

Policy Brief

no.19 | July 2010

CIGI POLICY BRIEFS

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The Environment and Corporate Governance in Zimbabwe¹

Hany Besada and Karolina Werner

Formerly one of Africa's most promising economies, Zimbabwe has begun a process of economic reconstruction after decades of political turmoil and economic mismanagement. The advent of a national unity government in February 2009 launched a new but still tentative era of political stability.² The government has a daunting political and economic agenda. Top priorities include restoring the rule of law, demonstrating fiscal responsibility, and putting in place macroeconomic and structural reforms to win the confidence of domestic and international investors.

The government is clearly aware that it needs the private sector and its technical expertise to help drive the economic reconstruction effort. Economic Planning and Development Minister Elton Mangoma said recently: "As Ministers of the government, we will have to mingle a lot more with businesses, consult them a lot more meaningfully, and make sure that if they have any concerns, that these concerns are dealt with" (Swanepoel, 2009). He acknowledged that Zimbabwe lacks sufficient domestic resources and is looking to the business sector to revitalize the economy.

Recent government policy measures have attempted to stimulate investment in areas such as resource extraction that depend on foreign investment. Some initiatives aim to develop private sector activity in health care and other social services as the country responds to health threats such as HIV and AIDS (National Strategic Framework for the Private Sector Responses to HIV and AIDS, 2007); others seek to increase Zimbabwe's manufacturing capacity or promote trade. For example, the 2009 national budget eliminated exchange controls, allowing corporations and individuals to repatriate dividends and profits made on operations in the country. The scrapping of foreign currency controls has allowed business transactions to be conducted in a variety of foreign currencies, principally the US dollar, South African rands and Botswana pula.

Other measures in recent months include the strengthening of the Zimbabwean Investment Authority, the country's investment promotion agency, as a one-stop shop for investment facilitation. Through the Short Term Economic Recovery Program (STERP)³ of March 2009, Zimbabwe's government pledged to adhere to its bilateral and multilateral obligations concerning the protection of foreign investments covered by Bilateral Investment Promotion and Protection Agreements (BIPPAs), and pledged adherence to the rule of law.

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Notwithstanding these actions, uncertainty remains about the government's commitment to a secure a predictable environment for long-term investors. Feeding this uncertainty is the land ownership question and the controversial "indigenization" regulations; these regulations, if approved, would force foreign companies to yield 51 percent of their shares to Zimbabweans. If made mandatory, this outcome would likely derail the progress made since February 2009 to rehabilitate Zimbabwe's image in the eyes of international donors and foreign investors.

Of critical importance, attention must also be paid to Zimbabwe's environment, which has suffered extreme neglect in recent years. Economic development is closely linked to the development of natural resources. In the tourism sector that formerly represented a significant portion of the Zimbabwean economy, the Land Reform program launched in 2000 had disastrous consequences, and the recovery of the sector hinges on sustainable management and new policies. Until now, environmental protection legislation in Zimbabwe has been ineffective, giving wide latitude to and limiting the responsibility of multinationals that operated under the Mugabe regime. Government efforts have failed to stem large-scale deforestation, pollution and threats to wildlife. Located in one of the world regions hit hardest by climate change, Zimbabwe needs also to adapt to and mitigate the impacts of this global threat while tackling severe economic and social problems. While many people realize that the private sector is potentially well positioned to play a catalytic role in Zimbabwe's reconstruction, these efforts must be accompanied by binding safeguards for the protection of Zimbabwe's environment.

Corporate Governance Code

Recent initiatives have focused on the development of a corporate governance code and the promotion of corporate social responsibility (CSR) — also called corporate citizenship — as a guiding concept for business operations in the country. CSR was considered in Zimbabwe in the past through the Environmental Impact Assessment Policy (EIAP) established in 1994;⁴ however, the law was non-mandatory and, therefore, largely ineffective (Maphosa, 1997). This is not surprising; the Benchmark Corporate Environment Survey done by the United Nations Conference on Trade and Development (UNCTAD) in 1990-1991 found that the motivating factor for transnational corporations to develop environmental policies was legal liability, in their home country in particular (UNCTAD, 1993).

More recently, the unity government has endorsed an initiative by the Zimbabwean Leadership Forum to establish a corporate governance code. The drafting of the code began in November 2009, and it is expected that it will be finalized by October 2010 (Kangondo, Fanuel, 2009; The Herald, 2010). As part of a large-scale marketing strategy designed to attract short- and long-term investments, the code will target local and external investors, aiming to reassure them their investments are entering a secure market. A significant aspect of this initiative is the involvement of stakeholders, including the government and the international community through the World Bank. The viability of the initiative depends on the participation of these actors and other private and public sector institutions that are invited to participate. The Forum's hope is that the existence of a code will be followed by better corporate governance in the country.

But the code will only be beneficial if it supports the creation of a sustainable and

ISSN 1915-8211 (Print)

ISSN 1915-822X (Online)

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environmentally friendly corporate sector. To meet this goal, the code's drafters must take into account current knowledge available internationally regarding sustainability and corporate management, and be tailored to the specific needs of Zimbabwe. Domestic challenges include attracting foreign direct investment and luring back millions of skilled and unskilled workers who left the country in the Mugabe years, and environmental issues such as recurring droughts and water scarcity. Zimbabwe's new corporate governance code should not only enhance the country's standing internationally and regionally in the business community, but also enforce sustainable practices through clearly outlined rules, responsibilities and benchmarks for measuring success.

Learning from South Africa – The King III Report

Various international and regional benchmarks have already been created, and the corporate governance code in Zimbabwe will rely on precedents set in the King Report on Governance for South Africa 2009, commonly known as the King III Report.⁵ Due to geographical proximity, Zimbabwe's economy relies heavily on South Africa with which Zimbabwe has close political, economic and cultural ties. It is looking to its southern neighbour as both a model for reform and in recognition of the fact that complementary regulations will benefit both countries (Kangondo, 2009). The King III report, released in February 2009 and effective as of March 2010, builds on two previous versions, King I (1994) and King II (2002),⁶ which have increasingly introduced the concept of "stakeholders" and "the triple bottom line" for social, economic and environmental performance of corporate entities.

The report provides guidelines and principles for boards and directors of corporations, with sections on corporate citizenship, risk management and integrated sustainability reporting, among others. Many aspects of the King III report can be adapted as part of a corporate governance code for Zimbabwe. They include:

Flexible application of provisions, based on "apply or explain." Businesses have certain flexibility in the application of the standards set in the King III report. They are free to choose alternative methods of addressing certain issues, but companies not adhering to the standards in the code are obligated to explain their decisions and their choice of alternative methods. A similar approach in Zimbabwe would provide a stronger legal tool than the current EIAP while still allowing corporations to make decisions based on the best interests of their stakeholders. The code and any policies associated with it would need to have a legislative basis (including provision for an "apply or explain" scenario) and the government would need to take on an enforcement role.

Promoting sustainability through the use of the "triple bottom line." The triple bottom line is a concept of operating a business that considers all three aspects of a company's social, economic and environmental performance as part of an overall approach to sustainability and long-term planning. It also promotes awareness of sustainability issues within the business community. Most private-sector initiatives have long-term plans, and large-scale operations need to avoid depleting the natural resources needed to run their operations. It is increasingly obvious that social and environmental factors have financial implications; water scarcity, for example, can have far-reaching consequences on businesses that rely on water in the production process. Furthermore, use of water in an area where this resource is scarce can produce tensions between

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the company and the community. Requiring companies to adopt the triple bottom line concept in combination with integrated sustainability reporting and disclosure (see below) will ensure transparency and accountability in corporate operations — from which both the government and private sector can learn. This is especially important in Zimbabwe, where hitherto corruption has permeated much of the interaction between the public and private sector.

Corporate citizenship. Corporate citizenship requires that a business shows responsibility and integrity in its choices and contributes to the well-being of society and the ecology. Some mining corporations in Zimbabwe have established beneficial social and infrastructure programs in their communities, such as building dams to improve the reliability of water supply to the area, and financial contributions to local schools and health clinics.⁷ Private sector adherence to corporate citizenship principles can facilitate the formation of public-private partnerships with mutual benefits to companies and society. Such actions can lead to an improved level of trust on the side of the government, as the business sector demonstrates that it has an interest in sustainability and improved social conditions. Government, on the other hand, can encourage these kinds of corporate social investments by offering incentives, such as tax deductions or credits, on the costs associated with these social and infrastructure projects.

Including environmental impact assessments as part of required risk management and reporting. Building on Zimbabwe's experience with the EIAP, businesses should be required to report on sustainability risks, including the direct and indirect impact of their activities on the environment. Particular attention is required on issues such as energy use, greenhouse gas emissions, and water supply and demand. Alternative methods, which increase the positive and decrease the negative impacts on the environment, should be considered and implemented appropriately.

Transparency and accountability. Company reports should communicate all relevant issues to stakeholders in a transparent fashion. Sustainability reporting includes the long-term economic and social impacts of a company's operations, and environmental impacts such as energy use and waste production and disposal. In turn, the government should be transparent about how it addresses issues raised in these reports, and employ similar techniques in its own reporting. Integrated reporting should become standard procedure, with independent confirmation of reports, using international or regional auditing standards.

Conclusion

The King III Report provides useful building blocks for a new approach to the private sector's role in Zimbabwe through the creation of an effective corporate governance code. Other international initiatives can offer useful lessons and insights as Zimbabwe develops its legislation and policies. Examples include the United Nations Global Compact,⁸ the European Union *Green Paper on Corporate Social Responsibility*⁹ and the OECD *Guidelines for Multinational Companies*.¹⁰ The new corporate governance code should not only enhance the country's standing with the business community internationally and regionally, but also help entrench sustainable practices through clearly outlined rules, responsibilities and benchmarks for measuring success, all of which ultimately stand to benefit the country over the long term.

Endnotes

1 This policy brief took its inspiration from the CIGI co-sponsored May 2009 international investment and economic workshop in Zimbabwe entitled “Preparing For Zimbabwe’s Growth Take-Off” and subsequent discussions in South Africa. The brief is geared at Zimbabwean policy and decision makers. The authors would like to thank Max Brem and Jorge Heine for comments on previous drafts, and Tammy McCausland and Matthew Bunch for editorial assistance.

2 A government of national unity between the opposition Movement for Democratic Change (MDC) and Robert Mugabe’s Zimbabwe African National Union-Patriotic Front (ZANU-PF) came into being in February 2009 following the inaugurations of Morgan Tsvangirai as prime minister and Thokozani Khuphe and Arthur Mutambara as deputy prime ministers.

3 As part of a concerted effort in dealing with the collapse of the economy, the government introduced the Short Term Emergency Recovery Program (STERP), which will cover the period February to December 2009. STERP is essentially an emergency short term stabilization program designed to stabilize the micro and macro-economy; recover the levels of investment, savings and growth as well as the lay the basis of a more transformative mid- to long-term economic strategy needed to transform Zimbabwe into a progressive developmental state with the needed resources to turn the economy around. It was envisioned to work within the new unity government’s economic strategy. Zimbabwe’s hyperinflation, once the highest in the world, at 500 million percent in September 2008 forced the new unity government to abandon the Zimbabwean dollar in favour of a multicurrency system by March 2009. The adoption of the US dollar as the standard currency of exchange has tackled hyperinflationary pressures. The country now has the lowest inflation in Southern Africa of about 3 percent in August 2009.

4 The EIAP, established by the Ministry of Environment and Tourism, was not legally enforced and was treated as a voluntary guideline. For more detailed information, see Webster Chinamora (1995). “Zimbabwe’s Environmental Impact Assessment Policy of 1994: Can it Achieve Sound Environmental Management?” in *Zambezia*. Vol. 22, No.2.

5 For the King III Report see: http://www.iodsa.co.za/downloads/documents/King_Code_2009.pdf.

6 King III builds on the two previous reports by including and expanding on risk management sections, independence of directors, and most importantly, on integrated reporting among others. For more information on King I and II see the Institute of Directors in Southern Africa at: <http://www.iodsa.co.za/>.

7 See, for example, the Anglo Platinum website, “Social Impacts” section at: http://www.angloplatinum.com/def_main.asp?Id=sustainable_development/sd_social_impacts/sd_si_chair_fund/sd_si_chair_fund_main.asp&Related=true.

8 The UN Global Compact, launched in 2000, is a strategic policy initiative which groups businesses committed to sustainability and responsible business practices. See <http://www.unglobalcompact.org>.

9 See http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!DocNumber&lg=en&type_doc=COMfinal&an_doc=2001&nu_doc=366.

10 See: http://www.oecd.org/document/28/0,3343,en_2649_34889_2397532_1_1_1_1,00.html.

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CIGI was founded in 2002 by Jim Balsillie, co-CEO of RIM (Research In Motion), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario. CIGI gratefully acknowledges the contribution of the Government of Canada to its endowment fund.

Le CIGI a été fondé en 2002 par Jim Balsillie, co-chef de la direction de RIM (Research In Motion). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario. Le CIGI exprime sa reconnaissance envers le gouvernement du Canada pour sa contribution à son Fonds de dotation.

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