2011 - 2014 Baseline data for

Zimbabwe's Portfolio of STATE ENTERPRISES & PARASTATALS

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State Enterprises Restructuring Agency (SERA)

Contents

Acronyms

AfDB	African Development Bank
CMED	Central Mechanical Equipment Department
GDP	Gross domestic product
MoFED	Ministry of Finance and Economic Development
SEP	State Enterprises and Parastatals
SERA	State Enterprises Restructuring Agency
OCI	Other Comprehensive Income
OPC	Office of the President and Cabinet
PSIP	Public Sector Investment Program
VRF	Visible Relative Fiscal (risk)
ZETDC	Zimbabwe Electricity Transmission and Distribution Company
ZIM-ASSET	Zimbabwe Agenda for Sustainable Socio-Economic Transformation
ZIMRA	Zimbabwe Revenue Authority
ZIMREF	Zimbabwe Reconstruction Fund
ZINARA	Zimbabwe National Roads Administration

About this report

This report provides financial data about State Enterprises and Parastatals (SEPs) for the 2011–2014 period as a means of informing future discussions of Zimbabwe's SEP portfolio. It is the first known stocktaking of a portfolio view of the financial performance of SEPs. The report is divided into three parts. Part one presents a consolidated view of the 84 SEPs represented in the baseline data. The second part presents a sectoral view of both the commercial and non-commercial SEPs, and the third part presents a visible relative fiscal risk analysis. Conclusions draw out a few of the main relevant provisions of the Constitution and Laws of Zimbabwe.

Summary

Zimbabwe's SEPs were established to spearhead development by investing in industries where the private sector is reluctant to invest; to address conflicts of interest through regulatory agencies; to fulfil service delivery, social and research roles in various sectors, particularly in those areas dominated by natural monopolies. SEPs play a key role in advancing the economic development of Zimbabwe. Government's economic blueprint, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIM-ASSET), acknowledges the pivotal role played by SEPs in socio-economic development.

During the data collection exercise, 84 SEPs reported their results for 2011-2014, out of the total of 97.

Those 84 SEPs recorded an overall loss/deficit of US$260 million in 2014 (the last year for which audited reports are widely available) and gross income of $4.2 billion using gross assets of $14.1 billion. The 38 commercial SEPs in the sample accounted for $285 million loss (only 12 returned a profit before OCI[1]) on gross income of $3.25 billion and gross assets of $12.7 billion. In 2014, 6 commercial SEPs were both illiquid and insolvent, and a further 19 were illiquid. SEPs' overall loss/deficit was reduced by a surplus recorded by non-commercial SEPs of about $25 million.

Only two SEPs reported paying dividends in 2014, totalling $1.7 million; in that year, commercial SEPs received over $85 million in fiscal transfers. Government also transferred $318 million to non-commercial SEPs whose main source of income is usually the National Budget.

While fiscal risk can be derive from many contingencies, one important source of risk is a SEP's present financial situation: its lack of profitability as well as, liquidity and solvency challenges. A review of this aspect of the commercial SEP portfolio confirms that it continues to pose significant fiscal risk to the Treasury. The paper concludes with a brief survey of a few key provisions of the Constitution and Laws of Zimbabwe which bear on the weaknesses identified in the body of the report.

[1] Other Comprehensive Income

Introduction

Zimbabwe has a decentralized ownership structure, whereby the line ministries act as the owners of SEPs on behalf of the Government, the shareholder. In such an ownership structure, the Government delegates its shareholder function, including performance monitoring, to the line ministries which monitor SEPs under their respective portfolios.

This fragmentation of ownership as well as lack of role clarity has led to isolated monitoring of SEPs, which in turn made it more difficult to ascertain the SEPs' overall portfolio performance. However, when SEPs face financial challenges, they call upon the Government or the Treasury for bailouts. This makes it imperative for the Government to assess the overall performance of its entire SEP portfolio. The overall performance monitoring of the SEP portfolio allows the Treasury to manage fiscal risks posed by these state entities.

In its endeavour to monitor the performance of the SEP portfolio, the Government undertook a baseline data collection exercise. This exercise was carried out by the Office of the President and Cabinet and Ministry of Finance and Economic Development (MoFED), through the State Enterprises Restructuring Agency (SERA), with the assistance of a World Bank-administered trust fund, the Zimbabwe Reconstruction Fund (ZIMREF). The Baseline Data Collection was undertaken to build a complete and credible database of key information about the SEPs. The baseline data serves as a point of reference against which future data collections will be conducted and compared. As such, it will enable an analysis of SEP performance.

The Baseline Data Collection began in February 2016, following the launch workshop on January 20, 2016. Information was requested from 97 SEPs; 84 SEPs made data submissions, a response rate of 87 percent. Of the SEPs which submitted their data, 38 were commercial entities and 46 were non-commercial entities. SEPs were given definitions and formulas for calculations of the data to be provided. The financial data received was verified using audited financial statements and management accounts provided by the entities.

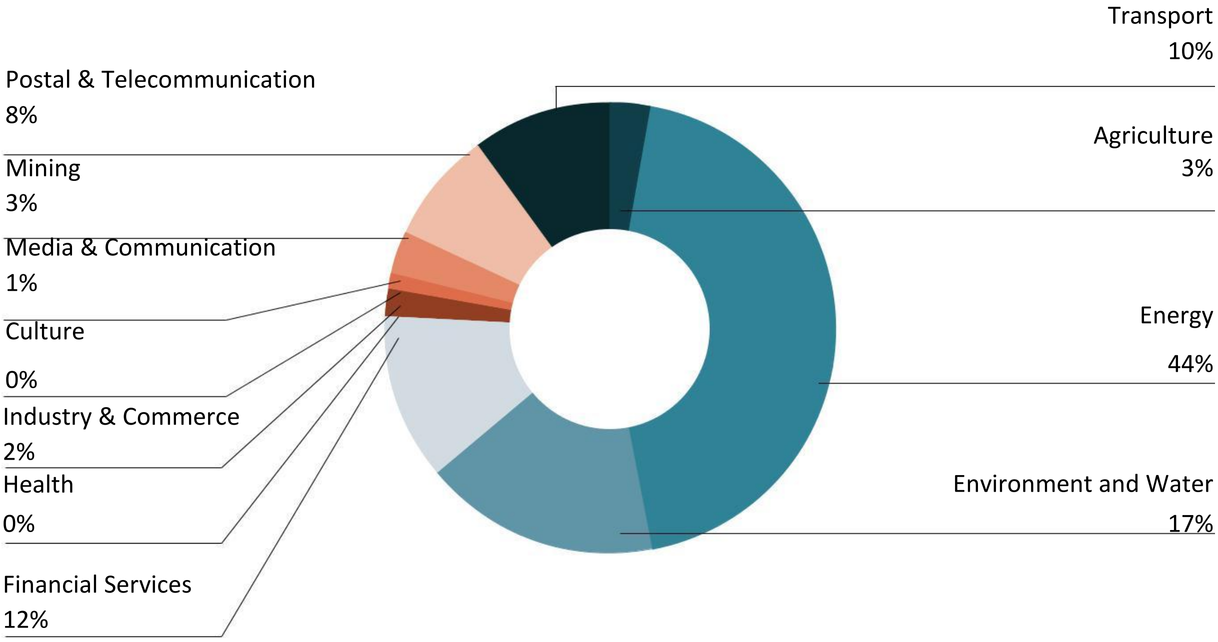
This SEP database will enable the Government to develop appropriate policy interventions, thereby improving the efficiency and effectiveness in the utilization of government assets and financial resources.

It is imperative for the Government to assess the overall performance of its entire SEP portfolio.

Overview of Zimbabwe's SEP Portfolio in 2014

The commercial SEPs are subdivided into 11 sectors as depicted in figure 1, including: energy, mining, transport, industry and commerce, environment and water, financial services, agriculture, postal and telecommunications, media and communication, culture, and health. The energy sector is the largest sector with US$5.6 billion in assets, or 44 percent of the entire asset base of the 38 commercial SEPs. The environment and water sector was the second largest with US$2.2 billion in assets, or 17 percent of the asset base. This was followed by the financial services sector with US$1.4 billion in assets, or 12 percent; and then the transport sector with US$1.2 billion in assets or 10 percent.

Figure 1: Commercial SEP Sectors by Asset



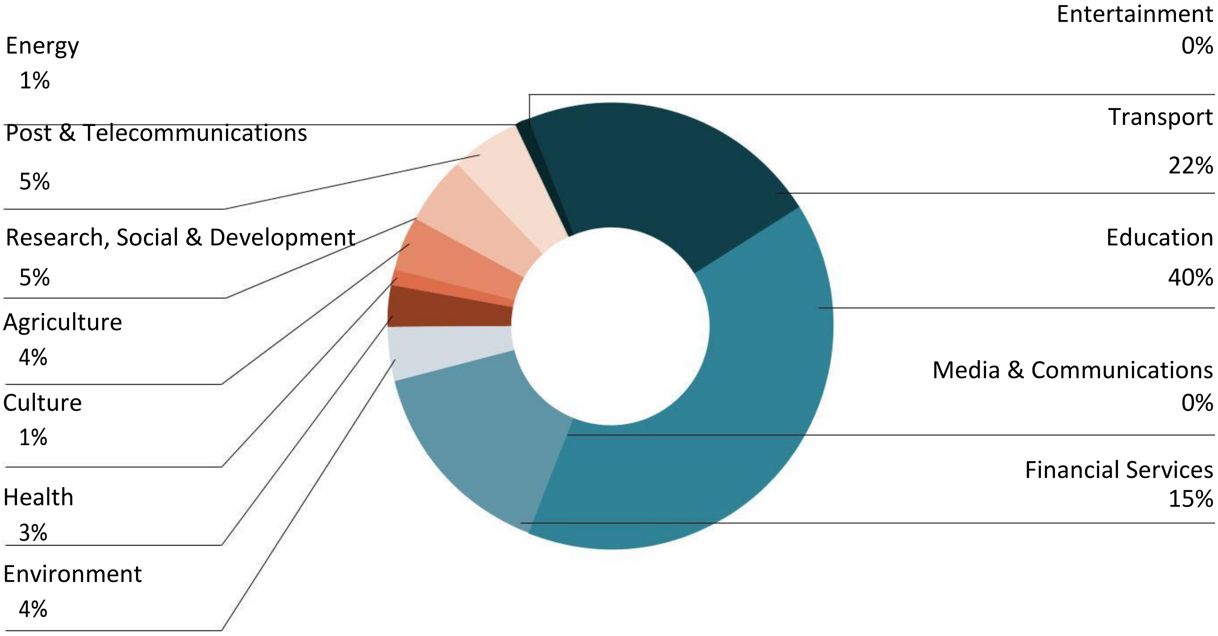
Source: Baseline database 2014

Non-commercial SEPs also play a pivotal role in various sectors of the Zimbabwean economy (see figure 2). Among the non-commercial SEPs, education is the largest sector with 40 percent of the asset base, followed by transportation[2] with 22 percent, financial services[3] with 15 percent, post and telecommunications with 5 percent, agriculture and entertainment — each with 4 percent, research, social and development sector with 5 percent, health with 3 percent, and energy and culture — with 1 percent.

2 The transportation sector includes the Zimbabwe National Roads Administration (ZINARA).

3 The financial services sector includes the Zimbabwe Revenue Authority (ZIMRA).

Figure 2: Non-Commercial SEP Sector by Assets



Source: Baseline database 2014

In fulfilling their commercial, developmental and social mandates, SEPs create employment opportunities for the people of Zimbabwe. As of December 2014, 84 SEPs employed 59,391 people. This represented 1 percent of the employed/active population in Zimbabwe[4] Thirty-eight commercial SEPs employed 40,716 people, and non-commercial SEPs employed 18,675 people. Transport accounted for the largest number of employees as it registered 25 percent of employed people in commercial SEPs. The second highest employer was the energy sector followed by the mining sector which employed 20 and 14 percent, respectively. The education sector, which comprises universities, employed 46 percent of people employed by non-commercial SEPs, followed by the environment sector with 18 percent, and the financial services sector with 15 percent.

SEP financial performance deteriorated significantly over the period 2011-2014. In 2014 the commercial SEPs reported a US$285 million loss before Comprehensive Income, whereas the non-commercial sector reported a marginal surplus of US$25 million before Comprehensive Income. As a result of their poor financial performance, SEPs struggled to repay their debt — borrowed from both international and local sources. Their inability to repay the debt poses significant fiscal risks to the Government, which is often the guarantor for the debt. In addition to the debt guarantees, the Government provided state transfers to SEPs. These transfers outweighed receipts in the form of dividends and taxes to the State.

The SEP financial data revealed that 6 entities reported market shares below 10 percent, and 10 entities reported market shares below 50 percent. It had been observed that 17 commercial SEPs reported capacity utilization below 50 percent, which includes 3 that operated below 20 percent capacity utilization. The economic environment coupled with reduced capacity utilization led some SEPs to the retrenchment of employees. Assessing employment data from 2011 to 2014, there was an 8 percent reduction in the number of employees in commercial SEPs. The agriculture, transport and industry, and commerce sectors were the sectors with the highest levels of employment reductions.

4 Based on the active population or labour force of 15+ years of age employed (6,265,869), according to ZIMSTATS 2014 Labour Force Survey.

Part One

Financial performance of SEPs

SEPs portfolio performance

Although SEPs operate in critical sectors — in some cases, constituting monopolies — their performance, particularly that of the commercial SEPs, was unimpressive. Only 12 of 38 commercial SEPs reported a profit before OCI in 2014; all others reported a loss before OCI. The extent of the losses reported by the commercial SEPs resulted in a return on assets declining from -0.2 percent in 2011 to -2.2 percent in 2014. These results indicate that although the assets held within the commercial SEPs portfolio are significant (US$ 12.7 billion), the SEPs inefficiently used their assets to generate profits. It was also noted that three SEPs operated at capacity utilization of below 20 percent.

The debt to asset ratio for the commercial SEPs portfolio was 51 percent in 2014, indicating that just over half of the assets in the portfolio would be required to meet financial obligations. With these assets not generating sufficient profits, SEPs are struggling to repay their debts. Working capital for 2014 was (US$ 1.9 billion), indicating that the SEP portfolio is unable to meet its current obligations.

The inability of the SEPs to generate profitable returns is a fiscal risk to the Government. In 2014, of those SEPs which submitted their data, explicit contingent liabilities[5] amounted to US$ 1.9 billion, representing 13 percent of gross domestic product (GDP). The financial burden created by the SEPs on the Government is significant. It concerns not only explicit contingent liabilities, but also transfers from the Government to SEPs. However, the Government receives extremely low dividends and corporate taxes in return. The Government's transfers to commercial SEPs in 2014 amounted to US$ 85 million, whereas dividends received totalled US$1.7 million, and corporate taxes US$ 15.6 million. Transfers from the State occurred in the form of Public Sector Investment Program (PSIP) funding, equity injections, as well as grants to a very few commercial SEPs.

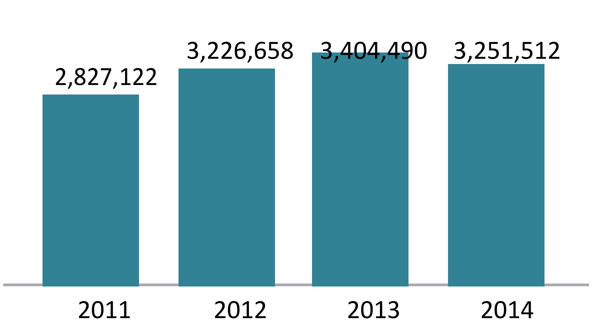
Non-commercial SEPs do not pay dividends, given that their mandates are social and developmental

5 Explicit contingent liabilities refers to SEP borrowing that is guaranteed by the Government.

in nature. Their social mandates require state transfers in the form of grants. However, the grants received by these SEPs have decreased overtime, forcing some non-commercial SEPs to identify additional means of revenue generation. See figures 3 and 4. In 2014 non-commercial SEPs recorded a total surplus of $25 million, composed of fiscal transfers exceeding operational expenditure, and other revenues exceeding costs (or, for revenue-generating non-commercial SEPs which fund other public sector activities, retention of funds pending transfer to end-users).

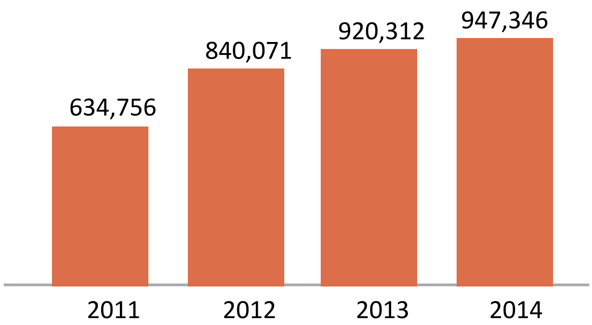
Gross Income

Figure 3: Commercial SEPs US$(000)



Source: Baseline database 2014

Figure 4: Non-Commercial SEPs US$(000)

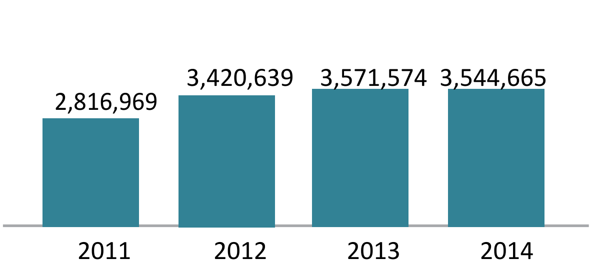


Source: Baseline database 2014

Gross Income for the SEP portfolio in 2014 totalled US$4.2 billion, with commercial SEPs reporting US$3.2 billion and non-commercial SEPs reporting US$947.3 million (figures 3 and 4). Gross Income for the commercial SEPs portfolio declined by 4 percent in 2014 when compared to 2013, and gross income for the non-commercial portfolio increased by 3 percent in 2014 when compared to 2013.

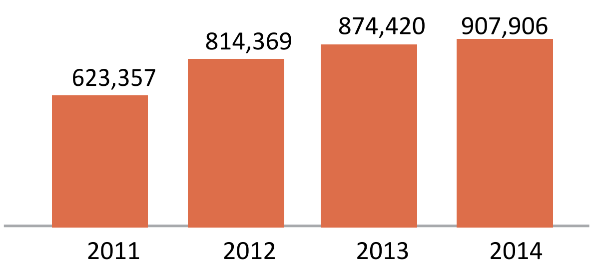
Total Expenditures

Figure 5: Commercial SEPs US$(000)



Source: Baseline database 2014

Figure 6: Non-Commercial SEPs US$(000)

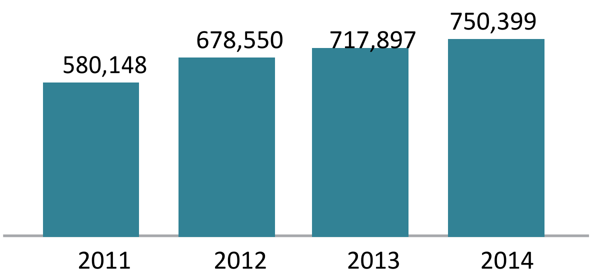


Source: Baseline database 2014

Total expenditures for the SEP portfolio amounted to US$4.5 billion (figures 5 and 6). Commercial SEPs reported expenditures of US$3.5 billion in 2014, a 1 percent decrease when compared to 2013. Non-Commercial SEPs reported expenditure of US$907.9 million, an increase of 4 percent when compared to 2013.

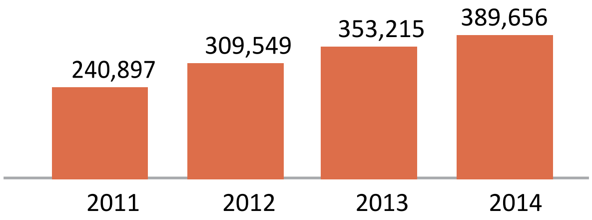
Wages - Staff Remuneration

Figure 7: Commercial SEPs US$(000)



Source: Baseline database 2014

Figure 8: Non-Commercial SEPs US$(000)

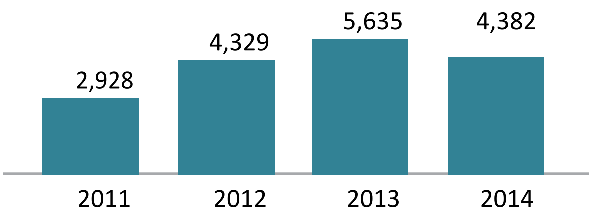


Source: Baseline database 2014

Staff remuneration for both the commercial and non-commercial SEPs totalled US$1.1 billion in 2014 (figures 7 and 8). Both SEP portfolios saw increases in wages; for commercial SEPs, the increase was 5 percent in 2014 compared to 2013, and for non-commercial SEPs, the increase was 10 percent. Staff remuneration for the commercial SEPs portfolio was 21 percent of total expenditures, and 43 percent of total expenditure for the non-commercial SEPs.

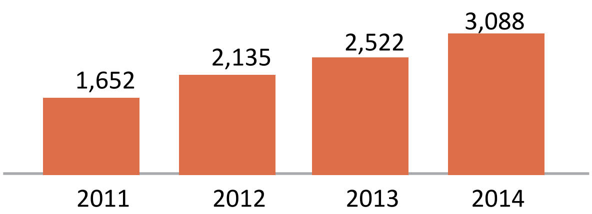
Board Costs

Figure 9: Commercial SEPs US$(000)



Source: Baseline database 2014

Figure 10: Non-Commercial SEPs US$(000)

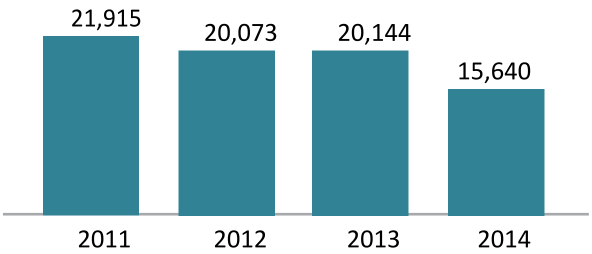


Source: Baseline database 2014

Board costs for commercial SEPs increased by 6 percent in 2014 when compared to 2013, board costs for non-commercial SEPs increased by 22 percent when compared to 2013 (figures 9 and 10). A significant portion of the increase in non-commercial SEP board costs resulted from tax penalties paid by one SEP in 2014. For commercial SEPs, the increase in board costs is mainly due to increases in directors' emoluments "for other services", as disclosed in the financial statements (primarily those in the energy sector). A comparison of board costs with profitability indicated that although losses increased, board costs actually increased (figure 11).

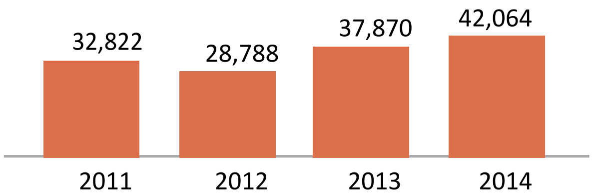
Corporate Taxes Paid

Figure 12: Commercial SEPs US$(000) Corporate Taxes Paid



Source: Baseline database 2014

Figure 13: Non-Commercial SEPs US$(000) Prior Accumulated Corporate Taxes

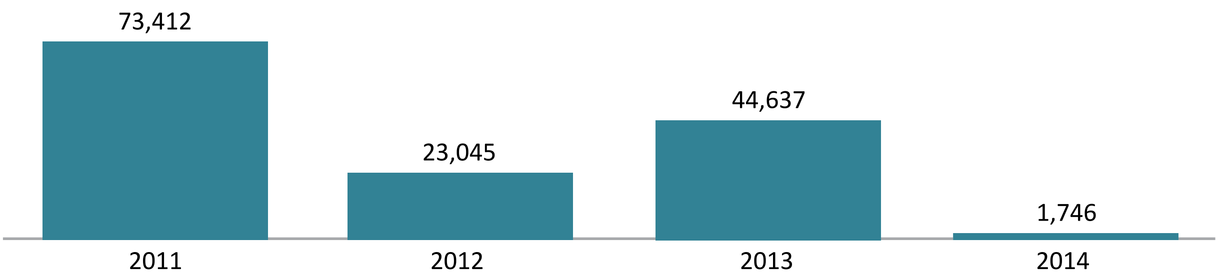


Source: Baseline database 2014

Corporate taxes paid by commercial SEPs decreased by 22 percent in 2014 compared to 2013 (figures 12 and 13). This decrease was primarily driven by decreases in corporate taxes paid by the mining sector. Non-commercial SEPs do not pay corporate taxes. Although commercial SEPs have made corporate tax payments, they have accumulated significant tax liabilities. Prior accumulated corporate tax liabilities were US$ 42.1 million in 2014.

Dividends Paid

Figure 14: Dividends Paid to the State US$(000)

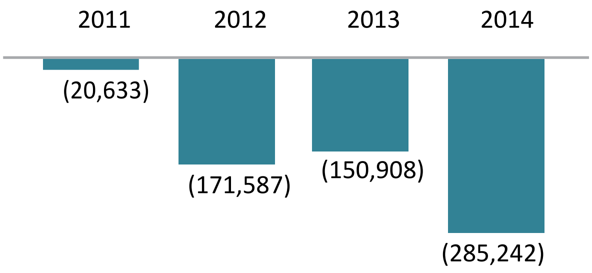


Source: Baseline database 2014

Dividends paid in 2014 showed a 96 percent decrease when compared to 2013 (figure 14). This decrease was due to a significant reduction in dividends paid by the mining sector. The Dividend Circular Number 7 of 1995 states that "all parastatals and state enterprises are required to pay dividends to the Government whenever they make a profit". The rate of the dividend payable should be at least 50 percent of after-tax profits. However, in 2014 only two SEPs reported dividend payments. Non-commercial SEPs did not report any dividend payments.

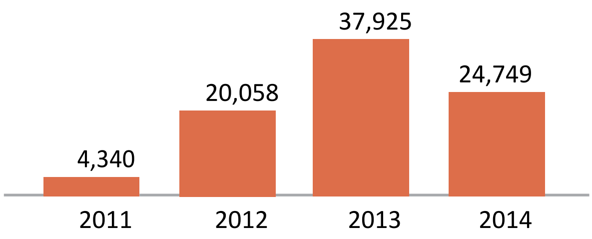
Profit/Loss Before OCI

Figure 15: Commercial SEPs US$(000)
Profit/Loss Before Other Comprehensive Income



Source: Baseline database 2014

Figure 16: Non-Commercial SEPs US$(000)
Surplus/Loss before Other Comprehensive Income



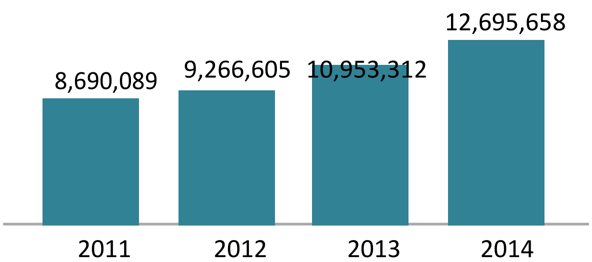
Source: Baseline database 2014

Losses generated by SEPs in 2014 totalled US$ 260.5 million (figures 15 and 16). Losses increased as the mining sector's profitability declined. Losses were also attributable to increased losses in the agriculture sector. Commercial SEPs accounted for US$ 285 million of the losses, whereas non-commercial SEPs reported a surplus of US$ 25 million. Only 12 commercial SEPs reported a profit in 2014. Most universities reported a deficit in 2014. The surpluses were mainly generated by the research, social and development sectors.

Losses increased as the mining sector's profitability declined

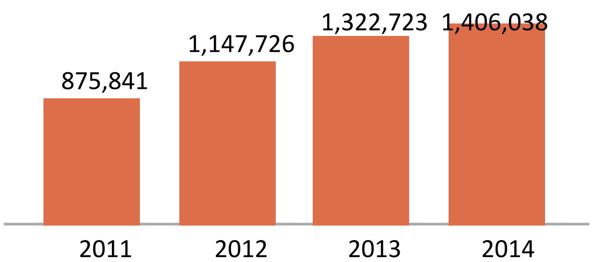
Total Assets

Figure 17: Commercial SEPs US$(000)



Source: Baseline database 2014

Figure 18: Non-Commercial SEPs US$(000)

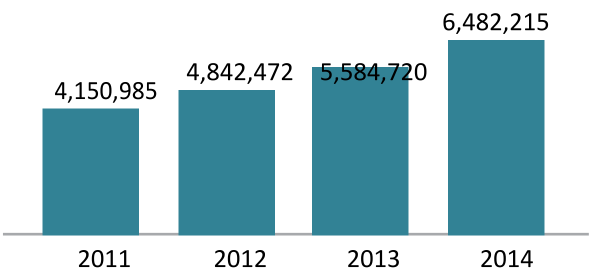


Source: Baseline database 2014

In 2014, the 84 respondent SEPs had an asset base of US$14.1 billion (figures 17 and 18). Of these 84 SEPs, 38 commercial SEPs had an asset base of US$12.7 billion, and 46 of the non-commercial SEPs had an asset base of US$ 1.4 billion. Total shareholder value (total net assets) was amounted to US$7 billion in 2014.

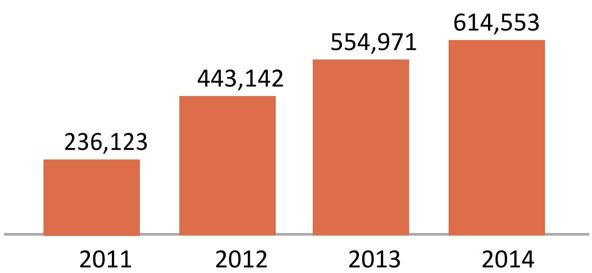
Total Liabilities

Figure 19: Commercial SEPs US$(000)



Source: Baseline database 2014

Figure 20: Non-Commercial SEPs US$(000)

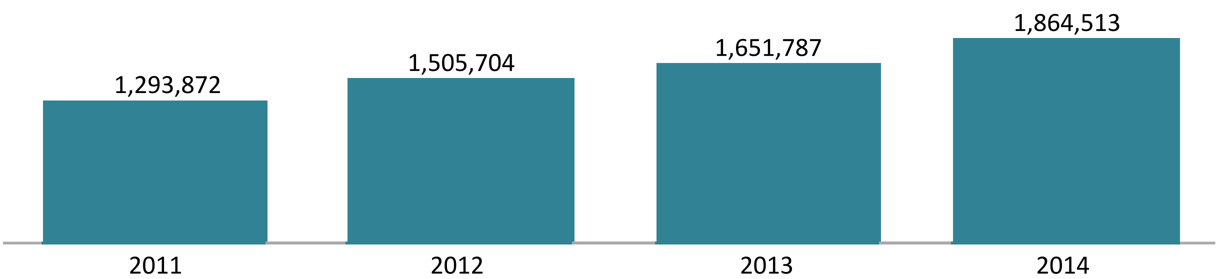


Source: Baseline database 2014

Total liabilities for the overall SEP portfolio amounted to US$7.1 billion (figures 19 and 20). This represents a total liabilities level of 50 percent of the total assets owned by the SEPs. In 2014, total commercial SEP liabilities amounted to US$6.5 billion, representing 51 percent of their total assets. Total liabilities for non-commercial SEP amounted to US$614.5 million, representing 44 percent of the portfolio's total assets.

Contingent Liabilities

Figure 21: Explicit Contingent Liabilities US$(000) Commercial SEPs



Source: Baseline database 2014

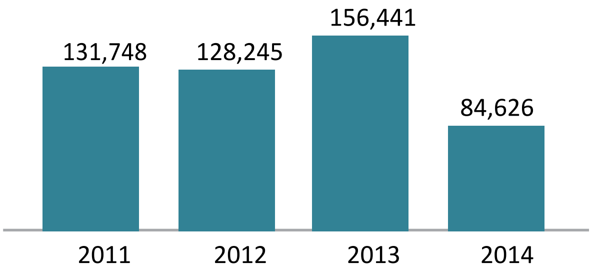
In 2014, of the US$6.5 billion total liabilities in commercial SEPs, US$1.9 billion have explicit guarantees from the Government (refer to sector analysis). Contingent liabilities in the form of explicit guarantees constitute fiscal risk to the Government. In the event that SEPs are unable to repay their debt, creditors may expect the Government to repay the amounts. As a result of weak financial performance, SEPs have not been adequately servicing their debt. The resulting legacy debt is a fiscal risk to the Government.

Explicit guarantees increased by 13 percent in 2014 as compared to 2013 (figure 21). External creditors are the primary source for explicit contingent liabilities.

Explicit guarantees increased by 13 percent in 2014

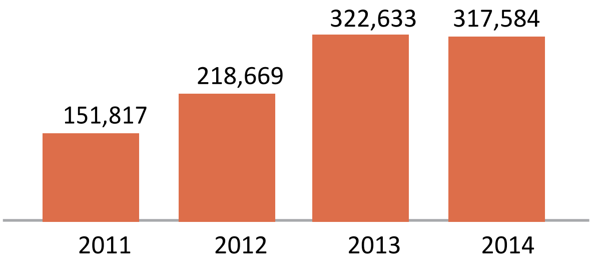
Transfers from the State

Figure 22: Commercial SEPs US$(000)



Source: Baseline database 2014

Figure 23: Non-Commercial SEPs US$(000)



Source: Baseline database 2014

In 2014, the Government transfers to the 84 SEPs represented $402 million in 2014 (figures 22 and 23). Of this amount, US$85 million went to the commercial SEP portfolio, and another US$318 million was allocated to the non-commercial SEP portfolio. In 2014, the Government transfers to SEPs were at their lowest level for the commercial.

The decline in transfers had been partly caused by challenges faced by the Treasury in raising funds to recapitalize the SEPs. Government grant to Zimbabwe Revenue Authority is not included in 2011 and 2012 figures due to unavailability of the information.

Part Two

Commercial SEP Sector Performance

Table 1

CommercialSEPs	Profit/Loss BeforeOCI(US$000)	Assets(US$000)	Liabilities(US$000)	Dividends paid(US$000)	Transfers from the state(US$000)	Corporate taxes paid(US$000)	Explicit contingentliabilities(US$000)	Number of employees	Current ratio	Debt ratio	Return on assets
Agriculture	(67,330)	354,044	115,084	-	16,476	-	142,663	3,410	1.1	33%	-19.0%
Energy	(108,105)	5,568,122	2,779,423	-	-	9,572	740,273	7,960	0.5	50%	-19%
Environment and water	(18,598)	2,201,028	227,246	-	62,049	-	24,361	3,519	0.8	10%	-0.8%
Financial Services	90,208	1,486,297	462,439	500	4,000	1,349	7,795	1,973	1.9	31%	6.1%
Health	6,228	26,517	3,237	-	-	-	-	145	7.0	12%	23.5%
Industry and Commerce	(38,931)	215,427	170,048	-	-	-	27,825	2,951	0.4	79%	-18.1%
Culture	(6)	60	49	-	57	-	-	5	1.1	81%	-10.0%
Media and Communication	(16,904)	119,453	109,317	-	927	-	1,769	1,395	0.8	92%	-14.2%
Mining	(44,933)	392,465	414,244	1,246	-	2,942	-	5,499	0.4	106%	-11.4%
Postal and Telecommunication	(8,236)	1,086,560	1,142,011	-	-	1,778	505,017	3,807	0.4	110%	-0.8%
Transport	(78,631)	1,295,685	1,059,117	-	1,116	-	414,810	10,052	0.3	8%	-6.1%
Total	(285,242)	12,695,668	6,482,215	1,746	84,626	15,640	1,864,513	40,716		51%	-2.2%

Source: Baseline database 2014

Profit/Loss before OCI

For commercial SEPs, the energy sector accounted for the greatest losses with 38 percent, followed by the transport sector with 28 percent, and the agricultural sector with 25 percent. However, the financial service and health sectors reported profits, thereby mitigating the overall losses.

Dividends Paid

The mining and financial services sectors are the only two sectors that paid dividends to the shareholder. The dividend paid by the mining sector was paid to the Ministry of Mines and Mining Development, which assumes the role of shareholder on behalf of the Government.

Transfers from the State

Transfers from the State were allocated to a variety of sectors, including agriculture, environment and water, financial services, culture, media and communication, and transportation. The environment and water sector received the highest transfers, representing 73 percent of total transfers. This transfers came through PSIP funding.

Corporate Taxes Paid

The energy, financial services, mining, and postal and telecommunications sectors all paid corporate taxes. The energy sector was the largest corporate tax payer in 2014.

Liquidity

A comparison of the 2011 to 2014 shows that SEP liquidity has decreased in most sectors. As of 2014, the transport sector was the least liquid sector, with a current ratio of 0.33 compared to 0.48 in 2011. The postal and telecommunications sector had a ratio of 0.43 in 2014, which remained flat a ratio of 0.42 in 2011. The mining sector's ratio was 0.4 in 2014, compared with 0.76 in 2011. The ratio for the industry and commerce sector was 0.4 in 2014, compared with 1.13 in 2011. The energy sector ratio was 0.53 in 2014, an increase compared to 0.49 in 2011. The media and communication sector had a ratio of 0.81 in 2014, compared to 0.39 in 2011. This increase was mainly due to increased accounts receivable at Transmedia. Finally, the environment and water sector had a ratio of 0.81 in 2014, compared to 1.01 in 2011.

Contingent Liabilities

The Government is exposed to a high level of explicit fiscal risks resulting from guaranteeing the debt of the commercial SEPs. The energy sector accounts for 40 percent of the explicit contingent liabilities, followed by the postal and telecommunications sector with 27 percent, and the transport sector with 22 percent.

These sectors do not have the resources required to meet their current obligations. In this context, the agriculture, financial services, culture, and health sectors are the only sectors with a current ratio greater than 1, meaning that they have the necessary resources to meet their current obligations. However, the current ratios for these sectors also decreased in 2014, when compared to 2011.

Non-Commercial SEPs Sector Performance

Table 2: Non-Commercial SEP Sector Performance

SEPs Sectors	Surplus/Deficit(US$000)	Assets(US$000)	Liabilities(US$000)	Transfers from the state(US$000)	Number of employees	Current ratio	Debt ratio	Return on assets
Education	(10,493)	560,323	213,430	168,438	8,563	0.9	38%	-1.9%
Media and Communications	(233)	1,249	728	225	N/AV	1.6	58%	-18.7%
Financial Services	4,352)	206,371	40,308	119,316	2,376	1.6	20%	-2.1%
Environment	(7,135)	60,909	21,050	7,560	3,297	1.5	35%	-11.7%
Health	(2,129)	45,592	7,757	6,858	1,077	2.4	17%	-4.7%
Culture	(362)	15,041	452	1,569	123	0.7	3%	-2.4%
Agriculture	8,084	60,680	8,125	81	1,162	2.4	13%	13.3%
Research, Social and Development	(3,291)	63,572	36,925	12,951	1,092	0.4	58%	-5.2%
Postal and Telecommunications	3,710	62,547	8,578	585	102	6.6	14%	5.9%
Energy	2,325	13,999	4,370	-	36	2.6	31%	16.6%
Entertainment	128	1,326	155	-	4	5.8	12%	9.7%
Transport	38,498	314,429	272,674	-	483	0.7	87%	12.2%
Total	24,749	1,406,038	614,553	317,584	18,675		44%	1.8%

Source: Baseline database 2014

Surplus/Deficit of Non-Commercial SEPs by Sector

The non-commercial SEPs recorded a surplus of US$25 million in 2014 (see table 2). The biggest contributor to this surplus was the transport sector, represented by Zimbabwe National Roads Administration (ZINARA). The agriculture sector also registered a surplus. The contributors to the surplus in the agricultural sector included the Tobacco Industry & Marketing Board, the Agricultural Marketing Authority, and the Tobacco Research Board.

Profit/Loss before OCI

Due to the “surplus” reported by ZINARA in 2014, the transport sector was the main driver of the surplus reported by non-commercial SEPs. The “surplus” actually represents fees collected, but awaiting distribution to the Road Authorities, as well as servicing of the African Development Bank (AfDB) loan. The amount should therefore be transferred to creditors or to the fund account awaiting disbursement. As such, as reported, it is not an operating surplus.

Transfers from the State

The education sector received the largest amount of Government grants in 2014, accounting for 53 percent of the total transfer to non-commercial SEPs. The education sector is mainly comprised of universities. The financial services sector received the second highest amount of Government grants, accounting for 38 percent of the total transfers, followed by the research, social and development with 4 percent, environment and health with 2 percent.

Liquidity

Some non-commercial SEP sectors were illiquid. As of 2014, the education sector had a current ratio of 0.9, compared to 1.6 in 2011. Culture has a ratio of 0.7 in 2014, compared to 2.1 in 2011. Research and social development had a ratio of 0.4 in 2014, compared to 1.2 in 2011. Finally, the transport sector's ratio was 0.7 in 2014, compared to 1.1 in 2011. These sectors are all vital to the advancement of Zimbabwe's economy. However, they do not have the resources required to meet their current obligations.

Debt

The research and social development sector's debt ratio of 58 percent is due to the National Indigenization and Economic Empowerment Board which is insolvent, and does not have the assets required to meet its total debt. The transport sector debt ratio of 87 percent is cause for concern, and should be monitored closely to avoid insolvency.

Part Three

SEPs Portfolio Risk Analysis

Significant SEP losses and debts are financially costly to governments. SEPs may require unforeseen bail-outs — resulting in significant fiscal risks. There are various contributing factors, including: uncompensated quasi-fiscal activities[6]; lack of role clarity in the management and monitoring of SEPs; excessive borrowings by SEPs which may carry explicit and implicit government guarantees; and weak SEP reporting and oversight.

The measure of fiscal risks with regard to SEPs is broad. As noted, there is the expectation that the Government, as the shareholder, will stand behind an SEP that is losing money, becomes illiquid, or even insolvent. In addition, there are other risks that may strike even currently solvent, liquid and profitable SEPs. For example, like any company, a currency mismatch between income and cost streams may expose a SEP to exchange rate risk. Also, heavy borrowings at variable interest rates may imply an interest rate risk. Further, asset valuations may involve credit risks in which the debtors' viability is unclear. Finally, a SEP (or a Government) may have contractual obligations the cost of which can be difficult to estimate (for example, a guarantee of a given level of demand in a Joint Venture — the factor underlying Portugal's fiscal crisis).

The baseline data provides only a view of SEP's borrowing and financial performance; other areas, as noted, are not captured in the database. Against this background, a proper fiscal risk assessment is not included in this report. Conducting a thorough fiscal risk assessment for Zimbabwe's SEPs would require extensive research and analysis. Analysis of the available data indicates that based on their profitability, liquidity and solvency, some SEPs pose immediate fiscal risks to the Government. Close monitoring could entail a more detailed fiscal risk assessment.

The analysis of the financial performance and position of SEPs resulted in the categorization of SEPs by the immediate fiscal risk they pose on the Treasury, relative to their size. Of course, size also

[6] Activities performed by SEPs on behalf of the Government, but for which SEPs are inadequately compensated.

matters. For instance, a small SEP which is illiquid, insolvent, and/or loss-making, but has expenditures of under US$1 million and debts of a similar level, is in absolute terms a lower fiscal risk than a solvent, liquid and loss-making SEP whose losses exceed US$10 million, total liabilities exceed US$100 million, and net current assets are only just in the positive range.

Nevertheless, SEPs can be categorized as follows: (i) Very High Visible Relative Fiscal (VRF) Risk SEPs as they are both illiquid and insolvent; (ii) High VRF Risk SEPs as they are illiquid; and (iii) Lower VRF Risk SEPs due to their losses, and others. The analysis is divided into two sectors, namely a commercial SEP assessment and a non-commercial SEP assessment.

Commercial SEPs with High Visible Relative Fiscal Risk

High VRF Risk refers to SEPs that are illiquid. There were 19 SEPs which posed a high VRF risk to the Treasury. These SEPs were mostly illiquid, which can further worsen their insolvency if their performance does not improve. However, 3 of the 19 SEPs made a profit in 2014, which offers the possibility of improving their financial status.

SEPs with Lower VRF risk

The Baseline Data showed that 4 SEPs had lower VRF risk, as indicated by their financial status. The financial statements of these SEPs showed they were both liquid and solvent, but still incurred losses. The failure by these SEPs to contain losses may result in the deterioration of their financial status, which may, in turn, lead to an increasing illiquidity gap and insolvency. In each case, the loss in 2014 was roughly equivalent to the net current assets. This means that another similar year of operations would drive them into illiquidity — and move them into the High VRF Risk category.

Commercial SEPs

Commercial SEPs with Very High Visible Relative Fiscal (VRF) Risk

The baseline database revealed that there were 6 insolvent and illiquid commercial SEPs in 2014. Among insolvent SEPs, one entity was in a peculiar situation as it made a profit in 2013 and 2014. However, due to its significant debt burden, it remains both illiquid and insolvent. All of these SEPs are considered to have very high VRF risk as they are both illiquid and insolvent —and may require a Government bailout.

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4 SEPs had lower VRF risk, as indicated by their financial status.

Other SEPs

There are 9 SEPs which made a profit, and were both liquid and solvent. Their financial status indicates that it may take relatively longer for such SEPs to be in a position of needing to seek a Government bailout. These SEPs are in the energy, mining, transportation and finance services sectors.

Non-commercial SEPs Fiscal Risk Status

SEPs with Very High VRF Risk

Very High VRF Risk refers to SEPs that are both illiquid and insolvent. In 2014 there were 11 non-commercial SEPs with very high VRF. These SEPs may call upon the Government for a bailout at any time, given that they are already insolvent and illiquid. These 11 SEPs are in the education, research and development, culture, health and postal and telecommunications sectors. Ten of these SEPs also reported a deficit.

SEPs with High VRF Risk

In 2014 there were 13 non-commercial SEPs with high VRF risks. High VRF Risk refers to SEPs that are illiquid. The 13 SEPs are in the research, social and development, financial services, education, agriculture, environment and transport sectors. While all 13 SEPs were illiquid there were 3 that were profitable.

SEPs with Lower VRF Risk

In 2014 due to their reported deficit 8 non-commercial SEPs had lower VRF risk. Their overall financial performance needs to be monitored more closely in an effort to avoid illiquidity/insolvency. These 8 SEPs operate in the financial services, health, agriculture and culture sectors.

Other SEPs

There were 14 SEPs with low risk, as deduced from their financial status. These SEPs were solvent, liquid, and reported a surplus. These SEPs may take a longer time, relative to their counterparts, before they call upon Government to rescue them.

Conclusion

Zimbabwe's SEPs were established to spearhead development by investing in industries where the private sector is reluctant to invest; to address conflicts of interest through regulatory agencies; to fulfil service delivery, social and research roles in various sectors. SEPs play a key role in advancing the economic development of Zimbabwe. The Government's economic blue print, ZIM-ASSET, acknowledges this pivotal role played by the SEPs for the advancement of the country's socio-economic development. The financial data reveal that measures should be put in place to improve the performance of SEPs.

The Government has already identified a number of constitutional and legal areas that call for specific action, including:

i) Section 195 of the Zimbabwe Constitution, as well as governing legislation, requires that enterprises conduct their operations to maintain commercial viability.

ii) Section 300 of the Zimbabwe Constitution gives guidance for limits of state borrowing, public debt and state guarantees; the Treasury is considering how best to limit guarantees to the SEP sector.

iii) The Public Financial Management Act imposes obligations, including deadlines for audit report submissions. However, these are currently poorly observed, although penalties for non-compliance are currently non-constant.

Annex 1

List of Non-Commercial SEPs included in the Baseline Database by Sector

Agriculture
Agricultural Marketing Authority Pig Industry Board of Zimbabwe Tobacco Industry & Marketing Board Tobacco Research Board
Culture
National Arts Council National Gallery of Zimbabwe
Education
Bindura University Chinhoyi University of Technology Great Zimbabwe University Harare Institute of Technology Lupane State University Midlands State University National University of Science and Technology University of Zimbabwe Zimbabwe Council of Higher Education Zimbabwe Institute of Public Administration and Management Zimbabwe Manpower Development Fund Zimbabwe Open University
Energy
Zimbabwe Energy Regulatory Authority
Entertainment
Lotteries and Gaming Board

Environment
Environmental Management Authority Forestry Commission National Biotech Authority Zimbabwe Parks and Wildlife Management Authority

Financial Services
Deposit Protection Corporation Insurance and Pension Commission Securities and Exchange Commission Zimbabwe Investment Authority Zimbabwe Revenue Authority

Health
Medical Control Authority National Aids Council Radiation Protection Authority Zimbabwe National Family Planning Council

Media and Communications
Broadcasting Authority of Zimbabwe

Transport
Zimbabwe National Road Administration

Research, Social & Development
Competition and Tariff Commission Consumer Council of Zimbabwe National Economic Consultative Forum National Incomes and Pricing Commission National Indigenization and Economic Empowerment Board Research Council of Zimbabwe Scientific and Industrial Research and Development Council State Procurement Board Zimbabwe National Statistic Agency

Portal and Telecommunication
Postal and Telecommunications Regulatory Authority Zimbabwe Academic and Research Network

List of Commercial SEPs included in the Baseline Database by Sector

Agriculture
Agricultural and Rural Development Authority Cold Storage Commission Grain Marketing Board
Culture
National Handicraft Centre
Energy
National Oil Infrastructure Company of Zimbabwe Petrotrade ZESA Enterprises ZESA Holdings (Company not the Group) Zimbabwe Electricity and Transmission Company Zimbabwe Power Company
Financial Services
Agricultural Bank of Zimbabwe Infrastructure Development Bank of Zimbabwe National Social Security Authority People's Own Savings Bank Small Medium and Enterprise Development Corporation
Health
National Pharmaceutical Company
Industry and Commerce
Industrial Development Corporation Zimbabwe Group
Media and Communication
New Ziana Printflow Transmedia Corporation Zimbabwe Broadcasting Corporation Zimpapers

Mining
Hwange Colliery Company Minerals Marketing Corporation of Zimbabwe Zimbabwe Mining Development Corporation

Postal and Telecommunication
NetOne Powertel TelOne Zimbabwe Posts

Transport
Air Zimbabwe Civil Aviator Authority Zimbabwe CMED National Handling Service National Railways of Zimbabwe Road Management Services Zimbabwe United Passenger Company

Environment and Water
Allied Timbers Zimbabwe National Water Authority

Portal and Telecommunication
Postal and Telecommunications Regulatory Authority Zimbabwe Academic and Research Network