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Evaluating Privatisation in Zambia: A Tale of Two Processes

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The programme of state enterprise privatisation pursued by the Zambian government since 1992 has been subject to a number of conflicting evaluations. For some it is a model programme, 'the most successful in Africa' (Campbell White and Bhatia, 1998), which stands as an example to other developing countries. For others, it is a deeply flawed experience which allowed for the corrupt acquisition of assets by those linked to the ruling party. This paper argues that these conflicting evaluations are the result of two underlying processes which reflected the political and economic environment in which the policy was implemented. This required the Zambian government to balance, on the one hand, the demands of northern donors and the Bretton Woods institutions that international capital should be provided with an attractive and secure environment for investment and, on the other hand, those in the ruling party's domestic constituency who regarded privatisation as an opportunity for personal accumulation.

Background & Overview

Zambia's state enterprise sector was built up primarily in its first decade of independence (1964 to 1974). Burdened with a mono-economy based on the production and export of copper, the United National Independence Party (UNIP) government, led by President Kenneth Kaunda, pursued a policy of import substitution industrialisation (ISI). The state played a direct role in implementing this strategy and entered into joint ventures with foreign corporations to establish a range of new industries. In addition, between 1968 and 1972, Zambia enacted a programme of nationalisation, acquiring a controlling interest in many of the most important private sector enterprises, including the copper mining companies. By the mid-1970s, most of the main enterprises in the economy were under state ownership and were held within a hierarchy of state holding companies, at the summit of which was the Zambia Industrial and Mining Corporation (ZIMCO).

The performance of the state enterprise sector over the subsequent one and a half decades proved to be disappointing as it fell into a malaise of low profitability, under-investment and high indebtedness. While the current orthodox view is that such results are the inevitable consequence of state ownership, a number of more concrete problems can be noted which largely account for the experience of Zambia in this period. Among these were the decline in international copper prices which brought a prolonged recession to the entire economy, the weakness of Zambia's managerial resources and certain conflicting objectives which the government sought to pursue through the sector. Although, in the 1980s, the Zambian government worked with the

World Bank and other aid donors to rehabilitate the state enterprise (or parastatal) sector, these initiatives generally proved to be of limited success.

At the end of the 1980s, the Zambian government came under increasing pressure from the IMF, World Bank and donors to pursue an orthodox structural adjustment programme in which privatisation was a key component. Although the Zambian government accepted the principle of privatisation in 1990, their initial plans for its implementation were quite limited. The situation changed with the defeat of President Kaunda and the UNIP government in the elections of November 1991. They were replaced in government by the Movement for Multi-Party Democracy (MMD), headed by Frederick Chiluba, which was more strongly committed to structural adjustment. The implementation of liberalisation was swift and far reaching (Kapoor, 1995; McPherson, 1995; White, 1997). By early 1993 the government had effectively removed all controls over prices, interest rates, foreign exchange rates and foreign currency allocation and had eliminated subsidies. Trade policy was also liberalised with the removal of quantitative restrictions on imports and exports, and the tariff structure was simplified.

Table 1: The Extent of Privatisation in Zambia, 1992 to March 2000

Size Of State Enterprises	Number of State Enterprises in Original Portfolio	Number of State Enterprises Privatised	Number of State Enterprises Remaining in State Ownership
Size Unclassified	9	1	8
Large Enterprises	27	19	8
Medium Enterprises	27	24	3
Small Enterprises	81	69	12
Total	144	113	31

Source: J Craig, *State Enterprise and Privatisation in Zambia 1968 to 1998*, PhD thesis, University of Leeds 1999, with additional, updated information drawn from reports in *The Post* and *The Times of Zambia*. Size classifications are those used by the ZPA.

The MMD launched a comprehensive privatisation programme in 1992 which has resulted in the majority of state enterprises being transferred into the private sector. As shown in Table 1, by the end of March 2000, 113 enterprises out of the original portfolio of 144 had been privatised (Endnote 1). This included 70 per cent of enterprises rated large and over 85 per cent of enterprises classified as medium or small sized. In the course of this the ZPA had raised over US $70m in sales proceeds (*The Times of Zambia*, 24 October 1998) and in addition to attracting new investment from major transnationals based in Britain, South Africa and the United States, it could also claim that seventy per cent of sales were to Zambian citizens (*Business Day*, 9 June 1999).

The only exception to this pattern of success is among those enterprises unclassified by size. This reflects the strategic and utility nature of this group, which included enterprises engaged in sectors such as transport, energy and communications. The one instance in which privatisation has occurred is the case of the state copper mining enterprise, Zambia Consolidated Copper Mines (ZCCM), which was completed in March 2000. This was an enterprise of great economic as well as symbolic importance, accounting for around ten per cent of gross domestic product and three quarters of all foreign exchange earnings. It can be concluded, therefore, that while some enterprises remain within state ownership the overall level of privatisation under the MMD government has been substantial and has affected the core sectors of the economy.

Interpretation One: The Programme as a Success

While Zambia's privatisation programme has been praised in many quarters, perhaps the most influential assessment has come from the 1998 World Bank study *Privatisation in Africa*, written by Oliver Campbell White and Anita Bhatia. The study examined the privatisation programmes pursued in ten sub-Saharan countries and evaluated them on the basis of eight indicators which were identified as appropriate to measure aspects of the programmes' design, implementation and results (Endnote 2). With six scores of 'high' and two of 'medium'(see Table 2), Zambia was deemed to have outperformed the other countries studied. On this basis, Campbell White and Bhatia (1998:4-5) concluded that Zambia's programme was the 'most successful' and provided many examples of 'best practice' that should be followed by other countries (Endnote 3).

A full critique of the comparative methodology employed by Campbell White and Bhatia is outside the scope of this paper. However, it may be noted that it is vulnerable to a number of lines of criticism. For example, one of the eight indicators was designed to assess the impact of the programme upon government finances. This was measured on the basis of the average annual sale price as a proportion of total government revenue over the period of the programme. Zambia achieved a rating of 'high' on this measure, with privatisation proceeds equalling almost seven per cent of Government revenue over the period of the programme. However, this approach arbitrarily favours countries which undertook privatisation over a shorter period and those in which the government has fewer alternative sources of revenue. In addition, it ignored two further points. The first is that the potential for privatisation to improve government finances lies as much in the impact on recurrent expenditure as on the capital receipts generated by the sale. Second, sales revenues may legitimately be sacrificed for other objectives such as promoting competition by breaking up state monopolies. In Campbell White and Bhatia's study neither of these issues is addressed, although both have previously been identified by other World Bank studies (Nellis et al. 1992:30-1 and 44-5).

Table 2: Zambia's Privatisation Performance

Performance Indicator	Zambia's Rating
Indicators of Process	
Government commitment	High
Programme design and management	High
Transparency of procedures	High
Efforts to broaden ownership	High
Indicators of Result	
Extent of privatisation	High
Financial impact on government	High
Foreign direct investment generated	Medium
Post-privatisation performance of enterprises	Medium

Source: Campbell White and Bhatia (1998:106-13)

While similar reservations could be expressed about the measurement of the extent of privatisation, the foreign direct investment generated and the post-privatisation performance of enterprises, this paper will concentrate upon the institutional arrangements for privatisation (programme design and management; transparency; government commitment; and broadening ownership), which were put in place in Zambia. This is for two reasons. First, Campbell White and Bhatia (1998:111) identify these as the main reasons for the successful outcome of the programme. And secondly, it is Zambia's institutional arrangements which are seen as a model for other countries. Within these areas they commend: the creation of a single privatisation agency with legislative authority and procedures to ensure transparency and accountability; the commitment of the government to the success of the programme as demonstrated by it's willingness to address obstacles to its implementation; and the steps that have been taken to broaden ownership (Endnote 4).

The legal framework was provided by the *Privatisation Act* which was passed in July 1992 (Endnote 5). Its central provision was for the establishment of the Zambian Privatisation Agency (ZPA). The ZPA was created under the direction of an independent board whose members were drawn, predominantly, from civil society. Organisations which the legislation required to be represented on the board were, among others, the trades unions, the churches, the Chambers of Commerce, the Bankers Association and the Institute of Certified Accountants. Each of these appointments was subject to the scrutiny and ratification of the National Assembly.

The ZPA was given a wide range of duties covering both the design and the implementation of the policy. It was to recommend to the cabinet:

- Privatisation policy guidelines;
- A timetable, or sequence plan, for the sales;
- The method of sale of each individual enterprise.

On the basis of approval the agency was required to:

- Screen potential investors through the setting of pre-qualification criteria;
- Prepare all documentation necessary for a sale;
- Arrange for the independent valuation of enterprises and assets to be sold;
- Evaluate of bids on the basis of price, the background of the bidder and the ability and commitment of the bidder to develop the enterprise;
- Appoint independent negotiators to agree the terms of the sale.

The completion of each sales transaction was further subject to the approval of both the Attorney General and the Minister of Finance and the ZPA was required to publish details of the bidders and their offers, the reasons for the selection of the winning bid and the price and terms of sale. Through these procedures, the Act clearly sought to ensure that a high level of transparency and accountability would be maintained during the privatisation process.

Although the Privatisation Act placed no general restrictions on the participation of foreign investors in the programme, a number of provisions were included which were aimed to assist local investors. The ZPA was also empowered to unbundle large enterprises into smaller units which were generally more accessible to Zambian citizens. In addition, the stipulation that the ZPA could not offer enterprises or shares on credit was relaxed so that citizens could make payments for shares by instalments. The Privatisation Act also provided for the establishment of the Zambian Privatisation Trust Fund (ZPTF) to promote the sale of shares in some of the privatised companies to Zambian citizens. This was established under an independent board in 1993 with the management placed in the hands of a local merchant bank. The trust deed allowed it to acquire a minority interest in newly privatised enterprises which could subsequently be sold to Zambian citizens in small quantities at a discount price, with bonus issues to long term investors.

The government also legislated in a number of related areas to support the privatisation process. In 1993, for example, the Securities Act made regulatory arrangements for a stock exchange to be established, resulting in the formation of the Lusaka Stock Exchange (LuSE), while a new Investment Act offered improved provisions to foreign investors. In addition, the government proved itself willing to address other obstacles to privatisation. The ZPA complained that ZIMCO (the central state holding company which had provided the umbrella under which the network of state enterprises were grouped) was slow to collate the necessary documentation for the completion of sales and accused it of leaking confidential information to the press in an attempt to derail the privatisation process (ZPA 1993:19-22). With the strong encouragement of donors, the government announced, in early 1995, that ZIMCO would be liquidated. This was interpreted by donors as a demonstration of Zambia's commitment to privatisation.

For Campbell White and Bhatia, the commitment shown by the government and the institutional arrangements which it had created were the basis of the successful implementation. They accounted for Zambia's superior performance and provided a model for other developing countries seeking to pursue a policy of privatisation.

Interpretation Two: The Programme as Less Successful

Alongside this positive interpretation of the Zambian privatisation process has grown a rival interpretation which characterises the programme as a deeply flawed process. In contrast to the positive interpretation which is widely accepted at the international level, this second interpretation has been more influential locally and among some NGOs. It is also expressed unofficially in some diplomatic circles and among some academic observers (Szeftel, 2000:218-9). The main Zambian opposition parties, for example, while generally accepting the principle of privatisation, have criticised its implementation under the MMD. UNIP, for instance, has argued that the programme has been designed to benefit MMD leaders and foreign enterprises, rather than the majority of Zambian citizens (*The Post*, 8 November 1995; and 13 August 1998). This claim has been echoed internationally. In the words of the Executive Director of Transparency International, 'Zambia's privatisation was a looting exercise ... Government Ministers simply grabbed the assets' (*Institutional Investor*, 31 December 1998). Such criticisms are not without foundation, and this section will examine some of the evidence which support such claims.

The arrangements for accountability, transparency and independent oversight which were enshrined in the Privatisation Act have not always been implemented adequately. For example, in 1997 Dipak Patel MP, who as Trade and Industry Minister had been responsible for the drafting of the Privatisation Act in 1992, criticised the ZPA for having ceased to disclose all the information which it was required to under the Act (*The Times of Zambia* 4 December 1997). Another area of concern has been the vacancies on the Board of the ZPA. In December 1998, a Parliamentary Committee noted that the seats reserved for representatives of the churches, the Law Association and the Bankers Association had been vacant for over two years and it also criticised the re-appointment of a number of board members who had previously been removed for contravening ZPA regulations (*The Times of Zambia*, 8 December 1998 and *The Post*, 1 December 1997). Questions have also been raised over the ZPA's selection of outside consultants to undertake valuations and negotiate the terms of sale for enterprises. It has been suggested that in allocating these lucrative engagements, the criteria for selection has not been transparent and that the ZPA has favoured a small number of firms (*The Post*, 9 April 1997 and *Times of Zambia*, 3 December 1997) (Endnote 6).

Provisions for transparency, moreover, have not avoided controversy with regard to the acquisition of enterprises by members of the government and the ruling party. While the Privatisation Act did not prevent a political leader or public officer from acquiring an enterprise, it did require that they should disclose their intention to bid. A number of ministers and party leaders have been active participants in the process and have successfully acquired enterprises and assets. Concerns have been expressed by the opposition parties that they have used their influential positions to gain an advantage in the privatisation process and, in at least one case, this has been admitted by the government (*The Post*, 10 October 1996). It is important to note, however, that the acquisition of assets by political leaders is not unregulated and the ZPA has acted, on occasion, to repossess assets from government ministers who have defaulted on payments (*The Post*, 29 May 1996). However, these cases illustrate instances in which the provisions of the Privatisation Act appear either not to have been fully implemented or to have proved inadequate, and certainly they provide a counter balance to the evidence presented by Campbell White and Bhatia (1998:156), who noted that 'Zambia was the one country in which not one interview revealed any concern about the transparency of the [privatisation] process'.

The arrangement for the supervision of state enterprises before they are privatised has also been subject to criticism. Following the liquidation of ZIMCO in 1995, the responsibility for overseeing its remaining subsidiaries companies was passed to the Ministry of Finance, acting as the agent of the liquidator. The Auditor General was critical of this arrangement, which added to the complexity of their supervision and increased liquidation expenses (*The Post*, 25 October 1996). These arrangements also proved to be inadequate for ensuring that the assets of the enterprises were properly safeguarded and both the Auditor General and Parliamentary Committee concerned with state investments have highlighted cases of asset stripping by enterprise managers (*The Post*, 22 October 1996 and 1 December 1997; *Times of Zambia*, 11 October 1996). While the justification for abolishing ZIMCO had been that it held back the ZPA in the implementation of the privatisation programme, the ZPA continued to depend upon the co-operation of other state bodies, including the Government, which has itself been criticised for slowing down the process (*The Times of Zambia*, 14 January 1997).

The adequacy of the arrangements for ensuring that ownership would be broadly distributed to Zambian citizens can also be questioned. While it was originally expected that at least ten enterprises would be privatised through the majority of their shares being sold directly to the public, no enterprises have been sold using this method. However, agreements have been reached in at least fifteen cases of privatisation for a minority interest to be made available to the Zambian public through the ZPTF. So far only five have actually been floated on LuSE. In two of these cases, the demand for the shares was significantly lower than had been expected and, in both cases, resulted in the timetable for sales being suspended (the last occasion when the ZPTF floated a minority shareholding on LuSE was National Breweries in March 1998).

A number of reasons have been cited for the limited capacity of the Zambian economy to absorb these share issues. For example, the Securities and Exchange Commission and others involved in the privatisation process have complained that the minimum number of shares for which application could be made has been set at too high a level for many Zambians to participate and this has been aggravated by the absence of collective investment vehicles such as unit trusts (*The Post*, 15 August 1996 and 5 November 1997). In response to these problems, the government has proposed that the ZPTF should itself be transformed into a unit trust as a means to promote widespread ownership (*Times of Zambia*, 20 August 1999). However, there are other factors which suggest that the problem is more deeply rooted within the country's socio-economic structure. Perhaps most important of these is the fact that around 80 per cent of the Zambian population suffer absolute poverty and would be unlikely to participate in share issues however attractively packaged.

How can we reconcile these different evaluations of the Zambian privatisation programme? While substantial evidence can be compiled to indicate that the programme has not lived-up to the high level of transparency that has been suggested by Campbell White and Bhatia, it clearly remains well regarded internationally by donors and investors alike. This next section turns to an analysis of the political and economic context in which privatisation was undertaken to provide an answer.

A Tale of Two Processes

From the time that privatisation first gained prominence on the African policy agenda, questions have been raised over who would acquire the enterprises from which the state withdrew. Some believed that it would result in a process of re-colonisation as foreign firms moved in to regain control of the commanding heights while others suggested that it could lead to an extension of the process of indigenisation with local business interests gaining control of the enterprises (Ghai, 1987; Vernon, 1988). It is the recognition that *both* of these processes have been at work in the Zambian privatisation programme which provides the key to reconciling the two competing evaluations that have been put forward.

As noted in the opening section of this paper, Zambia's pursuit of privatisation has been an integral component of the structural adjustment policies, the continued adherence to which has been a required to secure concessionary finance from the World Bank, IMF, and northern donors. One important element, within this policy framework, is the link between privatisation and foreign investment. For the World Bank, the participation of foreign enterprises in the process is seen as an important element in creating a vibrant private sector while, for the northen donor states, it provides welcome business opportunities for enterprises based in their home economies (Young, 1991:54-6; Martin, 1993:98-100; Cook and Kirkpatrick, 1995:15). Given the continuing financial dependence of the Zambian state on the donors and multilateral institutions, foreign investment has been encouraged and dealt with in a generally transparent and supportive fashion. In practice foreign capital was interested in only a limited number of the enterprises offered for sale in the Zambian privatisation programme. In general, this reflected an existing relationship with the enterprise concerned, usually in the form of a minority shareholding. In such cases, the foreign shareholders frequently held pre-emptive rights over the government's shareholdings and were able to exercise an option of first refusal at the time of privatisation. This scenario has been particularly common in the case of large- and medium-sized companies undergoing privatisation and, of the sixteen sold as single units, eleven were acquired by foreign minority shareholders on the basis of pre-emptive rights (Endnote 7).

In most cases, the levels of investment and technical expertise required to manage these enterprises were beyond the reach of the indigenous business class and they have generally been content to participate in these privatisations by acquiring small shareholdings in the minority flotations. Local interest has, however, been far greater in the privatisation of smaller enterprises such as farms, hotels and shops, and in the sale of related assets such as housing and equipment. The privatisation of these assets has generally been subject to local imperatives of class formation and clientelism, a process which frequently involves the political elite seeking to use its political power to gain direct ownership of productive assets or to use their control of the state machinery to control the access of others to these resources (Szeftel, 1982:2000).

As argued in the previous section, there have been a number of accusations of MMD ministers seeking to use their political influence within the privatisation process. However, this is only a part of a wider process of appropriation. Ongoing reports have suggested that senior members of the MMD have used their public offices for private acquisition, and these accusations of government corruption have come not only from opposition parties, but also from within the MMD itself. For example, Enoch Kavindele, an MMD MP who later served as Commerce, Trade and Industry Minister, criticised ministers in 1996 for 'helping themselves to government funding and property' (*The Post*, 15 May 1996). In this context, it may be questioned whether the funds which politicians and others have used to purchase privatised assets have always been legitimately acquired. As Ben Kapita of the Lima Party has put it, the government's 'financial mismanagement is deliberate as it gives leaders in the MMD the resources that enable them to become instant millionaires and to acquire parastatal firms'(*The Post*, 2 December 1997). Therefore, even in cases where the ZPA has carried out its tasks fully in accordance with the requirements of the legislation and procedures laid down, the overall transparency of the acquisition may be open to question.

This paper has examined two conflicting accounts of the Zambian privatisation programme, one portraying it as a model of transparency and accountability, and the other presenting it as a being marred by corruption. Neither of these accounts provides a comprehensive picture of the events that have unfolded over the last decade. Instead we must look to a more complex explanation, a privatisation programme with two processes at work within it, the first related to the terms of which foreign capital has re-entered the economy as owners of productive enterprises and the second concerned with the process of local accumulation and its relationship to the political process.

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Endnotes

1. The figures presented in this paper differ from those published by the Zambia Privatisation Agency, who have recorded 239 sales from a working portfolio of 279 enterprises over the same period. The ZPA records the number of transactions completed by the agency. On the one hand this inflates the number of privatisations by counting multiple sales when a single company is unbundled and resulting units divested separately and on the other hand deflates it, by not including divestitures of state enterprise which have been handled by other agencies (for example those privatised through creditor liquidations).

2. The countries were Benin, Burkina Faso, Ghana, Kenya, Madagascar, Mozambique, Nigeria, Togo, Uganda and Zambia. The data covered events up to the end of 1996. An alternative source of information on privatisation in Africa is Bennell *(1997), which* includes data up to the end of 1995.

3. This conclusion has been quoted approvingly by, among others, USAID and an African Development Bank study, Fundanga and Mwaba (1997), and an academic study Musambachime (1999). Among others who have given a positive assessment of the programme or the Zambia Privatisation Agency are stockbrokers Pangaea Partners (1997) and Natwest Markets (*The Post,* 20 Febuary 1998), and the Commonwealth Development Corporation (*CDC Magazine,* no.3, 1994:12-3) which has been a substantial investor in privatised enterprises.

4. It should be noted that the creation of a single agency with responsibility for privatisation has long been advocated by the World Bank, for example Berg and Shirley (1987:15) and Kikeri et al. (1992:70-2). In this way, the Zambian model reflected the best practice that was already advocated by the World Bank, and the Bank's praise of Zambia's success might be interpreted as including a degree of self congratulation.

5. A copy of the legislation can be found on the Internet at < http://lii.zamnet.zm/acts/1992/privat92.htm > while a good summary of its main provision is Ngenda (1993). A good account of the main features of the Privatisation Trust Fund, discussed later in this section, is Munshi (1995).

6. Such problems have not been confined to the ZPA. In 1998, the Ministry of Finance was criticised by the Auditor General for having failed to properly maintain the Privatisation Revenue Account held at the Bank of Zambia (*The Post,* 14 April 1998). Under the Act, all privatisation proceeds were to be paid into the account, and funds could only be spent on specified purposes. The Auditor-General concluded that it was not possible to be confirm that this had been the case.

7. The other five enterprises which were sold intact were by competitive tender, with the 27 remaining large and medium enterprises either liquidated or sold as a number of separate units. Among the 69 small enterprises that have been privatised: five were sold to existing minority shareholders; 33 were sold through competitive tender; six were sold through management buy-outs; six were returned to private owners; three sold as multiple units and 16 were liquidated.

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