings are channeled through the formal banking system for the benefit of the economy.

Pre and Post-Shipment Financing

- 80 Another source of mobilizing foreign exchange is to arrange pre- and post-shipment finance facilities for the country's exporters. This requires touring friendly countries and institutions, such as Afreximbank, BADEA, PTA Bank and the OPEC Fund. This is necessary for raising a critical pool of foreign currency resources.
- 81 Identifying key exporters and earmarking their earnings towards the repayment of such arranged pre- and post-shipment facilities will be essential. This way such facilities become essentially back-to-back or self-liquidating facilities that achieve the twin objective of mobilizing foreign exchange for immediate use, while at the same time promoting exports.

Trading in Shares

- 82 Government can trade in dually listed shares through appropriate institutions to raise foreign exchange.
- 83 It will be critical to ensure that foreign exchange generated from the sale of shares on international bourses is remitted to Zimbabwe.

Toll Fees

- 84 Foreign truckers and visitors to Zimbabwe should pay toll fees in foreign currency on a reciprocal basis at all ports of entry and at established toll gates along the country's major highway.

Conclusion

- 85 The privatization process must be viewed within the context of broad macroeconomic policies that are designed to stimulate growth and economic development.
- 86 The benefits of privatization are best realized within the context of a package of reinforcing economic recovery measures. The program must be well designed and appropriately sequenced to optimize on the privatization benefits. It is imperative that the nation invests in critical negotiation skills required during the privatization process.
- 87 Privatization is expected to release funds for infrastructural and social development in the health and education sectors of the economy.
- 88 In addition the enhanced foreign exchange generation will improve the productive capacities of industries.
- 89 This will lead to human resources development which enhances private sector growth, thereby increasing the supply of goods and services in the economy.

- 90 The prevailing foreign exchange crisis can be solved by addressing the current macroeconomic imbalances. Over the medium to long term, the economy's capacity to generate foreign exchange can only be guaranteed by a stable macro environment characterized by low inflation. Thus, inflation stabilization remains a critical pillar necessary to enhance exporting activities.



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