Overall Economic Background

Zimbabwe, like many developing countries, has experienced low levels of economic growth and increased unemployment in the last decade. The growth rate in real GDP averaged about 2.7 per cent per annum between 1980 and 1989 and this is relatively low compared to the population growth rate of about 2.8 per cent in the same period.

The budget deficit has increased since Independence resulting in difficulty in servicing the internal debt. Some of the reasons for this situation include: government spending on goods and services, such as health and education and roads which have improved remarkably.

However, of concern is government spending directed at providing subsidies to state-owned enterprises or parastatals. The average growth rate of subsidies to parastatals between the fiscal years 1981-82 and 1992-93 was 21.2 per cent, a relatively high growth rate when compared to the growth of the economy. In addition, the average ratio of subsidies to budget deficit was 25.5 per cent, implying that about 25.5 per cent of the budget deficit went towards financing the operations of the parastatals as subsidies or grants in the fiscal years 1980-81 to 1992-93.

The resources that are employed to sustain the economic activities of the state-owned enterprises could be used to improve the health services or reduce the budget deficit. A cut in the budget deficit is expected to have a positive effect on inflation, and thereby give the monetary authorities room to reduce interest rates in general. High interest rates could inhibit investment, and adversely affect the privatisation of the public enterprises.

The budget deficit growth rate averaged 13.3 per cent between 1981-82 and 1992-93 fiscal year. The high positive growth rate in the budget deficit meant that a substantial share of GDP goes into internal debt-servicing.

Of course, lenders will be willing to lend to the Government at high interest rates and this affects the private sector in two ways. First, government borrowing in the markets
leads to rationing out of private sector borrowers often referred to as crowding out the private sector. Government borrowing tends to reduce liquidity in the money market. Second, high interest rates entail high user cost of capital and high borrowing interest rates discourage investment, and thereby privatisation.

The Public Sector Enterprises

The Government of Zimbabwe has undertaken far-reaching economic reforms in the last three years which include: deregulation of prices and wages, trade and financial liberalisation, substantial real devaluation and stabilisation measures. But it would appear that privatisation with respect to state-owned enterprises has not yet started in Zimbabwe.

In Zimbabwe, before and after independence, state-owned enterprises existed but their number and value increased after independence. The participation of state-owned enterprises in economic activity in Zimbabwe is substantial, but of more significance is the nature of their operation in the economy that creates distortions and inefficiencies.

The promulgation of parastatals is often preceded by parliamentary legislations that give them monopoly status in areas of their interest. It is often argued that state-owned enterprises are necessary in LDCs in order to reduce the outflow of foreign exchange. In addition, indigenous enterprises suffer from a dearth of financial resources, making it necessary for the state to take a leading role in investing in the parastatals.

The largest parastatals in Zimbabwe include the Zimbabwe Electricity Supply Authority (ZESA), Zimbabwe Steel Corporation (ZISCO), Air Zimbabwe, Zimbabwe Railways, Post and Telecommunication (PTC), Zimbabwe Development Corporation and Industrial Development Corporation and etc. Most of these parastatals share one thing in common: they have benefited from government subsidies extended to cover the costs resulting from their loss-making, non-specialised and misplaced managers, and inefficiencies.

Some of these parastatals are unable to make sustainable profits. It is often argued that the poor financial performance of most parastatals is due to government regulations and control, i.e. they are prevented from setting economic prices.

In an effort to improve the performance of some parastatals such as the railways and others, commissions of inquiry into the performance of the parastatals were set in the 1980s, but these did not lead to a significant improvement of the performance of state-owned enterprises. Thus subsidies continued to flow to the parastatals despite efforts to enhance their operations. Notwithstanding the important role played by some of the parastatals in the provision of essential services such as energy and communications,
their performance might have created a financial constraint to both public and private sector performance.

With the economy unable to respond to external shocks, the macro-economic variables, such as the exchange rate and the current account of the balance of payment, deteriorated.

Subsequently, in 1990 Zimbabwe adopted the economic reforms designed to deregulate most of the markets. Thus prices and wages have been decontrolled, but it would appear that some parastatals' output have marginally improved after prices were decontrolled, implying that the inefficiencies had been covered by transferring some of the costs to consumers through high prices.

One of the instruments that often accompany the ESAP is privatisation. Privatisation in the context of ESAP implies selling the parastatals assets to the private sector. The argument is that selling parastatals might lead to a reduction in budget deficit and/or improve their efficiency.

Zimbabwe has so far not disposed of any of its parastatals, rather the policy followed has been to commercialise and/or privatise whenever necessary in whole or in part some of the parastatals. But the question often asked is how do you carry out the privatisation exercise? This might be one of the key factors preventing some countries from undertaking privatisation of state-owned enterprises. The indigenous people who are the preferred candidates to take control of these parastatals are financially unable to buy significant shares, but if these shares were divided into a maximum value of $100 to $400, substantial shares could be bought by indigenous Investors. In summary, prior to privatisation, it is necessary to liberalise the economy and create a competitive environment which is expected to lead to efficiency.

**Privatisation and Private Sector Development in Zimbabwe**

The evolution of the private sector in Zimbabwe dates back to the 1890s when the sale of land to private individuals and companies was on a wider scale. Thus the private sector existed in Zimbabwe before and after independence.

Public enterprise, therefore, has always operated in parallel with the private sector in Zimbabwe. The private activities are found in the manufacturing, mining, agriculture and commercial sectors.

In the policy document, "Zimbabwe: A Framework for Economic Reforms (1991-95)"*, the Government enunciated the reduction of subsidies and deregulation of prices. In addition, the legal framework was to be adjusted to reduce government intervention in
the running of parastatals, transferring the responsibility to the Board of Directors. Thus, parastatals such as NRZ, ZISCO, Air Zimbabwe, PTC are to be commercialised. This has allowed parastatals to set prices that reflect the cost of production. As a result, prices have increased and some parastatals such as ZESA have registered some profits. But the increase in prices alone is not expected to lead to more efficiency gains.

It is often argued that competition is expected to lead to more efficiency in that companies that do not operate efficiently will be forced to close down in a competitive environment. Thus, in parallel with the transfer of parastatal shares to private hands a policy that allows private sector to invest in any industry will subsequently lead to privatisation.

For example, the commuter transport sector in Harare presented a problem in the past years. But the introduction of competition in this sector has improved transportation. Zimbabwe United Passenger Company (ZUPCO) had a monopoly in the commuter sector and efficiency was sacrificed, and thereby leading to poor services. The privatisation of the sector has improved the commuter services in Harare and Bulawayo.

**Methods of Privatisation**

Privatisation is perceived generally to imply a sale (transfer) of state-owned enterprises to the private sector. Since the majority of indigenous Zimbabweans experience problems of funding, a sale of parastatal assets might lead to foreign ownership. It is argued that a trust fund that will enable indigenous people to borrow and purchase, in part or in full, is likely to lead to successful privatisation. The initial source of such funds could be provided by donors.

But it could be argued that competition and efficiency should be an integral part of privatisation. If the private sector is allowed to invest in monopoly-dominated sectors, the benefits of privatisation could be achieved without changes of ownership of the existing SOEs. Inefficient companies are expected to close down in a competitive environment.

Finally, privatising the management of state activities through contracts and leases could lead to efficiency gains.

**Conclusion**

In this chapter we have attempted to explain the benefit and cost of privatisation with
emphasis on the Zimbabwe economy. In general, the Zimbabwe economy has experienced difficulty in the last decade in responding to external shocks and this has led to the deterioration of macro-economic variables such as exchange rates and the current account balance of payments. This might have persuaded the Government to adopt alternative strategies in dealing with economic growth and increasing unemployment. The Structural Adjustment Programme, which in most countries entails a move toward a market-oriented economy and privatisation, could be applicable in the case of Zimbabwe. Although Zimbabwe has always encouraged private sector development, the transfer of state-owned enterprises to private ownership has not yet started. It could therefore be argued that Zimbabwe’s preferred policy has been to commercialise state-owned enterprises.