

**REFORMING PUBLIC SECTOR ENTERPRISE:
A CASE FOR COMMERCIALISATION**

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INTRODUCTION

The major concern of the Zimbabwe government is the size of its budget deficit and all that come with it. In particular, the source of resources to finance the deficit, its impact on the productive sectors of the economy; money supply levels and the rate of inflation; the proportion of capital and recurrent expenditure etc. Reducing the size of the deficit becomes therefore one of the most important objectives of the Economic Structural Adjustment Programme (ESAP) embraced by government in 1990. Critics have pre-empted that the success of reforms being implemented in countries in the southern region (Zimbabwe included) is based on keeping budget deficits small, encouraging competition and higher productivity and abolishing marketing boards and privatising public enterprises (Poortman 1994; Hawkins 1993; Ndiweni 1993).

To succeed in reducing the budget deficit which is currently pegged at 10% of Gross Domestic Product (GDP), public expenditure curtailment and cost saving are the two avenues through which fiscal policy will be implemented (Rukobo 1991). Subsequent targets for redress are consequently the civil service and the public sector Enterprises. In other words reducing the budget deficit and reforming the Public Sector are but two sides of the same coin. This article is not going to address both target areas. It will focus only on the Public Sector Enterprises (PSE).

A Public Sector Enterprise (or Parastatal as they are popularly known in Zimbabwe) is a corporate body established by an Act of Parliament to carry out specific functions specified in the Act, which is governed by a Board of which all, or the majority of the members are appointed by the President, a Minister or the Parastatals Commission (Smith 1989). Both the successive colonial governments (before 1980) and the post independence nationalist government acknowledged the importance of PSE. Those established by the colonial governments were inherited at independence and new ones were created. The sector consists of 44 state owned enterprises at last count (Smith 1989) and account for not less than 30% of all social and economic activities (Gvt 1991). With such a high level of activity being performed in the state sector, the performance of and change in the PSE operations affect as a rule the outcome of the whole economy.

The introduction of the Economic Structural Adjustment Programme (ESAP) in 1990, put privatisation of and/or reforming the Public Sector Enterprises which account for 3.7% of the budget deficit high on the agenda of both government and financial donor organisations. Government concern on the contribution of PSEs to the budget deficit nonetheless dates back to the second half of the 1980s when the Smith Commission of enquiry into the administration of Parastatals was established to focus on, among other issues, the structure, organisation and performance of PSE (for recommendation see Smith 1989).

The elimination of losses of and subsidies to PSE, the argument goes, will move government towards its two pronged objective of reducing budget deficit to 5% of GDP and balancing recurrent expenditure with total revenues collected. The pertinent question lingering in the minds of reformists is how best can this be achieved preferably with(out) minimum negative implications.

With the current waive of "market friendly development" privatisation has become a major component of economic policy packages in the 1990's (Adam 1992) and is likely to remain so through into the 21st century. *However the success of privatisation in transforming the loss making PSEs in developing countries is already being questioned (ibid; Klitgaard 1991; Grosh 1992; Cook 1988, 1993) on the basis of lack of institutional foundations of free markets; the necessary environment for efficient market competition ; sound regulatory structures and other non-economic factors characteristic of these economies. The purpose of this article therefore is to examine the case for commercialisation against the background that economic variables as well as non-economic factors are taking the steam out of privatisation's "total onslaught" in developing countries.

The article is divided into five sections beginning with the introduction. The second will look at the trend of the budget deficit over a period of ten years from 1983-84 financial year and illustrate the relationship between deficit and public

investments and consequently with the PSE losses. A definition of the concept of privatisation and a review of the current debates on the same will be done in section three. An effort is made to demonstrate the causative relationship between privatisation on the one hand and profitability, growth and efficiency on the other hand. The role of ownership vis-a-vis the market environment, managerial culture etc provides the conclusion to the section. A case for commercialisation is discussed in the fourth section, followed in the fifth and last section by the conclusion.

BUDGET DEFICIT AND PUBLIC ENTERPRISES' SUBSIDIES

This section seeks to briefly analyse the relationship between the expenditure and revenue sides of the budget since the 1983-84 financial year. The aim is to highlight whether there is any relationship between the level of subsidies to parastatals and budget deficit and whether the outcome has had any multiplier effects on public sector investment.

Budgetary Trends: 1983-84 to 1993-94

In Zimbabwe the Budget covers a period corresponding to one financial year. Historical data indicate that there existed a negative relationship between the expenditure and the revenue sides since 1980. An overview of the past 10 years underscore this reality. The deficit during the first two years of the period under review (1983-84 and 1984-85) registered a high

budget deficit of 11%. In 1986 (the first year of the First Five year National Development Plan) the Budget deficit stood at 10%, one percentage point less, before rising to a staggering figure of 11,6% in 1986-87. A "see-saw" movement can be observed over the following years from a low of 9% in 1987-88 to 11% in 1988-89 and again to 9% in 1989-90. The reduced budget deficit achieved in the 1989-90 financial year was seen by many as the incentive for the timing of unveiling ESAP in the last quarter of 1990.

Budgets From 1990 (First year of the ESAP) however had a well spelt-out objective or intention with respect to the level of the deficit for the 1990s: to reduce the deficit to 5% of GDP by 1994/95 financial year. Implicit in this thinking one would argue, is an understanding that the various spending and revenues components are not independent of each other, in either the short term or long term. Spending cuts that depress activity also depress output or income sensitive receipt. Supply-side friendly tax cuts or subsidies may recoup that part of the initial budgeting cost. While these problems are not specific to the approach under scrutiny, they are important when policy response to "inconsistency verdict" is being pondered (Butter 1990).

The question of how government intent to tackle the budget issue in 1990s does not cease to amaze. But before any explanation is attempted at, a brief account of the variables that comprise the expenditure and revenue sides is necessary.

The expenditure side of the budget comprise recurrent and capital investments and; net lending. Recurrent expenditure is the most important of the expenditure side in terms of its share of the resources. This includes all the obligations for maintaining day to day government operations. It accounted for about 84% of total expenditure (on average) over the 9 years to 1992. Capital expenditure, which is the capital budget for public investment, investment and net lending accounted for 9%, 1% and 8% respectively. According to the 1990-91 budget the share of recurrent expenditure is put at 82%, but an increase to 84% in 1992-93 financial year is an indication that public sector investment continues to be constrained by the level of the recurrent expenditure even during the ESAP years.

Equally important is the revenue base to finance these expenditures. This side comprises of taxes/fees and aid/grants. Almost 97% of the total government revenue is generated from taxes/fees, aid/grants account for only 3% of total revenues. There is no space for tax increases as a source of more revenue as both corporate and personal tax rates are prohibitive. By widening the tax base (to include the small businesses previously exempted) government's intention could be two fold: to maintain the balance between expenditures and revenues and to cushion itself against the effects of the supply side tax friendly cuts which began with the 1991-92 budget. in spite of the well calculated intention yields from this sector of the economy will be minimal in the

medium term due mainly to the implementation problems likely to be encountered. It is on this basis that as far back as 1981 government put it clear that it did not "wish recurrent expenditure to exceed revenue from taxes, as the basic policy for allowing sufficient resources for investment". This criterion has not been achieved and the budget deficit remains high.

Given this scenario one is tempted to argue that the solution to the size of the budget deficit could be found on the expenditure side, particularly the recurrent expenditure item. This is precisely what government has come-up with in the 1990 budgets: reduce the expenditure side with minimal tax concession. The irony of the matter is to implement this policy directive without negatively disturbing the relationship between the expenditure and revenue sides. The objective, as outlined in the statement (Gvt 1991) is to address the problems facing the economy, stimulate economic activity, and achieve a sustainable rate of growth of 5% per year in real terms. To achieve the above government has since 1991 pursued an anti-inflationary policy closely linked to government spending restraint.

Budget deficit and PSEs' Subsidies

Why is the budget deficit central to the restructuring exercise? Firstly, the annual budget has developed not only into a central and independent instrument for resource mobilisation and distributions, but also into a major mechanism for restructuring of economic and financial policy. Secondly fiscal policy is largely to address to the problem of internal "imbalances", to bring aggregate demand in line with available resources and simultaneously stimulate domestic savings for both public and private investment.

Budget deficit consequently reflect the theoretical level of demand which can not be satisfied from own resources. The subsidies to PSEs as can be observed from Table 5 account for about 3.7% of the budget deficit. And the budgetary burden imposed by PSE may be met by measures that increase government revenue or reduce other expenditure or they may be passed forward into higher government deficits and hence be financed by borrowing or money creation. The latter seems to be more relevant to the Zimbabwean situation. In order to meet this demand government resort to borrowing from both foreign and local domestic markets. In this case the argument that not only are deficit reduction and public investments not mutually exclusive; the latter are more or less impossible without the former shows the complimentary relationship between the two.

Foreign borrowing, the argument goes, deprives the productive

sectors of the much needed foreign exchange precisely at the time that the productive sectors require foreign resources to re-equip. On a lighter note Table 3 shows that government has over the years been borrowing more on the domestic market (77%) and the remainder was sourced from foreign sources. A dramatic shift to external resources as the major source of budget deficit financing is observed with the introduction of ESAP. Local borrowing has plummeted from the high level of 94% in 1990-91 financial year to 60% and 57% in the following two financial years respectively. This could mean two things: First it could mean there is an increased availability of foreign currency on the market due to reduced demand induced by a combination of monetary and exchange rate instruments being implemented to combat money supply and external imbalance. Second is that the shift could be due to external pressures on the fiscal authorities to curtail inflation (Sepehri and Loxley 1992).

Domestic borrowing leads to the "crowding out" of the productive sectors. As mentioned above government financed its deficit from borrowing on the domestic market. Table 4 illustrates that much of the money was borrowed from non banking sector, limiting the inflationary gap to 26.7%. Inflation was contained at 15% and nominal interest rates averaged 12%, meaning that there was a negative real interest rate. Nonetheless limited consumer options and developed savings institutions helped to maintain a health savings rate of 20% per annum. These savings, coupled with negative real

interest rates and low private investment demand allowed central government to finance its fiscal deficits of over 10% of GDP without directly crowding out private investment and without foreign debt exceeding 57% of GDP (see Gvt 1991).

Government intention for the 1990s is, as has been discussed earlier, to reduce its deficit to 5% of GDP by 1994-95 financial year. This can not be achieved through generation of more resources but by reducing the propensity to consume. PSEs subsidies, the size of the public service and the policy of free education have been identified as the fertile areas for streamlining demand. Fiscal reform is a priority area in the 1990s where inflation and interest rates have recorded record figures of 46% and 49% respectively (in 1992). Productive investment has been negatively affected in the process. The urgency with which government would want to cut down on its expenditure can be assessed within this context. In such circumstances temptations to adopt crisis management policies and methods without understanding the processes by which expected improvements in performance are actually achieved become attractive.

PRIVATISATION AND PUBLIC SECTOR REFORMS

Is privatisation the appropriate policy instrument for transformation of PSEs in developing countries? Which comes first privatisation or PSEs reforms? These are the lead questions that this section will grapple with. The intended

objective is to highlight why privatisation is taking precedence over reforms on the donor community's economic programmes and illustrate whether it is indeed the right policy prescription for developing countries in their attempt to make PSEs profitable, efficient and simultaneously address the internal imbalance.

The unfolding of the Economic Structural Adjustment Programme has shifted speculation of the early 1990 into a cautioned debate on the impact of ESAP on both production and consumption. A combination of price de-control, devaluation of the dollar and the tight monetary policies have resulted in increased inflation, high interest rates and liquidity on the money market. As a result companies are closing down; shed off "excess" labour force and/or; work less days per week. Consumer resistance by the inflation hit urban inhabitants has made cost transfer by producers a mockery at the time of increasing manufacturing sector input cost and declining sales.

The budget deficit has remained around 9% of GDP two points off the target of 7% of GDP estimated for the 1991-92 financial year and even went further up the following year to 11% of GDP. These figures (9%;11%) are considered to be high by both World Financial Institutions (who are backing the adjustment programme) and Local economic analysts. A situation where government is moving swiftly in putting tight monetarist instruments in place whereas proceeding with

caution in reducing its expenditure is evident. The magnitude of the drought relief exercise in 1991-1992 (necessitated by the severe drought which devastated the whole region) and the political sensitiveness of drastically cutting public expenditure might be contributing to the lop-sided approach by government.

A new phenomenon is emerging out of the above equation, though unceremoniously. The high visibility of the Public Sector" as the single biggest consumer of national resources is embarrassingly imposing itself. The argument that government is "crowding out" the Private Sector and that it is the major source of inflationary spiral is becoming substantive. Consequently the chance of upsetting the balance between the politics and economics of adjustment (all important to politicians) is growing by day as Public Sector becomes more vulnerable to pressure from the private sector to "bite the bullet" and release financial resources to the latter.

To represent the above sentiments a new but pregnant economic concept, of privatisation has been on the local market since the unveiling of ESAP (Masuko 1992). Privatisation is a comparatively new word which made nor significant appearance in political or economic literature before 1979. Pirie (1988) defined privatisation as follows....

"Denationalization was taken (1951-55 Churchill) to mean the reversal of nationalisation, that is it meant handing back state industries to their previous owners. Privatisation by contrast, soon emerged as the process by which the production of goods and services was transferred from the public to the private sector.

At its lowest common denominator, it meant having done in the private sector that which previously had been done in the public sector."

Although Pirie went on to deal with this concept in a purely economic fashion it is (from his very definition) a concept that embraces economic, social and political connotations and should be treated that way.

Privatisation is a legacy of the Thatcherite era and the Chicago school of Economics. However, its popularisation in Zimbabwe could not have come at a better time when government expenditure and the Public Sector Borrowing Requirements (PSBR) are seen to be the main culprits responsible for the economic ills and particularly for the current high inflation. Above all, the argument runs, privatisation increases efficiency, reduces expenditure and is a precondition for economic growth (Pirie 198; Wessel 1991 and Moore 1992). The most appealing side of the argument is that proceeds from the programme could be used to offset other expenditure and finance the government tax reduction aspirations.

This model creates beyond any reasonable doubts massive incentives for "any government worth its salt" to put in place a privatisation programme. Marsh (1990) discussing privatisation under Thatcher admits that it is enough incentive to lull even the most sophisticated governments of the north. He observed that it is not surprising that the government seized upon privatisation as an alternative way to control the PSBR given that proceeds from such sales are

treated as negative public expenditures and reduce PSBR. However a different story can be told when the variables of profitability, growth and efficiency are brought in the model. Wessel (1991) in an effort to qualify his earlier assertion on the effects of privatisation agree that profits and margins in privatised firms have grown and employment has declined, but the causality seems to run from growth and profitability to privatisation and not the other way round. This seems to put to rest the claim by advocates of markets that state contraction or at least compression into appropriate activities is a precondition for proper market functioning (Lipton 1991).

Beyond political and ideological considerations the adoption of privatisation in developing countries can only be regarded as a temporary measure to respond to mounting pressure from the private sector organisations or to raise money without printing it in order to satisfy the supply side incentives. But as the two objectives are in themselves more political than they are economic, efficiency and economic growth are likely to be sacrificed on the altar of ad-hocratic expediency (Masuko 1992).

According to the rule of the thump, privatising an enterprise does not imply breaking its monopoly. Neither is the sale of assets a necessary and sufficient condition for widespread managerial change or change in the managerial culture in the privatised companies. As a rule competition will remain

severely limited and efficiency a pipe dream. Other underlying economic relationships are never taken to mind when privatisation is being marketed, argues Marsh (1990). Firstly there is the conflict between the need to ensure increased efficiency and the pressing desire to ensure a quick and successful sale. Secondly, because of the need to ensure management co-operation, efficiency which implied competition is likely to be compromised. Thirdly and more worrying is the fact that privatisation could be promoted even when such promotion would lead to increased public expenditure.

The claims of privatisation have been overstated and unsubstantiated. This is the conclusion drawn by Yoder et al (1991) in their study "Privatisation and Development: The Empirical Evidence". Nonetheless they caution that this is not to suggest that the solution is in the public sector either. Klitgaard (1991) concurred that the fact is neither the interventionist state or the minimalist state has guaranteed rapid development. Logically therefore hope lies in determining "the appropriate mix of public and private sector activity that, along with the proper regulatory and trade policy could lead to meeting national development objectives (Ibid). Some light at the end of the tunnel?

No! The ambiguity shrugged in this generalised statement tend to indicate that there is a centre stage somewhere between state and market or it could be what Wessel (1991) refers to as combining the market processes with public ownership. The

reminder from Wessel though is that this linkage is artificial and prone to breakdown in the face of the natural affinity between market forces and private ownership. It is hard to say what Wessel really understood by these linkages although his reference to the concepts of Kornai of weak (referring to the former) and strong (to the latter) indicates that something was amiss: reforming public sector enterprises as a policy instrument.

The "new school of thought" in this field of learning (Klitgaard 1991; Adam et al 1992; Marsh 1991; Grosh 1992; Cook 1988;1993) recognised that the debate has been fraught with ideological and political pitfalls, almost invisible for their visibility. To illustrate this Cook (1993) questions why the World Bank after recognising as far back as 1983 that it is not ownership so much as market environment, firm organisation and incentives that determines performance still blindly pressurise governments in developing countries to privatise as a short term measure. Whereas the argument for privatisation (Pirie 1988 ; CZI surveys; WB World Reports; IMF papers; Hawkins 1993; Ndiweni 1993) sounds conclusive, authoritative and restrictive the "new school" shifts the debate beyond the contagious state versus market perspective and highlights the need for diagnosis of the problem and prescriptions of not only the right medicine but also to the right doses.

Privatisation therefore can or can not be the right method for eliminating the drag that PSEs are on the fiscus; make them

efficient and profitable and simultaneously create the right environment for fair and efficient markets. This however depends on both the economic environment and the non economic factors at play in space and time. The privatisation crusade therefore represent one of those swings of pendulum of fashion in economic policy. To give the needed push to the pendulum from the "fire fighting" privatisation crusade Klitgaard (1991) poses two pertinent questions: How can the environment for fair and efficient markets be created? How can the PSE sector itself be made to function better? These are attempted at in the next section.

PSE REFORMS: A CASE FOR COMMERCIALISATION

Two important lessons can be drawn from the preceding section. First is that as much as privatisation holds the promise of contributing to the state treasury " immediately through public assets sale proceeds and eventually through higher tax revenues from more profitable enterprises..... widening individual participation in corporate ownership (Adam et al 1992) and enhance productive and allocative efficiency (Wessel 1991), the causative relationship between growth and profitability on one hand and privatisation on the other hand runs from the former to the latter and not vice versa. Second, it has ben observed that it is not so much of ownership than market environment, firm organisation and managerial incentives which determine the performance of companies. These two "set-pieces" are not mutually exclusive, they are

complimentary. They provide the parameter for the discussion in this section. The argument is that commercialisation is the most fitting policy instrument for reforming PSEs in Zimbabwe in the short to medium term.

The rationale on which the argument for commercialisation is being advanced is simple and straight forward. Consensus has it that Public Enterprises in Zimbabwe make heavy drafts on the national budget and are a drag on the economy. As a rule, the Zimbabwe government's aim is to eliminate the large budgetary burden of PSEs and make them more efficient (Gvt 1991). If the remedy depends on the diagnosis then to meet these two objectives a change in the modus operandi of the PSEs should be effected to conform with the commonly accepted commercial principles. The underlying causes of their poor performance, although not always important to critics, justify the approach. These are summarised below...

- i. Government pricing policies have not allowed a number of important PSEs to cover their costs.
- ii. "Soft budget" constraints enshrined in their Acts
- iii. Lack of autonomy and accountability of the PSEs Board of Directors and Managers.
- iv. Impact of external factors

The above causes are not only particular to Zimbabwe as other studies have shown (Grosh 1992; Selowsky and Karian 1991; Anglade 1993; ECA 1991). These put into perspective the need to create a conducive economic, socio-political and

institutional environment from below as the initial stage of transforming PSEs from loss making to efficient enterprises in developing countries rather than from the top as is the case through privatisation. Floyd et al (1983) pointed out clearly that profitable, efficient as well as PSEs operating in conformity with commonly accepted commercial principles would not constitute a drain on the financial resources or lead to monetary expansion.... Latest findings also confirm this position beyond any reasonable doubt as Adam et al (1992) show. They demonstrate that PSEs reforms have "directly contributed much more to rationalisation than privatisation and.... to overall improvement of fiscal balance. Grosh (1992) in her study of PSEs in Kenya was more precise when she observed that "... their success at containing unit cost and refraining from monopolistic pricing demonstrates that it is possible to appoint capable and public spirited managers who will do a good job without punitive or restrictive controls."

In Zimbabwe commercialisation should therefore be directed at addressing the causes of poor performance in these companies and eliminate losses. Table 6 demonstrates that by eliminating losses of and therefore subsidies to PSEs the other objective of treasury (balancing total revenues with recurrent expenditure) *ceteris paribus*, and to the extent of creating a saving, will be within reach. However resistance to commercialisation, as is expected to any change, from interest groups which would stand to benefit more in the case of privatisation has been open and blunt. It is viewed (in these

circles) merely as a bureaucratic move which will only add another layer on their unit cost of production, eventually leading to pricing them out of business.

None-the-less what is emerging out of this dimension is that whereas losses are incurred at the PSE level, private firms are subsidised in the process. Although the Cotton Marketing Board (CMB) and the National Railways of Zimbabwe (NRZ) etc are criticized (by the private sector) for making perennial losses, consumers of cotton lint and related products or of rail services benefit handsomely. In spite of existence of this invisible relationship there is no social accounting matrix to clearly represent these transactions. The benefits are therefore not reflected both on the market and on the balance sheets of the beneficiaries. A more recent example pertains to the commercialisation of the CMB which among other changes increased the price of cotton lint to border price level (export parity price) (the price was 45% less before the increase). This change prompted the whole textile and clothing industry to lobby with government for a redress resulting in government intervening to cut the price temporarily by about 21%. This indicates that as soon as PSEs start to operate profitably those who used to collect excess rents would feel the pinch on their balance sheets.

Critics though should borrow a leaf from Adam et al's (1992) and Cook and Monique's (1988) important contributions to policy in this area of reforms. Two important variables of economic environment (see Adam for discussion) and non-economic factors (see Cook) have to be taken into account when policy changes in developing countries are advocated for. Two recent evaluative studies on the progress of the implementation of privatisation confirm the relevance of these variables. The seminal volumes (Adam 1992; Grosh 1992) both reviewed by Cook (1993) point to the fact that prospects for privatisation remain limited. Adam rightly points out that "where competition policy, market structure and regulatory environment are underdeveloped the transfer of assets ownership can simply result in continuing operating inefficiencies with excess rents being collected by the private sector instead of the public sector". High foreign participation is observed in the privatised enterprises and a large proportion of the privatisations recorded were made outside of the formal markets, a finding which Cook concludes, brings into question whether capital markets represent formidable constraints to asset sales or whether as vehicles, they are crucial for stimulation of private sector development.

However Adam et al's main worry is in achieving the goal of improved efficiency, indeed the central economic argument for privatisation - which he admits is most often subordinated when trade-offs occur. He writes...

"Not only will the programme come against the binding constraints of the economy, but also the political intervention required to secure the success of privatisation in periods of crisis may actually 'lock in' welfare reducing elements. Underwriting and underpricing arrangements, guarantees on market access, and over generous restructuring, which are required to see sales proceed in such circumstances are precisely such impediments to efficiency-enhancing privatisation."

In Zimbabwe the deregulation of the economy in general and the attempts at commercialisation in particular have led to new actors penetrating into areas where PSE monopolies existed. Specific reference can be made in the case of those sectors which were exclusively the domain of Marketing Boards (Cotton; Beef; Grain and Milk). PSEs have to compete or sink. If it is upheld that competition is the best measurement of efficiency - whether productive or allocative - then the preliminary observation that in these sectors competition is starting to direct the market is a health indication that improved efficiency is being enhanced and from below.

These however are preliminary observations which need to be taken with caution. More indepth and broader studies have to be carried out to assess the impact of these changes on the performance indicators of PSEs; on the character and nature of the new actors in the market. The effect of PSE reforms on the other sectors of the economy (particularly those sectors that benefited from subsidies) should also be assessed. What changes can be observed in what Adam and Cook identified as economic environment and non-economic factors respectively as PSE reforms proceed?, etc.

CONCLUSION

It is true that many public enterprises make heavy drafts on the national budget and are a drag on the Zimbabwean economy. Correctly pointing this out by no means creates an assumption of the opposite kind, that the state can never be relatively more competent to perform entrepreneurial functions than the private sector. It may be or may not, depending on time, place and circumstances of a particular sector and industry within the economy.

The appropriate policy approach in the short and medium term is to commercialise the PSEs as it addresses all the factors constraining their performance. This would cut the losses of these enterprises and reduce the budget deficit, *ceteris paribus*, to around 5% of GDP; balancing off the revenue and recurrent expenditure in the process. It has been observed also that new actors enter into different sectors previously administratively protected for PSEs, as reforms proceed. The new development is contributing to the development of a competitive environment, a precondition for productive and allocative efficiency. As a rule the economic environment and non-economic factors which constitute the necessary and sufficient conditions for privatisation, become, within the parameters of this approach to efficiency and growth, products of commercialisation rather than constraints on its implementation as is the case with privatisation.

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