STATE ENTERPRISE AND PRIVATISATION IN ZAMBIA 1968 - 1998.

by

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The candidate confirms that the work submitted is his own and that appropriate credit has been given where reference is made to the work of others.

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ABSTRACT.

In the 1980s and 1990s, privatisation has been widely adopted across the developing world and has reversed the previous trend towards the expansion of state enterprise. This thesis examines the establishment, operation and privatisation of the state enterprise sector in Zambia between 1968 and 1998. Following the economic reforms announced at Mulungushi (1968) and Matero Hall (1969), state enterprise came to dominate the economy. In 1990 a policy of limited privatisation was introduced which was subsequently extended to cover the entire state enterprise sector. By the end of 1998, this had resulted in the privatisation of the majority of state enterprises.

The thesis examines the changing role of state enterprise from a political perspective, with the state analysed as the agent of policy choice and implementation. It examines the reasons for the growth in state enterprise, evaluates its performance and identifies the factors which prompted the adoption of privatisation and influenced its implementation. It argues that the growth of state enterprise was primarily a response to the inadequacies of the existing private sector in meeting the state's developmental objectives. However, the strategy pursued by the state enterprise sector proved to be commercially and financially unsustainable. To these problems were added pressure from creditors and donors for Zambia to adopt policies of market liberalisation. This resulted in the adoption of a strategy of comprehensive privatisation.

The thesis examines how the choice of the method of privatisation of individual enterprises reflected the objectives of the government in undertaking the programme and the constraints under which it was implemented. The Zambian Government sought to promote competitive industrial structures, indigenous ownership and the viability of the enterprises involved in the process. It has, however, been constrained in this by a number of factors, including the existing legal rights of minority shareholders, the weak commercial and financial position of many state enterprises and the macro-economic environment in which the programme has been undertaken.

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ABBREVIATIONS.

AMAX	American Metal Climax.
ANC	African National Congress.
BSA	British South Africa Company.
CBC	Consumer Buying Corporation.
CDC	Commonwealth Development Corporation.
CIPEC	Council of Copper Exporting Countries.
COZ	Credit Organisation of Zambia.
EAZ	Economic Association of Zambia.
ECA	Economic Commission for Africa.
EIU	Economist Intelligence Unit.
EXIM	Export Import Bank.
FAO	Food and Agricultural Organisation.
FINDECO	Financial Development Corporation.
FNDP	First National Development Plan.
GDP	Gross Domestic Product.
GRZ	Government of the Republic of Zambia.
IBRD	International Bank of Reconstruction and Development.
IDA	International Development Association.
ILO	International Labour Organisation.
IMF	International Monetary Fund.
INDECO	Industrial Development Corporation.
LENCO	Lusaka Engineering Company.
LIDCO	Lukanga Investment and Development Company Limited.
LME	London Metal Exchange.
LuSE	Lusaka Stock Exchange.
MBO	Management Buy-Out.
MEMACO	*Metal Marketing Corporation of Zambia Limited.*
MINDECO	Mining Development Corporation.
MMD	Movement for Multi Party Democracy.
MP	Member of Parliament
MUZ	Mineworkers Union of Zambia.
NCCM	Nchanga Consolidated Copper Mines.
NCZ	Nitrogen Chemicals Zambia.
NERP	New Economic Recovery
NIECO	National Import and Export Corporation.
PER	Price Earnings Ratio.
PIP	Production and Investment Plan.
PLC	Public Limited Company.
PTC	Post and Telecommunications Corporation.
RAP	Rights Accumulation Programme.
RCM	Roan Consolidated Mines.
RDC	Rural Development Corporation.
ROP	Refined Oil Products.
RST	Roan Selection Trust.
SAPEM	South African Political and Economic Monthly.
SEC	Securities and Exchange Commission.
TIKA	Technical Industrial Kulumbila Associate Limited.
UBZ	United Buses of Zambia.
UDI	Unilateral Declaration of Independence.
UK	United Kingdom.

UN	United Nations.
UNCTC	United Nations Centre on Transnational Corporations.
UNDP	United Nations Development Programme.
UNIDO	United Nations Industrial Development Organisation.
UNIP	United National Independence Party.
US	United States of America.
USAID	United States Agency for International Development.
ZACCI	Zambia Confederation of Chambers of Commerce and Industries.
ZADL	Zambia Agriculture Development Limited.
ZAMEFA	Metal Fabricators Zambia.
ZAMOX	Zambia Oxygen.
ZAMPOST	Zambia Postal Service Corporation.
ZAMTEL	Zambia Telecommunications.
ZCCM	Zambia Consolidated Copper Mines Limited.
ZCI	Zambia Copper Investments.
ZCTU	Zambia Congress of Trades Unions.
ZECCO	Zambia Engineering and Contracting Company Limited.
ZESCO	Zambia Electricity Supply Corporation
ZIC	Zambia Investment Centre.
ZIMCO	Zambia Industrial and Mining Company.
ZINCOM	Zambia Industrial and Commercial Association.
ZISCO	Zambia State Insurance Company Limited.
ZNBS	Zambia National Building Society.
ZNCB	Zambia National Commercial Bank.
ZNOC	Zambia National Oil Company.
ZPA	Zambia Privatisation Agency.
ZPTF	Zambia Privatisation Trust Fund.
ZR	Zambia Railways.
ZVCF	Zambia Venture Capital Fund.

NOTE ON CURRENCIES AND DATES.

CURRENCIES.
The Kwacha (K) replaced the Zambian Pound as Zambia's currency in January 1968. One Kwacha is equal to a hundred Ngwee.

In this thesis, $ refers to United States Dollars.

DATES.
Financial years are differentiated from calendar years by the prefix FY.

The financial year within the Zambian state enterprise generally ran for 12 months from the 1st of April to the 31st of March. The two principal exceptions to this were INDECO prior to 1969, which had a financial coinciding with the calendar year, and RST, for which the financial year ran between the 1st of July and the 1st of June.

Where the financial year covers more than one calendar year, it is identified by the year in which it closed. For example, ZIMCO's FY 1980 covered the period from 1/4/1979 to 31/3/1980.

The use of parentheses in tables denotes a negative value.

CHAPTER 1.

INTRODUCTION AND FRAMEWORK FOR THE STUDY.

This thesis argues that the establishment of the Zambian state enterprise sector was primarily a response to the inadequacies of the existing private sector in meeting the states' developmental objectives. The strategy pursued by the state enterprise sector was designed to achieve economic diversification through the reinvestment of the revenues that were generated by the copper industry. However, from the mid-1970s, declines in the international price of copper undermined the ability of state enterprise to implement this strategy, and although the Zambian state undertook a variety of measures to revitalise the sector, by the end of the 1980s it was commercially and financially unsustainable. In 1990 a policy of limited privatisation was introduced which was subsequently extended to cover the entire state enterprise sector. By the end of 1998, the majority of state enterprises were privatised and substantial progress had been achieved in the divestiture of the state mining enterprise, Zambia Consolidated Copper Mines.

In the 1980s and 1990s, privatisation has been widespread, reversing the previous trend towards the expansion of state enterprise.[1]The explanation of the changing role of state enterprise in this thesis is approached from a political perspective in that it is focused upon the state as the agent of policy choice and implementation.[2] Manzetti (1993) argued that the establishment of state enterprises and the adoption of privatisation involves a process of policy substitution, through which the state chooses alternative means to pursue its economic and political objectives. In this thesis, this is examined through a historical approach, in which the development of the opportunities and the constraints within which the Zambian state has operated are examined in an empirical context over time.[3]

This thesis examines the growth, operation and privatisation of the state enterprise sector in Zambia between 1968 and 1998. Zambia achieved independence from Britain in 1964. As a result of the economic reforms announced at Mulungushi in 1968 and at Matero Hall in 1969, state enterprise came

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[1] Letwin (1988,p.24), Young (1987) and Young (1995).

[2] This contrasts with other approaches to state enterprise which are based on an economic perspective and have sought to explain these issues within the framework of welfare economics and property rights analysis (Jones and Mason, 1982; and De Allessi, 1982).

[3] The approach draws on that undertaken by Sobhan (1979), Ahmad (1982) and Allende (1988) and is in contrast to public choice approaches such as Backhaus (1989).

to dominate the economy and constituted one of the most extensive state enterprise sectors in Africa. In 1990 a policy of privatisation was adopted, the subsequent implementation of which has resulted in the privatisation of most state enterprises by the end of 1998.

The focus of the thesis on a single case study is justified by a number of factors. The availability of data on state enterprises and on privatisation programmes is limited and in many cases where data can be located, differences in definitions undermine its cross-national comparability.[4] In most cases where comparative analysis has been conducted on state enterprises, it has relied on the existence of a considerable body of existing single case studies.[5] Such studies of privatisation are, to date, less common, primarily reflecting the recent implementation of many of the programmes that have been adopted.

This study makes reference to a number of works that have examined aspects of the Zambian experience of state enterprise and privatisation over the period. The aim of this thesis is to provide an encompassing account of the entire period and to identify the continuity and change in the factors which have shaped state policy.[6] In pursuit of this, the research has examined a number of areas which have not been subject to previous research. In particular, the longitudinal approach to the financial performance of the state enterprise sector, the comprehensive survey undertaken of the privatisation programme and the documenting of the privatisation of ZCCM are important new areas of research.

Section 1.1 of this Chapter outlines the theoretical framework in which the study has been undertaken and the design of the thesis is outlined in Section 1.2.

SECTION 1.1 THEORETICAL ISSUES.

The scope of state enterprise within national economies has differed widely between countries and over time.[7] In some cases it has been restricted to a few infrastructural industries, while in others it

[4] As Adhikari and Kirkpatrick (1990, p.26) noted "none of the international organisations publish comprehensive information on public enterprises on a regular basis, and the majority of countries do not identify them separately in their national statistics. The paucity of accurate and systematized data makes cross-country comparisons difficult since one is compelled to rely on data drawn from various sources in which different criteria may have been used." The availability of data has improved little in the meantime, and has extended to privatisation statistics (World Bank, 1994c, p.103-6 and Bennell, 1996).
[5] Ahmad (1982) and Wilson (1990).
[6] The thesis has been designed to overcome the problem identified by Backhaus (1989) and Yaffey (1995), of the treatment of growth of state enterprise and its privatisation as unrelated phenomena.
[7] Short (1984).

has been more extensively involved across the agricultural, industrial, and service sectors. In addition, State enterprises have differed greatly in their origin, legal forms and the objectives which they pursued. State enterprise may be collectively defined, however, as businesses in which a state, directly or indirectly, owns a controlling interest.[8] As businesses, they share similarities with those in private ownership, as the goods and services they produce are primarily traded and the revenue accruing from their sale equated to the costs of their production. This contrasts with other services provided by the state to which entitlement is determined by administrative criteria, and which are funded primarily from the general pool of government resources.

States are faced with a choice of alternative means through which they may pursue their objectives and state enterprise constitutes one instrument through which they may be implemented.[9] For example, the objective of increasing the level of industrial activity in a region could be pursued through instructing state enterprise to locate new investment in that area or through offering selective grants or tax concessions to private enterprises. The factors which contribute to this choice of policy instruments vary widely with the political and economic structures in which the state is embedded. Section 1.1.1 examines some of the factors that have contributed to the extension of state enterprise in the context of post-colonial Africa.

The successful pursuit of these objectives through state enterprise is dependent on the ongoing commercial viability of the state enterprise sector and its ability to reconcile competing objectives within a single strategy. Section 1.1.2 outlines the approach to the analysis of state enterprise performance that has been pursued in this thesis.

Zambia has been among many states to have adopted a policy of privatisation since the mid-1980s. Privatisation may occur within the context of a single enterprise, a group of enterprises, or the state enterprise sector as a whole. While defensive programmes have involved the privatisation of a limited number of non-strategic enterprises to strengthen the state enterprise sector as a whole, in the

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[8] This characterisation of state enterprise draws on Gillis (1980), Fernandes and Sicherl (1981), Shirley (1983), Ramanadham (1984) and Koldiere (1990). The term state enterprise is used interchangeably in the literature with the terms state-owned enterprise, parastatal and public enterprise. Ownership of an enterprise is generally considered to consist of a number of transferable rights including those of appointing its senior managers, receiving dividends relating to its profitability and receiving any net assets at the liquidation of the firm (Eggertsson, 1990, p.34).

[9] Jones and Mason (1982), Biersteker (1990) and Wilson (1990). On the relationship of the state and the economic process see Block (1994) and Chang and Rowthorn (1995).

past decade privatisation has become synonymous with comprehensive privatisation programmes, which have been oriented towards the wholesale dismantling of the state sector and the divestiture or liquidation of virtually all state enterprise.[10] The term privatisation has also been subject to a wide variety of definitions. In this thesis it refers to the relinquishing by the state of ownership of productive assets.[11] The two primary forms of this are divestiture, in which state enterprises are sold as going concerns, and liquidation, in which they are sold as their constituent assets.[12] The consequences of different designs of privatisation programmes and different methods of enterprise privatisation are examined in Section 1.1.3.

1.1.1. State Enterprise and State Strategy.

This Section examines the expansion of state enterprise within the context of post-colonial Africa. While the historical experiences of colonialism differed greatly among different territories, the generalisations presented below are intended to highlight some of the principal factors that have been identified in previous studies.[13]

As Magdoff (1982) argued, rather than extract resources produced through existing economic activities, colonialism transformed the economic structures of the territories that were subjected to it and created economies in which production was restructured towards the needs of the colonising power.[14] Economic activity was frequently reoriented towards the export of primary products which created minimal internal linkages within the local economy. Indigenous enterprise was marginalised and often faced administrative restrictions constructed to protect imperial and settler capital.

With the retreat of the colonial power at independence, the state was formally turned over to domestic political forces and its legitimacy was frequently tied to its ability to redirect economic opportunity towards them.[15] While the struggle for independence had prompted political groups to align themselves in opposition to an external power, in the post-colonial context they faced one another in

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10 Odle (1993).

11 The state may, however, retain special veto rights, known as a golden share. This does not generally entitle the state to interfere in the normal business of the enterprise or to receive any financial benefits.

12 This definition excludes cases in which the management of state assets is contracted to the private sector with the ownership remaining in the hands of the state.

13 Frank (1971), Ghai (1973), Rood (1976).

14 Green (1970), Amin (1976, p.237-99) and Kennedy (1988, p.10-59).

15 On the post-colonial state see Baylies (1985). The particular problems of constructing its legitimacy are discussed by Sandbrook (1985 ,p.83-111), Charney (1987), Forrest (1988) and Fatton (1988). .

competition for access to state power. In this context, post-colonial states frequently sought to promote rapid economic development through promoting local production and industrial diversification to respond to these demands.[16]

The response of the existing private sector to the development initiatives which were undertaken were, however, limited by a number of factors. Since local enterprises were often small in scale they could not mobilise the resources necessary to undertake large investments.[17] Their access to capital was further constrained by the thinness of capital markets and financial institutions primarily oriented to the funding of trade. While transnational enterprises had a greater capacity to undertake investments, they were often tentative in committing themselves. Vertical integration of local operations within an international framework, and a need to realise returns to their home economies, were often reflected in a lack of commitment to diversified investment in a local economy. In this context, state enterprises were frequently introduced to undertake the entrepreneurial role that the existing private sector was unwilling or unable to undertake.[18]

Political objectives were also pursued through state enterprise.[19] Central to the capacity of the post-colonial state to respond to the political pressures which it faced was its ability to direct the allocation of resources and opportunities. This was commonly pursued through the construction of clientelist structure through which the distribution could be managed. In this context, state enterprise proved a useful tool to, for example, provide employment or contracts for the benefit of supporters.

This thesis examines the construction of the Zambian state enterprise sector. State enterprise is examined as one alternative policy instrument, the choice of which reflected the political and economic constraints under which the Zambian Government sought to pursue its developmental objectives.

1.1.2. State Enterprise Performance.

The performance of state enterprises across Africa and much of the developing world over the last thirty years has been widely characterised as poor, in terms of profitability and impact upon state

[16] On economic strategies pursued see Nixon (1982) and Mytelka (1989).
[17] An alternative policy that was commonly followed was that of strengthening the indigenous private sector so that it was able to take a more substantial role in the economy. Wilson (1984) argues that the use of state enterprise was associated with cases in which the indigenous private sector was relatively small, whereas when it was more extensive, other policy instruments were more widespread.
[18] Hanson (1965), Holland (1974), Sheahan (1976) and Levy (1988).
[19] Sandbrook (1988) and Grosh (1994).

budgets.[20] It has been suggested that the primary cause of this has been the effects of their political objectives on their commercial viability.[21] The provision of additional employment and the subsidising of consumer outputs have frequently been cited as examples of measures that have been pursued to meet political objectives, but which have had a detrimental impact on the commercial development of the enterprises. Among the possible results of such policies may be trading losses, shortages of investment funds and an inability to provide the state with an adequate return on its investment, many of which are often identified as among the problems faced by state enterprises.

However, while these factors may undermine the commercial viability of state enterprises as business organisations, they are not necessarily the primary cause for this. There are many reasons that enterprise's in either state or private ownership experience problems in maintaining themselves as going concerns. Changes in the local economic or industrial environment may result in problems emerging in an enterprises trading relationships, production processes or financial structure.[22] Attempts to identify the effect of the ownership of an enterprise on its ability to respond to these factors requires that they be controlled and a number of empirical studies have sought to identify comparable groups of state and private enterprises to examine whether the latter perform better by commercial criteria.[23] Overall these studies have provided mixed results with some supporting the superior commercial performance of private enterprises and others not.[24]

Corporate strategy is central to the ability of state enterprises to reconcile the pursuit of diverse objectives with the resources available to it.[25] In the case of a state enterprise group with multiple subsidiary companies, different subsidiaries may be assigned different objectives. For example, profit maximisation may be designated to some enterprises while others are required to produce low priced consumer goods or maintain high levels of employment. If the state enterprise group is to internally

[20] Killick (1983), Nellis (1986), Nunnenkamp (1986), Van de Walle (1989), Adhikari and Kirkpatrick (1990), Drum (1993) and World Bank (1994c, p.104-8).
[21] Waterbury (1992) and Boycko, Schliefer and Vishny (1996).
[22] Slater (1984) and Chang and Singh (1992, p.22-6).
[23] Many criticisms have been made of the comparisons on which many of the studies have been based. Critical surveys of these studies include Boyd (1986), Domberger and Piggott (1986), Millward (1988), Chang and Singh (1992).
[24] Kim (1981), Boardman and Vining (1989) and Abdouli (1989) conclude that private ownership is positively related to performance, while Cakmak and Zaim (1992) and Grosh (1990) are unable to locate differences and emphasise positive aspects of state participation.
[25] Schachter and Cohen (1973) and Sikorski (1989) both examine state enterprise performance within the context of the development strategy of the state. Shirley (1983, p.17-48) discusses the structure and control of state enterprises.

finance an investment programme, this can also be achieved through the reinvestment of funds generated by the profitable enterprises within the group. Where the internal balance between the objectives and resources of state enterprise sectors have not been reconciled, the strategy pursued by the sector may become unsustainable.

This thesis examine the performance of the Zambian state enterprise sector. The objectives of the Government are outlines and the strategy, through which state enterprise sought to fulfil them, is evaluated.

1.1.3. Privatisation.

Different forms of privatisation will affect in what form, on what terms and to whom the enterprises are sold.[26] When attention has focused on the method of privatisation, it has usually been examined within the context of the technical difficulties encountered in implementation.[27] By contrast, this thesis emphasises the degree to which these choices reflect the objectives of the government in implementing the programme and influencing the future ownership of the enterprises and the structure of the economy.

Two principal types of divestiture may be identified; public sales of shares and private sales of shares.[28] Where an enterprise is sold through a public offering of shares this will generally result in the establishment of an independent company with a diversified base of shareholders. Such an offering may be structured so as to influence the pattern of shareholding that will result. The participation of small indigenous investors may, for example, be encouraged through preferential pricing and allocation terms. Private sales, by contrast, involve the sale of the enterprise to a new controlling shareholder. In many cases this will entail the new shareholder replacing the existing management of the enterprise, and may also involve its integration into any existing business of the buyer. Exceptions to this are management or employee buy-out which, while a form of private sale, involve a sale to groups already associated with

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26 Bell (1995) examines the distributional implications of a number of methods, while Shin (1990) and Newbery (1992) examine privatisation as an instrument for developing the institutional structure of the economy.

27 Coburn and Wortzel (1986), Commander and Killick (1988,p.109-117), Dia (1992), Adam, Cavendish and Mistry (1992) and Beenhakker and Stephens (1994).

28 Coyne and Wright (1986) and Vuyleteke (1988). On occasions these may be combined. For example a private sale of a controlling interest may be supplemented by the public sale of a minority share.

the enterprise. In contrast to the entry of a new controlling shareholder, the management buy-out is likely to produce a continuity of control in the enterprise and its independence.

The structure of the industry in which privatisation is being undertaken may also be influenced by the design of the policy. While monopolistic structures may have been acceptable to the state when the enterprises were held under state ownership, they may not be under private ownership. The privatisation process may, therefore, involve the unbundling of existing enterprises into competing units prior to their sale, ensuring that they are sold to independent interests. In the case of the liquidation of an enterprise, it will cease to exist as a legal entity and its component assets will be sold. While these assets may be reassembled by others to re-establish the business formerly undertaken by the enterprise, they will usually be put to other uses. This will affect the industrial structure either through a reduction in the number of firms competing in various industrial sectors or, in cases where the state enterprise was the only firm engaged in an activity, the disappearance of an entire sector of production.

The design of the programme by the state will be subject to a number of constraints. The development of the enterprise within state ownership will have consequences for the method of privatisation adopted. Where an enterprise is profitable, has strong management and has adequate financial resources, the ability to sell it as an independent entity through a public sale will be greatest. This may be contrasted with an enterprise which is currently unable to continue as a going concern, but which may have the potential for recovery through the introduction of new finance, management, technology or business partnerships. The sale of such an enterprise as a going concern will be dependent on finding buyers who are able to address these needs and in such cases a private sale will be more likely.

Between these two conditions lie a number of intermediate possibilities in which actions by the state may determine the future requirements of the enterprise. An example of this would be where the underlying business of the enterprise is profitable, but a financial structure requiring heavy debt repayments threatens its liquidity. In such a case the state could itself restructure the finances of the business before privatisation, leading to the privatisation of a financially stable enterprise, or privatise the enterprise in its illiquid state, requiring buyers themselves to undertake the restructuring.

This thesis explores the different methods of privatisation used in Zambia. The choice between them is examined in the light of the objectives of the government and the constraints under which the programme was undertaken.

SECTION 1.2. DESIGN OF THESIS.

Section 1.2 of this Chapter examines the design of the thesis. Section 1.2.1 discusses the sources of data which have been utilised in the research presented in this thesis, and Section 1.2.2 outlines the structure of the six Chapters, through which the argument of the thesis is explored.

1.2.1. Principal Sources Data.

The research conducted in the preparation of this thesis involved the assembling of a wide range of resources to document the events of the period under study, 1968 to 1998. This section identifies the principal sources of evidence which have been used.

The development policies of the Zambian Government have been outlined through a variety of sources including Development Plans, Presidential Speeches and other occasional policy statements. The principal primary source that has been used for the analysis of the Zambian state enterprise sector is their Annual Reports. Although doubts have commonly been expressed as to the extent to which the financial statements of state enterprises in Africa provide an accurate record of their performance, in Zambia they were generally subject to audits conducted by international accountancy firms which provides a higher level of assurance. Additional information on the conduct of the Zambian state enterprise sector has been drawn from the reports that have been published by state agencies, such as the Office of the Auditor-General, which was required to investigate their performance.

Studies of privatisation have frequently encountered problems in assembling data due to the low level of disclosures by governments and the problem of commercial confidentiality. During the implementation of the privatisation process after 1992, the Zambia Privatisation Agency was required by legislation to publish information on its activities, and this has lessened the problem of data scarcity. In some cases, particularly where a transnational corporation has acquired an enterprise, they have published additional information on the terms of sale.

Where the privatisation process has involved enterprises with publicly traded equities, further information has entered the public domain through disclosure requirements related to their listings. In addition, the public trading of these securities has generated evaluation of the enterprises by investment analysts. Such information sources were particularly useful in the case of ZCCM, which is listed on a number of major stock exchanges, providing data which may not have otherwise been available.

Documents produced by international organisations have also provided useful information. Among those to which access has been made available are internal World Bank documents on proposed adjustment lending and reports commissioned by the Zambian Government from organisations such as the International Labour Organisation. Such documents have provided both factual data and information on the perspectives of external actors who have influenced the process of policy formation within Zambia.

Newspaper reports, magazine articles and press digests have provided an important source of additional information. Access to these sources has been facilitated by the use of electronic news databases such as Reuters Business Briefing. The wide selection of news sources that have been used has generally provided complementary sources of information reflecting individual editorial policies and access to sources of intelligence. Domestic newspapers have also been consulted. The *Times of Zambia* has been selectively consulted for the period between 1968 and 1992, reflecting periods of particular activity in state enterprise policy, and consulted comprehensively between 1996 and 1998. The *Times of Zambia* has generally represented a view of events sympathetic to the Zambian Government, and this has been supplemented by consulting the non-aligned opposition newspaper the *Post* comprehensively between 1995 and 1998. These have been further supplemented by news reports from Reuters Zambian news service.

Specialist news publications have also been used. Principal amongst these has been the *Economist Intelligence Unit Quarterly Reports on Zambia* which have been consulted for the period between 1971 and 1998. These have provided summaries of the major political and economic developments that have occurred. In addition, regional news magazines and mining industry publications have provided useful information for the period as a whole.

Research for the thesis also involved the undertaking of a number of interviews. These were undertaken in an open ended format and most were conducted over the telephone. The majority of these were conducted with investment analysts involved in the mining industry, in African equities or in privatisations. In most cases they were undertaken to ascertain the opinion of the interviewee, or to confirm factual data.

1.2.2. Chapter Plan of the Thesis.

The arguments advanced in this thesis are presented in six chapters. This Chapter has presented the conceptual framework of the study and reviewed the debates over the problems of state enterprise and privatisation. The adoption of a case study approach to the examination of these issues has been discussed and the choice of the case of Zambia justified.

Chapter 2 discusses the reasons for the growth of the Zambian state enterprise sector and identifies its place in the economy. It is argued that from 1968 the Zambian government extended the state enterprise sector primarily to address concerns that the existing private sector lacked commitment to its development objectives. In particular, it was envisaged that an enhanced state enterprise sector could more effectively act as an agent for the diversification of the domestic economy.

Chapter 3 examines the operation of the state enterprise sector between 1970 and 1990. It is argued that the strategy of redirecting copper surpluses was undercut from the mid-1970s, by the decline in copper prices. Despite this, the Government remained committed to the use of state enterprise and pursued a number of initiatives to revitalise them. However, these were unable to sustain the commercial and financial viability of the state enterprise sector.

Chapter 4 explains the adoption, design and implementation of privatisation. It identifies the factors which prompted the initial adoption of the policy, its subsequent development and the experience of its implementation. It argues that a substantial degree of privatisation has occurred in Zambia since 1992, although less among enterprises in strategic and utility industries. The methods through which enterprises have been privatised is examined in the light of the objectives of the Government and the constraints underwhich the programme was undertaken.

Chapter 5 extends this analysis with a case study of the privatisation of the state copper mining enterprise Zambia Consolidated Copper Mines Limited, an enterprise of particular strategic importance to Zambia. The Chapter examines the reasons for the decision to privatise the company through unbundling it into separate units and the outcome of its implementation.

Chapter 6 provides a summary of the principal arguments which are advanced in this thesis.

CHAPTER 2.

CONSTRUCTING THE ZAMBIAN STATE ENTERPRISE SECTOR.

This Chapter aims to explain and document the construction of the Zambian state enterprise sector. It argues that the Zambian government came to favour state enterprise over other instruments of policy in response to the perceived inadequacies of private enterprise to meet its development objectives. Following the achievement of independence in 1964, the Zambian government sought to rely on the existing private sector as the basis of its development policy. The perceived failure of these measures prompted a reassessment of the policy and in 1968 the emphasis shifted towards state enterprise.

Section 2.1 examines the background to the expansion of the state enterprise sector after 1968. Section 2.1.1 outlines the structure of the economy at independence in 1964. It draws attention to the dominant role of the copper mining sectors, which alone accounted for around half of the economy, and its limited role in generating growth in other sector. Section 2.1.2 examines the policy framework between 1964 and 1968. This was based on a range of incentives to encourage the existing private sector to pursue the governments aims of economic growth with sectorial and regional diversification. In this period the role of state enterprise was generally restricted to the establishment of new projects and enterprise in sectors in which the private sector was reluctant to invest. Section 2.1.3 examines the development of the Industrial Development Corporation (INDECO) through which these projects were established. In most cases they were undertaken in partnership with foreign enterprises and state ownership was envisaged to be for a limited duration.

From 1968 policy changed to make state enterprise the main instrument of Zambian development policy. The nature of the change and the reason for it are the subject of Section 2.2. Of key importance to this were the announcements at Mulungushi Hall in 1968 and at Matero Hall in 1969 which brought major privately owned enterprises, including the copper mining companies, under state ownership. Section 2.2.1 discusses the explanations for the growth of the state enterprise sector after 1968. It identifies the pressures of the clientelist political system and the government's concerns over the effectiveness of the existing policy framework as important elements in promoting a change of strategy. The choice of an approach based on the extension of state enterprise, it is argued, reflected the apparent success that had already been achieved through INDECO, and the problems that were faced in the use of other policy instruments.

The agreements through which these takeovers were enacted are examined in Section 2.2.2. Section 2.2.3 examines the investments in the resulting state enterprise sector. Reflecting the patterns of the wider economy, the copper mining enterprises were a dominant feature of the sector, although among the industrial holdings, the assets acquired by takeovers were less significant than those established through new investment. Section 2.2.4 examines the place of state enterprise sector within the economy as a whole. It argues that, in line with the stated policy of the government, while the majority of large enterprises were state owned, private enterprise retained a role as a minority shareholder in many of them.

The success of the state enterprise sector as an instrument of government policy depended upon a number of factors. The ability of the Government to utilise the state enterprise sector as an instrument of policy depended on its ability to exert control over it. Section 2.3.1 examines the aspects of the legal and substantive relationship between the Government, minority shareholders and state enterprise management. It argues that when enterprises were more dependent on their minority shareholders, the obstacles to the government to exercising control were greater. In acquiring state enterprises through takeovers, the state acquired both additional assets and liabilities which affected its future financial position. Section 2.3.2 examines these financial relationships in the case of the acquisition of the mining companies. It argues that although the financial arrangements for the takeovers was not onerous, they reproduced the government's dependence on mining revenues within the state enterprise sector and increased its vulnerability to a downturn in the copper price. In acquiring enterprises that were integrated subsidiary companies, the state also risked undermining the commercial viability of the companies. In Section 2.3.3 this argument is addressed within the context of the state mining enterprises. It is argued that the nationalisation did not damage vertical integration, and while it lost horizontal integration, this had not helped Zambian development.

SECTION 2.1 CONFRONTING THE COLONIAL LEGACY.

Zambia achieved independence from Britain in 1964 and inherited an economy that had been transformed by three-quarters of a century of colonial rule. Section 2.1.1 examines the development of the economy to 1964. Section 2.1.2 examines the strategy that was established by the independent Zambian government to reconcile the existing economic structure to its development objectives. The strategy that was pursued relied primarily upon the existing private sector to respond to the incentives provided by the Government. Within this framework the role of state enterprise was restricted to establishing new projects in areas in which the private sector was reluctant to invest. This implemented through the Industrial Development Corporation which is examined in Section 2.1.3.

2.1.1. The State and Economy at Independence.

Until the end of the nineteenth century, the territories which now constitute the Republic of Zambia were controlled by a number of indigenous rulers.[1] In the 1890's control over the territory was secured by the British South Africa Company (BSA) operating under a charter from the British state, and in 1911 the area was unified as Northern Rhodesia.[2] While the motivation of the BSA had been to gain access to mineral resources, initial prospecting revealed a limited potential for mining and in 1924 the British state took over the administration of Northern Rhodesia. The status of the colony was further amended in 1953 by its inclusion with Southern Rhodesia and Nyassaland in the Central African Federation, of which it was part until its attainment of independence in 1964.

During the three quarters of a century of colonial rule, the structure of economic institutions that were established was oriented towards providing economic opportunities to transnational capital and to the growing population of European settlers Through the imposition of taxation to force the indigenous population to engage in the monetary economy, and the transfer of the most fertile farming lands to European settlers, African economic activity became largely confined to the supply of labour to the mines and the undertaking of subsistence agriculture.[3]

Despite having handed the administration of the territory to the Crown, the BSA continued to enjoy the control of mineral rights in Northern Rhodesia. In the 1920's it began to grant exclusive

[1] This section draws on the accounts of Roberts (1976, p.149-194), Baylies (1978, p.175-463), Biermann (1979) and Mumeka (1987, p.109-198).
[2] In 1889 the British South Africa Company obtained a charter from the British State allowing it to make treaties with indigenous rulers under the authority of the state.
[3] Taxation was introduced to the North East of the territory in 1900 and by 1913 included even the most remote areas; in 1914 it was replaced by a poll tax. Under the colonial office rule, European settlement increased and African reserves were established and between 1928 and 1930, around 60,000 Africans were removed into areas from their land. The reservation of market share for, and payment of higher prices to, Europeans further restricted the development of African agriculture.

concessions over extensive areas to large mining houses with the capacity to undertake further exploration and development of deposits. This was to provide an important stimulus to the development of the mining industry and the exploitation of the country's copper resources.[4]

By independence the copper industry had grown to dominate the economy. It was the source of over half the revenue that was received by the new Government and accounted for over 90 percent of the value of exports.[5] The sector was, however, limited in its integration with the domestic economy. It was owned and operated by the South African based Anglo-American Corporation and the Roan Selection Trust, itself an associate of American Metal Climax (AMAX) of the United States.[6] Mining rights, acquired from the BSA, were held in perpetuity and covered much of the country.[7] The principal resource which the mining industry drew from the local economy was labour.[8] This was for the most part relatively unskilled, the result both of the failure of the colonial authorities to undertake the education of the African population, and of a colour bar within the copper industry which prevented African advancement.[9] The industry also required considerable importation of non-labour inputs, 30 percent of which was directly imported, with a further 19 percent accounted for by the imported content of local produced inputs.[10]

While most of the revenue generated by the copper industry was extracted from the territory, the expansion of mining nevertheless provided the primary impetus for the development of other sectors of the economy, providing the demand for commercial agriculture, for the generation of power and for

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[4] Roberts (1976, p.185-90)

[5] The copper industry's contribution to Government revenue averaged 62.7 percent between 1964 and 1966, and the contribution to exports averaged 93.3 percent over the same period (calculated from Copper Indusrty Service Bureau, *Zambia Mining Yearbook*, 1973, Table 2, p.20).

[6] The structure of the two companies is discussed by Saasa (1987, p.17-20). The degree to which RST was controlled by AMAX is disputed. While Burdette (1977, p.477) states that "All major decisions on RST in Zambia came from AMAX Head Office in New York," Cunningham (1981, p.197-8) argues that RST maintained a degree of independence from its principle shareholder.

[7] Ushewokunze (1974, p.79) and Sklar (1975, p.34-8) provide an accounts of the entrenched mining rights of the copper companies.

[8] In 1966, for example, domestic payments for wages and salaries were 11 percent greater than payments for locally produced inputs, and 54 percent greater after adjustment for their imported content (Kessel, 1971, p.259-261).

[9] At independence 961 Africans had secondary school certificates and only 76 had university degrees. Africans were not admitted to apprenticeships until 1960 (Turok, 1989, p.37). On the colour bar see Baldwin (1966, p.100-105).

[10] Figures for 1966. It may be noted that by 1966 the Government had already undertaken measures, such as the domestic production of coal, that reduced dependence on imports from that which had existed at independence. Of the domestically produced non-labour inputs, 24 percent was accounted for by construction, 14 percent by electricity and water and 13 percent by distribution (Kessel, 1971, p.259-63).

secondary industry.[11] The ownership of these sectors was dominated by foreign and expatriate interests and Zambian entrepreneurship remained marginalised.[12] As presented in Table I, this development was also unevenly distributed throughout the territory and was concentrated in the three provinces through which the line-of-rail travelled. While inhabited by only 43 percent of the population, these provinces contributed 89 percent of gross domestic product.[13]

The geo-political context within which the newly independent state emerged also posed a number of problems. As a landlocked country, Zambia was dependent on neighbouring states, particularly Southern Rhodesia, Angola and Mozambique, for the transit of imported and exported goods. This posed political problems for the Zambian Government since Southern Rhodesia continued to be under white minority government and Angola and Mozambique were under the colonial rule of Portugal.[14] The situation deteriorated further in 1965 when Southern Rhodesia, rejecting pressure to politically enfranchise the African population, unilaterally declared independence (UDI) from Britain. Although the Zambian economy was extremely dependent on Southern Rhodesia, it sought to reduce these links and comply with the United Nations sanctions which were established.

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11 Under colonial rule most of the revenues from the mining industry flowed to the British treasury, and with the creation of the Central African Federation, funds were diverted to the development of Southern Rhodesia (Lanning and Mueller, 1979, p.198). On secondary industry see Bates (1974, p.6-7) and Fortman (1971, p.193-4).

12 The First National Development Plan noted that "such industries as existed at independence were often subsidiaries of Rhodesian firms and... such development as has occurred in Zambia has been necessarily as a by-product to operations whose primary financial and managerial interests are in Rhodesia" (Republic of Zambia, 1966a, p.1). On the inherited economic structures see also Chileshe (1981, p.82-6) and Saasa (1987, p.7-21).

13 The line of rail provinces were Copperbelt, Central and Southern. Population figures from Bates (1974, p.8). Income figures calculated from Republic of Zambia (1966a).

14 Transport links to independent Tanzania were, by contrast, minimal.

TABLE I.

Sources of Zambian National Income.

1964.

Sector.	Sectorial Contribution to National Income. %	Proportion generated in Line-of-Rail Provinces. %
Mining and Quarrying.	50.65	100.00
Commerce and Finance.	9.59	88.00
Government Services.	7.89	67.57
Subsistence Agriculture.	7.46	30.29
Manufacturing.	5.58	96.95
General Services.	4.73	83.78
Transport and Communications.	4.39	94.17
Construction.	4.35	89.61
Commercial Agriculture.	3.92	84.87
Electricity and Water.	1.44	95.88
Total	100.00	89.00

Source: Calculated from Republic of Zambia (*First National Development Plan,* 1966a, p.87, p.103, p.121, p.137, p.159, p.177, p.193 and p.209).

2.1.2. Initial Development Strategy.

The achievement of independence produced a sharp disjuncture between political and economic power. While control of the political institutions was claimed by the citizens of Zambia, the economy continued to be dominated by a foreign and expatriate private sector. The challenge faced by the independent Government was to address the needs of the majority of citizens while the economy was still controlled by a minority.

Independence brought to power the United National Independence Party (UNIP), which represented a broad coalition of African interests united in the struggle for self-determination. With support for the main opposition party, the African National Congress, confined mainly to Southern Province, UNIP was the dominant party in the newly independent state.[15] Its continued dominance was, however, conditional upon its ability to satisfy the expectations of the electorate.

The independent Government outlined ambitious development objectives in the First National Development Plan (FNDP) in 1966.[16] Objectives included the diversification of the economy so that it was not reliant solely upon mining; the increased domestic production of goods to meet local demand; the increasing of employment and real output per head; the minimising of the inherited inequalities between the rural and urban sectors; the raising of the level of education and social welfare and the development of the economic and social infrastructure.

These were to be pursued within the context of a mixed economy in which there would be room for private, state and co-operative enterprise.[17] The role of state activism in the economy was conceived as being that of a catalyst, inducing and quickening private sector activity. As the Plan stated:

> A vigorous investment policy by the Government is a prerequisite for dynamic private enterprise, especially when a large percentage of the investment is devoted to establishing the economic infrastructure which promotes the expansion of productive private investment.[18]

This emphasis on infrastructural expenditure was reflected in the investment programme. Of the capital investment planned for the period 1966 to 1970, 38 percent was allocated to infrastructure and transport, 18 percent to social infrastructure and 7 percent to administrative infrastructure.[19] In addition, a

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[15] UNIP itself had emerged from the ANC following disagreements over tactics in 1958. While Tordoff and Scott (1974, p.148) characterised the ANC as "more pragmatic than UNIP in both domestic and foreign policy," they note that its "policy proposals generally lacked substance and were simply the reverse of those advocated by the ruling party." Molteno (1974, p.65) and Hamalengwa (1992, p.42) have argued the broad base of UNIP was largely reflective of minimal differentiation within the African population as regards their relationship to the British Empire.

[16] Government of the Republic of Zambia (1966a). Discussions and evaluations of the plan are presented by Jolly (1971b), Fry (1980) and Bell (1981, p.5-18).

[17] The Joint United Nations/Economic Commission for Africa/Food and Agricultural Organisation Mission (1964, p.13) ("Seers Report") noted that "On the question of public or private enterprise the Government's attitude appears to be pragmatic; the test of any programme is primarily whether it will succeed in raising employment and incomes. There is, however, a recognition that the country must depend on private enterprise for the foreseeable future, including expatriate firms."
This is probably accurate, as Jolly (1971a, p.4) noted "The Seers Report was constructed in very close liaison with the whole Cabinet. Four all-day sessions were held at different stages of the mission's work, in addition to detailed discussions on particular points with individual Ministers and President Kaunda."

[18] Republic of Zambia (1966a, p.11). It further noted that "it is essential for the implementation of the plan that private interests in the industrial sector should seize the opportunities open... The Government places great weight upon the encouragement of investment whether from within or from any source outside Zambia"(ibid., p.36).

[19] Calculated from Republic of Zambia (1966a, p.12, Table III).

substantial amount of remaining capital expenditure, projected for the productive sectors of industry, mining, agriculture, and land, was also planned for infrastructural projects.[20]

The independence settlement gave the Zambian Government access to two additional sources of revenue that had previously been denied to the territory. The first was the revenue which had been transferred to the Federal Government, worth over K19 million per annum, which would now be retained by the Zambian Government, and the second was the transfer of the rights of the British South Africa Company which produced additional revenues of around K34 million per annum. In addition to this, the high copper prices prevailing in the mid-1960's lifted Government revenue further to allow it to quadruple total spending between 1964 and 1967, without running a budget deficit or depleting its foreign exchange reserves.[21] These were to provide the Government with the resources to undertake a strategy of economic development.

Alongside this the Government established a framework of incentives to encourage the growth of private enterprise. Tariff protection was provided on a selected basis to support the establishment and growth of new industries; the *Pioneer Industries (Relief from Income Tax) Act* of 1965 provided for tax exemption for up to five years for selected new industries; local producers were to be preferred in Government tendering; and a liberal policy was pursued with regard to the repatriation of dividends, interest and capital and the use of expatriate skilled labour.[22] The emergence of specifically Zambian enterprise, both private and co-operative, was encouraged through new schemes offering finance, training and other assistance.[23]

[20] Planned expenditure on industry and mining accounted for 21 percent of total expenditure and on agriculture and land for 15 percent. Details of this spending are provided in Republic of Zambia (1966a, p.21-36, and p.228-40). The percentages given do not equal 100 due to rounding. Within the productive expenditures private investment was also expected to play a substantial role. The FNDP detailed fifteen industrial projects with a total investment of almost K50 million. Private investment was expected in nine of these, and in all but one, was anticipated to account for a greater part than state capital (ibid, p.238). In aggregate, private investment was projected to be 56 percent of expenditure, against the 44 percent projected for the state (ibid, p.35).
[21] Faber (1971, p.303).
[22] See Republic of Zambia (1966c) and discussion in Young (1973, p.181-212). Its continuity with policies pursued by the Federal Government is noted by Martin (1972, p.56-7) and Saasa (1987, p.24). In the judgement of the World Bank (1968, p.16), these policies were "administered with ability and rigour."
[23] Republic of Zambia (1966c, p.6). A facility to provide unsecured loans to Zambian business was established under INDECO management in FY 1965, and incorporated into the Credit Organisation of Zambia at the end of 1967 (INDECO, *Annual Report*, 1967).

Zambia had inherited a diverse collection of around fifty state owned companies and statutory boards, some directly from the territorial government and some created from the splinters of divided federal institutions.[24] They included utility industries such as railways and electricity, agricultural finance and marketing boards and an Industrial Development Corporation (INDECO).[25] INDECO was created by the colonial territorial government to act as a development agency, promoting private industry through finance and research.[26] The Independent Government declared it to be its "principal instrument for the administration of industrial policy" and extended its role to include the promotion of specifically Zambian entrepreneurship and taking direct equity investment in projects.[27] It was not, however, envisaged that the state sector would displace the dominant position of private enterprise in the industrial sector. As the Government stated in 1966;

> There is no question of the Zambian Government nationalising industries that are already in existence, the policy being for state ownership of certain new basic industries and for state participation jointly with private enterprise in certain others. The remainder of the industrial field is open to private investors and the Government has created a tempting investment climate to encourage the inflow of capital for private investment.[28]

This was in line with the advice of the Seers Report (1964, p.80) that defined a role for Government as "an entrepreneur, either partially or completely, in industries where the private sector is not prepared to establish plants or is doing so to an insufficient extent," arguing that in such circumstances state

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24 Only nine of these had been transferred directly from the territorial Government of Northern Rhodesia: the Natural Resources Board; the Land and Agricultural bank; Victoria Falls Electricity Board; African Housing Board; Pneumoconiosis Compensation Board; Preservation of Historical Monuments and Relics Board; Central Electricity Supply Corporation; Northern Electricity Supply Corporation and INDECO. Among the those recreated with the dissolution of the Federation were: the Bank of Zambia, Zambia Broadcasting Corporation, Grain Marketing Board, the Dairy Produce Board, Cold Storage Board and Tobacco Board of Zambia (Simwinga, 1977, p.124-127). In addition to this, Zambia also moved to effect the division of the integrated services, such as Rhodesian Railways (Bostock, 1971, p.329-46).

25 Although previously used as an abbreviation, the name of the corporation was formally changed to Indeco Limited from 1st April 1970 (INDECO, *Annual Report*, 1970).

26 INDECO had begun life as the Industrial Loans Board. Established by the territorial government in 1951, it was transformed into a company, the Northern Rhodesian Industrial Development Corporation in 1960 and transferred to private ownership in 1962 (Young, 1973, p.23). It was returned to state ownership shortly before independence.

27 Republic of Zambia (1966c, p.5). The centrality of INDECO to Government strategy is also emphasised by the Minister of Commerce and Industry, Justin Chimba, in his foreword to the INDECO *Annual Report* of 1965.

28 Republic of Zambia (1966b, p.1).

participation could create greater confidence in the economy and encourage further private investment.[29]

2.1.3 Expansion Through INDECO 1964 to 1968.

Although the Government undertook investment during this period through a number of institutions, INDECO was the primary vehicle through which this was undertaken.[30] While it continued to promote private enterprises after independence, INDECO increasingly became dominated by direct equity investments in state enterprises.[31] Between 1964 and 1967 INDECO expanded rapidly, its net assets rising from K2 million in FY 1964 to over K16 million in FY 1967. As Table II shows, INDECO's portfolio changed markedly between FY 1964 and FY 1967, with equity investment, particularly in subsidiary companies, replacing loans as the principal form of investment activity undertaken.[32]

INDECO's stated criteria for establishing state enterprises targeted industries which constituted domestic monopolies and were basic to the economy, or those in which the opportunity for utilising local resources required a greater investment than private enterprise would contemplate[33]. Many of the projects selected followed those outlined in the First National Development Plan. In addition to these, other projects were identified in the light of the developing crisis of the Rhodesian UDI, which underlined the strategic importance of sectors such as trading and transportation[34]. The preferred route

[29] UN/ECA/FAO (1964, p.86). Rothchild (1972, p.230) also argues that state participation encouraged foreign capital in the context of political uncertainty.
[30] Zambia established a National Coal Board, in 1967 to exploit Zambia's coal reserves, and also expanded the role of existing parastatals, such as the Cold Storage Board and the National Agricultural Marketing Board into retailing activities (Johns, 1971, p.221-2).
[31] An event commonly regarded as central to the success of INDECO's expansion during this period was the appointment of Andrew Sardanis as full-time Chair and Chief Executive in 1965. Sardanis, a Zambian citizen of Greek Cypriot origins, had been "one of the few businessmen in the country to have backed UNIP. and the Zambian leaders unreservedly" (Martin, 1972, p.61).
[32]The structure of INDECO was also developed to serve those objectives (INDECO, *Annual Report*, 1966). The Development Finance Section continued the corporations original role of providing finance to the private sector on ordinary commercial terms. In addition, a Commercial Department was established to provide unsecured loans to African entrepreneurs. Although administered by the corporation, the Commercial Department was funded separately by the Government and was transferred to the COZ in 1966 (INDECO, *Annual Report*, 1967, p.36).
[33] See INDECO (*Annual Report*, 1965, p.17) and Republic of Zambia (1966c, p.6). INDECO was willing to tolerate cost increases up to around 30 percent to secure domestic production (Martin, 1972, p.67).
[34] UDI was material to the establishment of new projects through the National Coal Board of Zambia and Zambian Railways, and the INDECO enterprises Zambia-Tanzania Road Services and TAZAMA Pipelines. The impact of UDI on the transport and energy sector is discussed by Sklar (1974, p.330-46).

of participation was to undertake new ventures in partnership with private enterprise[35]. INDECO's partner was expected to provide technical and managerial expertise to the enterprise, and through equity participation, would have a direct interest in ensuring that operations were efficient and profitable[36].

TABLE II.

INDECO's Asset Allocation by Type of Investment.

FY 1964 to FY 1967.

Financial Year.	Loan Principals. %	Investments in Subsidiaries Companies. %	Other Equity investments. %
1964	86	5	9
1965	42	5	53
1966	21	26	53
1967	9	49	42

Source: Calculated from INDECO *Annual Reports* (*Annual Report* 1965, p.6, *Annual Report* 1966, p.5, *Annual Report* 1967,p.7).

By early 1968, INDECO had interests in 22 companies, of which 7 were fully operational, and the remainder were in the process of initial development.[37] They ranged from minority stakes in foreign transitional subsidiaries to wholly owned INDECO subsidiaries. The largest INDECO investments were

[35] Republic of Zambia (1966c, p.6) stated that policy was to "participate in certain basic industries which are of major significance to the economy. This participation will generally be in partnership with private investors, but, in certain circumstances, the Government itself will undertake the establishment of certain industries considered to be in the national interest." Although INDECO's partners were, in many cases, State Enterprises from other states, principally the Commonwealth Development Corporation from Britain and Italy's ENI corporation, they were not considered distinct from private enterprise (Chaput, 1971, p.209-10).

[36] Sardanis referred to the "participation of technical partners who, while providing their expertise, will also take a substantial equity interest in the venture. We feel that this will ensure the efficient establishment and profitable operation of such ventures" (INDECO, *Annual Report* 1965 p.4).

[37] The operational companies were Chilanga Cement, Zambia Sugar, Zambia Tanzania Road Services, Zambia Clay Industries, Zambia National Wholesale Corporation, Zambia Steel and Building Supplies, Country Hotels (INDECO, *Annual Report* 1967).

in four associated companies (Chilanga Cement, Kafue Textiles, Zambia Sugar and Zambia-Tanzania Road Services), four INDECO subsidiaries (Zambia Clay Industries, TAZAMA Pipelines, Zambia Hotel Properties and Nitrogen Chemicals of Zambia) and two wholly owned INDECO subsidiaries (Zambia National Wholesaling Corporation and Zambia Steel and Building Supplies).[38]

Chilanga Cement was among INDECO's first major post independence equity investments. In 1965, INDECO acquired 40 percent of the shares, taking effective control of the company, and embarked upon a programme to expand cement production.[39] INDECO also acquired a 12 percent stake in the Tate and Lyle subsidiary, Zambia Sugar Company. While existing operations were limited to sugar refining, with INDECO's participation, sugar growing and milling were undertaken to replace supplies previously produced in Southern Rhodesia. Kafue Textiles was a newly established, fully integrated textile mill, using local supplies of cotton. INDECO held 50 percent of shares, with the Swiss Amenital Holding Trust holding 25 percent of shares and providing management and technical services.[40] Zambia-Tanzania Road Services was established as an emergency measure in response to Rhodesian UDI A road freight company, its shareholders were INDECO, holding 35 percent, the Tanzanian Government, holding 35 percent and the Italian company, Intersomer S.p.a., holding, 20 percent.

Zambia Clay Industries was the product of planning undertaken before independence to establish a pipe and brick factory, and was established with INDECO holding 56 percent of the shares and two minority shareholders, Hume (Zambia) Ltd. and Zambian Anglo American Ltd., with equal holdings of the balance. TAZAMA Pipelines was a venture undertaken by INDECO, with 67 percent of the shares, and the Tanzanian Government, with 33 percent of the shares, which was constructed and financed by Italian companies. The project was a response to the problems presented to Zambia by the Rhodesian UDI. Zambia Hotel Properties, with INDECO holding 80 percent of the shares, was established to build hotels to be leased on completion to the minority shareholder, the U.S. company Intercontinental Hotels. INDECO held 83 percent of the shares in Nitrogen Chemicals of Zambia, a new

[38] Other companies within INDECO at this time, and not discussed in the main text, were the wholly owned subsidiaries Kafue Estates, Country Hotels, Mukonchi Tobacco, INDECO Properties, Progressive Developments and RUCOM Industries; and the associated companies African Farming Equipment and Falmouth Properties.

[39] Chilanga had been controlled by Southern Rhodesian investors and the Government along with CDC's participation was able to gain a majority intrrest (Faber, 1971 p.315-8).

[40] The balance was held by British interests.

enterprise constructed by minority shareholder, Kobe Steel of Japan. Its links to other sectors of the Zambian economy were strong, taking inputs from Zambia's newly established collieries, to produce nitrogen fertilisers for Zambia's agricultural sector and ammonium nitrate for explosives.

Zambia Steel and Building Supplies and the Zambia National Wholesale Corporation, established in 1966, were INDECO's first wholly owned subsidiaries. Both were trading operations designed to play a strategic role in raising stock levels within Zambia and diversifying sources of supply, while also assisting Zambian entrepreneurs in retailing and contracting.

In addition to these enterprises, INDECO was progressing with a number of other important investments. Kafironda Ltd. was to be developed as an associated company with Imperial Chemical Industries of the UK and De Beers of South Africa, to supply explosives to the copper mines. INDECO was to participate in Dunlop (Zambia) Ltd., a subsidiary of the UK based Dunlop Company, to produce tyres and tubes in response to the increased use of trucks following the Southern Rhodesian UDI. Kabwe Industrial Fabrics was established as a wholly owned subsidiary, to use local fibres to produce hessian and grain sacks for local agriculture. INDECO Milling was formed as a wholly owned INDECO company to establish small scale maize roller mills in rural areas.

Although INDECO was establishing a major presence in Zambia's economy, its role in ownership was seen as transitory. The Seers Report had suggested that ownership could be transferred to private interests at subsidiary level through the sale of equity in enterprises to private interests or through the sale of shares in the corporation itself, and following the announcement, in 1968, that a stock exchange was to be established, INDECO announced plans to sell equity in its divisional holding companies.[41]

SECTION 2.2. PROBLEMS OF DEVELOPMENT AND EVOLUTION OF POLICY.

The economic strategy of the Government changed in direction in 1968. At the centre of this new approach was the expansion of both the size and the scope of the State Enterprise sector, and a

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41 UN/ECA/FAO (1964, p. 87). Enterprise (1969, quarters 3/4, p.4), the INDECO journal, noted that "It is expected that a portion of the shares in the various holding companies controlling Indeco's sub-groups will be made available for sale through the stock exchange. This is in line with the belief that not only should the nation benefit from participation in the economy but that this should be translated into a form which can encourage individual participation." These plans were not fulfilled and although legislated for, the plan to establish a stock exchange was abandoned in 1972.

restructuring of the states relationship to private enterprise. The extension of state control over a wider group of enterprises was combined with an extension of the objectives to be pursued through the sector.

The key to the expansion of the state sector was a series of take-overs between 1968 and 1970, aimed at the major expatriate and foreign owned enterprises that covered much of the economy. The announcements of the takeovers were delivered in three speeches by President Kaunda at Mulungushi in 1968, at Matero Hall in 1969 and again at Mulungushi in 1970.[42] In 1968 President Kaunda announced that INDECO would be taking over a number of private enterprises involved in the supply and manufacture of building materials, brewing, transportation, and retailing.[43] These takeovers made INDECO the third largest company in Zambia behind the mining companies Anglo-American and RST.[44] It was to these latter companies that attention turned in 1969, when President Kaunda announced the take over of 51 percent of their mining interests.[45] Finally in 1970 President Kaunda turned his attention to the financial sector and announced plans to takeover a number of financial

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[42] See Kaunda (1968a), (1969) and (1970) respectively. The takeovers of 1968 could only be requested by the President because of the protection afforded to private property by the Zambian Constitution. This protection, written into to the constitution by the British Government before independence, prevented the Zambian Government undertaking the forcible acquisition of property. To overturn this, and other clauses, required the approval of a majority of the registered electorate. In June 1969 a Referendum approved a change in the constitution to allow its future amendment by a two-thirds majority of the National Assembly, and the Constitution was duly amended to allow the Government to undertake compulsory purchase of property (Martin, 1972, p.151-3 and Kaunda, 1969, p.6-8).

[43] The Companies were:
-three window and door frame manufactures: Anros Industries Ltd; Monarch (Zambia) Ltd.; Crittal-Hope (Zambia).
-seven builders merchants: Johnson and Fletcher, Anglo-African Glass Company Ltd; P.G.Timbers; Baldwins Ltd; Steel Supplies of Zambia Ltd; Zamtimbia Ltd; May and Hassel (Zambia) Ltd..
-three quarries: Nicholas Quarries; Gerry's Quarries; Greystone Quarries; and their jointly owned subsidiary Crushed Stone Sales.
-two timber companies: Zambezi Sawmills Ltd; Mining Timbers Ltd.
-two breweries: Northern Breweries Ltd; Heinrich's Syndicate Ltd.
-three road transport companies: Irvin and Johnson Ltd.; Central African Road Services Ltd.; and Smith and Youngson Ltd.
-five retailers: C.B.C. Stores; O.K. Bazaars; Standard Trading; Solanki Brothers; Mwaiseni Stores Ltd.
While the trader Solanki Bros. Ltd had refused to offer shares to the state, Sussman Brothers and Wolfsohn, also traders, volunteered for state participation, and their offer was accepted (Kaunda, 1969, p.13-6).

[44] Chaput (1971, p.112).

[45] The operating companies that were affected were Anglo Americans Nchanga Consolidated Mines, Rokana Corporation, Kansanshi Copper Mining, Bancroft Mines, Zambia Broken Hill Development Company, and Rokana Copper Refineries. RST had two operating companies, Mufilira Copper Mines and Luanshya Mines.

institutions along with a further tranche of other enterprises.[46] This represented the end of the period of major takeovers and while further acquisition occurred, they were incremental.

Section 2.2.1 examines explanations of the change in policy from 1968. These explanations draw upon both political and economic factors, which are examined at Sections 2.2.1a and 2.2.1b respectively. Section 2.2.2 examines the implementation of the takeovers and outlines the terms on which the enterprises were acquired. The balance between enterprises that were acquired and new enterprises that were established within the Zambian state enterprise sector is examined in Section 2.2.3 and the impact of the takeovers on the patterns of ownership across the Zambian economy as a whole is discussed in Section 2.2.4.

2.2.1. Explanations of the Course of Development Policy.

The evolution of government policy was prompted by political pressures on the government combined with the limitations of existing economic policies to achieve the objectives of development policy. In this context, the expansion of the state enterprise sector through acquisition of a number of major private enterprises appeared to offer a more direct course through which the development objectives of the Government could be realised.

The analysis begins with an examination of the political factors involved. It focuses upon two factors that have been identified as material to the development of policy in this period, the first being the ideological preferences of the Government and the second the effects of the factional conflicts within UNIP. It is concluded that the ideological position of the Government did not predispose it towards the extension of state enterprise and that political pressures were important in prompting the government to re-evaluate its existing policies.

The choice of state enterprise is addressed in the discussion of the economic factors contributing to the course of policy. It is argues that by the late 1960s, the government had become concerned with some of the results of the policy framework which it had initially established. In particular, its confidence in the foreign and expatriate private sector was eroded and the promotion of

[46] The attempt to takeover the Banks failed (see below), although the building societies were nationalised. Of the other enterprises targeted; Lever Brothers; Refined Oil Products; National Milling Company and Supa Bakeries had been taken over by 1973, while negotiations continued with Duncan Gilbey and Matheson and BAT/Rothmans. In addition to this the state-owned insurance company was granted a monopoly of the Zambian market.

new Zambian enterprises proved slow and problematic. In this context, the takeover of existing enterprises appeared to offer the Government a more direct instrument to influence the development of the economy. Despite this, the Government continued to experiment with other policy measures aimed at reconciling the behaviour of the existing private sector to the objectives of the government. It is argued that continued problems with these measures contrasted with the apparent success of the takeovers, further promoting the option of nationalisation.

2.2.1a Political Factors.

The case that the takeovers reflected the ideological predisposition of the Government has been made by Libby and Woakes (1980). They argue that the rationale behind the takeovers in Zambia was an ideological commitment to the control of the economy, stating that;

> The populist and socialist ideology of Zambia's ruling party, the United National Independence Party (UNIP) made the nationalization of the private sector inevitable.[47]

To the extent that UNIP did articulate an ideology, it was broad based and inclusive. A statement of ideology entitled "Humanism" was prepared by President Kaunda in 1967 at the request of the Central Committee of UNIP. It drew on an idealised African tradition in which "all was done for the good of Man as a Person. It could be done collectively, it could be held individually- Man was central" and defined the challenge of development as "fighting to preserve the Man-centred society."[48] Humanism outlined an economy in which there would be space for state enterprise, private enterprise and co-operative enterprise.[49] The prescription of boundaries between these sectors was primarily a description of the structure of the economy at that time and was non-committal on its future direction.[50] Rather

[47] Libby and Woakes (1980, p.33-4). Scott (1978, p.326) suggests that Humanism "anticipated" the policy changes while Thomas (1968, p.13) suggests that Humanism was the "overriding principle behind" the reforms.
[48] Kaunda (1967a, p.13 and 4 respectively)
[49] President Kaunda (1967a, p.23) outlined seven ownership patterns that could co-exist within a humanist economy. They were: "Where only Government will participate;" "Areas where Government will participate with another government;" "Areas where Government will participate with another government and private enterprise;" "Areas where Government will participate with private enterprise and by mutual agreement Government may take over full control at a latter stage;" "Areas where co-operatives will operate with or without Government;" "Those areas where the Government will participate with private enterprise;" "Those areas where only private enterprise might participate."
[50] The scope of co-operatives within the economy was to be "determined as time goes on" (Kaunda, 1967a, P.23).

than providing a framework for the formulation of policy, therefore, it indicated at most that the Government viewed the issue of ownership as one of pragmatism rather than principle.

As an ill-defined ideology, Humanism constituted part of the continued attempts by the leadership of UNIP to maintain the unity and dominance of the party, and to appeal to all citizens, regardless of class, regional or tribal identities.[51] The imperative of maintaining the unity of UNIP and its electoral support, became increasingly important within the context of the development of factionalism. In the years following independence, the political system consolidated around clientelist structures, oriented towards the distribution of economic opportunities to the African population. UNIP sought to maintain its political dominance through controlling access to these resources, summed up in the phrase first used in 1965 and later used by President Kaunda in the 1968 election campaign, "It pays to belong to UNIP."[52] However, the competition for these resources, resulted in intense factional conflicts within UNIP and the formation of break-away parties.[53]

These political problems experienced by UNIP in the period have also been identified as a factor prompting the reforms. Discussion of the relationship between the economic reforms and the factional struggles within UNIP has concentrated on the issue of the copper mines, but it is important to note that the announcement of the takeovers at Mulungushi in April 1968 was also made at a time of significant political pressure on the leadership.[54] The factional politics which erupted within UNIP in August 1967 intensified to such a degree that in February 1968 Kaunda threatened to resign the Presidency of both the Party and the Republic. UNIP's position was also challenged by other political parties. In March 1968, the opposition ANC won four by-elections in Southern Province. Although this

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[51] Szeftel (1978, p.375).

[52] Szeftel (1978, p.282-4) notes that this manifested itself through the rewarding of those joining UNIP, and the penalising of those affiliated to other parities. Johns (1971, p.236-7) argues that this was reflected in appointments to the boards of statutory bodies and state enterprises.

[53] In 1966 the United Party was founded, being strengthened in 1968 by the defection to it of Nalumino Mundia who had served as a Minister in the UNIP Government. Following the banning of the party, many of its activists resurfaced within the ANC. In 1971 the United Popular Party was founded by the Simon Kapwepwe, the former Vice President of both UNIP and the Republic. The nature of the factionalism and accounts of its course are found provided by Rasmussen (1969), Molteno (1974), Tordoff and Scott (1974) and Szeftel (1978).

[54] It is also suggested that the financial takeovers of 1970 were a result of the political pressures on the leadership at the time (Africa Contemporary Record, 1970, part B, p.211)

area was an ANC stronghold, UNIP expected to win, having made a concerted effort since independence to channel resources to the province to secure electoral support.[55]

The Matero announcement on the mines was also made within the context of political pressures. Despite the election victory in late 1968 and the successful constitutional referendum in June 1969, factional agendas were set to dominate the meeting of the National Council of UNIP scheduled for August 1969.[56] In the event, President Kaunda announced the takeovers of the mines and then dissolved the meeting. These developments were identified by Hall (1973) as the primary impetus behind the mining takeovers, while others have accepted that these factors may have influenced the timing of the announcement.[57]

The benefit of these announcements at a time of political pressure has been identified as two-fold. Firstly the initiative of populist measures by the leadership could rally the support among members of the party and the wider electorate.[58] In particular the nationalisation of the mines could appeal to the Copperbelt which was an important UNIP stronghold. Secondly, the measures could bring more resources under the control of the leadership and extended it sources of patronage.[59] While the extension of state enterprise could increase the immediate scope for patronage, more important was its potential to promote the overall growth of the economy in the longer term.[60]

2.2.1b Economic Factors.

The development programme outlined in the FNDP placed substantial new demands on the Zambian economy, which without a corresponding increase in the supply of goods and services would prove inflationary. Alongside this, other developments added to the costs base of the economy of the newly independent state. Attempts to disengage from trade with Southern Rhodesia increased costs as

[55] The by-elections had been prompted by the defection of four sitting ANC Members of Parliament to UNIP. Under the Zambian Constitution this necessitated a by-election (Rasmussen, 1969).
[56] At the meeting it was expected that attempts would be made to remove the leader of one of the factions, Simon Kapwepwe, from his position as UNIP Vice President.
[57] Simwinga (1975, p.91), Sklar (1975, p.34), Scott (1978, p.236) and Lanning and Mueller (1979, p.206-8).
[58] Hall (1973, p.220) and Scott (1978, p.326).
[59] Southall (1980, p.97).
[60] These factors, however, failed to prevent the continued deterioration of UNIP which culminated in the imposition of the one-party state. Rasmussen (1969) argues that the growing authoritarianism, which was subsequently to lead to the imposition of the one-party state, reflected UNIP's inability to maintain dominance by patronage alone, while Scott (1978, p.328-9) argues that one of the factors leading to the formation of the UPP in 1971 was the continued shortage of patronage available within the state.

imports had to be sourced from further afield and less developed transport routes were used. A further increase to the cost base of the economy was the rising level of wages.[61] While the Government, following the advice of the Seers Report, was concerned that rises in wages should be linked to improvements in productivity, the differentials between European and African employees were unacceptable in the new context.[62] Following the report of a Government appointed commission, the mineworkers were awarded a 22 percent wage increase, which was generalised to other sectors.[63]

Concerned with the rate of wage rises, the inequalities between the rural and urban sectors, and the rate of employment creation, in April 1969 the Government commissioned a study on wages and prices which was undertaken by the ILO .[64] The report ("the Turner Report") identified the high level of wage rises as the primary source of inflation alongside the rise in costs associated with UDI The Report found that while the average real wage of a Zambian employee had risen by two-thirds between 1963 and 1968, productivity had declined.[65]

While the report was subject to a number of criticisms, the conclusion that the cost of labour had risen faster than its productivity was generally accepted.[66] The effect of this rise in the level of wages on the economy was, however, subject to debate. Fry (1970) argued that, since most of the manufactured goods consumed in Zambia were imported, that the cost-push impact of wage rises was limited and that UDI was a more substantial factor in the increase in costs. While Harvey (1971b) also argued that the cost-push effects of wage rises were limited, he argued that wages had raised the price

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61 The Seers Report (UN/ECA/FAO, 1964, p.33) had warned that a rise in the level of wages would slow the rate of growth that could be achieved. This argument was influential on the Government who identified rising wages as a threat to the development plans of the FNDP and sought to dissuade the trades unions from seeking rises in wages (Bates, 1971, p.32-8).

62 Bates (1971, p.198-200).

63 As Fry (1970) notes, the wage rises may have constituted a one off adjustment or an ongoing process of wage pressure from urban workers. The issue of wage leadership is discussed by Baldwin (1962), Knight (1971), Daniel (1979, p.144-62) and Chiwele (1996).

64 ILO/UNDP (1969, p.1). Concern over the rate of inflation was also expressed in the deflationary budget adopted by the Zambian Government in 1969. As Elliott (1971, p.397) noted "within five years the main thrust of government economic strategy has been diverted from development to the control of inflation." The World Bank (1968, p.14) also expressed concern over the rise in the cost base of the economy since independence.

65 The Report cited the rises in wages prompted by the Brown Commission which set a target of 22 percent for workers in other sectors (ILO/UNDP, 1969, p.12).The explanation of the decline in productivity, on the other hand, focused on the erosion of colonial discipline, without the development of any new managerial authority in its place (ibid., p.18).

66 Fry (1970, p.53-64) critically examined the basis on which Turner had calculated productivity and argued that it actually rose by 8 percent between 1964 and 1968, but that this still did not match the larger rise in wages.

level through a demand-pull effect. In fact, Harvey (1971b) argued, that given the overall increase in demand since independence, the level of inflation experienced by the Zambian economy was relatively moderate. This was primarily because of the capacity of the economy to finance an increasing level of imports. While this allowed the Government to expand the economy rapidly, it also conflicted with the aim of the FNDP to move to a diversified economy, in which a greater proportion of local demand was served by local production.[67] For this to be achieved, substantial investment was required in the local economy.

Despite the framework of incentives that were established, the performance of the foreign and expatriate private sector was disappointing.[68] The private sector's response to the post independence economic boom appeared to be one of raising prices and externalising the resulting profits through high levels of dividends.[69] Levels of new investment appeared to be low, with a preference to finance activities from local sources and concentrate on projects with a short payback period.[70] It appeared that through these leakages, the growth potential of the Zambian economy was being dissipated. Alongside this, the commitment of the private sector to wider development goals of Zambianisation, of the re-sourcing of imports and of diversification of the domestic economy, appeared to be minimal.

The Government's discontent with this situation was made clear at the National Convention in 1967. President Kaunda (1967b, p.7) warned business that they were;

> simply inviting Government-and soon they may find out that they have forced Government-to move in with compulsory check upon the free price system, or to go even further and

67 Rothchild (1972) argues that the course of government policy since 1964 also acted to exacerbate the inequalities between rural and urban dwellers, in contradiction to the objectives of the FNDP.

68 The behaviour of the private enterprise sector is discussed by Martin (1972, chapter 4) and Liebenthal (1978, section 1).

69 Kaunda (1968a, p.37-8). In 1967 President Kaunda (1967b) complained of those "taking deliberate advantage of the transportation and economic problems besetting the country for their own private gain. There is increasing evidence of grossly-inflated mark-ups, inflated beyond any level justified by transportation costs and costs of distribution in Zambia." In the announcements of the takeover, prominence was given to the role of state enterprise in managing the level of prices. The level of prices was cited as the primary reason behind the takeovers in building manufacture and supply and general retailing in 1968, and in 1969 the state trading enterprises were instructed to introduce own brand products priced at cost (Kaunda, 1968a, p.38-40 and 1969, p.57)

70 The experience in these early years was of foreign investors having little interest in the Zambian economy even when incentives were offered. The *Pioneer Act*, 1965, had established a framework of tax incentives for undertaking investment in sectors. By 1969, however, only three enterprises, all of which had INDECO involvement (Dunlop, Kafue Textiles and Metal Fabricators), had been granted this status (Young, 1973, 183-5) and (Martin, 1972, p.65).

> replace it altogether in some sectors of the economy. Zambia would be by no means the first country in which such action has been forced upon an unwilling Government.[71]

The Government stated that its preferred route was for itself and private enterprise to begin to work more closely together.[72] This was constrained, however, by the mutual distrust between the Government and elements of the expatriate private sector, many of whom were connected to Rhodesia or South Africa and whose commitment to the long term development of Zambia was questionable.[73]

Schemes to promote Zambian enterprise alongside the expatriate sector had made only limited progress. The Credit Organisation of Zambia was established in 1967 to bring together a number of different schemes offering loans to Zambian enterprise. The administration of the agency, however, placed more emphasis on the patronage than the ability or willingness of the recipient to make repayments, and was itself replaced in 1970.[74] The Government also encouraged the formation of co-operatives in the building sector, in the production of materials and contracting. While these sectors were well suited to low level entry, requiring limited capital, the success of the projects was variable. While some of the contractor co-operatives were quite successful, the producer co-operatives were less so. In 1968, in recognition of this, the Government established a Federation of Building Co-operatives to assist them.[75]

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[71] While noting that "We cannot pass a law saying to private enterprise, 'Get more productive and keep your costs down!'," Kaunda (1967b, p.8) asserted that "There are, in fact, a number of steps which Government can take in these circumstances, short of moving into the private sector itself, and these are now under active consideration." What these measure were was not specified.

[72] As Kaunda (1967b, p.8-9) stated "Neither Government nor business stands to gain anything from perpetuating the tradition of mistrust, suspicion and arm's-length relationship which has grown up between them in Zambia."

[73] President Kaunda (1968a, p.26) speaking of resident expatriate business noted that "my Minister and I have been making repeated appeals to the members of these communities, calling on them to identify with the nation and urging them to Zambianise their businesses as soon as possible" and criticised those who "have kept only one foot in Zambia in order to take advantage of the economic boom created by the Transitional and the First National Development Plans. The other foot they have kept outside Zambia in South Africa, Britain, Europe, India, or wherever they come from, ready to jump when they have made enough money." As Hall (1973, p.183) noted, many whites; "made no secret of where they would travel away to when their savings seemed substantial enough" and stated that incidence of sabotage and the passing of information to the South, further undermined Government trust of expatriates (ibid., p.184-190).

[74] The loans by the COZ were commonly treated as grants, rewarding the recipients for services in the struggle for independence. By the time of its replacement by the Agricultural Finance Corporation in 1970, COZ had lost between K20 million and K30 million (Harvey 1973, p.388-9 and Szeftel, 1978, p.186-7).

[75] Christie (1971, p.388-94). In the case of farming co-operatives, Martin (1972, p.232), estimates that although about 800 had been registered and received Government assistance, that at most, ten were operating by the early 1970's .

As discussed in Section 2.1.3, INDECO was able to initiate a number of major projects, utilising both state and private capital. Its continuing expansion was, however, problematic. In focusing on industries that required a large investment and had a longer payback period, INDECO's ability to generate funds for reinvestment was limited in the short and medium term. Further to this, the task of establishing new enterprises proved to be difficult, even when undertaken with a private sector partner, and involved heavy start-up costs.[76] INDECO had not always been able to find a suitable partner to undertake joint ventures and in cases where it decided to act on its own, such as in trading, INDECO experienced problems in recruiting competent management.[77] Despite these problems, the development of new industries under INDECO was considered to be a success, prompting the Government to establish an agricultural development corporation, to parallel the role of INDECO in the agricultural sector.[78]

By 1968, therefore, a number of problems had emerged in the initial policy framework that had been established. The existing private sector was reluctant to undertake the leading role in economic development that had originally been envisaged, while the development of an indigenous private sector was proving to be slow and required Government support. While the experience of state enterprise was positive, the existing strategy based on the development of new industries was proving difficult. In this context the option of acquiring controlling interests in existing enterprises appeared as an attractive strategy to modify the behaviour of some of the leading enterprises.

The extension of state enterprise was not, however, the only option with which the government experimented. In 1968, a limit was set on the level of dividends which could be remitted overseas to encourage reinvestment within Zambia.[79] One sector which this was aimed at was the mining

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[76] As President Kaunda (1968a, p.37) commented, "so far we have tried to promote state enterprise the hard way." Kafue Textiles, for example, experienced problems with damage to imported machinery and a reluctance of local manufacturers to purchase its output (Young, 1973, p.219). Martin (1972, p.61) notes the problems encountered by Zambia Clay Industries, whose plant design, supplied by its minority shareholder Hume "was forty years old and worked only at sea level."

[77] Martin (1972, p. 67). The case of the nitrogen fertiliser factory is also noted where INDECO "was unable to interest a single manufacturer of fertilisers in the project... and had to resort to a 'turn-key' deal with Kobe Steel and find the management [itself]" (ibid., p.65).

[78] INDECO (*Annual Report*, 1967, p.27). An Agricultural Development Corporation was established in 1968, becoming the Rural Development Corporation in 1969 with wider responsibilities establishing new projects and undertaking loans to farmers (Johns, 1971, p.220-1).

[79] Dividends could not exceed either 30 percent of the equity capital of an enterprise or half of its profits, with companies wholly owned by Zambian citizens being exempt (Kaunda 1968a, p.28 and p.50). While these regulations were contrary to the requirements of the International Monetary Fund, of which

companies. In 1968 President Kaunda objected that mining development had been minimal since independence, while most of their profits were distributed overseas as dividends.[80] It was hoped that the tightening of exchange control restrictions in 1968 would compel the mining companies to raise their investment in Zambia. Instead their response was to allow large cash balances of undistributed profits to accumulate in bank deposits and to adjust their accounting policies so as to increase the potential level of dividend which could be declared.[81] Other businesses also, rather than undertaking new fixed investment, merely increased their liquid assets and sought avenues for exchange control evasion.[82]

Another area addressed by the Government was the availability of credit and loan facilities to Zambian business.[83] In 1968 President Kaunda extended to expatriate business restrictions on borrowing within Zambia that already applied to foreign enterprise. The intention of the policy was that the commercial financial institutions would divert the funds they had previously lent to expatriate business to Zambian business.[84] This measure, however, relied not just upon a willingness of the financial institutions to lend to Zambians, but upon them lending to less well secured borrowers and

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Zambia was a member, they were still considered to be "fairly liberal" by the World Bank (World Bank, 1968, p.14). These regulations were amended in 1969, 1970 and 1972 (Leibenthal, 1978, p.42).

80 Kaunda (1968a, p.49-50). Kaunda (1968a, p.50) referred to "80% or 90%" of the profits as being distributed as dividends. This was only a slight exaggeration. The dividends paid as a percentage of net profit for 1965-6 and 1966-7, were 83 percent for Nchanga Mine, 87 percent for Rokana Mine, and 75 percent for RST Group (calculated from Leibenthal, 1978, p.47). Cunningham (1981, p.193-201) provides an alternative explanation for the lack of investment based upon the paucity of profitable investment opportunities available to the mining companies.

81 Liebenthal (1978, p. 49-50) notes that it was the constraint of dividends as a proportion of net profit which capped the remittances of the mining companies. Anglo American's mining companies changed their practice of accounting for depreciation of fixed assets, with the effect of increasing declared net profits, although Liebenthal could not confirm whether this treatment had been accepted by the Bank of Zambia for exchange control purposes. His analysis of the accounts of the mines also confirms a marked increase in their holdings of liquid assets. (ibid., p.51). Martin (1972) notes that the amount became so large, at K60 million, that it could not be absorbed within Zambia and that the Bank of Zambia had to allow its investment in securities in London.

82 Leibenthal (1978, p. 60-7). In 1969, in response to cases of exchange control evasion, it was announced that the State Enterprises and Trading Organisations would undertake all importing of goods in their respective fields. Announcing this, President Kaunda (1969, p.10-11) complained of "unscrupulous people who, in collusion with their suppliers overseas inflate the prices of merchandise and in this way build fat accounts for themselves overseas while the nation is suffering from foreign exchange drain and from inflated prices."

83 While the Government was concerned to provide assistance to emerging enterprise, its general preference was outlined as being that "the provision of finance to private investors should itself be in the hands of private enterprise" (Republic of Zambia, 1966c, p.7).

84 Kaunda (1968a, p.29). Harvey (1971a, p.134) notes that by giving a veto to the Bank of Zambia over a large extent of bank credit, the measure also created an effective tool of monetary policy.

extending their geographical coverage beyond the urban areas.[85] Their perceived reluctance to develop this area of business was the rationale behind the establishment, by the Government, of the state owned National Commercial Bank in 1969.[86] It was recognised, however, that the growth of the National Commercial Bank would take a considerable time and that a change in the behaviour of the existing private sector financial institutions would be necessary.[87]

In the cases of dividend and lending restrictions, the Government found that their new policy initiatives were not able to secure the desired response from the private sector. This contrasted with the apparent success with which it was able to implement the takeovers of enterprises.[88] In August 1969, President Kaunda could announce that all but one of the acquisitions that he has announced 15 months previously had been completed.[89] In the case of the negotiation of the mining takeovers, formal negotiations began at the end of that September, producing agreement of the principle issues by the middle of October and resulting in signed agreements by the end of December.[90] The apparent success of the initial takeovers, compared to other measures, can only have encouraged the Government along this course, in addition to which, evidence of the conduct of the firms taken over reinforced the Government's view that these private enterprises had lacked commitment to Zambian economy.[91]

In addition to this, the acquisition of enterprises offered the government new and more direct means through which development policy could be pursued. In the case of the Government's attempts to limit the rate of inflation, the extension of the state enterprise sector into the retail and wholesale sector

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[85] Harvey (1973, p.391) writes that; "Many Zambians find it hard to get credit, not because they are Zambian, but because their enterprises are high risk and small." It should be added that, given the colonial setting, it was because they were Zambian that their business was often high risk and small.

[86] The Governor of the Bank of Zambia, Zulu (1970), argued that the establishment of the National Commercial Bank would encourage existing financial institutions to follow it into these new areas of activity.

[87] President Kaunda (1970, p.64-5).

[88] Assessing the takeovers the World Bank (1970, p.37) noted that "The mixed enterprise approach seems to be working well. The management of foreign companies has been retained, and the companies have been left a significantly large financial interest to keep them interested in the success of the enterprise... The success of this approach was to a large extent due to the efficient organisation of Indeco."

[89] Martin (1972, p.176-8).

[90] The agreement of December 1968 was subject to amendment in June of 1970, and subject to a further number of legal formalities before completion.

[91] As Kaunda noted in late 1968; "Some of the firms we took over were suspected of profiteering and, in fact, examination of their affairs after takeover has proved us to have been very correct... net profits of some firms taken over amounted to between 25 per cent and 30 per cent of turnover. Dividends were often 100 per cent and 150 per cent of capital...when a Zambian Company was making a slight loss the parent company was enjoying fees as high as 10 per cent. In this way our Inland Revenue was deprived of the taxation, which went to the country of origin of the company" (1968b, p.299-300).

placed the level of prices of many goods directly under the control of the Government.[92] The reforms also made the state enterprise sector the principal employer in the economy, and thereby gave it more direct control over the determination of the level of wages. As the Turner Report (1969, p.25) argued, this potentially increased the institutional capability for the Government to pursue a prices and incomes policy.

While the Government of the newly independent Zambia had initially attempted, therefore, to pursue a development strategy through the inherited economic institutions, it increasingly sought to reshape them. As President Kaunda (1971, p.12) stated;

> The country's institutional set-up at independence was thin on the ground, it did not reflect our aspirations and, most important of all, it was inadequate for channelling the large capital investment programme and the new sense of urgency and vision. Today, the institutional set-up is our own creation.

2.2.2 Expansion Through Acquisition 1968 to 1973.

The formula announced for takeovers at Mulungushi in 1968 was for INDECO to negotiate the acquisition of a 51 per cent shares of each company, at a price based upon their book value.[93] Although, the terms negotiated differed between companies, repayments were usually made at the commercial rate of interest, were guaranteed by INDECO rather than the individual enterprise, and the management services of the minority shareholder were generally retained .[94]

This formula was also the basis for the negotiations of the mining takeovers.[95] The acquisition of control of the mining companies was to be negotiated by INDECO on the basis of book value, and to be paid out of future dividends.[96] The mining interests of Anglo American and RST were consolidated

[92] At Matero in 1969 President Kaunda (1969, p.56-7) announced that INDECO had been instructed not to increase the prices of certain goods without Presidential permission and had also agreed to introduce new low cost brands of goods.

[93] It is common practice for a business asset to be priced on the basis of future earnings potential. This method of valuation was rejected by President Kaunda (1968a, p.46), who stated "I cannot see why we should pay extra for the boom we have ourselves created." Nevertheless, INDECO Annual Accounts for 1969 show Goodwill at a value of K1.9 million. While a total value for the takeovers is not stated, the net book value of the fixed assets acquired is stated at K22.8 million (INDECO, *Annual Report*, 1969, p.27 and 30).

[94] Martin (1972, p.199-205) discusses the various outcomes that were negotiated. In some cases problems arose with existing shareholders. In the case of Johnson and Fletcher, INDECO acquired the whole of the equity of the company from the Southern Rhodesian owners and located a new foreign partner to manage the enterprise.

[95] The principal sources for the details of these presented in this section are Maxwell Stamp Associates (1970), Bostock and Harvey (1972), Martin (1972), Ushewokunze (1974) and Sklar (1975).

[96] Kaunda (1969, p.36-7)

into the new companies Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Copper Mines (RCM) respectively, with the Zambian Government acquiring a 51 percent share of the equity of each.[97] The vehicle for payment was the issue of Government guaranteed loan stock, carrying a 6 percent interest rate, and remitted in six monthly instalments over a number of years.[98] The industry would continue to be managed by Anglo American and RST, through the agreement of service contracts relating to the management, technical and marketing requirements of NCCM and RCM respectively. Agreements were also reached binding the Government to the legal framework, and in particular the taxation and foreign exchange regulations, at the point of the agreement.

The relationship between the Government, the minority shareholders and the jointly owned companies, was set out in detailed agreements. The Board of Directors was to have two divisions of Directors; 'A' Directors were to represent the Government and 'B' Directors were to represent the minority shareholders. The minority 'B' directors had a veto over a range of issues including: the raising of additional finance through shares or borrowing; the disposal of any significant asset of the business; any changes to the Memorandum and Articles of Association of the companies; any expenditure on prospecting, exploration or capital appropriations; any reconstruction or winding up of the business; diversification into non-mining sector; and any act of the company which they considered was not aimed at the maximisation of company profitability. In addition the operational control of the mines remained with Anglo-American and RST through the agreement of management, sales, purchasing and recruiting contracts.

The Government negotiation team believed that it was vital to make an agreement which kept the companies committed to the mines.[99] The arrangements for these takeovers, however, attracted

97 While the balancing 49 percent of NCCM was held by the Anglo American controlled Zambia Copper Investments (ZCI); the balance of RCM equity was made up of a 20 percent holding by RST, a 12.25 percent holding by ZCI, with the remaining 16.75 percent held by smaller shareholders. The takeover agreements provided for the pre-emptive rights of existing shareholders to subscribe to new shares, before any offer to the outside parties.

98 The Governments share of NCCM was valued at K126 million, to be paid over 12 years, and of RCM K84 million, repaid over 8 years. In addition to this the transnational companies were allowed to externalise their non-mining assets, including funds which the Government had previously restricted the companies from distributing as dividends with the aim of encouraging re-investment. All payments were additionally to be free of taxation and exchange restrictions. If dividends from the companies rose above a stated level, payment would be accelerated, although there was no reciprocal facility to reduce payments should dividends fall below expected levels

99 Burdette (1977) and Martin (1972, p.163-80) discuss the companies' and government's negotiating strategies. Important aspects of these were the determination by the Government to secure the continued participation of the mining companies, to secure their expertise in running the mines and to avoid the

criticism from within the Zambian Government. Among others, the Governor of the Bank of Zambia, Dr. Justin Zulu, was concerned at the level of foreign exchange outflows which were involved.[100] It is likely that such criticisms had influence since President Kaunda cited the need to conserve foreign exchange as an important factor in the revised formula offered in the failed takeover of the banks.[101] It was proposed that the state would acquire 51 percent of their equity, through the issue of additional shares, so that its payment represented a new capital injection to the business, rather than a payment to the former shareholders. A requirement for local incorporation by the Banks would also require the existing shareholders to bring new funds into Zambia.[102] In further contrast to the previous method of takeovers, it became apparent that the state did not intend to offer management contracts to the minority shareholders at the banks. While the banks were willing to conclude an agreement along the lines of the mining takeovers, they resisted an arrangement on the basis of the new terms offered by the Government.[103] The Government withdrew its plans to take over the entire sector, and settled for the acquisition of the small Commercial Bank of Zambia alongside the local incorporation of the remaining banks.[104]

The Government also began to re-evaluate the agreements that had been reached for the acquisition of the copper industry and Government discontent was fuelled by continued disagreements with the minority shareholders over a number of issues. These included Government proposals for diversification into the production of copper products within Zambia, for rationalising facilities duplicated by NCCM and RCM and initiatives for import substitution which would switch supplies from

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problems encountered by Zaire and Chile in participating in their copper mining industries. As regards the transnationals, Anglo American was particularly concerned to protect its non-mining interest within Zambia, and was less confrontational than RST/AMAX.

100 Martin (1972, p.189) and Williams (1973, p.46).

101 President Kaunda (1969, p.65-6) stated that "all the takeovers and bank mergers I have announced today are to be made so as to ensure least possible outflow of foreign exchange... the price of copper is no longer K1,400 a ton and we must therefore be doubly careful... In view of this, instead of buying 51 per cent of their shares and thus making a payment, we shall acquire control by additional contribution thus ensuring that all existing capitals of the banks will remain in the country." In the case of insurance companies, he noted that "we are NOT taking over foreign insurance companies. I am simply closing them down so that they leave the field free to our own State Insurance Company. In this way we shall be saving considerable foreign exchange, because we shall have nothing to pay" (emphasis in the original) (ibid., p.65).

102 Harvey (1972, p.17)

103 Harvey (1972, p.15-6) notes that before this, Barclays Bank had already offered a 51 percent share to the state and had completed six months of negotiations with the Ministry of State Participation This progress was set aside and new negotiation begun. See also Martin (1972, p.247-8).

104 Harvey (1972, p.18). Saasa (1987, p.52-3) argues that local incorporation gave the Government significantly more control over the banks.

the minority shareholders' group companies.[105] In 1973 these prompted the Government to announce the cancellation of the management, marketing and technical contracts agreed with the minority shareholders of the mining companies NCCM and RCM.[106] Subsequent negotiations produced agreements that the Managing Directors of the companies would be appointed by the Government and that the 'B' directors rights of veto were amended.[107] These changes were, however, bought at a high price. While the Zambian Government had expected that the immediate redemption of the outstanding bonds would secure the changes it required, it subsequently had to agree compensation for the cancellation of the service contracts.[108] In addition to this NCCM and RCM were still reliant on outside expertise, which they continued to contract from the minority shareholders.[109]

2.2.3. The Balance Between New Investments and Acquisitions.

Regrouped into a new state holding company Zambia Industrial and Mining Company (ZIMCO), state enterprise net assets totalled K695 million in FY 1971, compared to the K35 million of

[105] Simwinga (1977, p.245-8). Simwinga (1975, p.90-1) notes that MINDECO and other Government officials did suspect that the transnationals were involved in transfer pricing in this period, while O'Faircheallaigh (1984, p.129-30) believes that the scope for transfer pricing was low because the Government was dealing with two separate transnationals and could itself through "a simple comparison of invoices" detect overcharging. This would appear to overstate the degree to which MINDECO supervision focused on auditing operational behaviour, rather than on strategic issues.

[106] Arguing that the takeover agreements had left "effective control of the industry vested firmly in the minority shareholders" and that the minority shareholders had "taken out of Zambia every Ngwee due to them," President Kaunda criticised many of the key points agreed in 1969, specifically citing the 'B' directors veto; the formula for bond redemption; the exemptions relating to foreign exchange regulations and taxation; and the provisions for the service contracts (UNCTC, 1984, p.43-7).

[107] The 'B' directors retained a veto over: any reconstruction of the company; any material asset disposals; any changes to the powers of the directors; any diversification of business or undertaking of new mining operations; any material loan or borrowing of funds; any sale of products not for money or at below market price. For the Board to decide on any of these issues required that at least two 'B' directors must be present and a veto could then be affected by the 'B' directors absenting themselves. In 1974 Anglo American confirmed that the Government of Zambia had accepted that any such action by the 'B' directors to prevent a decision would be legal and legitimate (UNCTC, 1984, p.48-50). Despite these provisions, Aron (1992, p.13) states that the veto power of the 'B' Directors has never been used, although they have opposed a number of policies that have been pursued.

[108] The Government agreed compensation for the cancellation of the service contracts of K55 million and paid K146.6 million to redeem the bonds. Additional cost were incurred in the redemption of the bonds which carried a coupon of 6 percent, with funds borrowed at 12-13 percent (Burdette, 1977, p.494).

[109] Saasa (1987, p.41) notes that services which continued to be supplied by the minority shareholders included the "secondment of technical personnel; provision of operational plans, both short- and long-term, estimates of capital expenditure, viability studies; advice on marketing and research and development (R&D); and computer and management services."

assets held by INDECO before the takeovers began in FY 1968.[110] As the ZIMCO *Annual Report* noted "based on the 1973 results ZIMCO ranked 123rd in size amongst the 300 largest corporations outside the United States of America and was far and away the largest in independent Africa."[111]

In the new structure INDECO became a sub-holding company of ZIMCO alongside MINDECO, which held the groups mining assets, FINDECO, which held the group financial assets, and the National Transport Corporation and National Hotel Corporation, which were demerged from INDECO.[112] The centrality of the mining assets to the of ZIMCO group (Table III), was a reflection of the importance of the copper mines to the Zambian economy, and implied that at least three quarters of ZIMCO assets were acquired by takeovers, rather than through the establishment of new businesses[113].

In the case of INDECO, however, there was a mix of assets acquired through takeovers and through the establishment of new enterprises. An analysis by the World Bank (1977b) estimated the contributions of takeovers to INDECO on the basis of the net book value of consolidated fixed assets ascribed in the INDECO accounts to takeovers. These figures in FY 1970 show that INDECO's consolidated net book value of fixed assets stood at K106 million, of which K23 million (22 percent) were acquired by takeover. The final year in which INDECO accounts recorded material additions through takeovers was FY 1973. The INDECO Report of that year showed Net Book Value of Group fixed assets at K224 million, to which should be added the K13 million of value demerged in FY 1972, to show a total of K237 million. of fixed assets accumulated through INDECO. The aggregated net book value of fixed assets acquired through takeovers to FY 1973 was K88 million, 37 percent of the total.

While such an analysis fails to account for the value of the assets held in associated companies, which are treated separately on consolidation as investments, it does suggest that takeovers accounted

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[110] This excludes the Statutory Boards and other state enterprises held outside the ZIMCO group. Statutory Boards continued under the conditions of their enabling legislation, for a discussion of these see Himonga (1984).

[111] ZIMCO (1974, *Annual Report*, p. 3).

[112] Following the cancellation of the service contracts and the renegotiation of terms with the minority shareholders announced in 1973, the operating companies NCCM and RCM became subsidiaries within ZIMCO. MINDECO was removed from direct involvement with the copper mines, being left to supervise Maamba Colliery and other smaller projects and the marketing of copper production was placed in the hands of a newly established ZIMCO subsidiary, MEMACO

[113] The mining assets of ZIMCO constituted the largest sector of the company throughout the period in terms of both turnover and asset value and their profitability was the greatest determinant of that of the entire group, ZIMCO *Annual Report* notes this 1973 (p.5); 1974 (p.5); 1975 (p.5); 1977 (p.23); 1979 (p.4).

for a minority of the assets value established through INDECO and that the main source of the groups expansion continued to be through the undertaking of new projects.

TABLE III.

Net Assets of ZIMCO Group by Division.

FY 1972.

Sub-Holding Company.	Share of Aggregate Group Net Assets Before Consolidation. %
MINDECO.	77.9
INDECO.	19.8
National Transport Corporation.	1.3
National Hotel Corporation.	0.5
FINDECO.	0.4

Source: Calculated from ZIMCO (*Annual Report* 1972, p.10).
Note: Total does not add up to 100 due to rounding.

2.2.4. Ownership Patterns and Policy.

The takeovers of the period 1968 to 1970 established a mixed economy in Zambia, the main outlines of which were to endure over the following two decades. Although UNIP (1974) asserted the "right [of the Zambian State] to participate in any new venture involving private investors" and committed the Government to continue to "explore further areas where the state could effectively participate," it was also accepted that there were limits to the extent to which the expansion of state ownership would be feasible or beneficial.[114] The commitment to a mixed economy was maintained,

114 Kaunda (1969, p.59-60). Although the failure to secure the takeover of the banks in 1970 could be seen as a discouragement to further initiatives, the speech in which they had been announced emphasised that they completed the programme of takeovers (Kaunda, 1970, p.66)

alongside the qualification that private enterprise should also display a commitment to the development of the local economy.[115]

Foreign enterprise remained welcome "as participants, and not controllers, of our economic development process" and expatriate business was called upon to "move from distribution to production, that is from commerce to industry and agriculture."[116] This was encapsulated in the provisions of the *Industrial Development Act* of 1977 which offered incentives to private investors on the basis of their alignment with specific objectives of the Government development policy.[117] The Act also offered an "immunity from nationalisation unless the highest considerations of public interest so require" to enterprises which "employ within Zambia a significant amount of foreign capital."[118]

Alongside this the takeovers themselves brought many existing large foreign enterprises into joint ventures with state enterprise, and, as President Kaunda stated with regard to these, "our policy of partnership with private and foreign investors is regarded by us as a permanent aspect of the nation's economic life... as a means of harnessing resources and obtaining skills and capital."[119]

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[115] While President Kaunda (1968a, p.5) stated that "we have declared ourselves in favour of a mixed economy," it should be noted that his definition of a mixed economy was very broad. As he stated (Kaunda, 1968a p.6), "no matter what is proclaimed from the rooftops I know no country, whether it is in the Eastern or Western world, where the economy is not in some measure a mixed one today." It may also be noted that the stated guidelines for private enterprises which wished to operate in Zambia were not particularly onerous. As President Kaunda (1970, p.64) stated, "I want the goods which they order and they pay for in Zambia to arrive in Zambia and not be redirected elsewhere... I want the prices of these goods to be genuine and reflect the true costs... I want people who earn profits in Zambia to utilise their profits in accordance with the law of the country and not spend more time and energy trying to evade our exchange control regulations than they spend on their businesses."

[116] Kaunda (1969, p.41-43) and (1970, p.61) respectively. UNIP (1974, p.39-40) committed the Government to "support the continued development and prosperity of the private sector" and "ensure conformity of the private sector with the country's philosophy." In particular, support was to be directed to new industries, especially those involved in export or import-substitution and manufacturing, to regional diversification; and to promote reinvestment.

[117] The *Industrial Development Act* (1977, Section 18) outlined the following criteria to be met for the extending of incentives to an enterprise: (a) "maximum utilisation of domestic raw material," (b) "production of intermediate goods which are used by other industries," (c) "diversification of its industrial structure," (d) "creation of substantial opportunities for permanent employment," (e) "improvement of domestic industrial skills in fostering the development of domestic technology;" and (f) "promoting industrial development in rural areas."

[118] *Industrial Development Act* (Pt. IV, 24,d). Mwanakatwe, then Minister of Finance, commented in 1977 that "we have accomplished our nationalisation programme... we already own 65-70% of our industrial sector and have more or less reached the limit" (*New African*, November, 1977, p.1051).

[119] ZIMCO (*Annual Report 1972*, p.3). President Kaunda was also keen to present the takeovers as benefiting the private partners. In reference to the trading companies, he stated that; "the minority shareholders will be even better off in their 49 per cent ownership than they have been when they owned 100 per cent. Turnovers will increase substantially in view of the elimination of competition and with the increased turnovers the profits of these companies will rise" (Kaunda, 1968b, p.299).

Measures were taken to promote Zambian ownership through the reservation of certain areas of the economy. These included retailing, wholesaling, road services, building materials and subcontracting, which had previously been dominated by expatriate enterprise.[120] However, President Kaunda was concerned that the reforms should not lead to the emergence of a privileged Zambian elite. In 1968 he announced that the state would;

> set the limits of the Zambian Enterprise that can remain a purely private enterprise. These limits will be based on the amount of capital employed, on turnover and on the number of employees. When an enterprise grows beyond these limits, then it must become a public company. When it grows even further, it will be taken over by the state. This is another warning I must make straight away. We do not propose to make of Zambians business barons now or in the future.[121]

This was the reason cited for the only take-over of a Zambian owned firm announced in this period, although when the size limit was defined it was set high enough to exclude any other Zambian owned company.[122] A leadership code was also introduced, aimed at preventing political leaders from acquiring business interests.[123]

The position of private enterprise which developed within the Zambian economy can be examined in the manufacturing sector. An indication of the relative roles of the state and private sector in the non-copper economy in the first part of the 1970s can be drawn from a selection of industries, together constituting 83 percent of manufacturing GDP.[124] This data is presented in Table IV and suggest that although enterprises wholly owned by the private sector represented 86 percent of the total number of enterprises they were concentrated in smaller scale operations.[125] While they accounted for a greater number of enterprises employing up to 500 people, state ownership was more common above this

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120 For an account of these measures and their implementation see Beveridge (1974) and Baylies (1982).

121 Kaunda (1968a, p.36-7).

122 Szeftel (1978, p.238). Fortman (1969, p.101) notes that Mwaiseni stores had an equity capital of K150 thousand. and a turnover of K1.5 million in 1967. President Kaunda (1974) referred to a limit of "a gross profit margin which goes beyond K500,000 per annum" as the trigger for a takeover by "either the state, city, municipal or rural council, township management board, co-operative, credit union, a thrift society or indeed a public corporation."

123 The code was first referred to by President Kaunda in 1969 (p.62-3). In 1970 President Kaunda outlined measures to prevent "the rise of the capitalist group of exploiters," emphasising "the promotion of Zambian companies rather than individual entrepreneurs" and the expansion co-operative enterprises and workers participation (Kaunda, 1970, p.40).

124 Central Statistical Office (*Industrial Monogrphs*, 1975-77). The sectors with their share of manufacturing GDP in 1972, are as follows: food, beverages and tobacco (53.1 percent); textile, wearing apparel and leather (7.7 percent); wood and furniture (2.7 percent); paper, paper products, printing and publishing (3.8 percent); chemicals, rubber and plastics (10.3 percent); non-metallic mineral products (5.7 percent).

125 Of the private enterprises surveyed, 73 percent employed under 50 people.

level.[126] State and private enterprise were also involved in the majority of economic sub-sectors. Of the 44 constituent subsectors covered by the data, ZIMCO was present in 64 percent and other state bodies in 20 percent, combining together to cover 73 percent of subsectors, while private enterprise was present in 84 percent.[127]

As noted above, many of the enterprises within the ZIMCO Group were themselves partnerships between state and private capital. These enterprises were often among the largest in the state sector. Between FY 1979 and FY 1983, 71.5 percent of the turnover of INDECO's subsidiaries was from enterprises with a minority shareholder, while only 28.5 percent was from wholly owned enterprises.[128]

This would suggest that the stated aim of the Zambian Government to secure ownership of the largest enterprises within the economy was achieved, while still allowing substantial space within which private enterprise could develop.[129] Indeed as Baylies (1982) observed, in sectors where state enterprise competed with private enterprise, the success of the former was by no means assured, and some private enterprises operated successfully in these sectors.[130]

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126 It should be noted that the number of ZIMCO enterprises was relatively evenly spread over each of these categories. The number of ZIMCO enterprises in each group were: 16 with less than 50 employees; 8 in the range of 50 to 100; 13 in the range of 101 to 500; and 14 with over 501 employees.

127 Despite this 42 percent of privately owned enterprises were engaged in just two manufacturing sub-sectors, "the manufacturing of wearing apparel, excluding footwear, by cutting and sewing fabrics and other materials," and in "baking."

128 Calculated from INDECO (*Annual Reports*, 1979 to 1983).

129 Turok (1989, p.169-92).

130 The retail sector and the public transport sector were both ones in which private enterprises were able to withstand competition from state enterprises.

Table IV.

The Balance Between State and Private Enterprise in Selected Sectors of the Economy by Number of Enterprises.

1972 .

Number of employees.	Total number of enterprises.	Proportion privately owned. %	Proportion State owned within ZIMCO Group. %	Proportion State owned by other agency. %
Under 50.	314	94	5	1
Between 50 and 100.	74	84	11	5
Between 101 and 500.	59	68	22	10
Over 501.	25	32	56	12
Total for all enterprises.	472	85	11	4

Source: Calculated from Central Statistical Office (*Industrial Monographs*, 1975-77).

SECTION 2.3. STRUCTURE AND CONTROL IN THE STATE ENTERPRISE SECTOR.

Central to the economic reforms was the objective of constructing an instrument through which the development objectives of the state could be undertaken. Whether this was achieved by the economic reforms that were undertaken has been questioned on a number of points. In particular, it has been argued that the structures that were created failed to provide the government with control over the enterprises that it had acquired, that the financial terms on which the enterprise were acquired were disadvantageous to the Government and that the commercial viability of the enterprises was diminished in cases where they were removed from integrated corporate structures. The relationship between the Government, the state enterprise management and the minority shareholders is examined in Section 2.3.1. In Section 2.3.2 the financial arrangements attendant to the takeovers is examined and in Section 2.3.3 the issue of the dismantling of integrated corporate structure is discussed.

2.3.1 Ownership and Management.

State ownership of the major enterprises operating in the Zambian economy offered the Government the prospect of a greater control over the national economy and a more direct means of implementing its development strategy. However, it has been argued that while the Government gained formal ownership of these enterprises, it did not secure effective control, which continued to reside with their management.[131] Seidman (1979) and Makgetla (1994) argue that the legal ownership of state enterprises in Zambia was not translated into effective control. Makgetla (1994) places particular emphasis on the framework of commercial law established under British rule, which granted enterprises an autonomy that allowed them to pursue their own strategies independent of the Governments development plans.[132]

While Seidman and Makgetla's accounts stress the formal legal constraints under which the sector operated, they under-emphasise the effective authority which the Government derived from its shareholding, which substantially displaced the former.[133] The directors nominated by the Government to the boards of the state enterprise did not sit as independent authorities, but followed the directives of the Government.[134] In addition to this, as the management of the enterprises themselves was Zambianised, these appointees also became more subject to the influence of the Government.[135]

An important constraint on the degree to which the Government could assert control over the management was, however, the existence of a minority shareholder. This may be illustrated by the case

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131 A useful discussion of the problems of ownership and control in the mineral sector is provided by Fortin (1979).
132 Makgetla (1994) states that the Government enacted no laws specifically to restrain the commercial freedom of state enterprise. This overlooks the provisions of legislation including the *Parastatal Services Act*, discussed in Chapter 3, which did create additional legal regulation for state enterprises.
133 Ushewokunze and Mushota (1976), Chona (1976) and Mulwila (1980).
134 Simwinga (1977, p. 167-174).
135 A member of INDECO management in the early 1970's, Frederick Mwanza (1993, p.10) notes that "the parastatal sector more or less became an extension of party machinery and structure." See also Simwinga (1977, p.225-6).

of NCCM, in which Anglo American held a minority interest and additionally, until 1974, provided the management. Between 1972 and 1976, while NCCM undertook three projects at the direction of the Government, an additional four were rejected by the company.[136] Although the influence of the minority shareholder in NCCM had extensive veto rights at the level of the Board of Directors, influence could also be exercised through management staff supplied by the minority shareholder. This was the case even in enterprises which did not operate under a comprehensive management contract.[137] Chaput (1971) observed that in INDECO joint ventures it was common for the technical managers to be supplied by the minority shareholder.[138] Frequently the Government Directors delegated decisions over issues, including the choice of production techniques and purchase of machinery, to them, despite the implications which these had for employment and import dependence in the future.[139]

While both Seidman and Makgetla emphasise the partial extent to which Government control was exerted over state enterprise, the limits upon this were less dependent upon formal legal constraints and owed more to the substantive relationship between the shareholders and the enterprises management. Following the cancellation of the management contracts for the copper mines in 1973, INDECO reduced the number of management contracts for their subsidiary companies although a dependence on the technical skills of minority shareholders often remained.[140]

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136 The three projects implemented were the establishment of a formed coke plant, the establishment of a Slimes Plant and the implementation of a 15 percent production cut back in 1975. NCCM rejected proposals for the rationalisation of facilities with RCM, the production of explosives, the establishment of a copper fabricating plant and the production of welding electrodes (Simwinga, 1977, p.245-8).

137 In cases where a management contract was operational, extensive powers were often delegated to the minority shareholder. Mulwila (1980, p.75-6) cites the management agreement made with Bookers (Zambia) Ltd. during the 1968 takeover of CBC. This agreement was for a period of ten years and provided for management to control the business affairs and trading operations of the company, including all staffing decisions below the level of Divisional Manager and capital expenditures up to K100,000.

138 Typically, within the jointly owned subsidiaries of INDECO, minority shareholders supplied the General Manager and key technical staff and had access to operational decisions and the implementation of company policy. Management were not always co-operative with INDECO, Chaput (1971, p.174-8, and p.347) notes that "often expatriate managers return from board meetings with negative feelings towards Indeco and with every intention of not implementing those decisions considered to be politically motivated or counter productive." Martin (1972, p.204) discussed the problems of transfer pricing of supplies by the minority shareholders.

139 Chaput (1971, p.341-6 and p.298-301) and Mudenda (1985, p.8)

140 Johns (1980, p.113-4). While Simwinga (1977, p.193) reported that only 6 of 32 INDECO subsidiaries still had management by minority shareholders, Tangri (1984, p.117) puts the figure at 2 of over thirty but notes over 12 technical constancy contracts. The *Industrial Development Act* of 1977 (part III) required registration of, and imposed certain conditions upon, agreements for the "transfer of technology and expertise."

2.3.2 The Financial Balance of the Takeovers.

As a result of the takeovers, the Zambian state acquired, on the one hand, assets yielding a new source of revenue, and on the other, additional liabilities in the form of the compensation payments. For this to generate new resources for the Government and the local economy, the new sources of revenue acquired by the takeovers had to be sufficient to meet the additional liabilities.[141] While this applied to all the takeover agreements, the discussion presented here is limited to the case of the copper industry, which has been the focus of discussion on the issue in Zambia.

As noted previously, President Kaunda announced that the basis of the valuation would be the book value of the assets. A valuation on that basis would be likely to be lower than a commercial valuation based on expectations of future investment returns, as the mines were securing a substantial positive return on their assets.[142] Despite this, as discussed earlier, contemporary criticisms were made of the financial basis of the agreements and subsequent assessment have also been critical.[143]

An evaluation of the agreements is complicated by a number of factors. The negotiation between the Government and the private shareholders for the takeover of the mines was concerned not only with the agreement of a price for the shares but also with other issues which affected the net flow of funds between themselves and the new state enterprises.[144] Under the new structure, the future financial flows due to the former controlling shareholders from the Zambian Government were made up of the repayments made on the compensation bonds and the interest payments on those bonds. They also received a proportion of the dividends from the state mining enterprises relating to their continued minority shareholding, the fees relating to the management and technical service agreements, and payments for any further goods or services provided by them from the enterprises.[145] The net income received by the principal minority shareholders was, therefore, an aggregation of different financial

141 See Bronfenbrenner (1963) and Yaffey (1995).
142 For the period 1967 to 1969 the return of net profits on assets employed averaged 20.5 percent for Nchanga Consolidated Copper Mines; 24.6 percent for Rokana Corporation; 11.6 percent for Bancroft Mines; and 27.8 percent for Roan Selection Trust (calculated from Daniel, 1979, p.78, Table 4.1).
143 Mpande (1992, p.295) criticised the "agreement that would progressively drain capital out of the country."
144 The case that the terms of the takeovers were generous to the shareholders of the companies is supported by Potter's (1971, p.115-9) observation that the value of their shares on the London Stock Exchange "did not lose their capital value as a result of the nationalisation."
145 Potter (1971, p.97-100)

flows, some of which were guaranteed at a fixed level and others of which were dependent on the subsequent performance of the industry.[146]

The impact of the nationalisation was also complicated by the concurrent changes to the basis on which the industry was taxed.[147] Before the takeover of the copper industry, taxation had been levied upon three different bases, the price of copper, the level of production and the profits of the mining companies.[148] In response to the complaints of the mining companies and advice from the International Monetary Fund, the Government's revised structure of taxation was based exclusively upon profits, while as a shareholder it acquired a dividend income which was also profit dependent.[149] As a result of the takeover and the changes to the taxation of the mining companies, all Government revenue from the industry became dependent solely on the profitability of the companies.

Stoever (1985) calculated that the cumulative tax revenue and dividends received from the nationalised mining companies by the Government between FY 1971 and FY 1981 amounted to K920 million. When account is taken of the cost of acquiring the shares, the net income of the Government for the period falls to K586 million.[150] This is contrasted with the estimated K2,041 million that would have been received without a dividend income had the mines been taxed under the previous formula.[151] These results include both the effects of the change in the taxation of the companies and of the share acquisition. When recalculated to identify the separate elements, the impact of the changes to the

146 Evaluations of the takeovers by Potter (1971) and Bostock and Harvey (1972), which were completed shortly after agreements were made, could only be speculative were based on projections of the copper industries performance.

147 Curry (1984) argued that the nationalisation arrangements made the Zambian Government revenues far more vulnerable to a downturn in the copper market.

148 The royalties that the Government acquired from the BSA were levied at 13.5 percent of the London Metal Exchange Prices for each tonne of copper produced. An export tax introduced in 1966 was based upon 40 percent of the LME price in excess of K600 per tonne, and the resulting profits were subject to income tax (Saasa, 1987, p.26).

149 World Bank (1972, p.21). The companies had long argued that taxes levelled on production rather than upon profitability of that production were a disincentive to marginal output (Martin, 1972, p.128-132). Following the bond redemption in 1973, the Government did make changes to the taxation of the companies, but did not reintroduce a unit based mineral export tax until 1983 (UNCTC, 1984, p.678) and (Saasa, 1987, p.43).

150 These figures include costs that were incurred due to the renegotiation of the original agreements including compensation payments made for the subsequent cancellation of the management contracts and the repayments of the loan used for the early redemption of the bonds.

151 Stoever does not make clear the basis of the calculation of many figures and they must be treated with caution. An inspection of the footnotes and appendices provided, moreover, suggest that Stoever's calculations may include errors, including the calculations of the repayments of the bonds based on the value of the entire company and not the 51 percent acquired by the Government (Stoever, 1985, p.153, note 10).

structure of taxation, estimated at K1,332 million, far outweighs the agreed valuation of the shares acquired in the mining companies of K334 million.[152]

The estimation of the level of lost tax revenues is, however, open to question. Stoever's (1985) calculations were based on the assumption that the production, costs and revenues of the mines over the period would have been achieved under the preceding tax structure. However, failure of the mines to provide revenue to the Government in the mid-1970's was primarily due to the inability of the industry to operate profitably during the that period.[153] Under the pre-1969 tax regime, a copper price falling below production could have resulted in the mines closing down greater capacity, given the disincentive effect of a production based tax.[154] It is likely, however, that the revised system of taxation in operation during the 1970's did lead to more volatile tax revenues.

Alongside this, the takeovers also increased the responsibility of the Government to provide for the adequate financing of the industry. As the majority shareholder, the Government became the principal source for additional funding of the mines through equity, loans, and the guarantee of commercial debts. The potential for a scenario to develop in which a downturn in the copper industry could cut off the government primary source of revenue, while simultaneously increasing its obligations to provide new funding for that industry, had been established.

Underlying this was, however, was the basic dependence of the Zambian economy on the production of a single commodity.[155] If the Government view that the takeovers of the mines could contribute to the pace and extent of economic diversification was correct, then the risks outlined must be

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152 This is before taking into account the 6 percent coupon on the bonds to finance the purchase, and the dividend income to the Government from its shareholding amounting to K.190 million between 1971 and 1981.

153 See Curry (1984), O'Faircheallaigh (1986) and Curry (1989). The problems experienced by the copper industry in this period are discussed in Chapter 3.

154 Stoever's (1985) estimate of the tax revenue that would have derived from the industry under the old system of taxation would have led to taxes exceeding pre-tax profits in 1975, and in each year from 1977 to 1981. The taxation of the industry in the entire 1971 to 1981 period would have amounted to 99.62 percent of aggregate profits, against the 32.97 percent actually paid under the revised system. It is unlikely that the degree of taxation suggested by Stoever as being achievable under a continuation of the previous tax system would have been sustainable.

155 The Government had been heavily dependent on copper revenues before the takeovers. Between 1964 and 1969, income from the copper industry had averaged 60 per cent of total government revenue (O'Faircheallaigh, 1984, p.128). Bell (1983, p.61) reports that Government concerns over their excessive reliance on mineral revenues also led them to raise the tax taken from the non-mineral sectors of the economy. Bell (1983) and Jolly and Williams (1972) discuss strategies for budget management under conditions of uncertain revenues.

weighted against those of a copper downturn on a more dependent economy. The primary orientation of Government strategy was to diminish that risk through diversification of the economy as a whole.

2.3.3 Nationalisation and Integration.

It has been argued that nationalisation of subsidiaries of transnational corporations potentially undermines the commercial viability of the acquired subsidiary unit. The argument draws upon explanations of the behaviour of transnational corporation which explain their integration of diverse activities on the basis of the commercial advantage achieved.[156] The acquisition of subsidiary units can, therefore, cause the disintegration of the corporate structure and dissipate the advantages of integration. This has the potential to damage the commercial viability of the enterprises involved. While this analysis is applicable to the acquisition of any subsidiary company, the discussion will again focus on the case of the copper industry.

Shafer (1983) argued that within the copper industry the management of commercial risk was a central factor in the corporate structures that were established by the private sector producers.[157] This was controlled through the establishment of vertical and horizontal integration by the mining transnationals. By acquiring only a part of that structure, the nationalising Government devalued the asset it had acquired and increased the level of commercial risk within the industry. This may be evaluated on the basis of its effects on the global market and the integration of productive activity in the resulting structure.

Zambia was one among a number of the major copper producing countries to pursue a policy of state participation in their mining industries.[158] Shafer (1983, p.102-6) argues that the control of the international copper industry by the transnational mining companies was eroded by the establishment of these state mining enterprises which undermined the transnationals ability to stabilise the market

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156 This approach to the analysis of transnational corporations is reflected in the work of Caves (1996, p.1-23). Other perspectives are discussed by Jenkins (1987).

157 Shafer (1983) constructs this argument on the cases of the copper producers Zambia and Zaire. A similar argument has been made in the case of Chile's nationalisation of its copper industry by Moran (1974, p.225-46).

158 Initiatives to extend ownership over their copper industries were taken by Zaire in 1967, Chile in 1969 and 1971, Peru in 1974. They joined with Zambia to form the Intergovernmental Council of Copper Exporting Countries (CIPEC) in 1967, which was intended to provide for communication and co-ordination between themselves. Collectively they accounted for an average of 34 percent of world mine production and 18 percent of world refined copper production between 1973 and 1981 (Nwoke 1987, p.112-57).

through informal co-operation and led to greater price volatility. The degree to which this occurred in Zambia was limited. Initially the marketing of Zambia's copper output remained in the hands of the copper transnationals who had previously controlled it, and subsequently when state enterprises took over the marketing themselves, they were able to establish themselves as competent participants in the industry.[159] The nationalisations were not, however, the only factor undermining the control of the copper oligopoly and they contributed to a process that was already underway and driven primarily by developments in technology.[160]

The extent of vertical integration in the copper industry has been limited. Copper mining companies have tended to undertake smelting and refining, but have not been heavily involved in fabrication.[161] The Zambian copper industry reflected this pattern of integration with most of its output being refined domestically.[162] This would support Radetzki's (1985, p.131) view that "nationalisation in Zambia did not cause any important rupture of vertical integration chains." The Zambian Government was aware of the potential benefits of vertical integration and the reluctance of the mining companies to extend the degree of integration in the local copper industry was a source of friction between them both before and after the takeovers.

It is argued by Shafer (1983) that the mining state enterprises were more constrained in horizontal diversification than were the transnationals which had pursued strategies of spreading their investments between a variety of products.[163] The copper interests of Anglo American Group, for

[159] Jordan (1990, p.171) refers to Zambia's copper marketing company, MEMACO, as "an experienced international trader of copper on the world markets... who have over the years acquired the confidence of several international customers."

[160] Shafer (1983, p.101) in fact notes that "Even before the wave of nationalizations in the late 1960s and early 1970s, the copper oligopoly was in serious decline... The spread of nationalization simply contributed to this process by markedly increasing the horizontal dilution of the oligopoly." The contributing factors were the spread of technological know-how lowering the barriers to entry for new producers and the spread of the use of aluminium among other substitutes. See also Nwoke (1987, p.134-4) and Yachir (1988, p.34-8).

[161] Yachir (1988, p.35). The reason for this, suggest Mikesell and Whitney (1987, p.33), is that fabrication requires a selection of technical and marketing skills distinct from those required for mining, smelting and refining.

[162] This level of integration of local processing was unusually high for a producer country. In 1966, while Zambia refined 79 percent of its output domestically, comparative figures for other major copper producers were Zaire's 50 percent, Chile's 40 percent and Peru's 20 percent (Nwoke, 1987, p.143). Factors which led to a high level of processing in Zambia were that transportation costs were relatively high and discouraged the transportation of ores; that the mines produced sufficient capacity to provide for dedicated processing plant to be established and finally that local labour and energy were available relatively cheaply (Lombe, 1987, p.49-50).

[163] Shafer (1983, p.102) Different product combinations have the potential to control different risks. The combination of copper with its substitute material aluminium may provide protection against a

example, were only a small element of its overall portfolio of investments which also included trading, financial, brewing and engineering operations as well as other mining interests.[164] The diversification by transnationals has, however, been on an international scale. While it provided the transnational with protection against adverse circumstances in any particular country, it equally denied the individual host countries of the benefits of that diversification. In the case of Zambia, a complaint against the behaviour of the mining companies was that they had failed to reinvest their earnings in the diversification of local economy. This was itself the aim of Zambian Government mining policy which was intended to fund the diversification of the Zambian economy, to reduce its dependence on copper.

While the acquisition of an enterprise that is part of an integrated corporate structure has the potential to undermine its commercial viability, it has been argued that in the case of the Zambian copper industry this did not occur. The discussion has also emphasised that the extent to which enterprises were integrated within corporate structures frequently did not provide the benefits of diversification to the Zambian economy, which the constructing of the state enterprise sector after 1968 sought to remedy.

SUMMARY.

This Chapter has provided an analysis of the construction of the Zambian state enterprise sector. It has argued that under the initial policy framework established following independence, the Government envisaged that the economy would continue to be dominated by private enterprise. The role of state enterprise was limited to strategic sectors and industries in which the existing private sector was unwilling to invest. In addition, the takeover of existing private enterprises was explicitly ruled out. From 1968 government policy changed and through a series of takeovers of existing private enterprises, state enterprise emerged as the main instrument of development policy.

The central factor prompting a change in the Government's implementation of its development objectives has been identified as its growing concern over the effectiveness of the initial policy

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trend to replace copper with aluminium. The combination of copper and gold, the price cycles of which have tended to be converse, may allow for a stability of earnings over the economic cycle (Mikesell and Whitney, 1987, p.37-9).

164 Saasa (1987, p.19-20). In the case of RST, although its own principal assets were concentrated in the Zambian copper industry, its controlling shareholders, AMAX, had interests in other metals, fuels and chemicals. The diversification strategies undertaken by other mining transnationals are discussed by Mikesell and Whitney (1987, p.46-51).

framework. The existing foreign and expatriate elements within the private sector appeared reluctant to respond to the incentives that the government had established, while the emergence of indigenously based private and co-operative sector remained slow. In contrast, the Government regarded the performance of state enterprise as successful. Through INDECO it had established a number of new industries within Zambia and secured the participation within them of a number of transnational investors.

The extension of state enterprise also responded to political pressures upon the government. UNIP's ability to maintain its popular base of support was under threat from factional competition. In this context, the extension of the state enterprise sector was perceived by the political leadership to offer both the opportunity to increase the rate of economic growth and to control the distribution of its benefits.

By the beginning of the 1970s, the Government had acquired control of most of the major enterprises in Zambia, including the copper mining sector. Nevertheless, Zambia remained a mixed economy with the private sector continuing to play a significant role in the economy. In addition, minority private shareholdings remained in many state enterprise and was attracted to a number of new state investment.

While the state enterprise sector that was established offered the government an instrument through which it could implement it policies, it also reflected many of the problems of the wider economy including the dependence on the copper industry. In particular, the financial agreements for the acquisition of the mines increased the vulnerability of the government to a prolonged downturn in the price of copper.

CHAPTER 3.

THE PERFORMANCE OF ZAMBIAN STATE ENTERPRISE IN THE 1970S AND 1980S.

The aim of this chapter is to provide an account of the performance of the Zambian State Enterprise sector in the 1970s and 1980s. In Chapter 2 the argument was advanced that the Zambian government increasingly came to doubt the ability of the private sector to be the primary agent for economic development. From 1968 state enterprise emerged as the principal instrument through which the State took a more direct role in implementing its objectives. This Chapter reviews the operation of that sector and the problems it encountered.

This Chapter argues that the core of the strategy of the Zambian State Enterprise sector was to redirect the profits that were realised through profitable enterprises, particularly in the mining sector, to fund investment in the creation of a diversified industrial structure. Between 1970 and 1990, this strategy failed to achieve what had been anticipated. The commercial performance of the sector during this period eroded its financial viability and led to critical assessments of its performance from the political leadership. Despite this, the leadership continued to be committed to the use of state enterprise as an instrument of policy and undertook measures to improve its performance.

Section 3.1 of the Chapter provides a background to the political and economic changes during the period under consideration. In the early 1970s, Zambia established a one-party state in response to the continued pressures generated by the factional nature of political competition. Section 3.1.1 outlines the changes that this brought to the organisation of the state structure. The Zambian economy also experienced changes in the period under review and from the mid-1970s experienced a sharp downturn in the copper market. Section 3.1.2 examines the effects of this upon the economy and the policies which were pursued in response to this.

The performance of the state enterprise sector as a whole is addressed in Section 3.2. The commercial performance is examined through an analysis of the financial statements of the companies. Section 3.2.1 discusses the measures that have been chosen to analyse the accounts of the Zambian State Enterprises. These measures are applied in Section 3.2.1a to the accounts of ZIMCO, in Section 3.2.1b to the accounts of the state mining enterprises and in Section 3.2.1c to the accounts of INDECO. In Section 3.2.2 the criticisms that were made of the state enterprise sector by the President, UNIP and the

National Assembly are examined. These criticisms were an important factor in prompting a series of measures undertaken to re-organise the control structure of state enterprise in the 1970s. These measures are examined in Section 3.2.3.

The performance of the state mining enterprises are examined in Section 3.3. The problems that were faced by the industry during the mid-1970s in generating funds to provide for the diversification of the economy are examined in Section 3.3.1 These reflected problems that were generated within the copper industry, at both a local and international level, and the constraints under which the enterprises could respond to them. From the early 1980s, a number of initiatives were undertaken to improve the commercial performance of the industry and are discussed in Section 3.3.2. These included the consolidation of the sector as ZCCM and investment rehabilitation plans undertaken with external donors. It is argued that these had a limited impact on the sector investment

The performance of INDECO is examined in Section 3.4. Throughout the period, INDECO continued to be the primary agency through which the Government sought to undertake investment in the diversification of the economy. While INDECO continued to expand through growth and acquisitions during the 1970s, the rate of this slowed significantly in the 1980s. Section 3.4.1 examines the growth of INDECO during the 1970s and explores the degree to which it was able to achieve its objectives. Section 3.4.2 examines the steps that were undertaken in the 1980s to rehabilitate the group and its subsidiary companies.

SECTION 3.1. POLITICAL AND ECONOMIC CONTEXT.

The extension of the state enterprise sector across the economy was followed by the establishment of the Second Republic in Zambia, and the emergence in the global economy of a period of volatility and recession. Both of these factors were important in setting the context in which the Zambian state enterprise sector operated. This Section provides a preliminary overview of the main trends in both of these areas as a background to the analysis of the operations of the state enterprises which is the primary subject of this Chapter. Section 3.1.1 provides an examination of the developments in the political system, the developments in the economy are discussed in Section 3.1.2.

3.1.1. The Politics of the One-Party State.

The extension of the state enterprise sector across the economy was closely followed by the establishment of the Second Republic in Zambia.[1] As argued in Chapter 2, one factor contributing to the extension of the state enterprise sector was the pressures generated by clientelist politics, by which the political class was expected to deliver material rewards to their supporters. The pressures generated through this system, and the factionalism which it fuelled, were also important elements in the establishment of the Second Republic.

The new constitution allowed for UNIP to be the only political party.[2] While regular elections to the National Assembly and to the post of the President of the Republic were conducted, the choice of candidates that was offered to the electorate was controlled by the party.[3] Although the constitution allowed for more than one presidential candidate, in practice the only candidate was the incumbent Kenneth Kaunda and UNIP blocked attempts by others, including the former Vice President Simon Kapwepwe and former Leader of the Opposition Harry Nkumbula, to stand as candidates. The selection of candidates for the National Assembly was dependent on the approval of the Central Committee, and this was frequently denied to those who were considered to have been overly critical of the Party leadership.

At the apex of the one-party state was the office of the Presidency, which was strengthened by the changes. An important aspect of President Kaunda's authority was the extensive powers of appointment exercised over the party, government, civil service and state enterprise sector.[4] This was used to exert control over the state apparatus in a number of ways. Firstly, personnel were continually reshuffled between different positions so that none could become entrenched in any position and establish any autonomous authority. A second tactic employed was to use appointments to neutralise potential opponents, with senior members of the party retained in employment through their appointment to the UNIP Central Committee. While the primary method of maintaining political control was the management of patronage, the state also maintained an extensive security network. The state of

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[1] In October 1971 UNIP resolved to establish the one-party state, which subsequently came into existence in December 1972.
[2] Mubako (1973) discusses the constitutional features of the one party state, while Gertzel et al (1984) discuss its functioning.
[3] The process of elections in the one party state has been analysed by Baylies and Szeftel (1984) and Chikulo (1988).
[4] Burdette (1988, p.69-70) and Tordoff (1980, p.19-21).

emergency that had been declared in 1965 was maintained throughout the duration of the Second Republic, despite the achievement of majority rule in Southern Rhodesia/Zimbabwe.

These constitutional changes were unable to quell the factionalism which continued to characterise UNIP. Divisions continued through the competition of regional based factions and antagonism between the leaders who had risen through the ranks of the party and those with technocratic and administrative backgrounds.[5] The new political structure, however, gave the leadership of UNIP a greater ability to contain and manage these rivalries, by precluding the option of defecting from the party and appealing to the electorate for support.[6] With the option to establish an independent political basis closed off, all advancement within the party and the state became dependent on the patronage extended from the party leadership.[7]

Increasingly the opportunity to hold the Government accountable within the representative structures of the state became diminished. While it had originally been envisaged that members of the National Assembly who did not hold Government positions would be free to criticise Government policy, from the early years of the Second Republic attempts were made to limit this.[8] In addition, the role of UNIP itself as a conduit for popular opinion was eroded as the party machine began to disintegrate at local level.[9]

Opposition to Government policies increasingly became articulated in bodies outside the structure of the one-party state and ZCTU emerged as an important focus for discontent.[10] From the early 1970's, the failure to gain re-election by union leaders who were seen as overly loyal to the leadership of UNIP, marked the continuing demand of union members for independent representation.[11] While the relationship between the Government and the trade union movement become strained during the 1970s, the first major confrontation occurred in 1980 over the provisions of

[5] Burdette (1977) discusses the effects of these divisions on copper policy and Burdette (1984b) discusses them in respect of foreign policy. See also Scott (1980).

[6] Chikulo (1988, p.37)

[7] As Bates and Collier (1993, p.405) note, competition in internal party elections had been suspended during the factionalism of the late 1960's.

[8] Gertzel (1984, p.85-6). Bates and Collier (1993) note that by 1990, of the 120 members of the Assembly, only 15 did not hold some rank of Government position.

[9] Scott (1978, p.331) notes, for example, that UNIP's leadership was concerned at the declining level of party membership in the Copperbelt between 1968 and 1974.

[10] Others sought to effect political change through the plotting of coups, attempts at which were uncovered in 1980, 1983 and 1988. (Mwanakatwe, 1994, p.165-78)

[11] Among those who displaced pro-UNIP leaders of ZCTU during this period were Newstead Zimba and Frederick Chiluba (Rakner, 1992, p.95).

the *Local Government Act.*[12] The decision of ZCTU not to co-operate with the legislation prompted UNIP to expel 17 labour leaders from the party, which in turn provoked a further round of strikes. Although, with an agreement to co-operate with the legislation and the cessation of strikes, the union leaders were re-admitted to the party, continuing tensions culminated in the detention of seven union leaders in 1981 including ZCTU President Frederick Chiluba.[13] With the continuation of economic recession in the 1980's, the friction between the Government and the unions continued.[14] By 1986 the average level of real wages had fallen below its 1965 level, strikes were widespread and the Government implemented further measures designed to control union activity[15].

Shaw (1976) and Hamalengwa (1992) suggested that the extension of state ownership over a large proportion of the Zambian economy recast the politicians and civil servants who administered it as a State Bourgeoisie.[16] Collectively, through their control of the state apparatus, they exercised the rights of ownership over a substantial share of the productive resources of the economy.

The state officials who administered state enterprises, however, differed from private sector based bourgeoisie in their relationship to the enterprises which they controlled. Their access to them was dependent upon the maintenance of their position within the state hierarchy, and their claims on the income generated by the assets was limited to the duration of their appointment.[17] Reflecting the limited basis for personal accumulation, and the insecurity of their position, many within the public sector sought to use the resources at their disposal to establish an independent basis for themselves within the private sector.[18] For some, the emergence of this group marked a major division within the

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[12] Rakner (1992, p.98-101) argues that an important element in the unions' opposition to the Act was the fear of increased interference in industrial matters and a resistance to the monopoly power of the party in the one-party state. UNIP attempted unsuccessfully to incorporate ZCTU as a mass organisation in 1977-8 and again in 1982 and 1984 (ibid., p.106-8).

[13] Rakner, (1992, p.102-4).

[14] Rakner (1992, p.114).

[15] The course of wages is discussed by Chiwele (1996, p.214-5).On labour unrest see Hamalengwa (1992, p.113-6) and Rakner (1992, p.109-10).

[16] See also Mudenda (1984, p.145-7)

[17] Shaw (1976, p.8) defined the membership of the state bourgeoisie as "all members of the Central Committee and Parliament, of the Cabinet and Parastatal Boards, and all senior civil servants and parastatal managers," his criteria for inclusion in this class being appointment by the President.

[18] Documenting the emergence of an indigenous private sector capitalist class, Baylies and Szeftel (1982, p.196), noted that it had been drawn "disproportionately from the ranks of professionals and from the top layers of the party, civil service and parastatals," with 36 percent of those who they characterised as "true bourgeoisie" having held "or continued to hold positions in the upper levels of the party, Government or public enterprise." Public office provided opportunities to pursue this through access to good salary, managerial skills and contacts in the business world, alongside opportunities to misappropriate state assets.

political leadership between those with a base in the private sector and those remaining dependent on the state.[19] However, there continued to be a substantial overlapping between these groups while many who had acquired small private interests remained dependent on their position in the state[20]

The political system established under the one party state has also been identified as a principal cause of the problems faced by Zambia during the Second Republic. For Good (1989) and Sichone (1989), UNIP 's monopoly of power had a corrosive effect on the capacity of the state, allowing corruption and inefficiency to develop.[21] The institution of the one-party system was itself an attempt to manage the corrosive effects of factional politics that developed under the multi-party system of the First Republic and whether the continuance of multi-party politics would have led to a more accountable state structure during the 1970 and 1980, or to a collapse in to a more authoritarian regime is open to question. While it is widely recognised that the administrative capacity of the state did decline during the Second Republic, this cannot be attributed solely to the one-party state. The long term effects of the economic problems, outlined below, increased the challenges faced by the state, while simultaneously reducing the resources available to it.[22]

3.1.2. Zambia's Economic Crisis.

The initially strong rates of growth experienced by the Zambian economy following independence began to fade from the early 1970's, and as presented in Table V, low and negative rates of growth of real gross domestic product were experienced throughout the rest of the period under review. The problems encountered by the Zambian economy reflected those in the global economy and the basis on which the Zambian economy was incorporated into it. The world economic crisis of the

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[19] Southall (1980, p.107) argued that the key to political divisions within the Party leadership were divisions between "the ones who have made it and those who aspire to," the former preferring a diminution of the state apparatus, and the latter still reliant upon it. Libby (1983) also suggests a division between the state and private bourgeoisie, while Sklar (1975) emphasises their common interest as members of an overall managerial bourgeoisie.

[20] Baylies and Szeftel (1982) also note the increasing involvement of business people in politics, both to promote a pro-business agenda and to enhance their own positions. See also Eriksen (1977, p.20-1).

[21] Others have pointed to the constant reshuffling of personnel within the state apparatus as undermining its capacity for efficient administration, see Tordoff (1980, p.19-21), Burdette (1988, p.69-70) and Turok (1989, p.150).

[22] Chiwele and Colclough (1996) discuss the effects of declining wage levels in eroding the productivity of the public sector workers.

1970's emerged in the leading capitalist economies and diffused across the rest of the globe.[23] The crisis was transmitted to Zambia primarily through two channels, the copper industry and rising levels of world inflation.[24]

As demand for raw materials in the industrial countries declined and the speculative pressure on commodity prices subsided, sharp and lasting declines in the price of copper were experienced. In 1973 the real US dollar price of copper stood at 78 percent of its peak in 1966, falling to 35 percent of the 1966 level by 1978, and to 30 percent it by 1984.[25] At the same time the cost of imports, on which Zambia was highly dependent for the supply of essential goods, rose. As Table VI shows, the combined effects of falling export revenues and rising import costs, had a strong negative impact of Zambia's terms of trade.

TABLE V.

Real Growth Rates of the Zambian Economy.

1965 to 1989.

Period.	Average Growth of Real Gross Domestic Product per annum. %
1965-69	7.98
1970-74	5.20
1975-79	(0.67)
1980-84	0.71
1985-89	1.89

Source: Calculated from Fry (1980) for 1965 to 1974, and from World Bank (*World Tables*, 1994b, p.724-5) for 1975 to 1989.

[23]For an account of the crisis in the world economy see Armstrong, Glyn and Harrison (1991, p.207-62).

[24] Other factors which materially affected the Zambian economy in the period were the conflict with the white minority regime in Rhodesia, the wars of liberation waged in Angola and Mozambique, and the destablisation policy pursued by South Africa through the 1980s.

[25] See Takeuchi et al. (1987, p.105). Mikesell (1988) also provides a discussion of price trends and the factors determining them over the period.

TABLE VI.

Zambia's Changing Terms of Trade.

1967 to 1989.

Period.	Average Change in Terms of Trade Per Annum. %
1967-69	2.56
1970-74	(5.98)
1975-79	(6.13)
1980-84	(7.82)
1985-89	11.61

Source: Calculated from Republic of Zambia (*Third National Development Plan*, 1979, p.8, Table 1.10), for 1967 to 1974, and from World Bank (*World Tables,* 1994b, p.726-7), for 1975 to 1989.

While Zambia's accumulation strategy had been based upon the use of the surplus produced by the copper industry for the establishment of a diversified industrial base to the economy, it remained in the words of Burdette (1988, p.95), as "a house of cards balanced narrowly on the prosperity of the copper mines." Many of the new industrial developments which had taken place during the period covered by the First and Second Development Plans had relied on imported technology and inputs. As Table VII shows, the sectors of manufacturing in which the greatest expansion had occurred during the first ten years of independence, were those which were most dependent on the importation of inputs.[26] While diversifying production within the economy, these industries with their reliance on foreign exchange, had reproduced the dependence of the economy on the earnings of the copper sector.[27]

[26] Introducing the *Third National Development Plan* (1979-83) President Kaunda noted that; "the industrial development in the country has been rather lopsided. There has been very little genuine import substitution and most of the industries set up during the period are heavily dependent on imported raw materials and other essential production inputs; the technology imported has been capital-intensive and least suited to the Zambian market"(Republic of Zambia, 1979, p.iii).

[27] The need to diversify became more urgent in the 1980s as future life of the copper mines was estimated at a maximum of 20 years (Republic of Zambia, 1984b). The problems which a booming primary sector can create for the wider economy through "Dutch Disease" effects is discussed by O'Neill (1987) and Kayizzi-Mugerwa (1991).

TABLE VII.

The Changing Structure of Zambian Manufacturing Industry and its Import Dependence.

1965 to 1975.

Sector.	Share of Manufacturing GDP. 1965. %	Share of Manufacturing GDP. 1975. %	Change in Share of Manufacturing GDP between 1965 and 1975.	Imports as a Share of Sector inputs in 1975. %
Chemicals and chemical products.	3.8	20.2	16.4	82.0
Basic metals and metal products.	19.1	23.6	4.5	73.1
Textile, wearing apparel.	8.9	12.5	3.6	74.8
Paper and printing.	3.9	5.5	1.6	64.9
Other manufacturing.	0.4	0.5	0.1	67.2
Wood, wood products.	5.3	5.2	(0.1)	47.7
Non-metallic mineral products.	8.7	5.0	(3.7)	12.0
Food, beverages and tobacco	49.9	27.4	(22.5)	25.2

Source: Data on Gross Domestic Product from Dewar and Seshamani (1987, p.107, Table 3.1). Data for import content is Republic of Zambia (*Restructuring in the Midst of Crisis*, 1984a, Vol.1 p.63, Table 2). Notes: Totals not equal to 100 due to rounding. The figures for the import content of Food, Beverages and Tobacco sector has been calculated as the average of the subsectors of Food Manufacturing (26.8 percent) and Beverages and Tobacco (23.6 percent). The figure for the import content of Basic Metals and Metal Products Sector has been calculated as the average of the subsectors of Basic Metal Products (85.2 percent) and Fabricated Metal Products (61.0 percent).

The deterioration in the Zambian economy after 1975 brought the issue of economic adjustment to the fore. The first response of the Government was to pursue a strategy based on the administrative control of the economy with the aim of managing the effects of a temporary copper downturn. This was substituted in the early 1980's by the introduction of market oriented policies aimed at adjusting to the changed economic environment.[28]

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[28] While many analysts regard Zambia as having begun to undertake adjustment measures in the early 1980's, others such as Callaghy and Wilson (1988, p.210-1) and Shafer (1990) argue that it was not

The initial response of the Government to the economic problems experienced from 1975 onward was influenced by the expectation that the decline in copper prices would be temporary.[29] This was in line with the prevailing view within the industry and among international financial institutions.[30] The Government, therefore, pursued a measured response, intending to insulate the domestic economy from the full effects of the downturn.[31]

The extent to which this policy response by the Government proved inadequate was in a large part due to the steepness of the decline that was experienced. Between 1966 and 1974, minerals contributed on average 48 percent of Zambian Government revenue. For the years 1975 to 1982 this averaged 2 percent. Although total Government expenditure was reduced in real terms, falling by an average of 4.5 percent each year between 1974 and 1980, this was insufficient to match an average fall in revenue of 9.1 percent each year.[32] In response to the deteriorating export revenues, measures were taken to maintain the Balance of Payments and around 40 to 50 percent of the decline in Zambia's foreign earnings between 1975 and 1978 were met by reductions in the level of imports.[33] Despite this, by 1978 Zambia had accumulated a level of payment arrears which threatened normal trading relationships and necessitated an agreement with the IMF.[34]

From 1978 onward, relations with the International Monetary Fund and the World Bank became increasingly material to the conduct of economic policy by the Zambian Government.[35] The

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until the middle of the decade that policy addressed adjustment. Bratton (1994, p.107) noted the adoption of "a more serious commitment to economic reform" in 1985, describing earlier measures undertaken as "half-hearted."

[29] See O'Neill (1987, p31), Ndulo and Sakala (1987, p.1) and Young (1990, p.7).

[30] Copper prices were understood to be cyclical, a view Takeuchi (1987, p.65) states, which was held widely until the early 1980's. Ndulo and Sakala (1987, p.27) reported that the record of the IMF in predicting copper prices was poor, while the ILO (1981, p.137-8) note that they had considered the problems of 1975 to be exceptional, rather than the beginning of a downtrend in the price.

[31] Michalski (1982) provides an account of the variety of policy responses that can be employed to cope with export revenue instability.

[32] Within this, capital expenditure was hardest hit, falling at 15.8 percent a year with recurrent expenditures falling at 2.2 percent (Bell, 1983, p. 63).

[33] ILO (1981, p.141).

[34] Zambia had borrowed from non-concessionary sources and therefore was paying relatively high rates of interest. Debt servicing rose to 15 percent of export earning in 1978, compared to 4 percent in 1974, and total debt costs, including those due to domestic debts, reached 23 percent of Government expenditure, compared to 13 percent in the earlier year (ILO, 1981, p.142-3).

[35] Ndulo and Sakala (1987), Ncube et al (1987) and Reinikka-Soininen (1990, p.63-6) have traced the evolution of Zambia's agreements with the IMF. Zambia first borrowed from the IMF in 1971 in response to the Mufilira Mine disaster. The conditionalities attached to the earlier loans were light and continued to be so until 1976 when a 20 percent devaluation of the Kwacha was required (Mwanza et al, 1992, p.127).

central aim of the programmes was to restructure the external relationships of the economy and reduce its balance of payments deficit, and the primary instrument employed to achieve this was the devaluation of the Kwacha.[36]

In 1983 the exchange rate became more actively managed, being based on a crawling peg linked to a basket of currencies, against which it was steadily devalued.[37] This system was subsequently replaced by the foreign exchange auction, which entailed a substantial liberalisation of both the allocation and the rate of foreign exchange. Alongside this, restrictive fiscal and monetary policies were pursued to contain domestic demand, administrative controls dismantled and a new framework established to facilitate foreign investment.[38] The prices of most wholesale and retail goods were decontrolled at the end of 1982 and the rate of interest was decontrolled in 1985.[39]

However, the capacity of the economy to respond to these policies was limited.[40] For devaluation to correct the imbalance in external trading, without production being further curtailed, required that either imports were replaced by the development of locally produced substitutes, or that new export products or markets were established. Both of these entail adjustment in the productive profile of an economy which requires time, stability and a supportive policy framework to promote investment. These conditions were not generated by the policy reforms introduced between 1983 and

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36 Mosley and Weeks (1993, p.1591) categorise the Zambian programme as one which focused particularly on trade liberalisation and much of the literature on Zambia reflects the centrality of exchange rate policy. See UNDP (1986), Ndulo and Norton (1987), Seshamani (1988), Wulf (1989) and Mwanza et al (1992).

37 While import licences and foreign exchange allocations continued to be administered by the Government, exports were encouraged through the establishment in 1983 of a foreign exchange retention scheme to allow exporters to retain 50 percent (or in the case of the copper industry 35 percent) of their foreign exchange earnings for their own use. The regulation of exports was streamlined, taxation reduced on export sales, and an *Export Development Act* was passed in 1985 which established an Export Promotion Board.

38 The *Investment Act*, 1985, was passed creating a new investment authority with the authority to approve all aspects of an investment

39 After December 1982, only three commodities (maize meal, wheat flour/bread and candles) remained under the control of the Government. In September 1985 this was reduced to only maize meal, the price of which became subject to a series of upward adjustments (UNDP, 1986, p.95, and Seshamani, 1988, p.59). Before 1982 the list of goods whose prices were controlled was extensive and included beef, flour and bread, cooking oil, charcoal, candles, soaps and detergents, blankets, maize meal, motor vehicles, tyre and tubes, cigarettes, biscuits, liquor, footwear, bicycles, sugar, soft drinks, fish, salt, rice, milk, clothing, matches, reflective number plates, petrol and petroleum products, toilet rolls, traditional beer, pharmaceuticals, stock feed, margarine and fat, beer, and all imported goods (Republic of Zambia, 1984b, p.9).

40 For further critical accounts of the programmes see Ndulo and Norton (1987), Gulhati (1989),Wulf (1988 and 1989), Young (1990), Andersson and Ndulo (1991), Reinikka-Soininen (1990), Fardi (1991) and Siakalange (1994).

1987. Measures such as the decontrol of interest rates hampered those undertaking new investments, while the liberalisation measures reduced the scope of the Government for strategically targeting resources.[41]

Adjustment measures, in particular the rapid devaluation induced by the auctions and the decontrol of interest rates, also had secondary effects on the Government's budgetary position. The devaluation and decontrol of interest rates introduced additional inflationary pressures into the economy.[42] While this raised the general level of costs, it particularly raised the level of interest payments incurred by the Government on the servicing of its debt.[43] Alongside this, the rising level of costs increased the pressure on the Government to provide subsidies, particularly for essential subsistence items such as maize meal.[44] The combined effects of these pressures was a loss of budgetary control by the Government as substantial deficits were incurred in 1985 and 1986.[45]

The structural adjustment measures agreed with the International Monetary Fund and the World Bank have been portrayed by some as representing a framework through which the Zambian economy could be reconciled to the changed economic environment.[46] The policy measures, however, did not deliver an improvement in the Zambian economy and were replaced in May 1987 by the Zambian Governments own New Economic Recovery Programme.[47] The Programme was marked by a rhetoric of self reliance alongside the reintroduction of administrative controls to regulate the economy.[48] The exchange rate was fixed, with the allocation of foreign exchange being placed in the

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[41] Makgetla (1986, p.414) criticised the foreign exchange retention scheme for reducing the ability of the Government to direct the priorities of imports, and argued that the extent to which the scheme acted as an incentive to exporters was reduced by the operation of the foreign exchange auction (UNDP, 1986, p.96).

[42] Seshamani (1990, p.18-9) and Fardi (1991, p.340-2).

[43] Gulhati (1989, p.37) noted that the decontrol of interest rates and the depreciation of the Kwacha, increased debt repayments from 15 percent of Government expenditure in 1984 to 31 percent in 1985 Estimates for 1986 stood at 41 percent of expenditure.

[44] Sano (1988) argued that while the consumer subsidy on maize meal had been "effectively abolished during 1983 and 1984," the rising costs of imported fertilisers, grain bags and fuel renewed the pressure for subsidisation.

[45] It was in this context that the Government attempted to reduce the maize meal subsidy in December of 1986, sparking what the Economist Intelligence Unit described as "undoubtedly the worst outbreak of unrest in Zambia's independent history," and providing the immediate reason to break with the IMF programme (*EIU*, q1/1987, p.5 and Gulhati, 1989, p.45).

[46] The reform package has been presented as representing an economic logic which would, if fully implemented, ensure the successful adjustment of the Zambian economy, (Callaghy, 1990 and Hawkins, 1991).

[47] For a discussion of the pre-manoeuvring before the break see *EIU* (q2/1987).

[48] See *EIU* (q3/1987, p.11-13 and q4/1987, p.7-10). Bates and Collier (1993, p.425) note that while NERP reintroduced administrative controls, it continued the tight fiscal and monetary stance of the IMF

hands of a new Government committee, price controls were reintroduced and the rate of interest was reduced.[49] This was accompanied by an announcement of a ceiling on debt repayments at 10 percent of export earnings net of priority items.[50]

The success of the NERP depended on the ability of the programme to secure a higher level of net foreign exchange for the economy than that offered by the reaching of a new agreement with the IMF. While the ceiling on debt repayments limited outflows, the abandonment of agreed policy reforms resulted in the suspension of further funding from the World Bank and IMF, and reduced flows from other donors.[51] On balance, Zambia's foreign exchange position deteriorated and it was unable to pursue its alternative strategy.[52] In July 1989 the Government began to dismantle the administrative controls that it had introduced in 1987, which led to renewed agreement with the IMF in September 1989.[53]

SECTION 3.2. STATE ENTERPRISE PERFORMANCE.

The objectives which the Government required the State Enterprise sector to pursue reflected those of its overall development strategy. In both the Second and Third National Development Plans, published in 1971 and 1979 respectively, state enterprise was identified as a principal vehicle through which the strategy could be implemented.[54] While it was expected to fulfil a variety of objectives

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programmes, while Mwanza et al (1992, p.164) argue that only in its ceiling of debt servicing did the NERP differ fundamentally from the previous policies. *EIU* (q1/1988, p.8-9) reported that while the Zambian Government was willing to negotiate with the IMF on issues of the exchange and price controls, they were not willing to lift the ceiling of 10 percent repayment.

[49] In May 1987 eleven goods, other than maize meal, were placed under price controls (Bates and Collier 1993, p.425).

[50] The priority areas for foreign exchange allocation were ZCCM, International Air Traffic Association, and oil and fertilisers imports (Reinikka-Soininen, 1990, p.52).

[51] See *EIU* (q3/1987, p.10-13, q4/1987, p.9-10 and q1/1988, p.8-9). Mwanza et al (1992, p.145) note the fire at Kafue Gorge electricity generation plant in 1989 as a key moment as "the government urgently needed international assistance in order to repair the facility."

[52] Kayizzi-Mugerwa (1990, p.72-3), Seshamani (1990, p.26-7) and Mkandawire (1993, p.469-70) The plan relied on the assumption that it would be supported by international donors. However, this was not forthcoming, in the absence of the Zambian government reaching renewed agreement with the IMF.

[53] See *EIU*(q3/1988, p.13, q4/1988, p.11-3 and q4/1989). See also Andersson and Ndulo (1991).

[54] See Republic of Zambia (1971, p.194-5 and 1979, p.418). ZIMCO (1990) continued to define its role in terms of these objectives.

including the supply of goods at affordable prices and increasing employment, particular attention was focused on its capacity to reinvest its profits in the creation of a diversified industrial structure.[55]

As noted in Chapter 2, from the beginning of the 1970s, most of the major state enterprises were placed within ZIMCO.[56] The capacity of ZIMCO to fulfil these diverse objectives was founded on the complementary characteristics of the businesses with were included within it. The mining sector provided a potential source of profits, while INDECO had experience of establishing new industrial enterprises. In addition to this, ZIMCO also had extensive wholesaling and retailing networks and was an important manufacturer of essential consumer goods.[57]

In examining the performance of state enterprise this Section follows the approach outlined in Chapter 1. They are evaluated in terms of commercial viability and ability to meet the objectives of the government. The commercial viability of the sector is examined through an analysis of the financial statements of the state enterprises. Section 3.2.1 outlines the approach that has been chosen to analyse the Financial statements produced by the Zambian state enterprise sector. In Section 3.2.1a, 3.2.1b and 3.2.1c, this is applied to the accounts of ZIMCO, the state mining enterprise and to INDECO, respectively.

Section 3.2.2 examines the criticisms of the performance of the state enterprise sector made by the President, UNIP and the National Assembly from the mid 1970s. These prompted a series of reforms to the structures through which the government controlled the state enterprise sector, which are examined in Section 3.2.3.

3.2.1. Evaluating the Financial Performance of State Enterprise.

This section outlines the approach that has been taken to the interpretation of the accounts of ZIMCO, the state mining companies and INDECO. It discusses the presentation of the companies' profitability and capital structure, and the problems involved in assessing them.[58] The Financial

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55 These were identified by the Permanent Secretary of the Ministry of Development Planning, Nkowani (n.d., p83), who observed that without proper co-ordination there was scope for conflict between these objectives. See also Mwanza (1978).

56 The main state investments which remained outside ZIMCO were statutory bodies. The problems in the administration of them are discussed in Himonga (1984).

57 As President Kaunda noted "virtually all the price controlled items were products of the parastatal or statutory boards" (Republic of Zambia, 1984b, p.9).

58 The analysis of financial accounts in this thesis has drawn on the work of Smith (1992) and Holmes and Sugden (1994).

statements of these companies were each prepared on a consolidated basis to reflect the performance of all of the companies within the Group. Since both ZIMCO and INDECO had a number of subsidiary companies which were not wholly owned, the values stated in the accounts combine assets and liabilities attributable both to the shareholder of the parent company and those due to minority shareholders. In contrast, the state mining companies, while themselves having a substantial minority shareholding, did not have minority shareholders in their subsidiary companies, and the value of these was, therefore, wholly attributable to the parent company.

The profitability of the companies is presented below on the basis of the profit margin calculated from the Financial statements. This measure of profitability has been chosen to control for the effects of inflation on the financial accounts published by the companies. ZIMCO Group generally followed the historic cost convention of accounting in which items are stated at the nominal value at which they entered the accounts. This convention becomes problematic in inflationary environments, since the divergence between current and past nominal values may introduce distortions. Measures of profitability calculated in relation to the value of capital employed, will compare current revenues to past costs, and systematically overstate the relative scale of the current profit or loss. The profit margin measurement that has been employed in this analysis, however, substantially overcomes this problem by comparing the contemporaneous flows of current turnover and profit.

The average annual Profit Margin has been calculated for selected periods on the basis of Group pre-tax profit, profit after tax and exceptional items, and, where applicable, the profit that is attributable to the shareholders of the company, rather than to the minority shareholders of subsidiaries. This data is presented in Tables VIII, X and XII for ZIMCO, the mining companies and INDECO respectively.

The changing capital structure of the companies has been presented on the basis of the balance sheet values of different sources of capital. An important relationship in the capital structure of a company is the relative balance between the capital that has been provided by the shareholders as equity, or is otherwise attributable to them, such as profits retained by the company, and the capital which has been raised through long term borrowings. The level of debt to shareholders' funds provides a useful indication of the extent to which the company's financial returns will benefit the shareholders. As levels of borrowings rise, the income generated by the company may increasingly be diverted from the shareholders to provide for the servicing of its debts and should the company fall into insolvency, a smaller proportion of residual value would be attributable to the shareholders.[59]

The capital structure of the companies has been presented as the average annual balances stated in their accounts over selected periods. Where applicable, a distinction has been drawn between the value of shareholders funds attributable to the shareholders of the company and those attributable to the minority shareholders' of Group companies. This data is presented in Table IX, XI and XIII, for ZIMCO, the mining companies and INDECO respectively.

The capacity of a company to finance capital expenditures is a function of its ability to generate positive cash flows and is not equivalent to the concept of profit that is expressed in the Profit and Loss Account. Profits are stated net of items such as depreciation which do not involve cash outflows, and do not reflect other items, such as changes in the level of working capital, which may reflect positively or negatively upon cash flow. Although Cash Flow Statements have recently been adopted in Zambia, they were not produced during the period discussed. The level of profit has, therefore, been used as an approximation of the net resources generated by the Group.[60]

The analysis of the accounts of ZIMCO and its subsidiary companies during the period is also affected by changes in a number of the accounting policies employed by the Group.[61] These were introduced to mitigate the effects of inflation and devaluation on its financial statements, but reduced the comparability of the financial statements over time. In 1984 ZIMCO Group began to defer the accounting recognition of losses incurred on long term borrowings due to inflation over the period of repayment.[62] This reversed the previous policy of recognising the entire loss in the Profit and Loss account in the year in which it arose. The effects of this revised policy on profits, following a

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[59] The relationship of borrowings to equity capital will in each case be influenced by the specific rights that are attached to each at their issue, for example whether debts are secured upon specific assets. The burden of debt servicing will also vary between cases depending on the rate of interest and the schedule of repayment.

[60] To the extent that depreciation is charged against profit to represent the consumption of fixed assets, it may itself be a useful proxy for the value of capital expenditure used to replace existing assets. As discussed below, while this is undermined by the use of historic cost accounting in an inflationary environment, the adoption of asset revaluation should make depreciation charges more representative of the replacement values. The deferment of unrealised exchange losses, will also have the effect of making profit flows more representative of cash flows, than if the entire exchange loss was charged against profit in the year it arose.

[61] This section does not provide a full account of the changes to accounting policies within the state sector, but rather focuses on two major changes which had material affects during the period.

[62] This was contrary to that outlined in International Accounting Standards.

devaluation, were to increase their immediate level, at the expense of those in future years. This accounting treatment also created an unrealised exchange loss in the Balance Sheet. The presentation of this was also subject to change, being either netted off against shareholders funds to give a lower value for net assets, or stated as an asset and producing a higher valuation of net assets.

The Group also amended its previous practice of stating fixed asset values at historical cost. To counter the effects of inflation in eroding the value of assets in company Balance Sheets, from the mid-1980s Group companies began to undertake asset revaluation programmes. In 1985 ZCCM declared that it was aiming to systematically and periodically revalue its fixed assets, and in 1986 INDECO announced that it had instituted a three year cycle of revaluation for its fixed assets. Once again this had a two-fold effect on the accounts of the companies involved. While the revaluation of assets increased the level of shareholders' funds stated in the balance sheet, it also increased the depreciation charged against pre-tax profits in subsequent years.

An additional factor that reduced the transparency of the Group's accounts was that the accounting categorisation of the Group's liabilities did not always accurately reflect their substantive nature. As Turok (1989, p.92) noted:

> It has become common practice for some parastatals to borrow from the [Zambia National Commercial] Bank without paying interest so that after several years the loan effectively becomes a grant. It is suggested that half the loans to ZIMCO are now in fact bad debts.[63]

Despite these factors, an examination of the accounts provided by the state enterprises can provide an indication of broad trends within the sector. The following sections present this information firstly for ZIMCO Group, followed by the mining companies NCCM and RCM and their successor company ZCCM, and finally for INDECO Group. The mining companies and INDECO have been highlighted for particular attention due to their central role in the diversification strategy of ZIMCO.

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[63] The National Assembly (*Committee on Parastatal Bodies*, 1980) noted the case of INDECO Milling, a company which it only refrained from recommending for liquidation because it provided an essential service. The Zambian National Commercial Bank had been reluctant to increase its overdraft facility, but later agreed to following pressure from its holding company ZIMCO and from the Prime Minister's office. UNDP (1986, p.114) notes that during the foreign exchange auctions the Government protected some State Enterprises from the full effects of the devaluation by providing them with currency at pre-auction rates for the payment of some debts and expatriate staff costs. Again, this was not reflected in the accounts of ZIMCO.

3.2.1a ZIMCO

Since most of Zambia's State enterprises were included within the ZIMCO Group, a review of its Financial statements provides an preliminary overview of the aggregate performance of the Zambian State Enterprise Sector as a whole.

TABLE VIII.

Profitability of ZIMCO Group.

FY 1971 to FY 1989.

Period.	Average Pre-tax Profits Margin. %	Average Profit Margin after tax and exceptional items. %	Average Profit Margin attributable to ZIMCO. %
1971-74	30.61	16.31	7.98
1975-78	7.12	2.81	1.15
1979-82	4.48	2.17	1.11
1983-86	2.93	(1.67)	(1.66)
1987-89	11.04	(a) 5.03	(b)-

Source: Calculated from ZIMCO (*Annual Report*, 1972) for 1971 to 1972, (*Annual Report*, 1981) for 1973 to 1981, (*Annual Report*, 1986) for 1982 to 1986, (*Annual Report* 1987) for 1987, ZIMCO (1990) for 1988, and Republic of Zambia (*Report of the Auditor-General on the Accounts of Parastatal Bodies* 1988) for 1989(c).
Note: (a) data unavailable for FY 1988. (b) data unavailable for FY 1988 and 1989. (c) The *Report of the Auditor-General on the Accounts of Parastatal Bodies* (1988) was in fact presented in March 1990.

Table VIII presents information on the performance of the ZIMCO Group between FY 1971 and FY 1990. Although profitability revived at the end of the 1980s, the performance of the group did not attain the levels of profitability achieved at the beginning of the 1970s. While profitability was not the only objective of ZIMCO, the generation of new funds was central to its capacity to reinvest in existing enterprises and fund new projects. With diminished levels of profitability, much of ZIMCO's expansion was financed by debt. The capital structure of the Group is presented in Table IX. As noted in the previous section, the full effect of the rise in debt was mitigated by the revaluation of its assets which substantially increased the book value of shareholder funds and minority interests from the mid-1980s.[64] While this also raised the net asset value of the Group, recognising the increase in their nominal value, it did not provide any new funds for investment.

Table IX.

Sources of Capital as a Proportion of Net Assets of ZIMCO Group.

FY 1971 to FY 1989.

Period.	Shareholders' Funds. %	Minority Interests. %	Long Term Debt %.
1971-74	24.60	35.87	39.53
1975-78	32.26	24.97	42.77
1979-82	32.10	17.53	50.37
1983-86	32.37	18.30	49.33
1987-89	39.32	22.32	38.36

Source: Calculated from ZIMCO (*Annual Report*, 1972) for 1971 to 1972, (*Annual Report*, 1981) for 1973 to 1981, (*Annual Report*, 1986) for 1982 to 1986, (*Annual Report* 1987) for 1987, ZIMCO (1990) for 1988, and Republic of Zambia (*Report of the Auditor-General on the Accounts of Parastatal Bodies* 1988) for 1989(b).

Notes:(a) Total Capital Employed has been calculated by adding together shareholders funds minority interests and long term debt. This excludes certain other liabilities stated in the Group's accounts. The most significant of these was Insurance Funds, related to the activities of ZISCO, and at no point did these did not exceed 6 percent of ZIMCO's capital employed. (b) The *Report of the Auditor-General on the Accounts of Parastatal Bodies* (1988) was in fact presented in March 1990.

3.2.1b State Mining Enterprises.

The analysis of the profitability and capital structure of NCCM and RCM, and of its successor company ZCCM, follows that presented for ZIMCO group above.[65] As Table X shows, rates of profit to

64 Although the accounts of ZIMCO did not provide a breakdown of the sources of reserves within shareholders funds, ZIMCO (*Annual Report*, 1987) notes that asset revaluations were the main source of the Groups non-distributable reserves, which in FY 1987 accounted for 120 percent of the net value of ZIMCO shareholders funds

65 In contrast to ZIMCO, although ZCCM itself had minority shareholders, its subsidiary companies did not. The figures presented in Table X, therefore represent the profits attributable to all the shareholders of ZCCM and its predecessor companies, of which a proportion was attributable to ZIMCO Group.

turnover achieved by the copper companies in early 1970s were not matched subsequently.[66] Over this period, the Zambian copper producers recorded pre-tax losses in four years FY 1976, FY 1978, FY 1982 and FY 1983.

Table X.

Profitability of State Mining Companies.

FY 1971 to FY 1990.

Period.	Average Profit Margin before tax. %	Average Profit Margin after tax. %
1971-74	38.81	23.90
1975-78	3.04	2.76
1979-82	4.59	2.61
1983-86	2.32	(3.59)
1987-90	10.09	3.26

Source: Calculated from Radetski (1985, p.120), for 1971 to 1982, and from ZCCM respective *Annual Reports* for 1983 to 1990.

As Table XI shows, the level of long term debt steadily increased in relation to the level of shareholder capital. The trend was halted temporarily at the end of the 1970s, by the capitalisation of existing debts of the companies which lifted the Government shareholding of both RCM and NCCM to 61 percent of equity.[67] Debt levels, however, continued to rise through the 1980s despite the revaluation of fixed assets which bolstered shareholder funds.[68]

From the early 1980s the company began to have difficulty in adequately servicing its debts. In FY 1982 ZCCM announced that it was unable to comply with the covenants attached to a number of its

66 While accounts of the mining companies also reflected the production of other minerals, they were primarily reflected the contribution of copper and the decline in its real price from the mid-1970's was magnified by the declining level of production achieved in Zambia.
67 Burdette (1984a, p.46-7).
68 By FY 1989, 81 percent of shareholders funds was accounted for by asset revaluations (ZCCM, *Annual Report*, 1989).

loans, a situation which was only resolved by the Government agreeing to the subordination of K203 million of loans due to itself.[69] This provided only a temporary solution to the problem, and from FY 1984 the management of the company's debt became contingent on agreements for rescheduling of repayments to both Government and commercial debtors.[70]

Table XI.

Sources of capital as a Proportion of the Net Assets of State Mining Companies.

FY 1971 to FY 1990.

Period.	Shareholders' funds. %	Long term Debt. %
1971-74	87.95	12.05
1975-78	76.85	23.15
1979-82	78.53	21.47
1983-86	68.45	31.55
1987-90	60.58	39.42

Source: Calculated from Radetski (1985, p.120), for 1971 to 1982, and ZCCM respective *Annual Reports* for 1983 to 1990.
Notes: (a) Total Capital has been calculated by adding together shareholders funds minority interests and long term debt. This excludes certain other liabilities stated in the Group's accounts. The most significant of these was deferred liabilities, which principally related to provisions for employees retirement benefits.

3.2.1c INDECO.

The profitability and capital structure of INDECO between FY 1971 and FY 1990 are outlined in Table XII and Table XIII respectively. As with the other State Enterprises analysed, the performance

69 *Mining Journal* (14/10/1983) commented that this provided only a temporary solution and that new equity was required to strengthen the balance sheet. This was also the preferred option of ZCCM (ZCCM, *Annual Report* 1982 and 1983). The company's auditors qualified their report on the 1982 annual accounts noting that while they had been prepared on the basis of ZCCM continuing as a going concern, this assumption was subject to the conclusion of agreements for financing (ZCCM, *Annual Report*, 1982, p.13).
70 The 1983 Government agreement with the IMF allowed for the rescheduling of debt under London and Paris rules, from which the company has benefited (ZCCM, *Annual Report,* 1983).

of INDECO deteriorated sharply from the mid-1970's, although it did show a recovery at the end of the 1980s.[71] In FY 1979 and FY 1980 the Group recorded a pre-tax loss.

TABLE XII.

Profitability of INDECO.

FY 1971 to FY 1989.

Period.	Average Pre-tax Profit Margin. %	Average Profit Margin after tax and exceptional items. %	Average Profit Margin attributable to INDECO. %
1971-74	9.32	5.69	2.83
1975-78	2.21	0.35	0.09
1979-82	0.37	(1.89)	(2.06)
1983-86	2.96	1.49	(0.06)
1987-89	12.52	9.41	6.52

Source: Calculated from INDECO (*Annual Report*, 1972) for 1971 to 1972, (*Annual Report*, 1981) for 1973 to 1980, and (*Annual Report*, 1989) for 1981 to 1989.

Since the earnings of the Group were depressed, INDECO increasingly relied on long term borrowings to finance their activities and by FY 1979 these had risen to over 78 percent of INDECO's net asset value. The solvency of INDECO was addressed in FY 1980 through a capital restructuring scheme supported by ZIMCO and the Government. The programme included the capitalisation of some amounts owed by INDECO companies, alongside the provision of new funds for the repayment of loans

[71] In assessing the financial performance of INDECO over these periods, account must be taken of the changing profile of the Group. While the Group was particularly oriented to undertaking new ventures, key divisions were demerged in FY 1972 and FY 1975. A comparison of the accounts for FY 1971 and FY 1972 reveals little change in the levels of profitability or indebtedness, while the accounts for FY 1974 and FY 1975 do reveal a fall in assets, turnover and profits, although debt levels remained unaffected. The affects which the FY 1975 demergers would have upon turnover and profits was noted in the FY 1974 INDECO Report.

and the undertaking of new projects.[72] In FY 1981 and FY 1982 INDECO's share capital was increased to more than three times the level at which it stood before the recapitalisation, while asset revaluations through the 1980's further increased the level of shareholders funds and minority interests.[73]

Despite this, INDECO's auditors qualified their annual accounts each year between FY 1980 and FY 1986, noting that the preparation of them on a going concern basis was dependent upon continued support from ZIMCO, and in 1987 INDECO (*Annual Report*, 1987, p.14) noted that "the profit margins earned still remain inadequate to meet the group's debt servicing obligations, asset replacement expenditure and working capital requirements." In addition, the structure of INDECO's debt also suggests that it was dependent on non-commercial sources of finance. By FY 1989, INDECO's two largest creditors were the CDC and the International Finance Corporation, which accounted for 38 percent and 17 percent of its debts, respectively.[74]

Table XIII.

Sources of Capital as a Proportion of the Net Assets of INDECO.

FY 1971 to FY 1989.

Period.	Shareholders' funds. %	Minority interests. %	Long term Debt. %
1971-74	35.42	16.18	48.40
1975-78	29.55	13.89	56.56
1979-82	21.92	6.92	71.16
1983-86 (a)	40.92	10.89	48.20
1987-89	51.54	18.50	29.96

Source: Calculated from INDECO (*Annual Report*, 1972) for 1971 to 1972, (*Annual Report*, 1981) for 1973 to 1980, and (*Annual Report*, 1989) for 1981 to 1989.
Note: (a) Figures do not total 100 due to rounding.

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72 The balance of these components is not shown in the accounts of INDECO. However, in FY 1981 at least two-thirds of the increase in equity was accounted for by the conversion into equity of amounts owed to the Government by just three companies, Zambia Sugar (K16 million), National Milling (K13 million), ROP (K7 million).

73 The recapitalisation continued, on a smaller scale, in FY 1983 and FY 1984. Asset revaluations became significant after FY 1985 and by FY 1989 the revaluation reserve stood at 27 percent of shareholders' funds.

74 INDECO (*Annual Report*, 1989).

3.2.2. Discontent with State Enterprises.

Through the 1970's a mounting wave of discontent over the performance of the state enterprise sector, emanated from within the political leadership. The tone was set by President Kaunda who, in 1975, declared that "the name Parastatal is now virtually a derogatory term," citing "carelessness and out-right robbery" and "corruption and nepotism" as factors in their disappointing performance.[75] In 1977, the National Council of UNIP voiced similar criticisms of state enterprise noting that;

> some managements and indeed some of the workers generally have shown total disregard for honesty and integrity... [the] colossal amounts of public funds which have found their way out of the parastatal bodies into private pockets... [and that] there is a lot of misplacement of personnel, sometimes vividly related to tribal affiliation as against merit.[76]

Concerns were also expressed within the National Assembly. The *Report of a Special Parliamentary Select Committee* (National Assembly, 1977, p.4-5), appointed to examine the economic problems, noted that:

> With the exception of the mining sector few parastatal bodies have exported anything of substance... Government annually makes a large allocation of capital funds to support projects undertaken by parastatal organisations. This has arisen largely because these bodies are not able to generate their own capital for plant renewal and new investment.... Poor management, absence of inventory control, overstaffing, inadequate pricing of products and political interference have been named as some of the reasons for the poor performance of the parastatal sector.[77]

Many of these areas of criticism were also raised by individual members of the National Assembly in the mid-1970s, such as during the debate on the Second Reading of the *Parastatal Services Commission Bill* in March 1976.[78] Many complained of the overall performance of the state enterprise sector, which was charged with failing to make an adequate return on the capital that had been

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[75] Kaunda (1975).

[76] Kaunda (1977, p.14). The National Council of UNIP emphasised the need to appoint politically motivated managers committed to Humanism rather than those motivated by "principles such as profit and fringe benefits which are offshoots of capitalism and imperialism" (ibid, p.13-5).

[77] The Report also criticised the political structure as being "a serious constraint to efficiency" and when it was presented to the National Assembly, much of the debate concentrated upon the structures of the one party state rather than the economy (National Assembly, *Daily Parliamentary Debates*, 30/11/1977 and 1/12/1977).

[78] Criticism of state enterprises were also made during debates on the *Industrial Development Act* and the Report of the Select Committee in 1977. The Government accepted much of this criticism and, as the Minister of Lands and Agriculture, Chikwanda, stated during one of the debates "Members of Parliament have used the occasion of the Bill to air the grievances they have about mismanagement in some of our parastatal organisations, which we in the Government are the first to admit. His Excellency the President has come out and decried the inefficiency in the parastatal organisations and has directed that these organisations run well. So, you are not really stating a case which we in the Government do not agree with" (National Assembly, *Daily Parliamentary Debates*, 12/8/1977, col.217).

invested.[79] Criticisms were also made that managers were frequently appointed on inappropriate criteria, such as their home province or record of service to the party, rather than on the basis of technical competence.[80] In addition, it was argued that since State enterprises were subject to little commercial pressure or public scrutiny, that there was little motivation for their managers to perform efficiently, and much leeway for them to pursue their personal interests.[81]

The criticisms of widespread maladministration in state enterprise were supported by the findings of a number of investigations.[82] The *Report of the Commission of Inquiry into the Affairs of Zambia Railways* (Republic of Zambia, 1978, p.59) concluded that "tribalism is practised on a very large scale" through "appointments, promotions, the exercise of disciplinary functions, and in showing hostility and harshness to members of other tribes." Such practices, it was suggested, led to the entrenchment of particular groups within particular departments. The report also detailed cases of corruption and theft which illustrated the ways in which state enterprise property had been privately appropriated.[83] Incidents were cited of the rerouting of purchases, which had previously been procured directly from the supplier, through an agent at inflated prices; the sale of enterprise assets at low prices, without advertisement or competitive tendering; and the employment of external contractors on generous terms, when internal staff could have been used. The most prominent case involved allegations that the General Manager of Zambian Railways had been involved in the theft of cattle from the railway. Procedures of investigation were bypassed by the General Manager who disbanded the Railways Fraud Squad and dismissed the Superintendent of Railway Police when each had sought to investigate the matter.[84]

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[79] National Assembly (*Daily Parliamentary Debates*, 17/3/1976, col.3275 and col.3279).

[80] National Assembly (*Daily Parliamentary Debates*, 17/3/1976, col.3229-30 and col.3286). Malawo (ibid., col.3246-7) noted the cases of a manager who had just received training in rubber technology being appointed to National Milling and where a manager who had received training for the motor industry had been appointed to Steel and Building Supplies Ltd.

[81] Chitupi and Ndhlovu complained that tendering procedures allowed heads of parastatals to enter into contracts with companies of which they were directors (National Assembly, *Daily Parliamentary Debates*, 17/3/1976, col.3233 and col.3257).

[82] State Enterprise were not the only, or even predominant arena of corruption within the public sector. Other cases in which high ranking government and civil service officials were implicated are discussed by Woldring (1984).

[83] It was reported that the incidence of theft had become so widespread that many customers were establishing their own fleets of road transport to avoid using the railways (Republic of Zambia, 1978, p.54).

[84] The Commission concluded that the Superintendent had been dismissed "because of his determination to investigate all crimes, his insistence that those found guilty should be punished, and, in particular, because of his part in the investigation of the cattle theft allegation in which the General

In 1978 the National Assembly established a Committee on Parastatal Bodies to investigate the performance of state enterprises and determine whether they were being operated "in accordance with sound business principle and prudent commercial practice."[85] It's first report cited widespread shortcomings in the operation of basic accounting functions, such as the maintenance of debtors' accounts, alongside cases of the maladministration of property disposals and the personal use of company assets by employees.[86] Other issues were also raised regarding the commercial viability of certain enterprises. Particular attention was paid to the affairs of the National Transport Corporation which was close to insolvency and had not recorded a profit since it was established in 1972. In a number of its subsidiaries, such as Contract Haulage, United Bus Company of Zambia and Freight Holdings, attention was again drawn to inadequate financial and managerial controls which undermined both the commercial viability of the companies and the security of their assets.

The ability of the Parastatal Bodies Committee to undertake investigations was strengthened by the *Public Audit Act*, 1980, which gave the Auditor-General access to the accounts of all parastatal bodies, and required an annual report on these to be submitted to the Assembly. Alongside the Committee, the Reports of the Auditor-General also highlighted weaknesses in the management of state enterprises.[87] Despite this increased level of public scrutiny, state enterprises were frequently slow in taking remedial action to address areas of concern. By 1984, for example, 135 recommendations of the Parastatal Bodies Committee had not been acted upon by the enterprises concerned, including 6 dating from 1980.[88] The continued delays prompted the Auditor-General in 1988 to warn that,

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Manager was a suspect" (Republic of Zambia, 1978, p.60). To further avoid the scrutiny of outside bodies, in early 1977 the Zambian Railways General Manager had ordered that "Railway employees found stealing should not be handed over to State Police without Management's decision and those acting against this directive will be dealt with accordingly"(ibid., p.38).

[85] National Assembly (*Report of the Committee on Parastatal Bodies*, 1978, p.1). This area had fallen within the remit of the Public Accounts Committee, but the burden of work that it constituted prompted the establishment of a Parastatal Bodies Committee of the National Assembly in 1978 (Himonga, 1984, p.218-224).

[86] National Assembly (*Report of the Committee on Parastatal Bodies*, 1978). The non-collection of debts, while a matter of poor accounting, can also be a method through which the property of the enterprise can be privately appropriated.

[87] A number of the findings of the Auditor General's reports are considered in the discussion of the performance of the INDECO Group in Section 3.4.2 of this chapter.

[88] The companies with actions outstanding from 1980 were Zambia National Commercial Bank, Kapiri Glass Products, Zambia Clay Industries, Zambia Railways and Kafue Textiles. While the point concerning Zambia Clay was subject to the outcome of a court hearing, all the other outstanding items related to the recovery of outstanding debts (Republic of Zambia, *Report of the Auditor-General on the Accounts of Parastatal Bodies*, 1984, p.48).

> if timely action is not taken by the respective Chief Executives, the recommendations will multiply to the extent that they will be rendered futile... and this may, in due course, undermine the concept of public accountability in the parastatal sector.[89]

Despite these criticisms, the Party and the Government remained committed to State Enterprise as an instrument of development.[90] President Kaunda (Republic of Zambia, 1984, p.2), while emphasising the importance of a renewed commitment to establishing commercial viability and financial independence, credited State Enterprise with having built,

> an industrial base which is strong and diversified and which is today one of the largest in sub-Saharan Africa... [which] would not have been possible without the Party's decision to give direction to the economy through State Participation.

While the 1977 Special Parliamentary Select Committee recommended that greater encouragement be offered to private enterprise, it did not advise any diminution of the role of the state sector.[91] Among critics who did advocate the sale of enterprises to the private sector, this was commonly addressed only to cases where performance under state ownership had been poor.[92] Announcing his candidacy for the Presidency of the Republic in 1978, Kapwepwe stated that enterprises in which state investment was not justified should be transferred to the private sector, but nevertheless, restated a commitment to the role of state enterprise in "opening up industries of a strategic nature where private investors might not venture to open due to initial high costs of production in relation to profit."[93] These proposals, therefore, followed a defensive approach to privatisation, aimed not the comprehensive dismantling of the state sector, but rather the disposal of weak or peripheral enterprises, to strengthen the sector as a whole.

3.2.3 Control and Supervision.

During the 1970's, the Government's strategy to improve the performance of State Enterprises consisted primarily of initiatives to strengthen their structures of control and accountability. This was

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89 Republic of Zambia (*Report of the Auditor-General on the Accounts of Parastatal Bodies*, 1988, p.39).
90 UNIP (1985, p.22-4).
91 The National Assembly (1977, p.8) advocated a more technocratic management structure, recommending "flexible pricing policies and stable management terms" to enable State Enterprises to operate profitably. Southall (1980, p.105-7) and Gertzel (1984, p.88) note that many of the proposals of the committee were in line with the direction of Government policy, the main exception to this being the recommendations to scale down the political machinery.
92 Speaking in the National Assembly (*Daily Parliamentary Report*, 1/12/1977, col. 179), Milner suggested that former shareholders and managers should be invited back to enterprises where the state management had performed poorly.
93 *Times of Zambia* (2/8/1978).

evident from the time of the establishment of the state enterprise sector. Initially a centralised structure was planned for ZIMCO, with the holding company as the focal point of authority under the supervision of a new Ministry of State Participation.[94] This structure was discarded in January 1971 and in its place a decentralised system established in which individual sub-holding companies of ZIMCO were placed under the supervision of Government Ministries.[95]

To this parallel structure of ZIMCO control and Ministerial control of the sub-holding companies, was added the parallel authority within the one party state of UNIP's Central Committee, on one hand and the Cabinet and Government Minister, on the other. The Board of Directors of ZIMCO, combining representatives from the Central Committee, Cabinet and Ministries, appeared to Mutukwa (1976, p.44) as representing the "economic cabinet of Zambia." However, this overstates both the authority and capacity of the ZIMCO Holding Company in the 1970s.[96] The holding company itself did not have any administrative capability to oversee the development of the Group and consisted of only three units: ZIMCO Information and Publicity Unit, to publicise the Corporations activities; ZIMCO Accounting Manpower Unit, to assist group companies with accounting; and ZIMCO Appeals Committee, to centralise the charitable donations of the Group. As ZIMCO (1985, p.8) itself stated, its existence in that period was that of "only a paper holding company... [with] no executive management to monitor, control and develop the group."[97]

Neither did the ZIMCO Board of Directors provide the forum through which disagreements over the development of the state enterprise were resolved. In the early 1970s a dispute arose over a

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94 The Ministry of State Participation was established in August 1969 and ZIMCO in March 1970. Despite a wide representation at the level of the board, executive control was concentrated with two people, President Kaunda and Andrew Sardanis. The Ministry of State Participation (whose Minister was Kaunda and Permanent Secretary was Sardanis), supervised ZIMCO (which was Chaired by Kaunda and had Sardanis as Managing Director) whose subsidiaries (INDECO and MINDECO) were both chaired by Sardanis (Chaput, 1971, p.162)

95 MINDECO was supervised by the Ministry of Mines and Mining development; FINDECO by the Ministry of Finance; INDECO by the Ministry of Trade; and the newly demerged divisions of INDECO National Transport Corporation and National Hotel Corporation were placed under the Ministry of Power, Transport and Works and the Ministry of Information, Broadcasting and Tourism respectively.

96 The accounts of disputes over proposals for an iron and steelworks and over the renegotiation of the mining agreements in the early 1970's make no mention of the Board of Directors of ZIMCO, but rather focus on the personal authority of the main protagonists and the mediation of them by the President (*Africa Contemporary Record*, 1974-5, part B, p.328-9; and Burdette, 1984a, p.53-7).

97 Chaput (1971, p.190) suggested that "ZIMCO would probably have been dissolved had it not been for the fact that when the mines were taken over, the government bond issue was legally administered by ZIMCO." The President relinquished the post of Chair of ZIMCO to the Prime Minister in 1976, with the Chair of the Finance and Economics sub-committee of the Central Committee remaining as the Vice-Chair.

proposal to established a steel works, which while supported by the Chair of the Finance and Economics sub-committee of the Central Committee of UNIP, Humphrey Mulemba, was opposed by the Minister for Industry and Mines, Andrew Kashita. Although both were Directors of ZIMCO, the dispute was pursued through the channels of the Central Committee and the Cabinet.[98]

The divisional structure of ZIMCO and the subsidiary structures of those divisions, were subject to continuing reorganisation through the 1970s. From the five existing divisions within ZIMCO in 1972, the number increased to eleven by the mid-1970's.[99] Following the 1973 decision to reorganise the mining companies, NCCM and RCM became separate divisions within the group alongside the diminished MINDECO and a new copper marketing company MEMACO. This was followed in 1975 by the creation of two new divisions as INDECO's trading division was demerged to become National Import and Export Corporation and INDECO's Chemicals division was combined with the Zambia Electricity Supply Corporation (ZESCO) to form the Zambian National Energy Corporation. In the mid-1970s the Medical and Pharmaceutical Corporation and Zambian Fisheries and Fish Marketing Corporation where also established as divisional holding companies, though both were quickly dismantled. Throughout these changes in corporate structure, the only significant addition to the ZIMCO Group was that of ZESCO.[100]

While these changes had tended to fragment authority within the state enterprise sector, a renewed centralisation began to take root in the second half of the 1970s. In 1975 the Mwanakatwe Commission reported on the relative pay and conditions in the public services and state enterprise sector and found those in the latter markedly more generous.[101] Its recommendation for the establishment of a Parastatal Bodies Service Commission to supervise the appointment and conditions of services in parastatal enterprise was accepted by the Government. The Commission was established in 1976, with the power to approve, amend or reject the terms and conditions of employment in parastatal bodies, and

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98 Subsequently the project went ahead, but under the control of UNIP rather than through ZIMCO, and Kashita was dismissed from office. Similar conflicts involving these personalities were recorded over mines policy (Burdette, 1977 and 1984a).

99 ZIMCO's five sub-holding companies at the beginning of the 1970's were: INDECO, FINDECO, MINDECO, the National Transport Corporation and National Hotel Corporation

100 Some consideration was given to the inclusion of other parastatals within the ZIMCO Group, including the Development Bank, Zambia Airways, Zambia National Tourist board, General Post Office and Zambian Television (ZIMCO, *Annual Report* 1972, p.4).

101 Republic of Zambia (1975).

to prescribe procedures for appointing, transferring, disciplining and dismissing staff.[102] In doing this, the Commission was charged with ensuring "substantial parity in terms and conditions of service" between those employed in the civil service and the state enterprise sector.[103]

A further step to centralise authority within the state enterprise sector was taken in January 1979 as Ministry based supervision was replaced by a reinvented ZIMCO holding company with executive authority.[104] The capacity to co-ordinate long term Group policy was enhanced with the creation of corporate planning and project funding capabilities to direct the long term development of the Group.[105] The ability of ZIMCO to monitor the operational performance of Group companies was also strengthened. Group Executive Directors were appointed, supported by teams of specialist managers, and took over the Chairs of the subsidiary companies. Alongside this, a Group Financial Directorate was also established to provide budget guidelines to subsidiaries and monitor their implementation. The results of this monitoring were presented to the quarterly meetings of the Board of ZIMCO, which was itself strengthened by inclusion of outside representatives who were not responsible for the performance of any Group companies and could therefore provide independent scrutiny of their performance.[106]

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[102] The *Parastatal Bodies Service Commission Act* of 1976 established the Commission which consisted of a Chair and between three and six other members, appointed by the President. Members of UNIP's Central Committee, the National Assembly, trades unions or employers organisations, and employees of parastatal bodies, were excluded from membership of the commission (ibid., II, 3). The Commission was permitted to delegate any, or all, of these functions to any employee of a parastatal body, and to exempt any parastatal bodies, or categories of employees, from the provision of the Act (ibid, p. III, 9).

[103] The legislation, however, attracted criticism that the powers of the Commission were insufficient to curtail mismanagement within enterprise and that it should have the power to investigate allegations of malpractice in appointments, or itself appoint, discipline or dismiss staff (National Assembly, *Daily Parliamentary Debates*, 17/3/1976, col.3225-6 and col.3276). The Commission is also discussed by Simwinga (1977, p.203-6), Johns (1980, p.117-9) and Mulwila (1980, p.305-43). With the reorganisation, the tasks previously performed by the Parastatal Services Commission were transferred to ZIMCO and the Commission disbanded.

[104] Gertzel (1984, p.85 and note 37) states that criticisms by the Parliamentary Committee on Parastatals also prompted the reform of ZIMCO. The Mwanakatwe Commission reviewed the structure of control and accountability in the State Enterprise sector and argued that "Zambia has not yet taken positive action to control and co-ordinate parastatal affairs" and recommended that the ZIMCO holding company should be strengthened in its "administrative capacity for supervision and control" (Republic of Zambia, 1975, p.134 and p.137).

[105] ZIMCO (1990, p.10). In 1984 the Government reported that the World Bank were assisting ZIMCO in strengthening its project evaluation capacity (Republic of Zambia, 1984a, Vol.1 p.14-5).

[106] Mwanza (1978, p.57-8) and Turok (1989, p.74-5). Among those included on the new board were the Minister of Finance, the Governor of the Bank of Zambia, the President's economic advisor and three private businessmen. This was followed by the appointment to the board of five trade unionists (*EIU*,q2/1983, p.7). The Chair of ZIMCO remained with the office of the Prime Minister until 1983, when President Kaunda returned to the Chair of a further expanded Board of Directors. This was part of

The sub-holding company structure was streamlined with only INDECO and the National Import Export Corporation remaining intact, while MINDECO, National Hotels Corporation and National Transport Corporation were dissolved and the State Finance and Development Corporation and Zambia National Energy Corporation transformed into operating companies.[107] In addition the ZIMCO group was extended as the Post and Telecommunications Corporation, Rural Development Corporation, Zambia Airways Corporation and Zambia Railways were brought within it.[108]

Following the centralisation of the state enterprise sector 1979, the structures of control and supervision remained relatively unchanged for the remainder of the period of its existence. This did not represent any diminution in the commitment of the Government to improve the performance of the sector. From the beginning of the 1980, the focus of attention, however, changed from the aggregate structures of the sector, to the financial and management structures of the operating companies. The measures employed by ZCCM and INDECO to improve their performance are discussed in Sections 3.1 and 4.2, respectively, in the context of the evolution of those companies.

SECTION 3.3. STATE MINING ENTERPRISES.

Although the takeover agreements created two state mining enterprises, NCCM and RCM, these were merged in 1982 to form Zambia Consolidated Copper Mines. The discussion that follows draws on the combined experience of NCCM and RCM between 1970 and 1981, and on the experience of ZCCM from 1982.

Libby and Woakes (1980) have argued that following the nationalisation of the mining industry the developmental objectives of expanding production, establishing new mines and processing plant, were sacrificed to the pursuit of profit.[109] This assessment, however, appears to confuse the end of generating revenue with the establishment of means for doing so. From independence the Zambian

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another reshuffling of economic responsibilities within the Government which also included the Prime Minister taking over the responsibilities of the Ministry of Finance and being appointed Vice Chair of the National Commission for Development Planning (Kaunda, 1983).

107 ZIMCO (1979). In 1984, the RDC sub-holding company was disbanded, although its subsidiaries remained within ZIMCO (*EIU*,q4/1984, p.7 and q1/1985, p.9).

108 Major State Enterprises remaining outside ZIMCO, noted by Munkonge (1981, p.142), included the National Agriculture and Marketing Board, the Dairy Produce Board, the National Education Company, the National Housing Authority and the Development Bank of Zambia.

109 A similar argument is made by Lanning and Mueller (1979, p.227) who note the tendency for "the Government to identify more and more closely with the goals of the existing mine management."

Government's primary aim in the mining sector had been to maximise the revenue available from copper production in order to fund its development programme and this remained the case through the 1970s and 1980s.[110]

Section 3.3.1 examines the problems faced by the industry during the 1970s in generating funds to provide for investment in other sectors, while the attempt to rehabilitate the industry during the 1980s is discussed in Section 3.3.2.

3.3.1. Performance and Problems.

While the principal problem afflicting the mining industry was the decline in copper prices, the mines also faced additional problems which diminished their level of production (Table XIV) and increased both the overhead and operating expenses which they incurred.[111] A distinction can be drawn between those problems that were common to all sectors of the Zambian economy and those which had their origins within the mining industry itself.

In common with the rest of the Zambian economy, the mines suffered from a number of difficulties. As a bulk exporter, the transportation difficulties which afflicted Zambia were particularly severe.[112] The situation had deteriorated to such a degree that by the second half of the 1970's the transport system was not able to carry all of the copper produced, leaving the mines accumulating stocks of finished metal.[113] The mines also suffered from the declining capacity of the economy to fund imports. Although the companies themselves were net foreign exchange earners, their supply of currency was rationed by the Government along with other sectors and fell short of their requirements.[114]

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[110] As *Enterprise* (1970, no.1, p.5), the house magazine of INDECO noted in 1970, "Mining must be seen not as end in itself, but as a source of capital for investment in the creation of a permanent and self generating industrial and agricultural economy"

[111] According to ILO/UNDP (1978, p.39) the problem faced was not one of falling copper prices, which in 1977 were in line with trend growth from 1953, but one of a sharp escalation of costs in the mining industry. The World Bank (1977, p.34-5) was less concerned with the cost profile of the industry, noting that "this situation presents little cause to fear that mining in Zambia, while relatively high cost, will become either uncompetitive or (given current IBRD forecasts) unprofitable."

[112] The disruption to transport routes involved in the border closure with Rhodesia (1973-8) and the closure of the Angolan rail route after 1975, were eased only marginally by the opening of the TAZARA Railway in 1975

[113] Burdette (1984a, p.30-2 and p.37-8).

[114] Although in FY 1981 and FY 1982 the mines generated around twice the level of foreign exchange that they themselves required, they were only allocated around half the level of foreign exchange which they required (Republic of Zambia, *Economic Report*, 1982, p.372). ZCCM (*Annual Report*, 1982 and

Table XIV.

Decline in Refined Copper Production For ZCCM and its Predecessor Companies.

FY 1971 to FY 1990.

Period.	Average change in annual copper output.
1971-74	-1.98%
1975-78	-1.48%
1979-82	-1.87%
1983-86	-5.89%
1987-90	-0.55%

Source: Calculated from Radetski (1985) for FY 1971 to 1982, and ZCCM (*Annual Reports*) for FY 1983 to 1990.

In addition, the industry experienced internal difficulties. The discovery of geological problems and declining ore grades proved an obstacle to maintaining levels of production and also increased unit costs.[115] A major accident at the Mufilira mine in 1970 also had a prolonged effect upon the industry, as the mine was not being fully rehabilitated until 1977, and then at a permanently reduced capacity.[116]

Additional costs were also incurred by the industry in pursuit of non-commercial objectives undertaken in line with the policies of the Government. Attention has focused in particular upon the rising levels of employment by the mining companies which it has been suggested were in response to pressure from the Government.[117] Employment in the industry did increase after nationalisation,

1983) complained that foreign exchange allocations had become "meagre, unreliable and irregular," the purchases of spares and inputs had reached "a virtual standstill," and the industry had "reached the stage where stocks of many fast moving stores items are exhausted while some strategic supplies and consumables are at critically low levels." It was noted by the Government that inadequate allocations of currency to ZCCM undermined its ability to produce copper and reinforced the general shortage of foreign exchange for the whole economy (Republic of Zambia, 1984a, Volume 1, p.21).

115 World Bank (1977a, p.21-3), Daniel (1979, p.88), ILO (1981, p.183-4), Burdette (1984a, p.36-7) and Radetzki (1985, p.116-7).

116 Radetski (1985, p.116).

117 Auty (1991, p.178) and O'Faircheallaigh (1984, p.130-3). ILO (1981, p.198) argued that the primary contribution of the industry should not be as a provider of employment.

standing in 1974 at 16.38 percent above its 1969 level, but this was due to a combination of factors.[118] Some of the problems previously identified reduced the productivity of labour. One result of the geological difficulties was the sinking of deeper shafts, resulting in longer travelling times between the surface and the workface, while the difficulties of importing adequate spare parts resulted in increased breakdowns in machinery which reduced the effectiveness of workers.[119] These resulted in greater quantities of labour being required to produce a constant level of output.

The size of the workforce had also increased due to the method through which Zambianisation was implemented. Instead of replacing expatriate staff on a one-for-one basis, the positions which they held were frequently fragmented to create a number of new posts.[120] When, for example, in 1975 the first Zambians were appointed to the rank of Manager in the divisions of NCCM, this involved the creation of an additional post of Manager-Administration, to which the Zambians were appointed, rather than the Zambianisation of the existing positions which continued both to exist and to be staffed by expatriates.[121]

The aggregate effect of these factors, as shown in Table XV, was an unsteady upward trend in real costs in the first half of the 1970s, with costs peaking in FY 1975 at 9.41 percent above their FY 1971 level. However, the level of costs was more successfully controlled in the latter half of the decade, falling below their FY 1971 level in FY 1977 and remaining below that level subsequently. Little analysis is available on the relative impact of each source of cost pressures on the aggregate pattern of costs. A World Bank (1977a) analysis of the development of the costs of copper production between FY 1971 and FY 1976, however, estimated that two-thirds of the increase in real costs was attributable to the decline in recovery rates of finished copper to ore mined, with the remaining third divided between the rising costs of inventories and declines in the productivity of labour not related to falling productivity of other factors.[122]

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118 Calculated from Daniel (1979, p.87, table 4.5)
119 World Bank (1977a, p.24-5).
120 Daniel (1979, p.99-120) studied the period from 1960 to 1976, and argued that the principal factor behind the expansion of the mines' workforce was the method of Zambianisation that was pursued.
121 Daniel (1979, p.119).
122 The World Bank (1977a) estimated that real unit free-of-rail costs grew at 2.7 percent per annum over the period between FY 1971 and FY 1976, a higher estimate than the 0.91 percent per annum that is represented by the figures presented in Table 10 for the same period. The World Bank emphasised the difficulty in attributing cost increases to various factors. For example while the declining productivity of labour was contributed to directly by shortages of appropriately qualified staff and a rising level of

Table XV.

Real Direct Production Cost of Producing Refined Copper in Zambia.

FY 1971 to FY 1982.

Year.	Cost in Constant Kwacha per lb.
1971	16.11
1972	16.76
1973	15.33
1974	16.48
1975	17.62
1976	16.66
1977	15.78
1978	14.33
1979	12.83
1980	13.47
1981	13.79
1982	14.60

Source: Figures for costs in United State Dollars are from Radetski (1985, p.122). They have been translated into Kwacha at rates recorded in INDECO *Annual Reports* and deflated by the Zambian non-copper wholesale prices index (Central Statistical Office, *Monthly Digest of Statistics*).
Notes: Direct Production Costs are defined as the cost of producing refined copper free-of-rail. While expenses incurred in mines' administration are included, costs relating to marketing, general administration, distribution and finance are excluded.

Since copper is internationally traded, the behaviour of Zambian costs of production relative to those of other world producers is a key determinant of the industry's competitiveness. An important factor in this is the role of other minerals recovered as by-products of copper production in reducing the

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employment in administrative roles, it was also a secondary effect of breakdown and other production problems.

overall costs of mining operations in each country. The income from these by-products has had a significant effect upon the relative competitiveness of copper production in different countries.[123] For a producer such as Zambia, which has had a relatively small income from by-products, the costs of copper production are inflated in relation to other producers, leaving the industry more exposed to downturns in the price of copper.

Table XVI.

The Costs of Zambian Copper Production as Compared to that of Other Major Producers in Selected Years.

Type of Cost.	Unit Cost of Zambian Copper Production as a Proportion of the Average for Major Producers for Selected Years.		
Year.	1975 %	1980 %	1984 %
Direct Costs.(b)	91	83	71
Gross Costs.(c)	89	86	80
Net Costs after by-product income.(d)	126	169	118

Source: Calculated from Takeuchi et al. (1987, p.58-61) and Mikesell (1988, p.67-70).
Notes: (a)Average Costs represents the average incurred by Zambia, Zaire, South Africa, Namibia, Australia, Papua New Guinea, Philippines, Indonesia, Canada, United States, Mexico, Chile, Peru and Sweden. Together these countries represent 80 percent of copper production in market economies for the period.
(b) Direct Costs include cash costs incurred in the mining, processing, marketing and carriage.
(c) Gross Costs include direct cost, plus company overheads, research and exploration expenditures, non-profit taxes, and interest payments.
(d) Net Costs are Gross costs calculated after crediting income from sales of by-products.

The data presented in Table XVI shows that in 1975 Zambia's direct and gross costs of production were significantly below those of other major producers, and were reduced to even lower levels by 1980 and 1984. The by-products produced by the Zambian industry were, however, relatively

[123] The major by-products of copper are gold, silver, lead, zinc, nickel, cobalt and molybdenum. Zambia's primary by-product of copper production is cobalt.

less valuable than those of other producers. These placed Zambia's net costs of producing copper substantially above the average level of net costs.[124]

While it has been argued that the overall costs of Zambian copper production were relatively contained, the methods through which this was achieved have been subject to criticism. It has been argued, that rather than developing a long term strategy to produce lower cost copper, the burden of cost cutting fell upon longer term maintenance and development expenditures, contributing to further declines in productivity and storing up costs for later years.[125] Particular attention, however, has focused upon the reluctance of the Zambian copper producers to close high cost production facilities. It is argued that this not only prevented the mining companies from achieving more substantial reductions in unit costs, but also that by refraining from reducing the level of supply of copper to the world market, it contributed to perpetuation of the depression in copper prices.[126]

The ability of the Zambian copper industry to undertake closures was constrained by both commercial and non-commercial factors. The wetness of the Zambian mines meant that temporary closures would still leave the companies exposed to high maintenance costs and that considerable new investment would be required for the facilities to be reopened.[127] In addition, the integration of production and processing in the Zambian industry, and the absence of a substitute supplier of ores or concentrates, meant that any decreases in the mined output would lead to decreases in the utilisation of processing plant and a fall in market share.[128]

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[124] Of the Countries covered by the data, Zambia was joint highest net cost producer in 1975. Along with the United States, Zambia was the highest cost producer in 1980 and was second to the US in 1984. The United States is also noted as an industry that has low by-product credits.

[125] Burdette (1984a, p.42) and Radetzki (1985, p.123). ILO (1981, p.183) states that the Zambian producers resorted to high-grading as the price of copper fell, which could only defer the higher costs incurred in recovering lower grade ores.

[126] The case that state owned mineral enterprises systematically over-supply the market is discussed by Viterbo and Wallard (1984). See also *Mining Journal* (11/11/1983 and 17/2/1984).

[127] The experience of the Zambian industry is compared to that of the U.S. based producer, Phelps Dodge, whose more flexible production structure allowed it to gain from mine closure (Viterbo and Wallard, 1984). The issue of closures was addressed by ZCCM, which stated that there was "no significant benefit to the company in the short-term from closure of mines. In the long-term, however, some savings would be realised but at the risk of some mines not being re-opened." (ZCCM, *Annual Report*, 1984, p.4).

[128] In 1978, while outlining the cost cutting measures which were being undertaken, NCCM explained that the interdependency of processing operations restricted its ability to move forward by closures, noting that "the closure of a major production section would not only result in the loss of substantial tonnages of revenue-earning copper, but would also severely affect metallurgical blending and efficiencies" (NCCM, *Annual Report*, 1978, p.10-1).

As Zambia's main exporter, any decision by the copper companies to reduce capacity had implications for the economy as a whole. Any closures that would diminish the net level of foreign exchange earned by the industry would impact on the other sectors.[129] A further factor was the Government concern with maintaining levels of employment in the economy, which prompted it in the late 1970's to veto any closures that would result in large scale redundancies.[130] How different the constraints on the mining companies would have been if the mines had remained under private ownership is open to speculation. In the judgement of Radetzki (1985, p.130) any private owner would have found themselves equally subject to pressures from the Government to maintain production levels and employment.[131]

3.3.2. Rehabilitation.

Renewed declines in the price of copper at the beginning of the 1980s, increased the pressure on the Zambia copper companies once again. In response to this the Government undertook a number of initiatives designed to rehabilitate the industry and return it to being an engine of growth for the economy as a whole.[132]

The imperative of reducing industry costs was the motive behind the 1982 merger of NCCM and RCM, to form Zambia Consolidated Copper Mines (ZCCM).[133] The merger allowed the sharing of existing facilities and the rationalisation of activities such as management, procurement, research and

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[129] ZCCM drew attention to this factor in 1983, noting that closures would diminish the level of foreign exchange earned and "with virtually no substitute source of foreign exchange from other sectors of the Zambian economy at present... the Company could not, literally, afford to shut down a section of the Zambian economy"(ZCCM, *Annual Report*, 1983, p.4).

[130] *Economist* (2/9/1978) reported that the Government had ruled out the closure of any mines, and the Finance Minister, Mwanakatwe stated that to lay off 2,000 mine workers would affect their 11,000 dependants. See also Radetzki (1985, p.114).

[131] Radetzki (1985, p.130) suggests that this could have been effected by labour legislation to prevent redundancies, or selective subsidies to keep units in production.

[132] As the Government stated "without a rehabilitated mining industry, GRZ's restructuring or diversification effort would fail for lack of financial resources"(Republic of Zambia 1984a, Vol.1, p.18). It also declared that "The mandate of ZCCM, under those conditions, is to optimise net foreign exchange earnings, and net contributions to the Government's budget"(ibid., p.24).

[133] The Government's intention that the companies should merge was announced in May 1981 and was completed on 25th March 1982, effective from 1 April 1981 (ZCCM, *Annual Report*, 1982). The Zambian Government held 60.3% of the equity of the new company, with the balance being held by ZCI with 27.3%; Amax with 6.9% and other shareholders with 5.5% (*EIU*,q2/1982, p.17-8 and q3/1982, p.12). The only material change to this was the 1984 sale of its interest by Amax to ITM International, a company headed by Andrew Sardanis (*EIU*,q4/1984, p.13).

stockholding, in order to reduce the cost base and working capital requirements of the industry.[134] However, such cost cutting measures could only provide a temporary solution to an industry which needed to invest in new equipment and develop new sources of ore, if costs were to be reduced in the longer term.[135]

In 1984 agreement was reached with the World Bank, the European Community and the African Development Bank for a $300 million rehabilitation programme.[136] A key element of this rehabilitation was the formulation of a Five Year Production and Investment Plan (PIP) aimed at "improving productivity and efficiency."[137] The PIP was based on studies that had been undertaken in previous years which had concluded that the Group's viability was dependent upon the rationalisations of operations.[138] The agreement was also based upon the acceptance by the Government that the rehabilitation would involve the reduction of the workforce, the closure of some productive units, and arrangements for foreign exchange, taxation and dividends acceptable to the World Bank.[139]

The PIP entailed widespread changes in ZCCM. Management was restructured with the Head Office in Lusaka refocused on corporate policy, strategic planning and financial control, while delegating day-to-day duties to the Operations Centre on the Copperbelt.[140] The Divisional structure of the company was also streamlined with the units previously under Konkola and Kalulushi Divisions

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[134] The Government reported in 1984 that the cost cutting measures undertaken in 1982/3 been "achieved basically by reducing the local labour force from 56,223 to 55,644 and the expatriate employees from 2,572 to 2,032" (Republic of Zambia, 1984a, Vol.1 p.24).
[135] *Mining Journal* (14/10/1983)
[136] This consisted of funds from the three institutions totalling $148million with the balance of $152 million financed by ZCCM itself. Since the principal risk to the programme was ZCCM's ability to meet this commitment, the Government sought $44.5 million additional funding from the Consultative Group towards 12 priority projects (Republic of Zambia, 1984a, Vol.1, p.25, and Vol.2, p.9-11). By the end of the financial year 1987/8, the rehabilitation work funded by the "Export, Rehabilitation and Diversification Project" had been mainly completed (ZCCM, *Annual Report*, 1988).
[137] ZCCM (1986, p.5-7 and 9), *Mining Journal* (7/2/1986) and *EIU* (q2/1986, p.24-5). The PIP had World Bank approval in December 1985 and was launched at the beginning of 1986. ZCCM (*Annual Report*, 1985) stated to shareholders that "the viability of your Company and the competitiveness of its products on the world markets will, in future, depend, more than ever before, upon the measures to improve productivity and efficiencies which should result in reduced operating costs."
[138] Ten studies were carried out by ZCCM, while studies of mining development, metallurgical processing and corporate planning were undertaken by Fuor, Bechtal and SRI respectively, all of the United States (*EIU*q3/1985, p.17).
[139] Gulhati (1989, p.42-3).
[140] Management was also reorganised at the divisional level. Not all of the measures implemented were successful, however. The mergers of the Directorate of Corporate Planning and the Directorate of Finance were reversed the following year (ZCCM, *Annual Report*, 1987, and ZCCM, *Annual Report*, 1988).

merged into Nchanga and Nkana Divisions.[141] The plan also addressed the issue of the closure of high cost production units, with three mining facilities[142] and four processing facilities[143] being shut-down.

In 1987 ZCCM reported that the PIP had progressed successfully although cost containment had been hampered by inflationary pressures and the devaluations which accompanied the exchange auction.[144] A second Five Year Production and Investment Plan was launched in 1988, continuing the themes of the first, of controlling costs and enhancing productivity.[145]

Critics argued that the rehabilitation had been less than successful. The aim of the PIP to stabilise production at a level of 540,000 tonnes per annum was not achieved as production between FY 1986 and FY 1989 averaged only 455,766 tonnes per annum.[146] Gulhati (1989, p.43) argued that the PIP was undermined by the Government's inability to provide ZCCM with sufficient foreign exchange and by increasing the taxation of the company through a mineral export tax.

ZCCM also had difficulties in achieving reductions in the level of the workforce. While the agreement reached with the MUZ in 1986 to lay-off 3,000 employees was in line with the PIP, the overall level of employment by ZCCM rose in the second half of the 1980s and was greater in FY 1989 and FY 1990 than it had been in FY 1985 and FY 1986.[147] Despite this, the overall contribution of labour to the costs of copper production declined over the period. While wages and salaries constituted 33.90 percent of the total costs of labour and bought in goods incurred by the company in FY 1985, their share declined each year to reach 13.69 percent by FY 1989.[148] A likely explanation of this is the rising relative costs of imported inputs to local labour in a period of devaluation. This suggest, however, that

141 ZCCM (*Annual Report*, 1985, p.5) noted that from April 1985, Kalulushi Division has been dissolved with Chambishi mine entering Nchanga Division and the Chibuluma mine and Chambishi Cobalt concentrator placed in Nkana Division. In addition, the Copperbelt Power Company was formed into Power Division.
142 Kansanshi Mine, Chambishi mine and No. 3 Shaft at Konkola were put on a care and maintenance basis (ZCCM, *Annual Report*, 1988).
143 Chambishi Concentrator, Luanshya Smelter, Ndola Copper Refinery Tankhouse and Nkana Oxide Concentrator were closed (ZCCM, *Annual Report*, 1987).
144 ZCCM (*Annual Report*, 1987, p.5-9).
145 ZCCM (*Annual Report*, 1989, p.4) This was despite the fact that the first five year PIP had been launched in early 1986.
146 In 1985, 525,354 tonnes were produced, the highest annual production between 1986 and 1989 was 473,084 tonnes achieved in 1988.
147 The agreement committed the company to compensate those made redundant and assist them in finding alternative employment (*EIU*,q4/1986, p.16). The MUZ suggested that the World Bank was seeking a total of 11,000 redundancies from the company (*EIU*,q3/1986, p.23).
148 Calculated from Statement of Value Added (ZCCM, *Annual Reports*, 1985-1989).

the PIP objective of reducing production costs could have been more effectively pursued by promoting the local sourcing of inputs.[149]

A second area of criticism was directed at the extension, by ZCCM, of its non-mining subsidiaries. In the management restructuring of the mid-1980s, the overseas subsidiaries were placed under the control of ZAL Holdings Limited and most of the Zambian subsidiaries placed under a new holding company, Mulungushi Investments.[150] Aron (1992, p29) argued that following these changes the non-mining activities of the company were widened considerably. While previously they had been either within the copper industry or provided services to the mines, they increasingly undertook unrelated business.[151] This, in Aron's view, not only diverted the financial and managerial resources of ZCCM from its core business, but also conflicted with the activities of other ZIMCO companies.[152]

Despite the initiatives that were undertaken to revitalise the state mining enterprise during the 1980s, the role of the sector as the source for the funding of a diversified industrial sector was not re-established. Indeed as discussed in Chapter 5, by the end of the 1980s, the mining industry was unable to generate sufficient internal funds to provide the new investment it required to secure it own future.

SECTION 3.4. INDECO.

Over the period of the economic reforms INDECO had undergone great changes, expanding its value from K36 million in FY 1967 to K223 million in FY 1973, and its turnover from K2 million to K286 million over the same period.[153] INDECO appeared to be a profitable and diversified industrial

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149 Mpande (1992, p.305) argues that ZCCM had a "staggering dependency... on foreign inputs even when local alternatives can be found."

150 The reorganisation was intended to increase the autonomy of the companies and to enhance their viability. However in establishing Mulungushi Investments on an autonomous footing, K352 million of loans were restructured as interest free loans with no repayment schedule and convertible to equity in the future, and K.23 million of current liabilities to ZCCM were converted to medium-term loans, bearing interest but without a repayment schedule (ZCCM, *Annual Report*, 1987, p.15). The World Bank opposed ZCCM's non-mining subsidiaries being put into a separate holding company and advocated their sale (Callaghy and Wilson, 1988, p.211-4).

151 A number of the milling companies nationalised in 1986 had been placed under the control of Mulungushi Investments. In addition, a number of farms and tourist lodges which had been nationalised were placed under ZAL Holdings and the Company also, at the request of the President, took over the management of a Zoo and Botanical Gardens and began the construction of a commuter railway in Lusaka (Aron, 1992, p.29).

152 Shafer (1990, p.145) reported that ZIMCO did not approve of all of ZCCM's diversifications and they were further criticised in the National Assembly (*EIU*,q1/1989, p.16).

153 Except where otherwise stated, the source of data on INDECO in this section is the various *Annual Reports* of the Company issued during the period.

group, with its operating companies organised into seven divisions covering brewing, chemicals, real estate, trading, transport, rural development, and building material supplies.[154] It had, however, become overstretched and efforts were made to refocus the group towards industrial and manufacturing activities.[155] Its hotelling interests, and the bulk of its transport division were transferred out of the group in FY 1972, followed in FY 1975 by the demerger of the entire trading division, the oil and petroleum interests of the chemical division and its fishery interests.

As the ZIMCO holding company for industry, INDECO was responsible for import substitution and economic diversification through the development of new projects and it aimed to manage its operating subsidies and associated companies on a commercial profit making basis in order to provide funds for this. Its presence across a range of industries also provided the government with opportunities to pursue non-commercial objectives. For example, it was a major supplier of goods and services to the domestic market and had leverage over the level of prices across the economy. The non-commercial objectives did not always sit easily alongside the generation of profits for reinvestment. As INDECO (*Annual Report*, 1971, p.3) complained;

> there is a widespread belief in certain quarters that if Indeco makes a profit, it is exploiting people. The same proponents of this theory happily turn around and accuse the organisation of inefficiency if a member company makes a loss. Indeco will continue to operate its companies on a normal commercial profit-making basis and it must be remembered that every Ngwee earned is available or ploughed back for the further development of Zambia[156].

Section 3.4.1 discusses the ongoing investment programme undertaken by INDECO throughout the period under consideration, while Section 3.4.2 reviews some of the problems that INDECO encountered and the remedial action that was taken.

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154 The divisional structure of INDECO was subject to frequent reorganisation. In 1976 the role of the divisional holding companies was downgraded.

155 Mwanza (1993, p.9). Shortly after the Mulungushi takeovers, the Chair of INDECO, Sardanis, noted that INDECO "now needs a period in which to consolidate its explosive growth of the past three years and in particular the last three months" (INDECO, *Annual Report* 1967, p.3).

156 The point was made in the report of the Chair, Andrew Kashita. In 1974 Kashita, again as Chair of the company, defended INDECO against charges that it did not accord to humanist concept. His defence was that INDECO was a "people's organisation," committed to fulfilling social needs but that "it requires a profit(or Santa Claus) to go hell-for-leather in pursuit of these desirable objectives"(INDECO, *Annual Report*, 1974, p.8-9). INDECO also recognised a role of investing in enterprises which, while they "do not produce a profit in commercial or accounting terms they contribute to the country's economy by saving foreign exchange and providing employment" (INDECO, *Annual Report*, 1972, p.7).

3.4.1. Diversification Through INDECO.

While enterprises were transferred out of INDECO, the group had expanded through the acquisition of equity in existing enterprises, the undertaking of new direct investment and the organic growth of its businesses.

In addition to the takeovers announced by President Kaunda between 1968 and 1970, INDECO also acquired interests in a number of other private enterprises. INDECO entered the oil and petroleum sector in FY 1970 with the acquisition of a 51% stake in Shell/BP Zambia and a 50% stake in Agip Zambia, and in FY 1973 acquired a majority stake in Zambia Oxygen. In addition, INDECO also extended its equity participation in enterprises in which it already held an existing interest. At Zambia Sugar in FY 1971 and at Chilanga Cement and Kafironda in FY 1973, shareholdings at associated companies were increased to make these subsidiaries of INDECO[157].

Once nationalised, INDECO sought to rationalise enterprises and integrate them with related enterprises within the group.[158] In FY 1975, INDECO reported that mergers had been effected in bakeries, milling, aggregates and building supplies. These reorganisations often went beyond changes to the management structures to address operational issues. When the former competitors Refined Oil Products merged with Lever Brothers to form ROP (1975), for example, production was reorganised with the manufacture of edible fats and oils at one plant and detergent production at another.

INDECO's direct investments into new developments during the 1970's can be divided between those which were pursued through the incorporation of new companies and those which where made within existing subsidiaries. In establishing new enterprises, INDECO followed their pre-reform pattern of focusing on investments that substituted for imports, had linkages to existing sectors and sought major private enterprise as a partner.[159]

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157 INDECO also increased its shareholdings at a number of its existing subsidiaries. The proportion of shares held at a number of subsidiary companies was also increased, for example in Zambian Breweries, Consolidated Tyre Services, Steel Supplies and ZCBC. In FY 1974, INDECO also bought out the minority shareholders in its existing subsidiaries Timber Merchants, Glass Supplies and Lake Fisheries, in line with the policy of disengagement from South Africa.

158 As the Chair of INDECO, Kashita (*Annual Report* 1971, p.4) noted "a number of companies at the time of acquisition by Indeco lacked adequate planning and management controls. It is extremely satisfying to see that the introduction of adequate financial and budgetary controls and long term planning initiated by Indeco have begun to have a marked effect on many of the companies in the group."

159 The proportion of shares held by INDECO ranged between 51 percent at Metal Fabricators of Zambia; 65 percent at Kapiri Glass; 70 percent at Livingstone Motor Assembly and 75 percent at Motor Parts Distributors.

INDECO entered a joint venture with ANIC of Italy in FY 1970 to establish the Indeni Petroleum Refinery. This project was completed in FY 1973 and had linkages to existing state investments in the oil sector such as TAZAMA pipeline. Metal Fabricators of Zambia (ZAMEFA) was also established to produce copper wire in a joint venture between INDECO and a consortium including Phelps Dodge and Continental Ore Corporation, both of the United States. ZAMEFA was an example of the forward linkages which the Government had encouraged the copper producing companies to pursue. Enterprises were established to supply motor vehicles.[160] Livingstone Motor Assembly was setup with Fiat and Intersomer to assemble cars, and Motors Parts Distributors was formed with investment from Grindleys Bank to distribute spares for these models. INDECO also established Kapiri Glass in partnership with Coutinho Curo of West Germany to produce bottles; Luangwa Industries with Atlas Cycle Industries of India to produce bicycles and Mansa Batteries to produce dry-cell batteries with Oy Ariam of Finland. General Pharmaceuticals was also established, wholly under INDECO ownership, to produce intravenous fluids.

INDECO also invested in its existing companies. In FY 1975, for example, INDECO reported work on expanding Nitrogen Chemicals plant, the expansion of three milling plants and the rehabilitation of another, the installing of oil seed refining and processing facilities at ROP (1975), the expansion of Supa Baking's bread producing plant, the installation of new equipment at Kabwe Industrial Fabrics, and the completion of two brickworks by Zambia Clay Industries.

In response to the difficulties which emerged in the second half of the 1970s, INDECO re-evaluated a number of its investments. Plans for a vehicle assembly plant at Kassama were abandoned in 1979, and the brickworks at Nega Nega and Kalulushi were closed in 1978 and 1980 respectively.[161] Although INDECO remained the primary instrument in the state sector for the diversification of the Zambian economy, from 1980, its emphasis moved towards consolidation and the rehabilitation of its existing investments. As its 1980 *Annual Report* (1980, p.11) noted;

> The financial burden on Indeco from these capital projects has become too heavy to permit immediate further large expansion. Consequently, it is desirable that most of the Group's attention and investment should now go towards consolidation, solving current prevailing

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160 INDECO also formed a partnership with Toyota of Japan and Daimler Benz of Germany to established Kasama Commercial Vehicle Assembly for the assembly of trucks and vans. The project, however, was not completed.
161 *EIU* (q3/1983, p.13 and q2/1984, p.10-1).

problems, and modernising and expanding existing capacities to maintain and improve production efficiency as well as to meet growth in demand.[162]

During the 1980s, INDECO was unable to continue the rate of expansion that it had achieved in the previous decade. The establishment of new enterprises was limited, with United Milling, Choma Milling and Zambia Ceramics, set up in the first half of the decade and Zambia Coffee and Zambia Maltings, established in the second half.[163] All of these new enterprises were wholly owned by INDECO, and, with the exception of ceramics manufacture, all involved the processing of domestically produced agricultural produce.[164]

Despite the new industrial developments that it had undertaken, critics have argued that the implementation of an import substitution strategy through INDECO failed to break the established imbalances in the economy. Seidman (1979) argues that INDECO catered for the existing demands for luxury consumer goods, whose production was characteristically capital intensive and import dependent, rather than reorienting production towards indigenous needs. Bhagavan (1978) extended a similar analysis arguing that the State enterprise sector was overly capital intensive and had failed to break with the private enterprise patterns of concentrating on the production of luxury and export goods in line-of-rail provinces. He calculated that 32 percent of enterprises produced mass consumption goods, while 24 percent produced luxury goods and 26 percent produced inputs for luxury and export goods.[165] This classification of goods has, itself, been a matter of dispute, with criticism that Bhagavan's category of luxuries was defined too broadly and included many mass consumption goods.[166]

The strategy of INDECO was to be involved in established sectors in order to raise the funds for diversification into new industries and locations. The primary issue this raises, therefore, is not the pattern of what INDECO produced, but of how it invested. Bhagavan makes no distinction between new projects established by the state sector, and existing enterprises taken over by the state sector, whose

162 INDECO (*Annual Report*, 1983, p.4) again noted the "priority of rehabilitation of projects."

163 Zambia Coffee included assets previously held by the INDECO subsidiary RUCOM Industries, alongside a new processing plant that was constructed in 1986. In addition, pre-existing state enterprises Zambia Pork Products and Zambia Poultry Processing were brought within INDECO in the mid-1980s Three milling companies (E.C.Milling, Ghiradi Milling and Robinhood Products), which were nationalised following the riot of 1986, were also placed within INDECO.

164 The emphasis of INDECO on agricultural processing is noted by UNIDO (1989).

165 These calculations are based upon the number of industrial enterprises, rather than their significance with respect to output or employment (Bhagavan, 1978, p.25-30).

166 Based on a reclassification of the categories presented by Bhagavan, Baylies (1978, p.649-653) calculated that in 1973, 65 percent of INDECO turnover was derived form the production of mass consumption goods, with luxury products accounting for 4 percent and intermediate products totalling 27 percent. Fincham (1980) also finds Bhagavan's mass consumption products too narrowly defined.

location and structural decisions were pre-determined in the private sector. Reviewing the 36 projects undertaken by INDECO during the period of the *Second National Development Plan* (1972-6), Simwinga (1977) reported that 17 were initiated by Government instruction and in 8 of those projects the Government instructed INDECO as to their location.[167] The degree of discretion over the choice of location which was left to INDECO, was in fact even more limited than this suggests, since a number of the projects examined involved extensions to existing plants for which the location was fixed.[168]

This section has concentrated its attention on the industrial projects that were established by INDECO. Such an approach, however, fails to identify projects which could have been beneficially established, but which INDECO failed to introduce. In this context, the case of the steel sector may be discussed. Alongside the establishment of fertiliser production, the Seers Report had identified steel production as a particular sector in which the Government could contribute to establishing domestic production.[169] Although a plan had originally been agreed in 1964 for the construction of a mill to process local scrap metal and imported billets, this was superseded by plans to establish an integrated iron and steel industry which could utilise local supplies of iron ore and coal.[170] The *First National Development Plan* (1966-70) identified this as a project of "national importance," allocating to it 44.82 percent of the projected capital expenditure on commerce and industry under the plan.[171]

INDECO, which was responsible for the project appraisals, reported in 1967 that the evaluation of iron ore deposits had been disappointing and that revised estimates of the capital and operating costs of the plan were higher than had been initially thought.[172] The commercial viability of the plan has also been questioned by Fortman (1971, p.216-7), who calculated that the domestic market for steel in Zambia provided less than half the level of demand for steel which would be required for the plant to

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167 Simwinga (1977, p.217-221)..

168 Among projects where Government discretion was exercised were Mansa Batteries, which INDECO had planned to establish in Kabwe, and Kapiri Glass, which INDECO had intended to site in Lusaka. The government also directed that a commercial vehicle assembly plant which INDECO planned to locate in Kabwe should be undertaken in Kasama, although the project was never completed.

169 UN/ECA/FAO (1964, p76-8). Fortman (1971, p.215) also identified it as a key sector, the domestic production of which could potentially generate further development through forward and backwards linkages.

170 Faber (1971, p.317).

171 The plan anticipated that the project would be wholly financed by the Government (Republic of Zambia, 1966a, p.35 and p.238).

172 INDECO (*Annual Report*, 1967, p.19).

produce at an efficient scale, while also requiring a larger supply of coal than Zambia could provide internally.

Although in FY 1970 INDECO announced the formation of the Kafue Steel Corporation which was to establish a plant at Kafue and initiate production by 1974, responsibility for the project was subsequently taken out of INDECO's hands.[173] New proposals were drawn up which aimed to establish an iron and steel works in North Western Province by Technical Industrial Kulumbila Associate Ltd. (TIKA), a company in which the Government held 20 percent of the equity, and UNIP's own company, Zambia National Holdings, held 80 percent of the equity.[174] Work on the project was to have commenced in 1975, but it was not until late 1979 that it was announced that the project had failed to be established, despite costs of K15 million having been incurred by the Government.[175]

The responsibility for establishing steel production returned to INDECO in the 1980's and the Zambia Steel and Build Supplies subsidiary of INDECO produced plans for the establishment of a steel re-rolling mill to process steel billets imported from Zimbabwe. While the plant itself could provide for up to three quarters of local demand, it could also provide a downstream connection for any subsequent established iron and steel works.[176] The project was included in the *Fourth National Development Plan* (1989-93), but was never implemented.[177]

Although the establishment of an iron and steel industry had been emphasised by the Government and by independent advisors as an important part of the construction of a diversified industrial structure, INDECO and other state agencies failed to establish it. This failure is open to a number interpretations. If steel production did offer material benefits to the economy and could have been established as a viable industry, INDECO would appear to have failed in providing a vehicle for such diversification. However, INDECO undertook a number of studies to determine the feasibility of various proposals, which may indicate that despite the potential benefits of steel production, no project was considered viable. Certainly, the viability of an integrated iron and steel project was open to question, and INDECO was not involved in the unsuccessful TIKA venture. When a re-rolling mill was

173 INDECO (*Annual Report*, 1970, p.6).
174 Bank of Zambia (*Annual Report*, 1974, p.34)
175 Woldring (1984, p.192-3)
176 Donor funding was also sought to undertake another feasibility study for establishing an iron and steel works (Republic of Zambia, 1984,Vol.2, p.95-7).
177 Republic of Zambia (1989, p.529).

proposed by INDECO in the 1980's, it reflected a less ambitious proposal, and in its sourcing of imported billets from Zimbabwe, was one which would not have been acceptable before 1980. That this scheme was not implemented may reflect the limited scope of INDECO for establishing new enterprises in the 1980's.

3.4.2 Problems and Rehabilitation.

While the Zambian economy faced severe problems from the mid-1970's, as early as FY 1972 INDECO drew attention to the rising costs of inputs and difficulties of obtaining imports and warned of its liquidity problems, stating that "some new projects will have to be shelved as a result of lack of funds."[178] In FY 1976 it further warned that "The viability of Indeco in the last three years has been a matter of serious concern... Indeco is far too strategic in our economy to be allowed to go under."[179]

Two problems frequently identified in INDECO *Annual Reports* were Government restrictions on pricing and shortages of foreign exchange to purchase inputs. Many of INDECO's products were subject to formal price controls, although even where this was not the case, price rises required ministerial and cabinet approval.[180] The process through which prices were adjusted was also slow and cumbersome. As UNDP/ILO (1978, p.58) noted "the Prices of INDECO companies are first submitted to INDECO for approval. The prices of parastatal goods and services then go to their various ministries for detailed assessment, which is circulated to other ministries concerned, who are asked to comment. Three or four weeks later these comments are added to the assessment, and the matter goes to the Cabinet for decision," the result of this process being that "by the time new prices are set, they have often been overtaken by further cost increases."[181]

In addition, many INDECO subsidiaries with accounting losses made large contributions directly to Government revenue through sales and excise tax payments.[182] For the enterprises

178 INDECO (*Annual Report*, 1972, p.7).
179 INDECO (*Annual Report*, 1976, p.4).
180 Turok (1989, p.195).
181 President Kaunda also drew attention to this, noting that "decisions on price increase applications came to take longer and longer to make as applications increased with the rise in international and local costs and as documentation became more time consuming. Thus it was that in some cases decisions took as long as six months to two years... delay in determining price applications also meant that the newly awarded prices were out of date almost as soon as they were given because costs had, in the meantime escalated" (Republic of Zambia, 1984b, p.9).
182 Republic of Zambia (*Economic Report* 1979, p.72).

concerned, however, such arrangements meant "creating an ongoing loss situation for many subsidiaries, with consequent loss of reserves, non-replacement of plant and machinery and further loss of efficiency."[183] In 1976 the Corporation stated that;

> Indeco must work towards becoming self-financing. This will not be achieved unless the Government reconsiders its present price policy... Indeco companies can no longer continue operating under this situation without risking collapse.[184]

Although producing goods previously imported, many enterprises were still dependent on imports of raw materials and intermediate inputs.[185] The downturn in the copper markets reduced Zambia's supply of foreign exchange and, alongside the problems of transportation, restricted the availability of imports. This situation was made worse by the low levels of foreign exchange that were generated by INDECO itself. While INDECO was allocated foreign exchange to the value of K115 million against its requirement of K246 million in 1981 and 1982, it had by comparison only generated K0.6 million itself.[186] Enterprises found themselves short of materials or unable to obtain spare parts for machinery, and had to operate below capacity. In 1979 and 1980, rates of capacity utilisation were below 50 percent at Livingstone Motor Assembly, Mansa Batteries, ROP, Zambezi Sawmills, Choma Milling, INDECO Milling (stock feeds), National Breweries and RUCOM Industries.[187]

The overall performance of INDECO was the aggregate of that achieved by its many subsidiary and associated companies. Information on the profitability of INDECO's subsidiary companies was provided in its *Annual Report* for the years FY 1979 to FY 1983 and reveals a substantial differentiation in the performance of the various enterprises.[188] Four sets of companies may be identified; Set A which achieved a profit in at least 4 of the 5 years;[189] Set B which achieved profit in at two or three of the five

183 Munkonge (1981, p.143).
184 INDECO (*Annual Report*, 1976).
185 Fortman (1971), Seidman (1979) and Fincham (1980, p.299-303).
186 Republic of Zambia (*Economic Report* 1982, p.373).
187 Republic of Zambia (*Economic Report* 1980, p.107).
188 This information was not provided for INDECO's associated companies.
189 They are National Breweries, Zambia Steel and Building Supplies, Kafironda, Kafue Textiles, Supa Baking, ZAMEFA, ZAMOX, Zambia Sugar, LENCO and INDECO's Real Estate interests.

years;[190] Set C which had at most one profitable year in the period;[191] and Set D consisting of enterprises that were not operating for the entire period due to start-up or closure.[192]

Between FY 1979 and FY 1983, the INDECO Group recorded an overall profit for two of the five years and the performance of each set of enterprises during this period is shown in Table XVIII. Despite the positive contribution of Set A to profits, this was negated by the losses incurred by the other sets of enterprises. Although Set B enterprise recorded on average a relatively small margin of loss, their number and average turnover magnified the impact of this on the Group as a whole. Conversely, the impact on the Group of the large loss margins recorded at the persistently unprofitable Set C enterprises, was minimised due to their low level of turnover and fewer number. In addition, the low number of enterprises classified as Set D enterprises and their low turnovers, also limited their impact on the Group.

A number of factors influenced the performances of these enterprises. Seshamani (1988, p.68) suggested that the most "efficient and profitable" companies within INDECO group were those in which private shareholders had the greatest influence, while those wholly owned performed least well[193]. Because the level of minority shareholder influence does not necessarily correspond to their share of equity, it is not possible to correlate the two variables.[194] The presence of a minority shareholder, however, was associated with more profitable enterprises. Among the persistently profitable subsidiaries of Set A only two of the ten enterprises were wholly state owned, while among the persistently unprofitable enterprises of Set C, four of the six enterprises were wholly owned. Overall wholly owned enterprises returned an average loss of 13 percent of turnover for each year of the period while those enterprises with a minority shareholder returned a loss of 2 percent of turnover.[195]

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190 They are Zambia Breweries, National Milling, ROP(1975), INDECO Milling, Monarch, Consolidated Tyre Services, Kapiri Glass, Motor Parts Distributors, Nitrogen Chemicals and Chilanga Cement.

191 They are Livingstone Motor Assembly, Crushed Stones Supplies, Zambezi Sawmills, Norgroup, Kabwe Industrial Fabrics and RUCOM.

192 They are Choma Milling, Mansa Batteries, Luangwa Industries, General Pharmaceuticals, Zambia Clay Industries, and INDECO Travel interests.

193 Seshamani (1988, p.68). However Turok (1989, p.105), reviewing the performance of subsidiaries for the late 1970s, concluded that "performance in the wholly state-owned companies was no worse than in the mixed-owned firms."

194 In addition, no indicator of the relative influence of minority shareholders in each subsidiary enterprise is available.

195 This was not the only factor which differentiated the two groups, the turnover of enterprises with minority shareholders was on average 2.72 times greater than that of wholly owned enterprises. While subsidiaries with the highest turnovers were not the most profitable, Set B shows the highest rate of

Table XVII.

The Profitability of INDECO's Subsidiary Companies.

FY 1979 to FY 1983.

Category.	Average Pre-tax profit Margin (a). %	Average Pre-tax Profit per enterprise per annum. In thousands of Kwacha.	Average Turnover per enterprise per annum. In thousands of Kwacha.
Set A. (Profitable in at least 4 of the 5 years).	12.77	2,966	27,370
Set B. (Profitable in 2 or 3 of the 5 years).	(4.62)	(810)	41,520
Set C. (Profitable in at most 1 of the 5 years).	(35.77)	(820)	3,312
Set D. (Not operational for full 5 year period).	(b) n/a.	(880)	3,054

Source: Calculated from INDECO *Annual Reports* (1979 to 1983).
Notes: (a) The profit margin does not equal the proportion of pre-tax profit to turnover elsewhere in the Table as the profit margin is the average of each annual rate, while the calculation of the average levels of profit and turnover are based on the cumulative value over the entire period. (b) The rate of profit for Set D cannot be calculated as some of the enterprises included recorded losses on zero turnover.

The presence of a minority partner was, however, not a guarantor of the success. Mansa Batteries was established as a joint venture between INDECO with 70 percent of the equity and Oy Airam AB of Finland with 30 percent.[196] The initial construction of the factory and commissioning of the plant were subject to delays, and five years after the commencement of production, output had not exceeded 29 percent of rated capacity. While the problems experienced by Mansa Batteries included

profit with a middle range average turnover. Among wholly owned enterprises, higher turnovers were associated with more profitable performances.

[196] See Rajeswaran (1986) and Ant-Wuorinen (1987).

those common to other enterprises, such as shortages of foreign exchange, the company also suffered from the inexperience of the staff supplied by Oy Ariam. As a result of the poor initial performance of the company, Oy Airam withdrew from the project in 1982, selling its entire shareholding to INDECO. Neither did the presence of a minority shareholder and a profitable performance necessarily imply that an enterprise was contributing fully to the other objectives of Government policy. As Mphaisha (1988) has shown, Zambia Metal Fabricators, while classified in the period as a Set A enterprise, continued to rely upon imported management, technical expertise and technology.

Many of the factors that determined the performance of INDECO subsidiaries affect wholly owned companies and joint ventures alike. The unpredictable allocations of foreign exchange and approval of price rises affected the performances recorded by enterprise year to year.[197] Commenting on INDECO's performance, the National Commission for Development Planning noted that "It is characteristic that the main profit makers were companies whose prices were not Government controlled, whilst the biggest losses were incurred by those subsidiaries which produce essential commodities and/or which had not been allowed to charge economic prices inspite of all official pronouncements to the contrary."[198] The under-allocation of foreign exchange to one enterprise could also give rise to secondary effects at others. Kabwe Industrial Fabrics' shortage of materials in 1983, for example, caused a shortage of packaging for Nitrogen Chemicals of Zambia, and consequently a shortage of fertilisers for the agricultural sector.[199]

The effects of differential rates of taxation on the performance of enterprises is illustrated in the comparison of Zambia Breweries, in which INDECO held 55 percent of the shares, and National Breweries, in which INDECO held 51 percent of the shares. Between FY 1979 and FY 1981 Zambia Breweries recorded an average loss of 0.6 percent of turnover, while contributing around three-quarters

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[197] These problems were particularly prominent factors in the performance of enterprises in Set B. A number of the enterprises within this category faced tight price controls which undermined their viability. INDECO noted this as an impediment to National Milling in FY 1980, FY 1981 and FY 1983 and to Zambia Breweries in FY 1982, while in FY 1982 ROP was awaiting a price increase for which they had applied in May 1980. This can be contrasted with Zambia Sugar for which the suspension of sales tax in FY 1980 constituted an effective price increase, allowed it to record subsequent profits and to be classified in Set A.

[198] Republic of Zambia (*Economic Report*, 1979, p.72).

[199] *EIU* (q2/1983, p.14). In another example Dunlop was unable to supply tyres to UBZ, which had withdrawn 40 buses from service. Such problems increased the pressure to import goods which could be domestically produced, as both Nitrogen Chemicals Zambia and United Bus sought to procure supplies from abroad.

of turnover directly to the Government as excise duty.[200] The situation of Zambia Breweries, classified in Set B, can be contrasted to that of National Breweries classified in Set A, which over the same period recorded an average profit of 7.5 percent of turnover while paying between 50 and 60 percent of turnover in excise duties. An element in their divergent results was the rate of excise duty placed on their produce. Had Zambia Breweries paid duty at the rate of National Breweries, they could have recorded an average profit of 15.1 percent of turnover, while had National Breweries paid duty at the rate of Zambia Breweries, it would have recorded an average loss of 23.9 percent of turnover.

The problems of the enterprises in Set C were often deeply rooted. The only persistent loss maker not wholly owned by INDECO was Livingstone Motor Assembly in which the Italian companies, Fiat and Intersomer held 30 percent of the equity. Although it made early progress in localising the supply of paint, tyres and batteries, it remained dependent on foreign suppliers for the kits from which cars were assembled. The downturn in the enterprise's performance began in FY 1975 following the decline in foreign exchange availability and persistent losses were recorded after FY 1976.[201]

Mismanagement and poor corporate governance could also contribute to poor performances. A report on Crushed Stone Sales by the Auditor General in 1982 revealed a poor record of protecting the assets of the company[202]. The sale of plant in Kitwe had not received the approval of Directors or been put out for tender. The audit revealed monies owed by former employees, sales receipts which had not always been banked or otherwise accounted for, and provisions for bad debt which included amounts due from ZIMCO and INDECO. The Company had recorded losses in each year since FY 1976, which at a cumulative value of K4 million far exceeded the share capital of K1.6 million Current liabilities had exceeded current assets since FY 1977, and the Auditor General doubted the ability of the enterprise to meet its obligations for debt repayment.[203]

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200 Calculated from INDECO (*Annual Report*, 1980, 1981 and 1982). Figures for subsequent years are not provided.

201 Shortages of foreign exchange restricted the importation of kits and the plant's production was restricted. It was reported in FY 1978 that kits despatched from Fiat two years before remained at an Italian port, awaiting payment.

202 Republic of Zambia (*Report of the Auditor-General on the Accounts of Parastatal Bodies*, 1982).

203 The company borrowed K1 million in FY 1983 to purchase new equipment, despite the fact that the it had only been able to service the interest payments on a 1977 loan of K1.1 million, on which the principal was still outstanding. In the seven years since 1976, six different General Managers and Chief Accountants had been appointed (Republic of Zambia, *Report of the Auditor-General on the Accounts of Parastatal Bodies*, 1982).

The criterion for enterprises to be classified in Set D was that they did not operate for the whole of the period. This occurred for a variety of reasons.[204] For Choma Milling, Luangwa Industries, Mansa Batteries and General Pharmaceuticals, this was because they were establishing operations, and of these, only Luangwa Industries, had not achieved profitability by FY 1983. The aggregate performance of Set D was, however, dominated by Zambia Clay Industries. Although a long established INDECO subsidiary, the establishment of new plant in the late 1970's proved a failure and the company ceased operations in 1981. Despite this, large losses, reflecting its on-going liabilities, continued to be recorded up to FY 1983.

In the context of the structural adjustment policies of the mid-1980s, INDECO undertook a number of initiatives aimed at strengthening the Group's commercial performance. As part of a World Bank Industrial Rehabilitation Project, an Economic Evaluation Unit was established within INDECO in December 1985 to review its existing and proposed investments, in order to ensure their viability.[205] In conjunction with this, outside consultants undertook reviews of a number of subsidiaries and made recommendations for their rehabilitation.[206] The Group also published financial objectives for the three years, FY 1986 to FY 1989, which were to achieve a growth in earnings per share of 10 percent per annum; obtain a return on capital employed of 20 percent; contain total borrowings at under twice shareholders funds and at less than 60 percent of total assets and maintain a ratio of current assets to current liabilities of over 1.25:1.[207]

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204 Apart from the cases discussed below, the travel subsidiaries of INDECO, which were not included in the accounts after 1980, have been included in this Set.

205 Gulhati (1989, p.46) and INDECO (*Annual Report,* 1986). It was reported that the Managing Director of INDECO, Dixie Zulu, expected that the review would result in the closure or sale of some subsidiaries (*EIU*,q3/1985, p.14). In January 1986 four new projects were dropped from the 1986/7 programme on grounds of viability although a further five projects, whose viability was in question, were continued (Gulhati 1989, p.46).

206 UNDP (1986, p.107) referred to the review of six unnamed subsidiaries, a figure also referred to by Gulhati (1989, p.47) who names four as being RUCOM, Crushed Stone Sales, Luangwa Industries and Livingstone Motor Assembly. He states that the implementation of the programme was suspended with the break from the World Bank in May 1987. However, INDECO (*Annual Report*, 1989, p.14) refers to the recent completion of diagnostic studies sponsored by the World Bank covering 12 companies. Kaunga (1993, p.381) also refers to the project as covering twelve enterprises and cites 7 of these as Kapiri Glass, Zambezi Sawmills, Zambia Steel and Building Supplies, Supa Baking, Zambia Ceramics, Consolidated Tyre Services, Monarch and INDECO Milling.

207 INDECO (*Annual Report*, 1986) and restated in (*Annual Report*, 1987) although not subsequently. INDECO did not monitor its progress towards these objectives in its *Annual Reports* and, while calculating figures for Return on Capital Employed and Debt Equity Ratio, Earnings per Share was not calculated.

Private enterprise also began to play a greater role in the management of state enterprises, and management contracts were agreed for a number of enterprises including Nitrogen Chemicals, Livingstone Motor Assembly, Zambia Breweries, Luangwa Industries and Zambia Poultry Products.[208] Policy toward increased equity participation by private enterprise was, however, less certain. While Heineken was refused a request for equity participation in Zambia Breweries, an agreement was negotiated for Heinz to acquire 49 percent of the equity and management control of a plant of ROP, which was incorporated independently as Premium Oil.[209]

As outlined above, INDECO group performance began to recover between FY 1983 and FY 1986, and strengthened in the period to FY 1989. The UNDP (1986, p.106) noted the decontrol of prices as a factor in INDECO's improved performance, alongside capital restructuring and tighter management controls, and INDECO (*Annual Report,* 1982, p.5) welcomed "the concept of economic prices [which] is fast becoming a reality," stating in 1984 that decontrol had allowed enterprises to operate on a viable basis and to generate funds for reinvestment.[210] Despite this, profit margins over the direct costs of bought-in materials fell between FY 1982 and FY 1986.[211] This casts doubt on the extent to which the INDECO group took advantage of the decontrol to raise prices, as does the Group's record of improved rates of profit in FY 1988 and FY 1989, when price controls had been reintroduced.[212] However, structural adjustment policies also brought new problems to INDECO. Devalautions raised the costs of imported inputs, while the foreign exchange auctions reduced the supply of foreign exchange to

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208 Makgetla (1994, p116) and INDECO (1987, p.6)

209 Heinz withdrew from the arrangement after Zambia's abandonment of its agreement with the IMF in 1987 (Callaghy and Wilson, 1988, p.213).

210 See INDECO (*Annual Report*, 1982, p.5 and *Annual Report*, 1984 p.4-5). Dewar and Seshamani (1987, p.135) argued that "the deregulation of prices in 1982 has boosted profitability, while the government's directive to ZIMCO and its subsidiaries to become profitable has effectively relieved the parastatals of the need to support social objectives." INDECO (*Annual Report*, 1985, p.9) notes that National Milling faced a controlled price of wheat until November 1984.

211 While the cost of bought-in materials accounted for under 53 percent of turnover in FY 1982, it rose steadily to around 59 percent of turnover in FY 1985 and FY 1986. With share of turnover accounted for by the costs of labour (12 to 13 percent) and capital (4.5 percent to 5.5 percent) remaining relatively stable over this period, an important source of the improved profitability of INDECO may have been the decline in excise duties from nearly 21 percent of turnover in FY 1982 to just over 10 percent by FY 1986. The cause of this could either have been a reduced level of excise duty payable by Group companies, or a decline in the share of Group turnover accounted for by companies liable for excise duties.

212 While INDECO's gross profit margins appear to have fallen with price decontrol, given the devaluations and inflation during the period, the effects on INDECO's margins had decontrol not been introduced would have been far greater.

INDECO by 40 percent, and companies such as Zambia Steel and Building Supplies, which had been persistently profitable, faced liquidity problems.[213]

One factor in the recovery in Group profitability at the end of the 1980s was the decrease in enterprises which recorded losses.[214] In FY 1988 only three subsidiaries recorded losses and in FY 1989 only one did. Changes in the composition of INDECO after FY 1985 also contributed to the recovery. Technical and design faults in an extension to the plant of Nitrogen Chemicals Zambia resulted in the plant operating at under 50 percent of capacity and recording losses in FY 1983, FY 1984 and FY 1985. These were material to the performance of the INDECO Group as a whole.[215] After FY 1985, Nitrogen Chemicals was demerged from INDECO and placed under the direct control of ZIMCO. Livingstone Motor Assembly also ceased to be a subsidiary of the Group in FY 1988, with the entry of the UNIP owned Zambia National Holdings as a new shareholder and the enterprise changed to the status of an associate company of INDECO.

SUMMARY.

This Chapter has analysed the performance of the Zambian State Enterprise sector in the 1970s and 1980s. The primary objective of the strategy pursued through state enterprise was to create a diversified industrial sector. This required that state enterprises maintained their commercial viability and generated sufficient profits for reinvestment and the pursuit of the other objectives specified by the Government. This Chapter has argued, however, that from the mid-1970s, the sector failed to generate the level of resources required to achieve this. Increasingly, the continued viability of the existing enterprises within the sector became a cause for concern, and the resources for further investment became minimal.

213 Seshamani (1988 p.61). INDECO was particularly dependent on expatriate labour skilled in accountancy, financial management, engineering and industrial management. UNDP (1986, p.104-7) notes that "In 1982, 286 positions at senior levels were manned by expatriates, with another 56 vacant. In early 1986, 340 positions (including about 18 provided under technical co-operation) were still manned by expatriates, apart from vacant posts."

214 Other factors in INDECO's improved performance are difficult to identify. UNIDO (1989) cited shortages of foreign exchange, pricing restrictions and management weakness as continuing problems at a number of enterprises surveyed, while Nyirongo (1989) was unable to determine the extent to which improved allocations of foreign exchange to INDECO enterprises enabled them to achieve higher rates of capacity utilisation.

215 See *EIU* (q1/1984, p.12 and q1,1986, p.25). With Nitrogen Chemicals Zambia included in the consolidation, Group pre-tax profits averaged 0.95 percent of turnover. If Nitrogen Chemicals is excluded they averaged 4.03 percent (Calculated from UNDP, 1986, p.105-6).

The primary determinant of the period as a whole was the effect on Zambia of the declines in the price of copper from the beginning of the 1970s. Although the strategy of the government was to encourage the development of a diversified economic structure, this had not been achieved when the copper revenues began to decline. In addition, the fall in copper revenues also removed from the state enterprise sector its primary source of funds to undertake this diversification.

The Zambian government initially sought to insulate the domestic economy from the full extent of the decline, a strategy which proved unsustainable as it became clear that the trend in copper prices was no longer cyclical. From the end of the 1970s, the conduct of Zambian economic policy became increasingly reliant on the conclusion of agreements with the World Bank and the IMF, aimed at adjusting the Zambian economy through economic liberalisation. The Zambian government, however, remained unconvinced that these policies could generate economic recovery, and sought alternative means of adjustment. None of these resulted in the restoration to the Zambian economy of the level of growth which had been experienced in the late 1960s.

The main source of profits within the state enterprise sector was the state mining companies. Alongside the problems faced by the Zambian economy as a whole, the copper mining industry also encountered geological problems which lowered output and productivity. Although the companies recorded considerable success in reducing the costs of copper production in response to the decline in the international price, they were constrained, by both technical and policy factors, in the methods through which this could be achieved. After further falls in the copper price at the end of the 1970s, a number of more far-reaching measures were undertaken. These included the creation of ZCCM and the formulation of a Production and Investment Plan with the World Bank and external consultants. Although these initiatives halted further decline in the viability of the mining industry, it remained in need of substantial new investment, and was not in a position to provide funding to other sectors.

Within the state enterprise sector the primary responsibility for industrial diversification was placed with INDECO. In the 1970s INDECO continued to expand through establishing new industrial projects and enterprises. However, increasingly this effort was undermined by problems of liquidity and in the 1980s the Group increasingly turned its attention to the rehabilitation of its existing enterprises. It has been demonstrated that the performance of the enterprises within INDECO was subject to a wide variety of factors. While cases have been cited in which the policy objectives of government, such as price controls, placed significant costs of certain subsidiaries, in other cases factors such as poor management undermined their performance. In the mid-1980s INDECO and the Zambian Government undertook a number of initiatives to rehabilitate a number of the subsidiaries and to strengthen the overseeing of the holding company. While the performance of the Group as a whole improved during the late 1980s, it did not provide the basis for a renewed expansion.

CHAPTER 4.

PRIVATISATION IN ZAMBIA 1990-1998.

The aim of this Chapter is to provide an account and explanation of the adoption and implementation of privatisation in Zambia. In 1990 the UNIP government adopted a limited programme of privatisation, the scope of which was extended after 1992 by the MMD government. The subsequent implementation of this programme has resulted, by the end of 1998, in the privatisation of the majority of Zambian state enterprises.

The reasons for the initial adoption of privatisation by UNIP, and the continued support for it by the MMD are examined in Section 4.1. Section 4.1.1 examines the experience of privatisation under the UNIP government from 1990 to late 1991. It argues that pressure from donors prompted the initial adoption of the policy and that, although its scope became extended, it remained within the realms of a defensive programme. In Section 4.1.2 the rise of the MMD and its displacement of UNIP as the governing party is examined. The section accounts for the overall policy orientation of the MMD and its support for privatisation. Section 4.1.3 provides a overview of the political and economic developments between 1992 and 1998, during which time the MMD has been in government.

Section 4.2 of the Chapter examines the design of the privatisation programme that was established by the MMD government. The Zambian experience is marked by the creation of a formal legal framework for the privatisations through the *Privatisation Act* of 1992. Section 4.2.1 examines the provisions of the Act, the most important being the creation of the Zambia Privatisation Agency. The section also assesses the extent to which these provisions have provided for the efficient and accountable management of the process. The sequence plan through which the enterprises were to be privatised is discussed in Section 4.2.2. It was initially designed to facilitate the rapid sale of small and marketable enterprises, with larger and more strategic enterprises to be sold later in the programme. Arrangements were also established for the supervision of enterprises while they have remained under state ownership, and these are examined in Section 4.2.3.

The implementation of the privatisation programme between 1992 and 1998 is assessed in Section 4.3. In this period the majority of large, medium and small sized enterprises have been privatised through a variety of methods. Although the initial pace of divestiture was slower than projected, the rate of sales rose after 1995. Section 4.3.1 examines the pattern of privatisation over the period and discusses the factors that have affected it. As argued in Chapter 1, different methods of privatisation will affect to whom, and on what terms, enterprises are sold. The most common method of privatisation in Zambia has been by private sale. While in large and medium sized enterprise this had often been achieved through private negotiations, in smaller enterprise it has more often been through tender. Overall, less than a quarter of enterprises have been liquidated, while a substantial number of large and medium sized enterprises have been unbundled prior to their privatisation. Section 4.3.2 examines the reasons for the methods of privatisation which have been pursued in Zambia which have reflected both the aims which the government has sought to pursue through privatisation, and the constraints under which it has implemented the programme.

The process of privatisation involves the dismantling of the corporate structures through which enterprises were held in the state sector and the development of these within the private sector. This is particularly significant in the restructuring of private capital markets, which must develop the capacity to provide the financial resources required by former state enterprises. Section 4.3.3 examines the development of the banking sector and the Lusaka Stock Exchange (LuSE). Section 4.3.4 examines the enterprises that remained in state ownership at the end of 1998. In most cases they are confined to those with particular strategic significance, or those which operate within utility industries and in most cases progress towards their eventual privatisation is underway.

SECTION 4.1. THE COMMITMENT TO PRIVATISATION.

Although Zambia's privatisation programme was designed and implemented under the MMD government after 1991, the issue was first introduced onto the government agenda in Zambia by President Kaunda. The adoption of the policy by UNIP and its initial development is examined in Section 4.1.1. This is followed by a discussion of the formation of the MMD and its displacement of UNIP as the governing party in Section 4.1.2. Section 4.1.3 examines the economic policies and political development during the period from 1991 in which the MMD have been in government.

4.1.1. Privatisation under UNIP.

As discussed in Chapter 3, in the late 1980s the Zambian government undertook a number of initiatives to improve the performance of the state enterprise sector. While these included the appointing of private sector management, initiatives to change the ownership structure of state enterprise were limited to a scheme of employee ownership. In 1988 the National Assembly passed legislation under which the President could turn over any state enterprise to self management as a step towards this, and in 1989 pilot schemes were established at two INDECO subsidiary enterprises.[1]

The move towards the adoption of a privatisation programme occurred in the context of the renewed agreement reached with the IMF in 1989. Under a Rights Accumulation Programme, Zambia had to meet conditionalities over a number of years to qualify for new concession lending from the IMF.[2] In the meantime, the agreement facilitated the re-opening of concessionary finance from donors. In April 1990 the Consultative Group of donors met and, while pledging financial support to Zambia, pressed the government to adopt privatisation as part of its approach to the state enterprise sector.[3]

At the Fifth National Convention of UNIP in April 1990, while privatisation was rejected by President Kaunda, the policy committees discussed it in a positive light and resolved that "no national interests are threatened by the opening up of any public enterprise to direct and limited individual private citizen full or part ownership."[4] The following month, President Kaunda announced "a scheme by which the state will sell part of its capital in state enterprise to the general public."[5] The scope of the programme announced in May 1990 was quite limited, being a statement of intent to sell 49 percent of the shares of selected state enterprises and 40 percent of shares in selected public utilities. These shares were to be made available to Zambian citizens, with reserved shares for employees, with measures included to guard against the concentration of ownership. To examine issues relating to the scope of the policy of privatisation and the measures necessary for its implementation, a Special Task Force on

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1 The enterprises were Zambia Pork Products and Choma Milling (*Southern African Economist* April/May 1989, p.43-4 and Kaunga, 1993,p.390).
2 See *Southern African Economist* (June/July 1990, p.30-1) and Republic of Zambia (1990).
3 *EIU* (q3/1990, p.14) reported that the Consultative Group met in April 1990, pledging $450m. for 1990.
4 Kaunga (1993, p.382-3) and *Africa Economic Digest* (4/6/1990).
5 *Times of Zambia* (29/5/1990).

Privatisation, chaired by the Minister of Finance and staffed by senior Government and ZIMCO officials, was established in May 1990.[6]

The government privatisation initiative found support within the National Assembly.[7] A Special Parliamentary Select Committee, which sat in July 1990, supported the direction of Government policy, recommending that "the method of selling shares in parastatal companies to members of the public be effected expeditiously" and emphasised this as a measure for overcoming the problems of loss making enterprises.[8] In addition to this, the committee emphasised measures for improving the performance of the state enterprise sector as a whole, including the abolition of ZIMCO, the streamlining of INDECO and the subjecting of enterprises to competition.

While the proposals put forward by the government were quite limited, and would not have entailed the transfer to the private sector of a controlling interest in any state enterprise, the contemplation of equity sales opened the door to more wide ranging proposals. While the formula of the 49 percent sales was restated in the November 1990 Budget Address, the scope of the policy was extended through the additional statement that the government would also undertake the complete divestiture of some enterprises.[9] In early 1991 the commitment to privatise was further extended to a more comprehensive programme of privatisation with the Government outlining its eventual goal as selling majority or outright ownership of all State enterprises except public utilities and other strategic industries.[10] Despite the broadening of the scope of the programme, the government still stated that implementation would be based on sales to Zambian citizens with only a minority role for foreign investors.[11] The timeframe over which the privatisation programme was to be implemented was not defined and the Government expected that in the medium term state enterprise would continue to play a substantial role within the Zambian economy.[12]

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6 Kaunga (1993, p.388).
7 ZACCI also welcomed the privatisation as "a step in the right direction which is long overdue" (*Times of Zambia* 26/1/1991).
8 National Assembly (1990, p.32).
9 Republic of Zambia (*Budget Address*, 1992).
10 This was in line with the advice of the World Bank that Zambia's parastatal sector should be limited to a core group of public utilities or natural monopolies. The Zambian government also undertook not to create any new state enterprises in "commercially oriented activities that are best left to private sector initiative" (World Bank, 1991, p.16 and 55).
11 *EIU* (q3/1991,p.18)
12 World Bank (1991, p.55).

In February 1991 a 'Steering committee of the Restructuring of the Parastatal Sector" was established to design the programme alongside a 'Technical Committee of Privatisation' which was designated to administer it.[13] The steering committee identified ten small enterprises to be divested. Those which were wholly owned were advertised for sale in June 1991, while for the remainder, negotiations were open with minority shareholders.[14] No measures were announced to facilitate the participation of Zambian citizens. The offers attracted considerable interest with over 80 enquiries for the 7 enterprises offered for tender.[15] Concern over the administration of the programme was also expressed by the Committee on Parastatal Bodies. It criticised the Government for not seeking Parliamentary approval of the companies that it had identified for divestiture, and expressed doubts that the administration of the sales would realise the full value of the assets.[16]

The implementation of these policies was cut short by the fall of the UNIP Government in November 1991, and the potential outcome of their initiatives can only be speculated upon. Although the scope of the initial commitment to sales was progressively extended, the Government remained committed to retaining strategic industries in state ownership, the definition of which could have been extensive. The timing of the initial offers for sale, and the enterprises selected, also suggest that the programme was primarily focused on satisfying donor pressure through the divestiture of small and peripheral state enterprises. However, the UNIP government had also undertaken a number of complementary measures which suggest that the importance of state enterprise within the economy would have been less significant in the 1990s than in the previous two decades. The passage of the *Stock Exchange Act* of 1990 had begun the process of creating a stock market, and the *Investment Act* of 1991 had created an Investment Centre to promote and facilitate new private investment.[17]

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[13] Kaunga (1993, p.388).

[14] The ten enterprises were AFE, Consolidated Tyre Services, Crushed Stone Sales, Eagle Travel, Lublend, Mwinilunga Canneries, Nkwazi Manufacturing, Poultry Processing, Zambia Clay Industries and Zambezi Sawmills. Those in which there were minority shareholders were Lublend, Nkwazi Manufacturing and Poultry Processing. All except Eagle Travel and Lublend were subsidiaries of INDECO.

[15] The offers attracted considerable interest with over eighty enquiries received for the seven advertised enterprises (Kaunga, 1994, p.110-111).

[16] Republic of Zambia (*Report of the Auditor General on the Accounts of Parastatal Bodies*, 1990, p.1-2).

[17] Ngenda (1994a and 1994b). The security of investments from nationalisation had also been extended, with the stipulation that property covered by the Act could only be nationalised if specifically identified in an act of parliament, in which case compensation at market value could be externalised without exceptional deductions. In addition to this, the Act made provision for those purchasing enterprises divested by the state to qualify for the incentives it offered.

4.1.2. The Rise of the MMD and the Fall of UNIP.

The MMD was the product of the campaign for political reform in Zambia. It was officially established in July 1990, following the decision by the Government in April to hold a referendum on a return to a multi-party system. When the referendum was cancelled in place of a direct move to multi-party elections, the MMD registered as a political party.

Although pressure for greater political pluralism existed throughout the period of the one party state, the multi-party issue came to the fore in Zambia following the collapse of the one party system in Eastern Europe and regional changes including progress towards the dismantling of white minority rule in South Africa. These external changes prompted domestic political groups that were discontented with UNIP rule to agitate for political reform, with the first official call for a return to multi-party politics made in December 1989 by the General Council of the Zambian Congress of Trades Unions.[18] The leadership of UNIP displayed little concern for these changes and instead proposed amendments to the constitution to further centralise power in the Presidency.[19] When the growing pressure for political reform was addressed at UNIP's Fifth National Convention in March 1990, President Kaunda rejected the widespread demands for change, including measures aiming to increase participation within the confines of a one party system.[20] However, the weight of these criticisms and the failure to win parliamentary approval for the constitutional amendments led President Kaunda to change tack. In April 1990 a referendum on a return to multi-party politics was announced, to take place in a closely supervised environment and in which UNIP would campaign against the multi-party option.

While UNIP was attempting to defend its monopoly on political power through constitutional manoeuvres, its position was being undermined by a number of factors. Government attempts to pursue economic reform, throughout 1989, provoked widespread strikes in industry and the public sector in protest at the rising cost of living, violent demonstrations as students protested against tuition fees and

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[18] Rakner (1992, p.58).

[19] They included measures to further centralise the nomination of UNIP parliamentary candidates, to create a party commission to oversee appointments in the party, civil service and state enterprise sector, and to allow only the President of UNIP to stand for election as President of Zambia (*EIU*, q3/1980, p.12).

[20] In addition to ZCTU, criticism of the existing political structures were made by senior UNIP politicians including Arthur Wina, Daniel Lisulo and Humphrey Mulemba and Sikota Wina (*SAPEM* May 1990, p.31-4; and *Southern African Economist* April/May 1990, p.31)

rioting on the Copperbelt in response to the removal of price controls.[21] The cutting of subsidies on maize meal in June 1990 led to an unprecedented scale of rioting in Lusaka, Kabwe, Kafue and Kitwe between the 26th and 28th of June in which at least 23 people were killed, and calls were made by the protesters for a return to multi-party politics.[22]

The rioting was also the prelude to an abortive coup attempted by Lieutenant L uchembe in which four soldiers captured control of the Lusaka Multi-Media Complex for a few hours on the night of 30th June 1990 and broadcast announcements that President Kaunda had been overthrown.[23] While in itself this did not pose a material threat to the government, it was significant in two respects. Firstly, the radio announcements of the coup received widespread popular demonstrations of support which underlined the unpopularity of the Government and suggested that a more effectively organised coup attempt could have succeeded. Secondly, it had a catalytic effect on the political opposition to UNIP prompting it to organise itself into a cohesive force.

UNIP's Fifth National Convention acted as a platform for advocates of political reform and the party leadership's resistance convinced many that UNIP would not be the vehicle of such change.[24] In the following months individuals linked to the Economic Association of Zambia pursued contacts with the leadership of ZCTU and ZINCOM to organise in favour of multi-party reform.[25] Initially plans to organise a National Conference promoting the case for multi-party politics were delayed, but the

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21 See *EIU* quarterly reports for 1989. This was against the backdrop of a treason trial relating to a 1988 coup plot in which state witnesses stated that President Kaunda had amassed a personal fortune of $4 billion overseas (*EIU*q2/1990, p.8-9).

22 The Economist Intelligence Unit described it as "the worst rioting the country has ever seen" (*EIU*,q3/1990, p.7), an assessment shared by Mwanakatwe (1994, p.173-4) who described it as "the worst example of political unrest for 26 years of Zambian Independence." Chan (1992, p.189) prefers to term these events an 'uprising', "for this is what it was, not a series of riots."

23 Luchembe claimed to have acted in agreement with senior officers who then failed to play their part (*EIU*, q3/1990, p.8-9 and Mwanakatwe, 1994, p.149-164). Chan (1992, p.189-1990) argues that Luchembe had substantial army support and that the suppression of the coup relied upon the airforce, Zambian paramilitary forces and support from Tanzanian troops and the Zimbabwean Airforce. The inaction of Zambia's own army in suppressing the coup is also highlighted by *Africa Confidential* (27/7/1990).

24 This position was taken by Vernon Mwaanga (1990, p.82-3) who stated at the MMD's launching conference; "I did not go to the Convention to advocate for the reintroduction of Multi-Party Democracy, I went there as a member of the reformist wing of the Party demanding reforms and demanding more democracy within the Party... [but] I have come to the inescapable conclusion that the Multi-Party Option is credible and that the United National Independence Party to which I have belonged for the last 31 years has proved incapable of reforming itself."

25 Leading figures were Mbikusita-Lewanika and Derek Chitala from EAZ, Frederick Chiluba and Newstead Zimba from ZCTU and Vernon Mwaanga from ZINCOM (Chitala, 1990, p.iv-ix, and Chiluba, 1995, p.61-3).

Luchembe coup attempt served to underlined the urgency of action and the conference launching the MMD went ahead in July 1990.[26]

The MMD came to consist of an alliance of diverse strands of opposition to the UNIP regime, bringing together trade unionists, intellectuals, business people, students and former leaders of UNIP.[27] Its formation created a focus for opponents of the regime and from their first public rallies in August and September 1990, the MMD was able mobilise widespread public support.[28]

The unity of the MMD was based on a number of factors. At the tactical level it was judged that if the movement split into a number of competing parties, the attempt to displace the political domination of UNIP would be likely to fail.[29] Despite discontent at the MMD Convention in February 1991, many defeated candidates, including Mulemba and Arthur Wina, argued that unity was essential for electoral victory.[30] This unity of convenience was reinforced by the shared conviction of those constituting the MMD that the one party state precluded effective developmental policies and the only through the democratisation of the political arena could development be pursued. Alongside resolutions at the founding conference that asserted fundamental democratic rights and addressed the issues of the referendum, the conference resolved that;

> there can be no satisfactory or sustainable solution to urgent problems, such as the foreign debt burden, public revenue short-falls, inadequate public expenditure, economic mismanagement and the consequent deterioration of health, education and general welfare services, until and (sic) appropriately conductive and democratic enabling environment if (sic) firmly established.[31]

With the cancellation of the referendum and the move to a multi-party election, the MMD chose to transform itself from a popular movement into a political party with an agreed programme. Frederick Chiluba, the President of ZCTU, was elected as President of the MMD, and the party

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26 Mbikusita-Lewanika (*SAPEM* August 1992) and Chiluba (1995, p.61).

27 *EIU* (q1/1991, p.8) reported a "growing tide of UNIP defections to the MMD" and noted the defections of recently dismissed cabinet ministers Michael Sata and Frederick Hapundu as well as former Secretary General of UNIP Humphrey Mulemba and former Minister of Finance Joshua Lumina. Kees van Donge (1995, p.199) notes that nearly all of the UNIP MPs representing Southern Province finally defected.

28 *EIU*(q4/1990, p.10) reported crowds of 50,000 in Kabwe on August 18th, 300,000 in Lusaka on September 8th and 70,000 in Kitwe on September 15th. See also Petros Muyunda (*SAPEM* November 1990, p.22).

29 See Gilbert Mudenda (*SAPEM*, August 1992) and Gabriel Banda (*Post* 22/10/1996)

30 *EIU*(q2/1991, p.9), *SAPEM* (11/1991, p.28) and *Africa Confidential* (8/3/1991).

31 Mbikusita-Lewanika and Chitala (1990, p.130-1).The point of democratisation as a precondition for economic progress was made by Chiluba (1990, p.106) "Our argument is not that a quick return to the Multi-Party System means an immediate end to our economic hardship... But we need an enabling environment for concerted effort (sic) to work towards the resolving of the present developmental crisis."

formulated an economic policy favouring private enterprise and economic reform.[32] The election manifesto in October 1991 committed the MMD to "a balanced structural adjustment programme specifically suited to Zambian conditions" and to "selling off as many state owned enterprises as possible."[33]

This policy orientation of the party reflected the balance of interests within it and the policy options open to it.[34] Business interests, which were well represented within the MMD, had long advocated the adoption of a liberalised economy and a programme of privatisation and through their financial contributions to the party, they were able to secure prominent positions and influence the formation of policy.[35] The trades unions viewed their role as being that of an autonomous group pursuing the economic interests of labour within the structures of a capitalist economy, and they were not hostile to an increased role for the private sector.[36] While the trades unions had opposed the negative impact on their members of the structural adjustment measures implemented under UNIP, they hoped that within a democratic framework they would be better able to defend members against its effects. Among the intellectual elements within the MMD there was also criticism of the contribution to the economy made by state enterprise and the view that within a democratic framework, structural adjustment measures could facilitate economic development.[37] In addition, the attempt by UNIP to pursue a strategy without the support of the IMF between 1987 and 1989 had, in the event, failed to achieve a sustained growth and heightened Zambia's dependence on future donor assistance.

In confronting UNIP, the MMD's main asset was the unpopularity of the existing regime.[38] Although economic decline was a central element in this, the campaign was not based around economic issues. Instead it was dominated by arguments over the ground rules of the election itself, which, the

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[32] Reuters (Lusaka, 1/3/1991)
[33] Chiluba (1993, p.70).
[34] Simutanyi (1996, p.832).
[35] Such policies were advocated by Chikwanda and Penza, as Chairs of ZIMCOM and the Lusaka Chambers of Commerce respectively (*News from Zambia* 25/7/1989 and 17/10/1989).
[36] See Liatto (1989) and Rakner (1992). Rakner (1992, p.119) quotes Sampa, Assistant General Secretary of ZCTU and later an MMD Minister, stating in 1991 that "We do not think privatisation is a very bad thing, as we have seen how badly the parastatals(state owned businesses) have performed," while Chiluba (1990, p.98) stated that "under price liberalization policies state monopolies have revealed themselves to be more exploitive that (sic) privately owned enterprises."
[37] For example Mbikusita-Lewanika (1990) and Donald Chanda (*SAPEM*, June 1990, p.24-7).
[38] Kibble (1992, p.105) and *SAPEM* (August 1992).

opposition argued, favoured UNIP.[39] The results of the 1991 election were a clear victory for the MMD, which won the Presidency and a large majority in the National Assembly.

4.1.3. The MMD in Government.

In Government the MMD faced the same economic situation that had forced the UNIP Government to reach agreement with the IMF and World Bank. Assessing the economic prospects of Zambia, the World Bank (1993b, p.3) noted that;

> given Zambia's debt burden, any growth or even the maintenance of economic activity requires very large inflows of foreign aid.

These flows were dependent on the continuation of the Rights Accumulation programme agreed under the UNIP government, to which the MMD brought an ideological commitment absent under UNIP.[40] In his Budget statement in January 1992, the Minister of Finance, Emmanuel Kasonde, defined a limited economic role for the state, arguing that;

> Government must concern itself primarily with providing and maintaining public infrastructure and services. Government's role in the commercial economy will be merely to provide a conducive framework of incentives and legislation to promote rapid growth of the private business sector and entrepreneurship.[41]

The Government aimed to promote economic restructuring by stabilising the economy through a tight fiscal and monetary framework, while inducing growth through the liberalisation of existing controls.[42] The centrepiece of fiscal policy was the cash budget, introduced in January 1993, under which government expenditure was funded from existing revenue receipts rather than through the creation of additional liquidity. The implementation of liberalisation was also swift and far reaching. By early 1993 the government had effectively removed all controls over prices, rates of interest, foreign

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[39] Bratton (1992) and Panter-Brick (1994).

[40] This observation is also made by Mutukwa and Saasa (1995, p.75). McPherson (1995) suggests that the failure of the maize harvest in early 1992 reinforced the Government's determination to follow the policy path agreed with the international financial institutions since it would have been unable to fund the necessary imports without donor assistance.

[41] Republic of Zambia (*Budget Address* 1992, p.8). Evidence of this approach can also be found in the Government's policy framework documnet for 1992 to 1994 in which the Government stated that "The engine of growth must be private initiative, guided by market incentives. Government policy will be redirected at creating an environment in which initiative, entrepreneurship, and effort can thrive"(Republic of Zambia, 1992, p.10). The commitment was restated in policy framework document for 1995 to 1998, which stated that "the Government will continue to promote free and open markets... remains committed to not pre-empting or inhibiting business opportunities, and to privatisation of nearly all parastatals as quickly as possible" (Republic of Zambia, 1995a, p.16).

[42] The policies are discussed by Mwanza and Fundanga (1995) and Mutukwa and Saasa (1995).

exchange rates and allocation and eliminated subsidies.[43] Trade policy was also liberalised with the removal of quantitative restrictions on imports and exports, and the tariff structure was simplified. In addition to this, foreign investment was to be encouraged by implementing an improved framework.

In 1992 the Zambian Government predicted that the package of economic policies could result in an average real growth in gross domestic product of around 3 percent per annum between 1992 and 1994 and a decline in inflation to 5 percent over that period.[44] As Table XVIII shows, progress towards the stabilisation of the economy was slower than expected and sustained growth has not been established.

The World Bank (1995b) identified a number of factors that contributed to this. These included problems in the sequencing of the policy reforms which created obstacles to stabilisation and the continued vulnerability of the economy to exogenous factors such as drought and copper price movements.[45]

TABLE XVIII.

Indicators of Zambian Economic Performance Under the MMD Government.

1992 to 1998.

Indicators.	1992	1993	1994	1995	1996	1997	1998 (a)
Real GDP Growth (%).	(0.6)	6.8	(3.5)	(2.3)	4.9	2.9	(3.0)
Rate of Inflation (%).	197.4	183.3	54.6	34.9	46.3	24.8	25.4
Exchange Rate (K. to $)	173	453	669	857	1,204	1,334	2,345

Source: *Economist Intelligence Unit Quarterly Reports* (1992 to 1998)
Notes: (a) Figures for growth and inflation for 1998 are Economist Intelligence Unit (EIU) estimates. Exchange rates are stated as average annual rates except for 1998 which is the EIU's forecast of the year end rate.

43 In the assessment of the World Bank (1996a) "Since late 1991, the Government has accomplished an extraordinary turnaround in economic policy. In particular, the pace of liberalization has been impressive."
44 Republic of Zambia (1992, p.5).
45 Problems of policy sequencing are discussed by Adam (1995) and McPherson (1995). Chibowa (1994) and Chilipamushi (1994) examine the impact of liberalisation on the manufacturing sector.

Particular problems have been experienced with the government's trade policy, the result of which has widely been characterised as eroding the manufacturing base of the economy. Enterprises producing in Zambia have complained that they face an undue burden of taxation compared to competitors importing finished goods into Zambia.[46] Government Ministers have emphasised the reluctance of neighbouring economies to reciprocate in liberalising their trade policies, and have blamed Zambian industry for not having adjusted to competition from imports.[47] The policies have not only affected local companies, but have also caused transnationals to re-evaluate their strategies for supplying the Zambian market. Colgate Palmolive and Johnson and Johnson have both sought to relocate production and investment in Zimbabwe, while Dunlop Zambia has considered relocating in Uganda.[48]

While the World Bank has accepted that the policy packages that it has sponsored have not produced economic recovery, it suggests that without their assistance, the performance of the economy would have been worse.[49] In addition to this, continued adherence to the reform package ensured continued flows by donors to meet the current requirements of debt servicing, alongside a route to gradual debt relief.[50] Alongside criticism of the economic policies that it has pursued, questions have also been raised about the extent of the MMD's commitment to political pluralism. While in opposition the MMD was critical of the degree of presidential power and the lack of citizens' rights and called for increased participation and accountability in the political system. In government, they have shown less interest in this agenda and the MMD has appeared to be increasingly intolerant of opposition.[51] Ongoing reports have suggested that senior members of the party and the government have been

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[46] Muuka (1997) and World Bank (1995b, p.45-7).

[47] These points were made by Finance Minister Penza and Deputy Commerce Minister Ackim Nkole (*Post* 19/2/1997 and 24/2/1997). The opening of South Africa's economy to Zambian exports has been pursued through ongoing bi-lateral negotiations. In November 1997, the South African government stated it willingness to allow greater levels of access, but has not indicated its intention to prevent the dumping of subsidised products in Zambia (*EIU* q1/1998, p.19).

[48] Other transnational companies facing closure have been Reckitt and Coleman, Lyons Brooke Bond, Rover Zambia, Crown Cork, Cheesebrough Ponds and Avery (*Southern African Economist*, October 1994, p.7-8 and Muuka, 1997, p.681). The trade policy has added to Zambia's disadvantage compared to its regional neighbours, as Investment Centre Director Bwalya Ng'andu noted that Zimbabwe and Botswana provided better infrastructure and investment incentives (*Post* 26/2/1997).

[49] The World Bank particularly notes the positive effects of its supply of foreign exchange to the Zambian economy (World Bank, 1997, p.71).

[50] World Bank (1996a, p.6-7). In 1995, Zambia completed the RAP and qualified for an Enhanced Structural Adjustment Facility from the IMF. This allowed for a reduction in annual debt service payments to a quarter of their previous level (Economist Intelligence Unit, 1996, p.13).

[51] In addition to the issues of the constitution and the opposition parties discussed below, Mphaisha (1996) also addresses the continued government control of much of the media.

involved in corruption and other criminal activity.[52] Although some accounts have suggested that these problems are the result of the control of the party by a small clique, the range of allegations suggest that such behaviour extends to a wider group of politicians both in the MMD and the opposition parties.[53]

Many of the MMD leadership who were prominent in its early period in government have left it and established rival political parties.[54] The establishment of the National Party in August 1993 brought together many prominent individuals who had resigned or been expelled from the Government. In this new party, Baldwin Nkumbula and Mbikusita-Lewanika, who resigned from the first MMD cabinet in 1992, were joined by Mulemba, Kasonde and Arthur Wina, who were sacked that April as Ministers of Mines, Finance and Education respectively.[55] The Zambia Democratic Congress was formed in 1995, following the departure from the MMD of National Treasurer, Dean Mung'omba, and National Secretary Derrick Chitala.[56] The Liberal Progressive Front was formed by Chongwe following his resignation from the post of Legal Affairs Minister in 1994 and the National Lima Party was established in 1996 by, among others, dismissed Minister of Agriculture, Guy Scott.[57]

However, many of these parties also seemed incapable of constructing a stable organisation and reaching beyond sectional and factional politics. The leadership of the National Party was won in 1994 by Nkumbula at a convention reported to be "characterised by charges of regionalism, tribalism, bribery and block voting."[58] In 1995, Mulemba ousted Nkumbula from the leadership, prompting Nkumbula to

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52 Ihonvbere (1996, p.184-90). *Institutional Investor* (31/12/1998) summarised the widespread accusations that "public money, routinely siphoned into private hands through a network of front companies, ends up offshore... ministers openly bid for - and win - government tenders for the supply of goods to the ministries. Others are secretly paid for facilitating business deals." Accusations of government corruption have also come from within the MMD. For example, Kavindele has criticised leaders "helping themselves to government funding and property" (*Post* 15/5/1996).

53 *Africa Confidential* (3/7/1992 and 29/7/1994). Resigning from government in 1996, Works and Supply Minister Simon Zukas stated that the party had been "hijacked" by "parasitic businessmen and politicians with bad records" (*Post* 22/7/1996).

54 Politics in Zambia's Third Republic has been marked by the multiplicity of small parties. The discussion below includes all those which gained more than 1 percent of the parliamentary vote in the 1996 elections.

55 The defection of Shamwana brought all the candidates whom Chiluba had defeated for the MMD presidency in 1991 together in the National Party.

56 *EIU*(q2/1995, p.6-7, and q3/1995, p.8-9). Before they left, Mung'omba and Chitala had been identified among a group of younger politicians seeking to advance their position in place of an older generation of politicians (*Southern African Economist*, September 1994).

57 *EIU*(q2/1996, p.11). It was reported that a number of MMD members from Southern Province had defected to the party after they had failed to secure MMD nomination for the elections.

58 *Southern African Economist* (July 1994).

rejoin the MMD, and in 1996, Mbikusita-Lewanika resigned as the party's National Secretary to form a new party, Agenda for Zambia.[59]

Neither has UNIP avoided internal disputes and schisms. Disputes over the successor to Kaunda led to the break away of Enoch Kavindele and the formation of his United Democratic Party in 1992, which the following year dissolved as Kavindele joined the MMD. When Kaunda decided to return to active politics, renewed factional disputes erupted, with the parliamentary leader of UNIP among those defecting to the MMD.[60]

Burnell (1995, p.15) has characterised this fluidity as the "politics of the revolving door" in which "politicians remain mobile in terms of their party allegiance and strive to reposition themselves inside the parties."[61] As many of the competing parties reflect personal rivalries, rather than differences in their ideology or social basis, they have generally failed to differentiate themselves in their economic policies. UNIP, for example, has drawn attention to the fact that the policies pursued by the MMD are a continuation of the policies which they adopted in 1989, but criticised their implementation by the MMD.[62] In the case of privatisation, they argue that the present policy has benefited only MMD leaders and foreign enterprise, whereas they would have sought a wider local involvement.[63] At the time of the 1996 elections all the main parties presented a similar economic prescriptions and supported privatisation, with the main issue of contention being the new constitution forced through by the Government in the face of widespread opposition.[64]

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59 Following the death of Mulemba in 1998, Daniel Lisulo has become President of the party. In 1997 Kasonde left the National Party to rejoin the MMD (*Post* 5/6/1997).

60 *EIU* (q4/1995, p.8).

61 Burnell (1995, p.19) "In the light of the above, much of the intra-party and inter-party manoeuvring may be best characterised in terms of 'fractions' rather than factions. This signifies that the groups are more like tendencies than factions, for they appear to be transient and informal; and it could be premature to depict groups individually in terms of shared attitudes and common currents of opinion... A fraction can be as small as just one individual." The fragmentation might have been greater had the Supreme Court ruled that members of parliament who changed parties must seek re-election (*EIU*, q1/1994, p.9).

62 *Post* (15/5/1996).

63 *Post* (3/11/1995, 8/11/1995 and 13/8/1998).

64 The Constitution is examined in *SAPEM* (December 1997, p.21-6). Among the most controversial clauses was one which had the effect of barring Kenneth Kaunda from re-contesting the Presidency as his parents were born in an area which is in present day Malawi.

Although the 1996 elections returned the MMD to government, they were boycotted by UNIP and many local and international observers doubted that they could be judged free and fair.[65] The major opposition parties rejected the results of the election and tensions between them and the government increased. In August 1997, following an attempt by opposition leaders Kenneth Kaunda and Rodger Chongwe to hold a rally without police permission, both were injured as shots were fired at their vehicle. The situation worsened after a failed coup attempt in which soldiers, led by Captain Steven Lungu, held the Multi-Media Centre in Lusaka during the night of 28th October 1997.[66] The Government responded by declaring a State of Emergency, lifted in March 1998, and detaining, among other coup suspects, leading opposition politicians.[67]

Alongside the problems of the consolidation of a multi-party system, the role played by other organisations in civil society has diminished. While the trades unions supported the MMD in the election campaign, they remained organisationally separate and the role that ZCTU acquired as the de facto opposition party became redundant under multi-party arrangements.[68] In addition, the vigorous implementation of structural adjustment policies has resulted in renewed pressures on the trades unions themselves to protect the immediate interests of their members as employees.[69]

The movement as a whole has also been weakened by the split in 1994 between ZCTU and a number of unions which accounted for nearly half of its affiliated membership.[70] The reasons for the split have been variously presented as representing the division between a pro-MMD faction and the

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[65] Apart from the legal and constitutional framework in which they were conducted, doubts were expressed over the procedures for registration and they were boycotted by a number of opposition parties including UNIP. The elections are assessed by Baylies and Szeftel (1997) and Kees van Donge (1998).
[66] *Post* (29/10/1998) and *Africa Confidential* (7/11/1997 and 5/12/1997). The coup attempt copied the similar unsuccessful attempt by Luchembe in 1991, although it is not generally suggested that Lungu acted with any senior army conspirators.
[67] Dean Mung'omba was detained soon after the coup and was charged with treason, although these were withdrawn during the trial in December 1998. Kenneth Kaunda was abroad at the time of the coup attempt and, despite assurances to President Mugabe, was detained after returning to Zambia. Kaunda was released in June and charges of treason by misprison were dropped. Rodger Chongwe who was also abroad at the time of the coup has not returned to Zambia. Nakatindi Wina, the MMD Chair for Women's Affairs also faced treason charges which were withdrawn in December 1998 (*Post* 29/12/1997, 29/1/1998, 22/12/1998; and *EIU* q3/1998, p.11-2)
[68] Rakner (1992, p.59) quotes ZCTU General Secretary Chirwa, stating in 1991 that "our aim has been to introduce pluralism. We need a new government, because UNIP has failed. When another party forms a government, labour will move back to its normal role of a trade union movement."
[69] Simutanyi (1995, p.210-7) discusses union involvement on issues of pacing, redundancies and retraining.
[70] Five unions disaffiliated including the Mineworkers Union and the National Union of Teachers, which had been the largest two unions within ZCTU (Gostner, 1997, p.57-8).

existing ZCTU leadership, and between Unions who were more or less affected by the policies of privatisation and structural adjustment.[71] While the breakaway unions attempted to form themselves into a rival Federation of Free Trade Unions with a more "pro-active" approach towards the government policies, by the end of 1997 all but two of the unions had rejoined ZCTU.[72]

The leadership of ZCTU has continued to state its support for an economic adjustment strategy that can achieve economic recovery, while expressing concern that the policies being implemented place too much of the costs of adjustment on their members.[73] Business organisations have likewise concentrated on issues of implementation rather than questioning the trajectory of policy, and the Zambian Association of Manufacturers has consistently expressed concern that the high rates of duty on imported raw materials and the high rates of interest are damaging industry.[74] It may be noted, however, that this may be changing, with a recent condemnation by the Chair of ZACCI of IMF sponsored structural adjustment, suggesting a revaluation of the underlying strategy of economic policy.[75]

SECTION 4.2. SCOPE AND DESIGN OF PRIVATISATION.

The scope of the privatisation programme embarked upon by the MMD government was far broader than that pursued by UNIP. In a statement in December 1991 the Government declared that

> As far as the privatisation programme is concerned, there is no sacred lamb! In other words, the Government is committed to *total* privatisation of the Parastatal sector. Government will not engage in business (emphasis in original).[76]

Despite this undertaking, uncertainty remained over strategic and utility industries. The March 1992 New Economic Recovery Programme, whilst committing the Government to the privatisation of most state enterprises within five years, emphasised the commercialisation of public utilities and longer

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[71] See Simutanyi (1996, p.839, note 49), Gostner (1997, p.57-9) and Ginsburg (1997, p.62).
[72] While attention has focused on the breakaway from ZCTU, the fragmentation of the unions has been a more generalised occurrence, prompted by the amending of labour legislation in 1990. The Mineworkers Union and the Union of Financial and Allied Workers remain outside ZCTU (*Times of Zambia* 4/5/1998).
[73] Gostner (1997, p.57) and *Post* (27/10/1995). Similar attitudes were reflected at grass roots level. Trade unionists at the state enterprise Nitrogen Chemicals of Zambia supported privatisation as a way to maintain the enterprise as a going concern, but expressed concern that it would entail redundancies (Buhlungu and van der Walt, 1997, p.64).
[74] *New African* (July 1993), *Southern African Economist* (June 1994, p.21-2) and *Post* (1/11/1995).
[75] *Post* (12/11/1998).
[76] The statement is reproduced in Gardner (1993, p.47).

term restructuring of ZCCM's ownership.[77] Minister of Commerce, Trade and Industry, Penza, asserted later that year that strategic enterprises such as ZCCM, PTC and ZESCO would be sold as soon as possible, while Vice President Mwanawasa suggested that this might take a period of up to twenty years to achieve and President Chiluba offered assurances that the government would retain a "strategic interest" in such cases.[78] The issue was resolved on the basis that while there would be no negative list of enterprises that were not for sale, the timing and method of sales would reflect public concerns.[79]

The administrative framework under which the privatisation programme is being undertaken is outlined in Section 4.2.1 and the plans for the sequencing of the sales are examined at Section 4.2.2. While the privatisation process is on-going a number of enterprises, albeit decreasing, have continued be under state ownership. The arrangements that have been implemented to supervise them are examined at Section 4.2.3.

4.2.1 Programme Administration.

The responsibility for the privatisation programme was handed to the Minister of Commerce Trade and Industry. In contrast to the ad hoc approach of the preceding regime, the MMD declared that they would provide a legal framework for the sales.[80] That framework was provided by the *Privatisation Act* which was passed in July 1992, the central provision of which was the establishment of the Zambian Privatisation Agency.[81] The ZPA was created under the direction of a board consisting of twelve members, representing both government and independent organisations and whose appointment was subject to the scrutiny and ratification of the National Assembly.[82] The Board was to be responsible for the appointment of the staff, including the agency's Director who would act as Chief Executive Officer.

[77] Republic of Zambia (1992, p.11-2 and 19).
[78] *EIU* (q1/1993, p.18) and Africa Research Bulletin (15/10/1992, col.10989).
[79] Ngenda, Vice Chair of ZPA (1993, p.299).
[80] Republic of Zambia (1992, p.11). The MMD suspended the privatisation programme initiated by UNIP, until it had established its own framework for divestiture (Kaunga, 1994, p.111).
[81] *Privatisation Act* (II, 3). As Gardner (1993) notes, in implementing privatisation the Government has also needed to amend a number of other acts that would have restricted its ability to enact sales. Fundanga and Mwaba (1997) note that without amendment to land and property law, divestiture of enterprises with certain land and residential housing could not have proceeded.
[82] The Act states that the President shall appoint, subject to the scrutiny and ratification of the National Assembly, the following; the Permanent Secretary to Ministry of Commerce, Trade and Industry; Permanent Secretary at the Ministry of Finance; the Attorney-General; the Dean of the School of Business of the Copperbelt University: and representatives of Zambia Confederation of Chambers of Commerce and Industry, Zambian Congress of Trade Unions, Zambian Federation of Employers, Law Association of Zambia, Zambia Institute of Certified Accountants, the churches in Zambia, the Bankers

The ZPA was given a wide range of duties covering both the design and the implementation of the policy.[83] It was to recommend to the cabinet privatisation policy guidelines, a sequence plan for the sales and the method of sale of each individual enterprise. Once approval was granted, the ZPA was required to screen potential investors through the setting of pre-qualification criteria, prepare all documentation necessary for a sale, arrange for independent valuation of enterprises and assets to be sold and evaluate bids. The ZPA was required to appoint independent consultants to undertake the valuation of enterprises and to negotiate the terms of the sale.

The *Privatisation Act* defined privatisation as "the transferring to the private sector of part or the whole of the equity or other interest held by the Government, directly or indirectly, in a State owned enterprise" and listed a number of methods through which the agency would carry this out.[84] While including "public offering of shares," "private sale of shares through negotiated or competitive bids" and the "offer of additional shares... to reduce government shareholding," which could transfer majority ownership to the private sector, it also included "lease and management contracts" which would leave the state retaining ultimate ownership of the asset.[85] In addition to this, the ZPA was empowered to undertake the pre-sale "reorganisation" of enterprises, to unbundle them into a number of separate units, or to liquidate them.[86] The Act also allowed for the retention by the Minister of Finance of a "golden share" in a privatised enterprise , defined as "a share with special rights to enable the Government in the national interest to intervene in the operations of a company."[87]

Association of Zambia, the farmers (*Privatisation Act*, II, 5). The National Assembly in fact rejected the first nominee of the Churches, on the basis that he was not a member of the clergy (ZPA, 31/12/1992, p.3).

[83] *Privatisation Act* (II, 8). While the main duties are outlined below, the Act also required the agency to monitor and oversee the programme, to seek potential investors, to maintain records, to liase with other institutions, to publicise its activities and "do all such things as are necessary or incidental or conducive to the better carrying out of the functions specified in this act." Additional requirements are stated at (*Privatisation Act*, IV, 32).

[84] *Privatisation Act* (I, 2 and III, 22.1).

[85] The Act also permitted the ZPA to employ "any other method the agency may consider appropriate" to divest state enterprises (*Privatisation Act*, IV, 22.1). Chilipamushi's (1994, p.17-8) criticism that the ZPA's options in designing privatisations were restrictive understates the freedom granted to the agency.

[86] *Privatisation Act* (IV, 22.1 and IV,35)

[87] *Privatisation Act* (I, 2 and IV, 18). The terms of the legislation offered substantial latitude in the specific rights attached to golden shares. In the case of Maamba Collieries the ZPA reported that "it would enable the government to appoint a director to Maamba's board as well as to ensure that significant changes in ownership or business strategy of the Company will be undertaken with the national interest in mind" (*Post* 27/11/1997).

In evaluating the bids which it received for enterprises, the Act required that the ZPA refer to four criteria. Firstly, it should avoid the creation of monopolies; secondly, it should consider the price offered; thirdly, it should consider the bidders' "ability and commitment to develop the enterprise;" and fourthly, it should consider the bidders "track record... and expertise."[88] The last two criteria, which examined qualitative factors, where themselves the subject of a broad interpretation. Among other factors, they were evaluated on the basis of the projected levels of investment, technical and product innovation, import substitution, export promotion, employment creation and whether the bidders were Zambian citizen or among the current management or employees of the enterprises.[89]

The Act sought to offer terms that would attract both foreign and domestic participation in divestitures. No restrictions were placed on the participation of foreign investors in the privatisation programme. In addition to this, if their investment met certain criteria, they were eligible to benefit from incentives available under the *Investment Act* of 1991.[90] However, the Act also made provision for Zambian citizens to receive preferential treatment in the privatisation process through a number of mechanisms. Small batches of shares could be made available to Zambian citizens at a discount, as could bonus issues based on long term retention. While these arrangements were focused on public offerings, a further concession which allowed citizens to make payments for shares by instalments, applied equally to private sales.[91]

The arrangements for the revenue generated by the privatisations was also outlined in the Act.[92] Receipts were to be held in a special account at the Bank of Zambia and could only be spent on a specified activities with the agreement of the Minister of Finance. Principally, these were related either to facilitating the divestiture of existing state enterprises as going concerns or to the developing of opportunities for investment by Zambian citizens, although the legislation also allowed for the less specific uses such as "funding of any social project in the public interest."

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88 *Privatisation Act* (II, 8.2i). The Act also required that the ZPA should sell assets at their market value (ibid, IV, 22.2).

89 ZPA (30/6/1993, p.48).

90 The Act stated that they must either provide expertise necessary for an enterprise to improve its efficiency or to undertake exports, or provide investment or foreign technology, or provide international linkages necessary to the business (*Privatisation Act*, IV, 30)

91 Apart from this case, the *Privatisation Act* (IV, 31) stated that "the shares of a State owned enterprise shall not be sold on credit." The concession did not, however extend to limited companies owned by Zambians. This was not well understood by bidders who often submitted ineligible bids (ZPA 31/12/1993).

92 *Privatisation Act* (V,39).

In addition to these measures, the Act also provided for the establishment of a Trust Fund to hold shares in newly privatised companies for later sale to Zambian citizens.[93] The Zambia Privatisation Trust Fund (ZPTF) was established in 1993 to promote the sale of shares to Zambian citizens. Although the ZPA and the government would receive the sale proceeds and any dividends accruing to the shares while held by the fund, they would not exercise control over them. To avoid the Fund itself becoming a new state holding company, restrictions were placed upon its holdings in each enterprise. The Fund could hold no more than 30 percent of the shares in any enterprise, and in cases in which no other shareholder owned a controlling interest, the Fund could only hold shares where another shareholder agreed to be responsible for the management of the enterprise. If at the end of its life, the fund held any residual holdings, it would be converted into a unit trust.

The Act provided for a high level of transparency and disclosure for the privatisation process. The incorporation in the ZPA of a wide range of interests from Zambian society and the requirement for the appointment of independent valuers and negotiators, were supplemented by the requirement that the Agency publish details of the consultants, valuers, lawyers, public accountants and merchant banks used in the programme; of the bidders and their offers; the reason for selection of the winning bid and the price and any special conditions of sale.[94]

Although the Act included these checks and balances to allay fears that assets would be sold cheaply or to the benefit of government members, it was criticised, on the one hand, for being too mechanistic and lacking commercial orientation, while others suggested that the degree of cabinet control over the ZPA compromised its independence, and that direct accountability to parliament would have been preferable.[95] Neither have arrangements for transparency always been implemented adequately. In December 1997, a Parliamentary Committee expressed concern that vacancies on the ZPA Board for representatives of the Churches, the Law Association and the Bankers Association had been vacant for over a year.[96] In 1998, the absence of Church and Banking representatives from the

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[93] The Trust Deed was signed on 17/6/1993. The Trustees of the Fund represented the Government and ZPA, the Law Association of Zambia, ZACCI, ZICA and the Bankers' Association of Zambia. Details of the ZPTF are from Munshi (1995) and World Bank (1993a).

[94] *Privatisation Act* (IV, 38).

[95] New African (December 1992) and non-attributable interview. ZAM has subsequently suggested that political interference has hampered the operation of the agency (*Post* 5/1/1998).

[96] *Post* (1/12/1997). In addition the *Times of Zambia* (4/12/1997) reported a complaint by Dipak Patel MP that the ZPA had ceased to publish the full information that it was required to by the Act.

Board was again highlighted by a Parliamentary Committee, who additionally drew attention to the re-appointment of board members previously removed for contravening ZPA regulations and ordered that the entire Board be reconstituted.[97] Concern has also been expressed that while the choice of particular consultants and other professionals has been transparent, the criteria for that choice has not and that the ZPA has favoured a limited number of firms.[98]

Provisions for transparency, moreover, have not avoided controversy with regard to the acquisition of enterprises by members of the government and the ruling party. The Act required that a "political leader" or "public officer" must disclose an intention to bid for shares.[99] When in 1993, the Deputy Commerce and Industry Minister Paul Tembo, disqualified bids from a government minister, two deputy ministers and three members of parliament, he was overruled by the ZPA which disputed his jurisdiction and declared the bids valid.[100] The ZPA noted that the failure to swiftly draft guidelines led to this confusion and the regulations were subsequently clarified.[101] Suggestions have continued to flow that the privatisation process has favoured leading members of the government and that the funds which they have used to purchase property have not been legitimately acquired.[102]

Another area in which the arrangements of the privatisation agency have been problematic is in the reliance of the ZPA upon the co-operation of other agencies of the Government. The ZPA required the approval of the cabinet for the method of sale, while for the completion of a sale the co-operation of the management of an enterprise and the approval of the terms by the Attorney General and the Minister

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97 *Times of Zambia* (8/12/1998).

98 Kapita of the National Lima Party also criticised the agency for favouring a small number of law firms in their contracting (*Post* 9/4/1997). *Times of Zambia* (3/12/1997) raised similar concerns.

99 *Privatisation Act* (IV,26).

100 Among those involved was Deputy Minister of Tourism, Natakindi Wina, who held an interest in a company bidding for Eagle Travel Limited. The bid was unsuccessful (*Southern African Economist, February* 1993, p.36; and *EIU*,q1/1993, p.18). Fred Hirsch (Zambia) a company wholly owned by John Kalenga, Deputy Minister in the Office of the Vice President, had bid for three first tranche enterprises. Although shortlisted in two cases, Kalenga's death resulted in the companies withdrawal from negotiations (ZPA 30/6/1993 and 31/12/1993).

101 ZPA (30/6/1993). Subsequently the guidelines were clarified with a public official being defined as anyone paid out of state funds, although critics expressed concern that the spouses of leaders and officials were not required to declare an interest (*EIU*q2/1993, p.19; and *Profit*, December 1994, p.12-3).

102 *Post* (2/12/1997) and *Institutional Investor* (31/12/1998). Despite this, the ZPA has acted against ministers who have defaulted on purchase payments, including Foreign Minister Christian Tembo, whose Chilongolo Farm was repossessed and re-advertised (*Post* 29/5/1996).

of Finance was necessary.[103] These were not always forthcoming and hindered the effectiveness of the ZPA.

Concerns have also been raised over the arrangements for the handling of the proceeds from the sales. In 1998, the Auditor General reported that the Ministry of Finance failed to properly maintain the ZPA account at the Bank of Zambia, with the result that "it is difficult to ensure that all funds from the sale of state owned enterprises are used for the purpose stipulated under the privatisation Act."[104] Despite these problems, the ZPA itself has generally retained a reputation for good administration and the areas of the privatisation programme to which most criticism has been directed have tended to be those outside of the control of the ZPA.[105]

4.2.2. The Sequence Plan.

In accordance with the Act, the ZPA drew up a privatisation sequence plan. The Agency initially identified a portfolio of 144 enterprises for divestiture. With the exemption of seven, they were divided into eleven tranches, which would be offered for sale sequentially.[106]

Explaining the criteria for the selection of the First Tranche, ZPA Director, James Matale (1995, p.18), noted that:

> The selection of small and uncomplicated enterprises served to test the feasibility of the process which had been designed to guide the privatisation programme, to train staff and to create confidence in the public that privatisation was meant to benefit Zambians as none of the small firms were deemed to be of interest to foreign investors.

It was intended that all of these would be divested through private sales on the basis of competitive bids.

The second tranche consisted of 32 enterprises, of which 25 were classified as being engaged in agriculture or agro-processing. In contrast to the first tranche, it included enterprises rated as large and medium sized. It was judged that the inclusion of large and profitable enterprises at this stage in the

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103 ZPA (31/12/1993).

104 *Post* (14/4/1998). In 1997 the Parliamentary Committee on Public Investment has questioned the destination of ZCCM sale proceeds that have been directed to ZCCM rather than the privatisation revenue account as the act states (*Times of Zambia* 4/12/1997).

105 Praise for the agency has come from the World Bank and international business (*Post* 20/2/1998 and World Bank, 1996b). ZACCI has recently, however, expressed concerns over the level of transparency and a rare complaint about the ZPA by a bidder was registered by Stocks and Stocks Holdings Limited of South Africa, who complained that details of their bid for Lusaka Intercontinental Hotel had been leaked by the ZPA to a rival bidder, to induce them into a bidding war (*Times of Zambia* 22/8/1996 and 14/1/1997; and *Post* 1/5/1998).

106 The sequence plan from the ZPA (31/12/1992) stated the timing of ZCCM, Indeni Refinery, Tazama Pipelines, ZIMOIL, Zambia Railways, ZESCO and PTC were still to be determined.

privatisation process would assure foreign investors of the Government's commitment to the programme and provide an opportunity to offer shares to the public.[107] While including a relatively even spread of enterprises by size, later tranches reflected the strategic significance of certain sectors. Sales of financial and transport enterprises were not planned until the fourth tranche, and mining enterprises delayed until the fifth.

This sequence plan was revised in the first half of 1994 and was reduced to seven tranches.[108] This reformulation of the plan consisted mainly of combining a number of the outstanding tranches, although strategic sectors continued to remain outside of the framework.[109] A special emphasis was also given to the divestiture of the trading sector, with the inclusion of all of these enterprises in the revised third tranche. Delays in finalising the sales of enterprises from earlier tranches began to present problems for the agency, which announced in October 1994 that it planned to move away from the rigidity of the timetable and that enterprises would be advertised when they were ready for sale.[110]

4.2.3. Supervision of Enterprises Before Sale.

Enterprises scheduled for privatisation have experienced a number of specific problems in addition to those faced by the private enterprise sector. While ZIMCO remained in place, movement towards the dismantling of the infrastructure of the state enterprise sector included the dissolution of its sub-holding companies including INDECO.[111] In addition, the 1992 Budget stated that while state enterprises were required to pay an annual dividend equivalent to 10 percent of the Government equity, they would not be financially supported by the Government and their debt would not carry a government guarantee.[112] The *Privatisation Act* also placed stringent conditions on the functioning of enterprises scheduled for privatisation. They were to "clear as far as possible all contractual, legal and

107 Matale (1995, p.18)
108 ZPA (30/6/1994).
109 The revised third tranche included all of the previous tranche three enterprises and, with few exceptions, all those from tranches four and five. In addition, it also included a number of enterprises from later tranches. A revised fifth tranche covered most of the enterprises from tranches seven, eight, nine and ten, while the revised tranche seven inherited the previous tranche eleven's emphasis on mining. The new fourth tranche had a financial bias, as did the previous tranche six, although, in what appears to be an error, many of these enterprises are duplicated in the new sixth tranche (ZPA 30/6/1994).
110 *EIU* (q4/1994,p.19-20).
111 *Africa Economic Digest* (17/5/1993).
112 Republic of Zambia (*Budget Address* 1992,p.28).

other obligations" and "refrain from taking any action or actions which may cause industrial unrest."[113] In addition to this, the Act stated that they could only "undertake any new capital investment programme" if approved by the ZPA on the following criteria: that it constituted routine renewal; that it was essential for the continuing operation of the enterprise; that it had a pay-back period of up to two years; that it promoted exports or import substitution; that the enterprise was not due to be privatised within two years; that it would not damage the company's financial position.[114].

With the liquidation of ZIMCO in 1995, the liquidators acquired the responsibility of overseeing its operating companies. This was delegated to the Directorate of State Enterprise within the Ministry of Finance, which acted as their agent. The Auditor General was critical of this arrangement which added to the complexity of their supervision and increased liquidation expenses.[115] The adequacy of these arrangements for ensuring that state assets were properly protected and utilised preceding their privatisation has also been questioned, and both the Auditor General and Parliamentary Committees concerned with state investments have highlighted cases of asset stripping by enterprise managers.[116]

Alongside this, and despite emphasising the commercial autonomy of state enterprises, Ministers have continued to overrule the management of state enterprises in certain commercial decisions. In 1997, the government succeeded in its plan for the Zambia National Commercial Bank to merge with the private Chase Trust Bank, despite the resistance from the management of the former, who argued that it was contrary to their business development strategy.[117] In another case, the efforts of Development Bank of Zambia to recover outstanding loan payments was prevented by the Commerce Trade and Industry Minister, Kavindele, who stopped them from placing the recently privatised NIECO into receivership.[118] In both cases the state financial institutions were pursuing strategies in line with government instructions of maintaining their commercial viability.

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113 *Privatisation Act* (IV,21). This section of the Act also required the enterprise to follow agency instructions, maintain good accounts, pay for all expenses of the privatisation and prepare a financial, investment and staffing plan.
114 *Privatisation Act* (IV, 21g)
115 *Post* (25/10/1996).
116 *Post* (22/10/1996 and 1/12/1997) and *Times of Zambia* (11/10/1996). Shortly after its acquisition, the new owners of National Milling were reported to have uncovered the organised theft of the companies produce involving members of management (*Times of Zambia* 16/12/1996).
117 *Post* (9/10/1997 and 1/12/1997).
118 *Times of Zambia* (16/4/1998).

SECTION 4.3. IMPLEMENTING PRIVATISATION.

The measurement of the extent to which privatisation has occurred is subject to a number of problems. While a measure of divestiture, based upon the proportion of state enterprise asset values or projected earnings transferred to the private sector, would provide the most satisfactory measure, such data is not readily available. The ZPA itself measures progress against the number of enterprises it has divested. By the end of 1998 it had recorded 224 privatisations from a total working portfolio of 282 enterprises.[119] A problem with this approach, however, it that it does not differentiate between the sale of a large or small enterprise, which are given equal weight in the count. In addition to this, the figures of ZPA sales are on the one hand inflated by the practice of counting multiple sales when a single company is unbundled and divested to a number buyers, and on the other hand deflated by not including divestitures of state enterprise which have been handled by other agencies.[120]

An alternative approach is to evaluate the extent of divestment by reference to the original portfolio of enterprises compiled by the ZPA in relation to their size. This avoids the double counting of unbundled enterprises, allows for differentiation of the progress of different sized assets, and provides some measure of the extent to which assets remain in state ownership. By the end of 1998, of the original portfolio of 144 enterprises, 107 were privatised.[121] Of enterprises included within the original tranches, two-thirds of those rated as large and three-quarters of those rated as medium or small were privatised, although among enterprises that were not tranched, only ZCCM had divested any assets.

The extent of divestiture that has been achieved may also be highlighted with reference to those enterprises which comprised the INDECO Group. These were generally the most commercially oriented of the state enterprises, and their prominence in the early tranches of the sequence plan is evidence of the ZPA's opinion that they represented good prospects for sale.[122] Of INDECO's 34 subsidiaries, eight were rated large by the ZPA, ten medium sized and sixteen small scale. By the end of 1998, only one of these, the large enterprise Kafue Textiles, remained in state ownership.[123] While outstanding areas

119 ZPA (1/1999a).
120 This includes, for example, state enterprises which have been divested through creditors liquidation.
121 These enterprises are listed in Appendix 4.
122 These first two tranches included the majority of the enterprises under INDECO, including 6 of its 7 large enterprises, 7 of its 12 medium enterprises and 14 of its 22 small enterprises.
123 Of the 33 divested, 23 had been sold intact, 6 unbundled and 4 liquidated.

remain, therefore, the implementation of the privatisation policy under the MMD government has been substantial.

This Section examines the implementation of privatisation in Zambia between 1992 and 1998. In Section 4.3.1 the chronological sequence of sales is examined. Following initial problems, the rate at which enterprises were privatised increased substantially from 1995. Section 4.3.2 examines the methods through which enterprises were privatised. The factors which contributed to the choice of different methods are examined, with examples provided of the process of their implementation for a number of enterprises. The development of Zambia's capital markets during the privatisation process is examined in Section 4.3.3. The privatisation process, it is argued, has both shaped, and been shaped by, the development of capital markets. At the end of 1998, a number of enterprises remained within state ownership. Section 4.3.4 identifies the most important of these enterprises and outlines the government intentions for their future ownership.

4.3.1 Actual Sequence of Sale.

The rate at which the ZPA achieved the divestiture of enterprises can be examined across two periods. The first period, in which progress was slow, ran from the assessment of first tranche bids, in early 1993, until late 1994. It was only in mid-1994, two years after the passage of the Act, that the first large company was sold, at which point only nine of the original nineteen first tranche companies had been sold. From the end of 1994 to the present, sales have occurred more frequently and have included a greater number of large enterprises. That the timing of the sales has been uneven should not be surprising. In many sectors a substantial period of preparation was necessary and the ZPA needed to acquire experience and develop procedures. However, the delays have been greater than those provided for, and have exposed a number of state enterprises to insolvency. This section discusses the timing of sales and some of the problems encountered in the execution of the programme.

The first tranche was approved by the cabinet in September 1992 and was followed by the approval of enterprises for inclusion in the second tranche in November of that year. The first two sales announced in June 1993 were Eagle Travel and Autocare Ltd, with the Director of the ZPA Matale stating that "I can safely say nine more companies will be sold off this month."[124] By the end of 1993,

124 Reuters (Lusaka, 20/6/1993).

however, the ZPA had completed only four additional sales, all of which were rated small.[125] This was significantly fewer than had been projected by the Government's and the ZPA's own timetable which aimed to have completed the sales of ten enterprises by the beginning of 1993, with three large enterprises among those completed by the end of that year.[126]

The ZPA could point to a number of specific problems which it faced in moving the privatisation programme forward. Of crucial importance were the administrative difficulties faced relating to the establishment of the agency and the appointing of a full complement of staff. The funding of the programme also presented obstacles. Although the Act placed responsibility for funding company valuations with the enterprises, due to their shortage of funds the ZPA itself had to meet these costs, which increased the pressure on its finances.[127] In offering for sale the first tranche of enterprises, the agency also uncovered a number of public misconceptions regarding the implementation of the programme which it sought to correct.[128]

Delays occurred in obtaining Cabinet approval of the method of sale for enterprises and in the Attorney General and the Minister of Finance approving the final completion of sales. Although the proposed method of privatisation for twelve of the enterprises included in the Second Tranche was submitted to the Cabinet in June 1993, approval was still awaited by the ZPA in December of that year.[129]

Relations with the managers of State Enterprises scheduled for sale were also problematic and the ZPA complained that ZIMCO was slow to collate the necessary documentation for the completion of sales.[130] Disputes also occurred over the valuations of enterprises, with ZIMCO arguing that the ZPA

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125 The four small enterprises, all from the first tranche were AFE, Coolwell System, Poultry Processing and Zuva Zuva Designs.

126 Chilanga Cement, Zambia Sugar and ZAMEFA were to have been sold, while negotiations were to have reached a conclusion on Kafironda and National Milling (Republic of Zambia 1992, and World Bank, 1993a).

127 ZPA noted that it was reliant on donor funding but that its largest donor, USAID, had held back funds due to the slow progress of implementation (ZPA 31/12/1993, p.20-1).

128 ZPA (31/6/1993, p.12-7) noted, for example, that the agency had received many applications for small blocks of shares rather than for the complete company. Television announcements and letters to individuals who had submitted these applications were required to address this misunderstanding. The ZPA also admitted to having included too many bidders on its shortlists for sales negotiations and over burdening the negotiation teams.

129 ZPA (31/12/1993, p.15)

130 ZPA (31/12/1993, p.22). A "senior official at the ministry of finance" commented that, "ZIMCO is the biggest obstacle in this process. It should have been scrapped before the privatisation programme started. They are dragging their feet and want to ensure that nothing takes off because how do you phase

appointed consultants had undervalued a number of enterprises. The ZPA criticised ZIMCO for leaking information on valuations and negotiating strategy to the press, and saw in ZIMCO's behaviour an obstructionist motive:

> The presentations made by ZIMCO and the manner in which they were made suggested that there was an attempt to derail the privatisation process. The interference of ZIMCO resulted in a slowing of the pace of privatisation and negatively affected the smooth divestiture of the companies.[131]

Criticism at the speed of programme implementation grew throughout 1993. One source of criticism was the ZACCI magazine, *Profit*. David Simpson of ZACCI contrasted the rate of privatisation in Zambia with that achieved in Mexico, Estonia and the Czech Republic, and called for a greater emphasis on completing sales quickly rather than on obtaining a good sale price or securing guarantees of future employment levels.[132]

While admitting that "Privatisation is progressing more slowly than we would like"[133], Matale was critical of such comparisons and evaluations of Zambia's implementation simply by reference to the number of completed sales and argued that:

> Amongst other things, the privatisation process in Zambia is intended to provide the basis for economic development and growth. You will no doubt appreciate that satisfying such an objective obliges the Zambian Privatisation Agency to evaluate bids differently from your models where the principal objective would appear to be merely getting rid of the enterprises.[134]

Although more substantial progress was made during 1994, with the privatisation of Chilanga Cement, the Central Division of Zambia Breweries and Nanga Farms, sales continued to consist principally of small enterprises from the first tranche.[135] Changes were made in the management of the ZPA in September 1994, with the removal of the Director, Matale and his deputy Ng'andu.[136] It was announced that the management of the Agency was to be restructured to speed up the programme and that the rigid

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yourself out? ZIMCO wants to reassert its relevance to the economy by contradicting what the ZPA is doing" (*Southern African Economist*, May 1994, p.32-3).

131 ZPA (31/12/1993, p.19-20).

132 *Profit* (November 1993, p.30-1). Criticism by David Simpson and Theo Bull also appeared in *Profit* (May 1993, October 1993, and February 1994).

133 *Profit* (December 1993, p.4)

134 *Profit* (November 1993, p.30-1 and February 1994, p.27). A Zambia Economic Association meeting in 1994 viewed the pace as acceptable, noting the long period over which the UK had pursued privatisation (Zambia Economics Association, 1995, p.42).

135 Additional sales had been those of General Pharmaceutical, Crushed Stones Sales, Prime Marble and Zambia Maltings

136 Their removal followed a number of reports, based on sources at the ZPA, which claimed that Patel was the only cabinet minister fully supportive of the programme and that changes in legislation were needed to speed up the rate of sale (*Africa Economist Digest* 15/8/1994; and *Business Africa* 8/9/1994).

timetable format would be made more flexible.[137] In addition to this, the liquidation of ZIMCO in early 1995 was seen as a positive step in overcoming internal opposition to the implementation of the programme.[138]

As TableXIX shows, the rate of divestiture in 1995 and 1996 was higher than that recorded in the previous two years, and in addition, also included a greater number of large and medium sized enterprises.[139] The extent to which this was the direct result of the management changes at the ZPA cannot easily be quantified. Administrative problems were not the only cause of delay in implementation. In late 1994, while noting the improved administration of the programme, President Chiluba complained that buyers were slow to come forward for the enterprises that were advertised.[140] The ZPA also remained dependent on the co-operation of other agencies, and in 1997 renewed its complaint that the government was too slow in approving enterprises for advertisement.[141]

In part, the faster pace of sales after 1994 reflected the work that had already been completed in the process of negotiating the sales of large enterprises.[142] For example, while the sales of ZAMEFA and Zambia Sugar were completed in this period, both were the subject of long negotiations with minority shareholders, beginning in 1993 and 1994 respectively.[143] In addition, the sale that had been achieved had also provided the agency with a secure basis of funding which was not dependent upon donors.[144]

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137 *EIU* (q4/1994, p.19). Valentine Chitulu was appointed as the new Director of ZPA in April 1995 (*EIU*q2/1995,p.11). *Africa Research Bulletin* (16/10/1994-15/11/1994) reported that the donors want an expatriate to head the Agency .

138 Penza noted that, "Donors saw ZIMCO as an impediment to the privatisation process and they will see this as a greater commitment to privatisation by the government." Donors were pleased that it had been achieved on time, a representative noting that; "It shows they are serious about privatisation" (Reuters, Lusaka 31/3/1995).

139 Of the large sized enterprises divested as a single unit, Zambia Sugar was sold in 1995, with ZAMEFA, BP (Zambia) and National Milling in 1996, and Maamba Collieries and Kafironda in 1997.

140 The President commented that "As far as we are concerned the companies are there for sale. I don't think the blame is on our part. Everything on our part has been done and we are waiting for people to react and respond on this" (Reuters, Stockholm, 6/12/1994).

141 *Times of Zambia* (14/1/1997).

142 Matale (*Southern African Economist* May 1994, p.33) stated that "when we begin to get out of the woods we will move very fast and we are confident that without side-tracking issues, we would be popping these companies out at a high rate. We have not achieved our full potential. We are just at the threshold of breaking through."

143 The ZPA also continued to experience delays in new negotiations that had commenced after the restructuring. In the case of National Milling, whose sale was completed in late 1996, negotiations with minority shareholders had commenced in mid 1995 (ZPA, undated IV).

144 *Post* (10/6/1996).

Table XIX.

Annual Level of Privatisations by Quantity and by Value.

1993 to 1998.

Year.	Number of Units Sold.	Value of Units Sold ($ million)
1993	4	3
1994	9	22
1995	52	68
1996	90	54
1997	58	(a) -
1998	11	(a) -

Source: On numbers of units sold ZPA (*Privatisation Status Report,* 25/1/95 and 30/4/96; and *Summary Status Report,* 1/1999a). On value of units sold Pangaea Partners (*Companies Privatised in Zambia,* undated I).
Note: (a) Pangaea Partners data only covers the period to 1996.

In 1998 the number of sales slowed, with 11 privatisations being completed. Pressure for progress on these outstanding enterprises has once again come from business and ZACCI has called for the government to move ahead with the divestiture of utilities including ZESCO and ZAMTEL.[145] With many of the smaller enterprises divested, this may mark the beginning of a third phase of the privatisation programme in which fewer sales occur, but are of higher value and more strategic industries.

4.3.2 Methods of Privatisation

As discussed in Section 4.2.1 of this Chapter, the *Privatisation Act* allowed the ZPA and the government to choose between a wide range of different methods of privatisation. These choices had consequences for the ability of the government to realise the objectives which it sought to pursue through privatisation, for the future structures of the industries involved and for the patterns of private ownership which resulted. The unbundling of enterprises, for example, reduced the potential for monopolistic private enterprises and increased the accessibility of small entrepreneurs to acquire the resulting assets.

145 *Post* (7/7/1997).

On the other hand, the unbundling process could also reduce the marketability of the resulting assets and the sales revenue generated by the privatisation. Indigenous ownership could also be promoted by public sales structured to allow for the creation of a diversified base of shareholders, while the decision to sell an enterprise to the existing management will target a more limited group.

The choice of the form of privatisation also reflected the constraints under which the privatisation programme has been undertaken. In particular, commercially weak state enterprises often required the introduction of a controlling shareholder with access to foreign finance and technology, such as a transnational corporation. In other cases, the government shared ownership rights over enterprises with others such as minority shareholders and previous owners, which had to be addressed.

Table XX categorises the enterprises that have been privatised according to the method through which this has been achieved. Overall most enterprises have been privatised intact through private sales, with the remainder divided between those that have been unbundled or liquidated.[146] In no case has a majority interest in any enterprise been divested through public sale. The method of sale has often varied considerably for different sizes of enterprise. While tendering was used for most small scale enterprises divested through private sales, sales of large and medium sized enterprises has been more common by negotiation and has usually involved agreements for the flotation of a minority interest. The pattern of unbundling has also differed according to the size of enterprise, being confined mainly to large and medium enterprises. In contrast, the rate of liquidation has been relatively even across all sizes of enterprise.

This section examines some of the factors which determined the choice of the method of privatisation and the experience of their implementation. Section 4.3.2a examines the sale of enterprises intact, while the process of unbundling is outlined in Section 4.3.2b and liquidations are discussed in Section 4.3.2c. In each section, the primary focus is upon large and medium sized enterprises, the sale of which have individually had a greater impact on the economy and on which more information has been available than is the case for small enterprises.

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[146] Although, unbundling is not in itself a form of divestiture, the difficulties involved in tracing the resulting assets have led to its treatment as such in this section.

TABLE XX.

Privatisation by Method.

1992 to 1998.

		Large enterprises.	Medium enterprises.	Small enterprises.	Total.
Sold Intact by	Private negotiated.	1	1	5	7
	-plus minority float.	5	4	-	9
	Private tender.	-	2	32	34
	-plus minority float.	1	2	-	3
	Designated MBO.	-	-	6	6
	Returned to Previous owner.	-	-	6	6
Sold Intact sub-total		7	9	49	65
Unbundled.		7	11	3	21
Liquidated.		4	3	14	21
Total.		18	23	66	107

Source: Compiled from ZPA (various), *Times of Zambia* (various), *Post* (various), Pangaea Partners (undated I) and Reuters (various).

4.3.2a Enterprises Sold Intact.

While over half of the enterprises divested as single units have been sold through private sale by tender, this largely reflects the experience of small scale enterprises. Among large and medium scale enterprises, privately negotiated sales have predominated. The most common reason for this has been the existence of a minority shareholder in the large and medium enterprise, with pre-emptive rights to the shares held by the government.[147] The existence of these rights obligated the ZPA to reach

[147] Pre-emptive rights over government were exercised at Chilanga Cement, Zambia Sugar, ZAMEFA, Kafironda, National Milling, BP (Zambia), Zambia Breweries, Nanga Farms, National Breweries, Mpongwe Development Company, ZECCO and Agip (Zambia). Cases in which minority shareholders have exercised pre-emptive rights over small enterprises include Kapiri Glass, Poultry Processing and Nkwazi Manufacturing (ZPA 30/4/1996 and undated V).

agreement with the minority shareholders over the terms of the privatisations. In the case of large and medium enterprise, the ZPA commonly sought to reach a sales agreement in which provision was made for a minority interest in the enterprise to be sold through a public sale to Zambian citizens and financial institutions.[148]

The arrangements of such a sale can be illustrated by the case of Chilanga Cement, which was the first large scale enterprise to be divested.[149] As a state owned enterprise, 59.73 percent of Chilanga Cement shares were held by ZIMCO, with significant minority holdings of 24.23 percent by CDC and 6.09 percent by Anglo American.[150] The enterprise had an effective monopoly position, being the only cement producer in Zambia, and was protected from external competition by the high costs of transporting its product.[151] It had returned a post-tax profit every year since 1982 and paid an annual dividend since at least 1986. In this, it met many of the ZPA's criteria for an enterprise which could be privatised through a public sale.[152] An existing agreement between the shareholders, however, provided for CDC and Anglo American to exercise pre-emptive rights over the sale of any of the equity held by ZIMCO.

When Chilanga Cement was announced as a candidate for privatisation, CDC in consultation with Anglo American, chose to exercise those rights and entered into negotiations with the ZPA to acquire a majority holding. Despite the strong position of the enterprise in the Zambian economy, CDC was unable to attract any major cement company as a technical partner to join them in the acquisition.[153] In October 1994 agreement was reached which increased the shareholding of the CDC to 50.1 percent and Anglo American's to 12.6 percent, with the 27.4 balance of ZIMCO shares being

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148 While many of these sale arrangements were concluded with existing minority shareholders, they were also reached in the cases of Maamba Collieries, ROP and Zambia Oxygen, which were sold through competitive tender. Although it possessed no pre-emptive rights over the company, Uniliver had previously owned the assets that were divested as ROP (1975) Ltd.

149 Details of this sale are drawn from *CDC Magazine* (1994, no.3), ZPA (30/6/1994), Chilanga Cement (1995).

150 The balance of 9.88 percent of shares were held by assorted former shareholders.

151 Standard Bank (1995) noted that "The costs of establishing a competing plant of similar capacity in Zambia are prohibitive. Despite the fact that cement may be more cheaply produced elsewhere using more modern technology, Chilanga Cement's unique position of industry dominance ensures that reasonable profit margins can still be earned."

152 ZPA (undated I) required that candidates for flotation should be "large, profitable, and well managed state owned enterprises that have a strong likelihood for success in the future... [and] where there is a good chance of regular dividend income or capital appreciation."

153 *CDC Magazine* (1994, no.3, p.12) noted that "None of them, however, shared CDC's willingness to take country risk at this stage of the cycle."

passed to the ZPTF for offer to Zambian citizens and financial institutions. The flotation of the company on the Lusaka Stock Exchange (LuSE) was completed in May 1995.[154]

The agreement of a minority flotation as part of the privatisation of Chilanga Cement was followed by similar agreements for other large enterprises, including Zambia Sugar in 1995, Metal Fabricators and BP (Zambia) in 1996 and Kafironda in 1997.[155] In addition, agreements for minority flotation were also reached for enterprises that were sold through private tender, including the large sized Maamba Collieries.[156]

Despite these public offerings of minority interests, the absence of any privatisation based primarily on a public offering is significant. Early in the evolution of the programme, the World Bank expected that 10 enterprises would be sold through public offer in addition to any minority floats.[157] Although the government has subsequently reiterated its commitment to implementing privatisation by public sale, it has included within this minority flotations, and the future sale of any majority interests by this method remain uncertain.[158]

A number of enterprises were privatised through management buy-outs. An initiative to encourage this form of divestiture was launched by the Government in 1994, which targeting a number of enterprises which would be offered to their management. The initiative was criticised in the National Assembly, where the rationale for placing the enterprises in the hands of "management's which have failed to run them" was questioned, and by the ZPA, whose opposition was overruled by Commerce and Industry Minister Patel.[159] Those offered consisted of a mixture of small enterprises and unbundled

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154 In addition an offer of shares was also made by the ZPTF to a Trust established to hold shares for subsequent sale to employees of Chilanga Cement.

155 It was also agreed with minority shareholders at the medium sized National Breweries and Agip (Zambia). In addition, in the medium sized agricultural developments Nanga Farms and Mpongwe Development Company, it was agreed that a minority flotation would occur after the projects were fully operational.

156 Minority flotations were also agreed where enterprises had been unbundled. When Zambia Breweries was unbundled the resulting companies, Zambia Breweries and Northern Breweries, were both privatised with agreement for minority flotation. Such an agreement was also reached in the sale of Pamodzi Hotel, formerly part of the National Hotels Development Corporation (ZPA undated II).

157 World Bank (1993a, p.10).

158 In 1995 the Government stated that it expected 14 public sales of enterprises, however this included cases of minority floatations (Republic of Zambia, 1995a, p.17). By the end of 1998, 15 privatisation agreements were concluded which included provisions for minority flotations.

159 *News From Zambia* (2/2/1995). This concern was also expressed in *Profit* (March 1995, p.32).

units of some large and medium sized companies.[160] The success of the initiative was limited, with only 6 of the 14 enterprises offered sold to their management.[161]

A small number of enterprises were also privatised through a return to their previous owners. This resulted not from a policy decision but from court rulings ordering the return of mills nationalised by the government in 1986.[162]

4.3.2b Unbundled Enterprises.

While in cases where the enterprises were sold intact, the industrial structure was maintained, the unbundling of existing companies into constituent units allowed both for the promotion of competition within various sectors of the economy and, by decreasing the size of companies offered for sale, increased the opportunity for a greater indigenous ownership.

The degree to which the unbundling of an enterprise could be achieved depended partly upon its degree of internal integration. Generally, unbundling has been limited to sectors such as milling, trading, farming and hotels, in which companies often consisted of horizontally related enterprises. In the case of the medium sized Zambia Steel and Building Supplies, the company was created by INDECO through the merging of its own building supplies company with a number of private companies in which it acquired a controlling interest. In planning it divestiture, the ZPA could identify six discrete units, consisting of two factories and four sales outlets, which it could divest separately.[163]

The ZPA chose to privatise the milling sector through unbundling. As planned, this involved the division of Amalgamated Milling into three units, INDECO Milling into six units, United Milling into two, and the large sized National Milling into four units.[164] This was achieved in all cases except for National Milling, which was sold as a single unit. In this case, the ZPA was constrained by minority

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160 ZPA (25/1/1995). Amongst these were four enterprises which remained unsold from the first tranche. They were Norgroup, Nkwazi, Monarch and Consolidated Tyre Services.

161 In addition, a number of units of unbundled enterprises were also divested through this initiative. These sales have not, however, been the only MBO's, as a number of divestitures through private tender have included management and employee participation. Management has participated, for example in the acquisition of Crushed Stone Supplies, NIEC Overseas, Zamcargo, Zambia State Financing Company and Zambia National Insurance Brokers (ZPA 30/4/1996, 31/8/1996, and undated VI,VII, VIII and IX).

162 World Bank (1993a) and ZPA (31/12/1993, p.14-6).

163 ZPA (4/1996)

164 ZPA (31/12/1993,p.15 and 18).

shareholders who held 49 percent of the equity with pre-emptive rights over the remaining 51 percent held by ZIMCO.[165]

In the trading sector the growing financial difficulties of the state stores led the ZPA to formulate a three stage approach. The first two stages involved the sale of peripheral assets and poorly performing stores in order to raise funds to meet obligations to creditors and provide for redundancy benefits. The third stage involved the sale of the remaining stores on a going concern basis by bidding.[166] Following this unbundling 92 percent of the properties purchased were reported to have been sold to Zambians.[167]

One potential problem with unbundling is that the Government may secure buyers for the most profitable portions of the business, but be left with the less marketable ones. In the case of the large enterprise, Zambia Breweries, the minority shareholder, Anglo American, accepted ZPA proposals to split the company in two, with the Lusaka Brewery retaining the name Zambia Breweries and the leading product brand names, while the Ndola brewery took the name Northern Breweries.[168] While the new Zambian Breweries was sold to Anglo American and South African Breweries in 1994, it was a further two years before a buyer could be found for Northern Breweries, reflecting the less marketable assets which it constituted. Subsequently, Northern Breweries experienced difficulties in maintaining commercial viability, and was sold to Zambia Breweries to prevent its closure.[169]

4.3.2c Liquidated Enterprises.

Although the ZPA was itself empowered to liquidate companies, many liquidations of state enterprise that have occurred have not been handled by it. In many cases liquidation has been the result of the financial collapse of enterprises, and actions by their creditors to secure payment. In other cases the ZPA has sought to maintain technically insolvent enterprises as going concerns, and secure their sale to new owners capable of recapitalising them. While a fifth of all state enterprises have been liquidated during the privatisation process, this contrasts favourably with the 70 percent of enterprises that the ZPA

165 ZPA (undated IV)
166 See *Profit* (December 1994,p.25-6).
167 *Post* (2/10/1996).
168 Reuters (Johannesburg, 21/9/1994), ZPA (31/12/1993, p.16), *EIU*(q4/1993, p18) and Zambia Breweries (1997).
169 *Post* (2/2/1999).

has estimated would have faced closure had the privatisation programme not been pursued.[170] Despite this, the instances where liquidations have occurred have tended to have been relatively high profile.[171]

Among large enterprises, all liquidations have been of companies involved in the transport sector. In the cases of Zambia Airways and United Buses, the reluctance of the Government to address the problems that they were facing led to creditor led moves to liquidate. Zambia Airway's financial problems had been an issue for a number of years, and in February 1994 a committee of six ministers, including the Finance Minister Penza and the Transport and Communications Minister Harrington, was formed to review the future of the airline.[172] The committee recommended a policy of asset sales to reduce the debts of the airline and to prepare the company for privatisation.[173] The hand of the government, however, was forced by creditors seizing three planes in London and New York.[174]

The Government was divided over its response to the seizures, with Finance Minister Penza's recommendation that Zambia Airways be placed in liquidation opposed by Transport and Communications Minister Harrington. Harrington's view initially prevailed at cabinet and the rescue of the airline was announced. Within a week the cabinet reversed this decision and opted to liquidate the airline.[175] The rescue package did not gain the support of the Bank of Zambia, which argued that it breached IMF conditionalities and put the Government's economic programme at risk.[176] The World Bank's Vice-President for Africa warned that the rescue package would prevent Zambia receiving Balance of Payment support and that continued uncertainty over the airline was damaging donors' attitudes to the whole reform programme.[177] The decision to place Zambia Airways in voluntary liquidation was announced by Zambia's Vice President on 3rd of December 1994.

The Zambia Airways closure was quickly followed by another case in which a state enterprise's future was dictated by the action of creditors. On 17th January 1995, United Buses of Zambia (UBZ) was

170 *American Metal Market* (27/6/1997).
171 The high profile liquidations of Zambia Airways, United Buses, Premium Oil, Livingstone Motor Assembly and Mansa Batteries were not conducted under the Privatisation Act, but through normal commercial law and procedures (*Times of Zambia* 19/10/1998). An exception to this is the MEMACO Group, listed as a large enterprise. Since the operating companies were listed separately, the liquidation of the residual holding company was of little consequence.
172 *EIU* (q1/1994,p.25).
173 *EIU* (q3/1994,p.21).
174 *EIU* (q1/1995,p.16) Harrington noted (*African Business,* February 1995, p.37) that "the situation got out of hand because creditors started pouncing on Zambia Airways planes."
175 *African Business* (February 1995)
176 Reuters (Lusaka, 1/12/1994).
177 Reuters (Lusaka, 3/12/1994).

put into voluntary liquidation. Total debts stood at $10m. when bailiffs acting for Edesa International, based in Luxembourg and owed $6.4m, seized assets including 40 of the company's 55 working buses. The Government had refused appeals by the company, the previous month, to prevent the collapse.[178]

4.3.3. Developing Capital Markets.

The development of the financial sector is crucial to the implementation of privatisation and to the subsequent development of the enlarged private sector. In the 1970s and 1980s, much of the financing of Zambian industry was supplied through the state enterprise sector. The funding requirements of individual enterprises could be centrally arranged through ZIMCO, and loan and equity investment channelled into new projects. With the dismantling of this centralised structure, the development of new financial intermediaries has been necessary to meet the financial requirements of Zambian commerce and industry.

At the beginning of the 1990's, the Zambian commercial bank sector consisted of mixture of ownership patterns.[179] Most commercial banks were in foreign or local private ownership, with the state owned Zambia National Commercial Bank accounting for around 20 percent of the market.[180] Development finance, on the other hand, was provided principally by three state-owned institutions, the Development Bank of Zambia, EXIM Bank and the Lima Bank.

Following the liberalisation of the financial sector in the early 1990s, the banking sector became turbulent with a series of closures and enforced mergers principally affecting local private banks. In 1995, the failure of Meridien BIAO was followed by that of the African Commercial Bank, Commerce Bank and the Co-operative Bank.[181] The Bank of Zambia stated that a contributory factor in the failures was that until the enacting of the *Banking Act* 1994, the necessary legislative framework had not existed to regulate the sector within a liberalised financial environment.[182] To increase the stability

[178] Reuters (Lusaka, 14/12/1994 and 17/1/1995).
[179] Brownbridge (1998). Harvey (1993) argues that Zambian commercial banks, including those owned by the state, were financially and managerially stronger than those in Uganda, Tanzania and Ghana, .
[180] In addition to those foreign banks which had dominated the sector in the 1960s, a number of other transnational banks had also entered the Zambian market. The first indigenous privately owned bank was the Meridian Bank established in 1984.
[181] Bank of Zambia (*Financial Systems Supervision Annual Report*, 1996; and 25/9/1997). On Meridian see *Southern African Economist* (April-May 1995,p.20-1), and *SAPEM* (April 1995, May 1995 and August 1995).
[182] *Post* (4/12/1995) and Bank of Zambia (*Financial Systems Supervision Annual Report*, 1996). In response to the continued problems and calls for better supervision, the Bank of Zambia stated its

of the banking sector, in 1996 the Bank of Zambia increased the minimum level of capital required, prompting the merger of First Merchant Bank with Safe Deposit Bank under the name of the former, and the closures of Continental Bank, Mercantile Bank and Royalty Bank.[183] Despite this, failures have continued. Manifold Bank closed in 1997, followed by First Merchant Bank, Prudence Bank and Credit Bank of Zambia in 1998.[184]

Attention has been drawn to the failure of the banking system to move away from short term loans and overdraft facilities and adequately cater for the longer term financial requirements of Zambian business.[185] The level of commercial finance available has been further diminished by the liberalised financial regime, with high rates of interest and the increased risk of default by commercial customers, inducing financial institutions to limit lending to business. In addition, the state owned financial institutions which provided longer term finance have also failed to reorientate themselves within the new economic framework. While, as discussed below, the future of the Development Bank of Zambia remains uncertain, the agricultural lender Lima Bank was liquidated in 1997 and the export oriented EXIM Bank was placed in receivership in February 1997, pending a decision on its future.[186]

An alternative to bank based finance is the funding of enterprises through equity. The principal role that a stock exchange can play in the development of private enterprise is in the provision of equity finance through the mobilisation of domestic and foreign savings.[187] Singh (1992) however, argues that stock exchanges have rarely led to an increase in aggregate savings and are associated with higher levels of financial volatility. A greater degree of stability and capacity to provide long term finance, he suggests, can be created by bank based systems of corporate ownership such as exist in Germany and Japan. As has been discussed above, however, the Zambian banking system itself remains the subject of

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intention to review the provisions of the Act and to establish a deposit protection scheme (*EIU* q2/1998,p.21 and *Post* 28/10/1997 and 23/2/1998; *Times of Zambia* 24/9/1998).

183 Bank of Zambia (*Financial Systems Supervision Annual Report*, 1996)

184 *Post* (5/12/1997 and 25/1/1998), *Times of Zambia* (30/9/1998) and *EIU* (q1/1998,p.18).

185 This issue has been raised by, among others, ZACCI and Investment Centre Director General Ng'andu (*Post* 9/11/1995, and 10/7/1996; and *Times of Zambia* 21/7/1997). The ZPA (30/6/1993, p.16) has also stated that the financial infrastrucure has prevented a number of Zambian companies from completing the purchase of enterprises.

186 On Exim Bank see Bank of Zambia (25/9/1997). On Lima Bank see *Post* (19/12/1995, 12/1/1996 and 20/3/1997).

187 Jefferies (1995) and Demirguc-Kunt and Levine (1996). On the increasing prominence of international equity investment in the 1980s and early 1990s see Mobius (1994), Unger (1994) and Rague (1994).

instability and, therefore, the potential of the stock exchange to emerge as an important source of enterprise finance is considerable.

In Zambia, although the *Stock Exchange Act* of 1990 provided for the establishment of a stock exchange, it was judged that it provided insufficient provision for the regulation of securities and was replaced by the *Securities Act* of 1993.[188] This created a Securities and Exchange Commission to act as the central regulatory body, with functions including the licensing of securities, traders, advisors and collective investment schemes.[189] In line with the Act the Lusaka Stock Exchange (LuSE) was established and began operation in February 1994.[190]

As shown in Table XXI, although LuSE has grown in terms of the number of companies listed on it, the value of shares traded through it and its total capitalisation have reflected a less steady course. Although the Securities and Exchange Commission has actively sought to encourage enterprise from the private sector to raise capital through LuSE, the growth that has occurred in the exchange has been driven primarily by the privatisation process which has resulted in 6 of the 8 listings.[191]

Table XXI.

Indicators of the Size of the Lusaka Stock Exchange and the Level of Securities Trading.

1995 to 1998.

	1995	1996	1997	1998 (a)
Number of Listed Stocks.	2	5	7	8
Market Capitalisation ($ million).	435.0	229.3	705.2	344.9
Trading Value ($ million).	0.3	2.8	8.1	2.8

Source: Lusaka Stock Exchange (*Summary of LuSE Market Trading Statistics,* 1/1999).
Notes: (a) Data for 1998 was only available to the end of October. The Trading value therefore reflects only ten months while the comparative figures each reflect twelve months.

188 Ngenda (1994a).

189 *Profit* (March 1995, p.14-16) and Kapumpa (1995).

190 *Profit* (February 1995, p.11). LuSE was established as a non-profit limited liability company and for the first two years of operation was financed by the Government and the United Nations Development Programme (LuSE, undated I).

191 SEC (*Annual Report*, 1997). The two listings unrelated to privatisation have been those of Farmers House in 1996 and Trans-Zambezi Industries in 1997.

The listings which have been the result of the privatisation process have mainly involved the flotation of minority interests in enterprises by the ZPTF and have been subject to a number of delays.[192] After the successful sale of shares in Chilanga Cement in May 1995, the sale of a minority holding of 18.75 percent of Rothmans later that year was undersubscribed and resulted in the ZPA's decision to temporarily suspend further flotations.[193] The process resumed in October 1996 by the flotation of a 6 percent stake in Zambia Sugar,[194] which was oversubscribed by a quarter, and the even more popular flotation of 10 percent of Zambia Breweries in June 1997, which was oversubscribed by a half.[195] Despite these successful sales, the low demand for National Breweries shares that were offered for sale in March 1998 brought a further suspension to the programme of flotations.[196]

A number of reasons have been cited for the limited capacity of the Zambian economy to absorb these issues. For example, the undersubscription of Rothmans was ascribed, amongst other factors, to the spate of bank failures which had tied up investors funds and reduced confidence, as well as the tight timetable of the offer which did not allow all financial institutions time to secure the approval of their boards.[197] The SEC and others involved in the privatisation process have also 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.[198]

While the ZPTF is only permitted to offer shares to Zambian citizens and financial institutions, the participation of foreign investors is vital to the development of a secondary market. In designing LuSE, attention was paid to meeting the requirements of international institutional investors. LuSE was established on the model of a unified market, with a strong regulatory framework and a central share depository.[199] In addition, no restrictions were placed on the level of foreign shareholdings and the absence of exchange controls permitted the free repatriation of capital and income.

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192 The exception being ZCCM, which was listed on LuSE in 1996 without a share flotation.
193 *EIU* (q2/1996,p.11). The Zambian Government had only owned a minority interest in Rothmans, with control resting with the majority private owners.
194 *Post* (2/8/1996) and Zambia Sugar (1996). Shares were offered by the ZPTF and CDC to provide for both domestic and international demand for the shares. As noted above, the ZPTF can only sell shares to Zambian citizens and institutions, and the international demand for shares was met by CDC.
195 *Post* (1/10/1996 and 22/5/1997).
196 *Post* (23/3/1998 and 27/3/1998).
197 *Post* (20/12/1995) and *Africa Economic Digest* (8/1/1996).
198 *Post* (15/8/1996, 5/11/1997 and 5/11/1997).
199 LuSE (undated II).

To attract international investment, however, an emerging stock exchange also needs to have a growing number of listed companies with good prospects for long term growth, situated within a financially stable environment. Among the factors which have been cited as discouraging international investment in LuSE have been the continued financial instability of the Zambian economy and the limited number of stock which can be traded.[200] It may be that the current design of the stock exchange and the financial liberalisation that has been undertaken have themselves proved as obstacles to overcoming this.[201] Before his appointment as General Manager of LuSE, Charles Mate, had argued that a less formal 'over-the-counter' market would be a more assessable way for local companies to raise finance than the more formal structure of the unified market, stating that:

> It would probably look nice and grand and even fashionable to have a section of Cairo Road converted into a mini Wall Street- but beyond that what about the needs of business people and potential entrepreneurs in Ndola, Kitwe, Livingstone and the rest of the country.[202]

It may be, therefore, that the current emphasis on attracting foreign portfolio capital to generate local investment is misplaced, and that a growing indigenously funded private enterprise sector is itself the prerequisite for attracting these funds.[203]

Some within the Zambian financial sector have argued for the establishment of development capital funds by a public body to provide the long term financial resources which remain unavailable to many Zambian enterprises.[204] Progress in this direction was made in 1996 by the establishment of the Venture Capital Fund, a subsidiary of CDC, to provide capital to small business and introduce them to the unlisted section of LuSE and by the establishment, in 1998, of a fund by the World Bank, to be channelled through existing financial institutions.[205] Such activities replicate those undertaken by the

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200 The Reuters (Lusaka, 8/11/1996) and *Post* (20/2/1998).

201 Similar concerns were expressed by the Chair of the Stock Exchange of Mauritius, Khushiram (1994), who warned that the establishment of too comprehensive a regulatory framework could place a disproportionate cost burden on the new exchanges.

202 *Profit* (January 1993, p.22).

203 Non-attributable interviews. It is notable that among the Stock Markets that have flourished over the recent period, such as those in Thailand, Mexico, Taiwan and China, restrictions on foreign ownership have existed either through ceilings on holdings or through the withholding of voting rights (Mobius, 1994, p.139-40).

204 Munshi (1995).

205 The ZVCF is a subsidiary of CDC and has received funds from the European Union, European Investment Bank, the German development agency DEG and the British Government (*Post* 7/2/1996, 14/2/1996, 29/10/1996 and 26/2/1997). On the World Bank fund see (*Post* 1/4/1998 and *Times of Zambia* 27/7/1998).

development finance section of INDECO before 1968 and underline the continued limits to the ability of the existing private sector to provide for the development of Zambian industry.

4.3.4. Enterprises Remaining in State Ownership.

While the majority of Zambia's state enterprises have been divested, a number of companies that were initially listed for privatisation remain under state ownership. In most cases this reflects the strategic or utility nature of the industries involved. This has frequently resulted in a cautious approach to their sale by the government, to their purchase by potential investors and to difficulties in negotiating their terms of sale. As the Zambian privatisation programme is ongoing, the sale of many of these enterprises may be expected to occur in the coming years, as the programme nears completion. In a some cases, however, the government has withdrawn enterprises from the privatisation process or failed to progress with preparations for their sale. This section examines the enterprises which currently remain within the state sector, with particular emphasis on large, untranched and strategic enterprises where particular problems or delays have occurred.

Among those enterprises which have been offered for sale, but which still remain within the state sector, the most prominent are the large sized Nitrogen Chemicals and Kafue Textiles. Both are based in the town of Kafue, and following financial crises both have ceased operations.[206] Nitrogen Chemicals was advertised for sale in 1996 and although extensive negotiations had occurred with SASOL of South Africa, it withdrew from the purchase. It is reported that the ZPA and Investment Centre are actively looking for other purchasers for NCZ, while the ZPA is undertaking negotiations over Kafue Textiles with Pakistani interests.[207] Whether these enterprise will be reopened under state or private ownership, or be subject to liquidation is yet to be determined.

While these are among the few manufacturing enterprises in which progress has not been achieved, some other sectors of the economy have shown little progress towards privatisation. As discussed above, the reorientation of the financial sector is an important factor in the restructuring of the

206 *Times of Zambia* (19/10/1998 and 6/8/1998). Both discuss the impact of the closures on Kafue.
207 *Times of Zambia* (21/4/1998) and ZPA (1/1999b).

economy towards a private sector model. The progress towards privatisation in that sector has, however, been limited.[208]

An agreement with the World Bank required that the government reformed the state owned financial institutions, or move to liquidate them. In the case of the Development Bank of Zambia, it was agreed in 1995 that it would be restructured as an "apex" institution raising long term foreign and concessionary funds to lend on to Zambian financial institutions.[209] A continued deterioration in the commercial viability of the Bank, however, led Finance Minister Penza in October 1996 to unsuccessfully seek the passage of a Development Bank of Zambia (Collection Agency) Bill, that would turn the bank into a collection agency for the repayments due to it over a five year period. In the face of opposition within the MMD, the government was forced to withdraw the bill.[210] While the future of the bank remained unclear, DBZ has continued to operate and advance finance to new projects.[211] In June 1998, Finance Minister Nawakwi reaffirmed the role of the bank as a provider of development finance and stated the hope that through restructuring, its viability could be secured.[212]

The ZNBC has also undergone a restructuring exercise, including a reduction in the workforce and computerisation.[213] The plans for the future ownership structure of the bank remain unclear, although the government has stated that it intends to sell some ZNCB shares to the public, and to secure a private sector partner to further strengthen its commercial position.[214] Although progress over the divestiture of the Zambia National Building Society was delayed due to uncertainty over the legal status of the government ownership, the ZPA currently states that it is being prepared for sale.[215] ZNBS has acquired a significant role in government policy as a provider of mortgages for the purchases of publicly

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208 In addition to those discussed below, the government also continues to hold a minority interest in the Indo-Zambian Bank.
209 World Bank (1995a).
210 *Post* (16/10/1996). The World Bank diverted funds from the Development Bank due to concerns over the performance of the management, and sought to develop an alternative apex institution (*Post* 9/10/1996). The Bill failed in the face of opposition from backbench members of the MMD, who argued that policy was being dictated by donors (*Post* 17/10/1996).
211 *Times of Zambia* (23/7/1997 and 18/12/1997).
212 *Times of Zambia* (20/6/1998). This commitment was reiterated in November 1998 (*Post* 18/11/1998).
213 *Times of Zambia* (17/12/1997).
214 *Post* (19/10/1998).
215 ZPA (30/4/1995) and *Times of Zambia* (3/8/1998).

owned housing, and in August 1998 the government provided additional funding to the society to increase its lending potential.[216]

Following a restructuring exercise in 1995, offers were sought for a seventy percent shareholding in the Zambia State Insurance Company, with the government retaining the balance of the equity for the later sale to the Zambian public.[217] All bids submitted, however, were rejected by the ZPA, leading to the decision announced in December 1997 that the privatisation would be delayed for a further period of at least two years, during which time additional restructuring of the business would take place.[218] It is envisaged that an element of this restructuring process will be the flotation of shares in the company on LuSE to raise additional capital.[219] Whether this will be part of an overall privatisation strategy, that would result in ZISC entering the private sector as an independent company, is yet to be determined.

The media sector has also been marked by the reluctance of the government to privatise assets. Despite state ownership of the Times of Zambia and Zambia Daily Mail newspapers, the only media company to be included in the list of enterprises to be privatised was the Zambia National Broadcasting Corporation. This limited commitment to privatisation in this sector was further diminished in 1995 by the commitment of the government to retain ownership of its media assets, which was reiterated by President Chiluba in 1997.[220] Although the government cited the reason as being to facilitate democratisation, its reticence to undertake media privatisation has alternatively been presented as reflecting authoritarian instincts. As Mphaisha (1996, p.72-5) notes, even initial moves towards greater editorial independence within the state media have been reversed.[221]

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216 *Times of Zambia* (25/8/1998 and 1/9/1998).
217 ZPA (undated III).
218 Two bids were received for the entire company. Bids were also submitted for the general insurance business by ZISC management, and the life insurance business by ZISC management with GIO Australia Holdings (*Post* 10/12/1997). Explanations for the low levels of the bids included the restrictions on investing insurance funds off-shore, and the appropriation of company assets by the existing management (*Times of Zambia* 1/9/1997).
219 *Times of Zambia* (30/10/1998).
220 Republic of Zambia (1995b). President Chiluba stated that the government would seek to provide resources to rehabilitate state media enterprises (*Times of Zambia* 3/12/1997). The government also ruled out state media privatisation in October 1997 when National Party MP Sondashi tabled a Private Members Bill for the sale of the *Times of Zambia, Zambia Daily Mail* and operational independence for Zambia National Broadcasting Corporation (*Times of Zambia* 16/10/1997).
221 The unwillingness of the Government to reduce its control of the media is discussed by Mphaisha (1996, p.72-5) in the context of democratisation.

In many of the utility industries arrangements have been undertaken to ensure that competition is introduced where possible and that regulatory structures are established. Initially policy towards the public utility industries did not envisage their immediate divestiture and instead government policy placed emphasis upon providing conditions under which they could recover costs and avoid insolvency.[222] For the longer term, the government aimed to establish a regulatory framework for the industries, the operation of which would open the way for the transfer of the industries to private ownership.[223]

An early candidate for privatisation was the telecommunications industry. In 1994 the Post and Telecommunications Corporation was split in 1994 into a Zambia Telecommunications (ZAMTEL) and the Zambia Postal Service Corporation (ZAMPOST). The Government licensed a private telecommunications company, Telecel, to open the sector to competition and announced its intention to sell a minority stake in ZAMTEL.[224] Although the divestiture was initially scheduled for 1996, no substantive progress towards the sale of the company has been reported to date.[225] Measures to restructure the electricity industry, in order to decrease the degree of monopolisation have also been considered. In 1997, Energy Minister Suresh Desai stated that ZESCO would be divided into three separate units, concerned with electricity generation, transmission and distribution respectively.[226] ZESCO is currently undertaking a $212.6m. rehabilitation programme to modernise its equipment over a number of years.[227]

In the case of Zambia Railways, progress towards privatisation has faced the additional problem of the need to rehabilitate the company's operations. After four years of negotiations the management, of Zambia Railways was contracted to Hifab International AB of Sweden in 1997, who were instructed to undertake a two and a half year restructuring programme and an assessment of the modalities of

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222 World Bank (1993a, p.16-7 and 1994a, p.3).
223 Republic of Zambia (1994, p.13) and World Bank (1994a, p.12 and p.21).
224 Republic of Zambia (1995a, p.25) stated that this would be achieved in 1996.
A 40 percent share in ZAMTEL was targeted for sale in late 1996. Telecel is owned 50% by US interests, 40% by Zambian interests with 10% to be sold to the Zambian public. (*EIU*,q2/1994, p.21 and *EIU*,q4/1995, p.15).
225 The aim of divesting the company during 1998 was stated by the ZPA in December 1997 (*Times of Zambia* 5/12/1997). Among the reasons suggested for the continued delay have been the delay in the establishing the regulatory Communications Authority and in securing the commercial viability of the companies operations (*Times of Zambia* 6/8/1998).
226 *Post* (21/11/1997).
227 *ZIC News* (April 1998).

privatisation.[228] By mid 1998 Hifab had put in place a new expatriate led management team, and presented to the government a survival plan to rescue the near insolvent company.[229] The restructuring process has entailed an extensive labour retrenchment, with the ultimate intention of halving the size of the workforce.[230]

The Government has continued to display caution in withdrawing from the oil sector.[231] In 1997, Energy and Water development Minister Suresh Desai stated that privatisation of the oil supply chain under ZNOC would "be gradual because we think it still needs government participation."[232] In the meantime, the government committed itself to refraining from interference in the management of the companies and to undertake the establishment of a regulatory framework.[233] The high fuel prices and problems of maintaining supplies, have been a recurring criticism of ZNOC, and prompted ZACCI and ZAM to call for the dismantling of the company, and the liberalisation of oil supplies under private sector enterprises.[234]

SUMMARY.

The aim of this Chapter has been to document and explain the privatisation process in Zambia in the 1990s. The policy was first introduced to the government agenda by UNIP in 1990 in a restricted and limited form. Under the MMD the policy was embraced in a comprehensive form and implemented vigorously. The result of this was that by the end of 1998, the majority of state enterprises had been privatised, including two-thirds of those rated as large.

A number of factors prompted the adoption of the privatisation programme, and have continued to underwrite the government's commitment to the policy. As argued in Chapter 3, by the end of the 1980s, the sustainability of many of the state enterprises was doubtful. The difficult economic conditions

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228 Hifabs appointment followed four years of negotiations (*Post* 20/3/1997).
229 *Times of Zambia* (7/4/1998 and 12/6/1998).
230 *Times of Zambia* (14/10/1998).
231 ZIMOIL was disbanded and replaced by a new wholly owned state enterprise, Zambia National Oil Company, which has continued the importation of oil (*Southern African Economist* April/May 1994).
232 The sale of BP and Agip were cited as evidence of the government's gradual approach to the sector (*Post* 13/8/1997). In January 1998 the government stated its intention to commission a study on the modalities of privatising the sector (*Times of Zambia* 31/1/1998).
233 *Post* (13/8/1997 and 3/10/1997).
234 *Times of Zambia* (10/9/1997 and 4/3/1998).

faced by the Zambian economy in the 1990s continued to increase the commercial pressures which they operated under, and has been a contributory factor to the cases of liquidation.

Throughout the period the pressure of the international financial institutions and donors has underwritten the continued commitment to the policy. The initial adoption of the policy by UNIP was in the context of the re-establishing of relations with the IMF and reflected the policy advice of the World Bank and major donors. These constraints remained on the MMD when it entered office and have continued through funding conditionalities. In particular, this was demonstrated in the case of Zambian Airways, where pressure was applied when the government appeared reluctant to accept the insolvency of the company.

Domestic discontent with the performance of the state enterprise sector has also contributed to the programme. The initial adoption of privatisation by UNIP was welcomed by the National Assembly and by ZACCI, and across the diverse groups which came together to form the MMD, there was also a consensus that the state enterprise sector had performed poorly. While the implementation of privatisation has impacted negatively on certain groups, this has not resulted in any significant opposition to the continuation of the programme and at the 1996 elections, all the major parties stated their commitment to the principle of privatisation.

The implementation of the privatisation programme has been well regarded by a number of international observers such as the World Bank. Much of this reflects the formal procedures for transparency and independence that were included in the legislation which created the Zambia Privatisation Agency. In practice these standards have not always been met and in a number of cases have resulted in delays. In addition, the widespread corruption that has been documented among the political leadership has also raised questions as to the propriety of implementation. Nevertheless, substantial progress in the privatisation of the state sector was achieved between 1992 and 1998.

The choice of the method of sale of individual enterprises reflected both the aims which the government sought to pursue through the privatisation process, and the constraints under which it was undertaken. This was reflected in the many large and medium enterprises which were divested through negotiated sales to minority shareholders, but with the agreement for a flotation of a minority interest through the ZPTF. The government also sought to reduce the degree of monopoly in the structure of industry through the unbundling of horizontally diversified companies in sectors such as milling.

Although a substantial number of enterprises were privatised by the end of 1998, a significant minority remained under state ownership, most of them situated in strategic and utility industries. In many cases the government has stated its intention that they should be privatised in the future. Indeed, the most strategic enterprise in Zambia was the state copper mining company ZCCM, the privatisation of which is considered within Chapter 5.

CHAPTER 5.
THE PRIVATISATION OF ZAMBIA CONSOLIDATED COPPER MINES LIMITED.

The aim of this Chapter is to document and explain the design and implementation of the privatisation of Zambia Consolidated Copper Mines Limited (ZCCM). ZCCM constitutes a particularly important case of privatisation for Zambia. It was the country's largest single company and generated the bulk of its foreign exchange earnings. Because of the strategic nature of ZCCM, the Zambian government examined a number of different strategies through which it could be privatised. This case of privatisation, therefore, exemplifies the issues of the choice of the method of divestiture and the constraints under which they were made.

In the early 1990s, ZCCM faced problems related both to its immediate financial viability and to its long term development. Both the Zambian government and the management of ZCCM recognised that these were unlikely to be resolved within the existing ownership structure. Section 5.1 deals with the period between 1992 and 1996 in which the Zambian government examined the different methods through which the privatisation of the company could be implemented. The three options that were examined by the government are discussed in Section 5.1.1. The first of these involved one or more foreign transnational mining corporations acquiring a controlling interest in ZCCM, the second was to restructure ZCCM by dividing it into a number of different companies which could be offered for sale on an individual basis and the third was to transfer the ownership of the company into the private sector under the existing management.

In 1996, following recommendations from the British merchant bank N.M. Rothschild, the Zambian Government embarked on a strategy based on the unbundling option. The reasons for this option being accepted are discussed in Section 5.1.2. It is argued that the option of privatising ZCCM as an independent company was undermined by the continued poor performance of the company under its existing management. These problems also made the control of ZCCM as a whole less attractive to transnational mining companies. In this context the option of unbundling offered an opportunity to introduce a variety of transnational enterprises into a decentralised industry.

The implementation of the Rothschild Plan between 1996 and 1998 is examined in Section 5.2. The mining operations of ZCCM were divided into nine packages, with the non-mining subsidiary enterprises and prospective development properties subject to separate negotiations. Section 5.2.1

outlines the arrangements that were established for the disposal of the assets. Although the privatisation of these asset packages was scheduled to be completed by the end of 1997, negotiations for some of the most substantial of these continued into the second quarter of 1998, before failing to produce agreements. The terms of sale for those assets that were privatised are examined in Section 5.2.2a, the circumstances of failure at those assets which were not sold is outlined in Section 5.2.2b and the negotiations for the development of new deposits at Konkola are examined in Section 5.2.2c. As a result of the failure to privatise all of the outstanding assets, from mid-1998 the Zambian Government undertook a number of steps to renew the interest of potential investors in the privatisation, which resulted in further agreements being concluded in late 1998. Section 5.2.3 outlines the factors leading to the conclusion of the process and examines the agreements which have been reached.

SECTION 5.1. OWNERSHIP STRUCTURE AND POLICY.

ZCCM's ownership structure was more complex than other Zambian state enterprises, with the shares of the company listed on both the London, Paris and the New York Stock Exchanges.[1] Alongside the Zambian Government, which held 60.3 percent of equity, the main shareholder was Zambia Copper Investment, a company controlled by Anglo American, that held 27.3 percent of ZCCM, with the remaining 12.4 percent of shares in a variety of smaller holdings.[2] Anglo American held pre-emptive rights to purchase any shares sold by the Government, once the Government share in ZCCM fell below 50 percent, and outstanding agreements with debtors restricted the company from paying dividends.[3]

When the MMD administration took over in November 1991, ZCCM faced two financial challenges. Firstly, there was a shortage of long term finance which was needed to develop new and existing orebodies and, secondly, in the short term the company faced a shortage of working capital to fund its ongoing operations. While the Zambian Copperbelt was recognised internationally as a "world

[1] In addition, ZCCM was listed on LuSE in January 1996 (*Post* 10/1/1996 and 22/1/1996).
[2] The share capital of ZCCM consisted of two classes of shares with different rights attached to them. The ZIMCO shares constituted the entire 'A' class, while the equity of the other shareholders constituted the entire 'B' class. Following the removal of the Chair of ITM, Sardanis, from the ZCCM Board of Directors in 1992, ITM sold its 6.9 percent shareholding in ZCCM, through Credit Lyonnais Laing, to a number of institutional investors.
[3] ZCCM (*Annual Report*, 1993, p.9). The exact boundaries of the rights held by Anglo American, however, remained unclear (World Bank, 1995a).

class orebody," these problems were hampering current operations and undermining the future viability of the company.[4]

The corporate structure of ZCCM was based on the division of the company into a 7 operating divisions[5]. Nchanga Division accounted for just over half of the copper produced by the company and was also its lowest cost producer, drawing most of its ore from the Nchanga Open Pit which was among the largest open cast mines in the world. The balance of copper production was divided almost equally between four other divisions: Mufilira, Nkana, Luanshya and Konkola. A further mining division, Kabwe, undertook lead, zinc and pyrite mining, while the Power Division provided electricity for the company. The headline figure given for the level of new investment required to keep ZCCM production levels in the range of 420 to 450 thousand tonnes per annum was estimated by the company to be in the region of $2 billion over a period of twelve years.[6] This required not just the rehabilitation of existing operations but the development of new ore sources, in particular the replacement of the Nchanga Open Pit which was estimated to have a life expectancy ending around 2001.[7] The best development potential was offered at Konkola, where the development of a new deep mine was considered a prime opportunity for future production.[8]

As discussed in Chapter 4, the MMD Government's commitment to the privatisation of strategic industries remained cautious until the beginning of 1993, and then remained initially non-committal over the pace at which it would be implemented. This was reflected in the Government's policy towards ZCCM. The Government's Economic and Financial Policy Framework of 1992 noted that

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[4] James Capel (1992, p.3) and Smith New Court (1994, p.24).

[5] The divisions each contained a selection of mineral and processing assets. A fuller account of these can be found in *Mining Journal* (9/10/1992) and the annual reports of ZCCM.

[6] *EIU* (q2/1992, p.21). While Anglo American argued that less than $2 billion would be needed if expenditure was properly targeted, mining analysts continued to estimate the required level of investment at $2 billion. For estimates from Anglo American see *Profit* (March, 1995), for NEDCOR see (NEDCOR, 1995) and Smith New Court see (Smith New Court, 1994). Minister of Mines, Humphrey Mulemba, identified critical areas for expenditure as being the development of Konkola Deep Mine, requiring $500 million; the rehabilitation of existing mines, requiring $1billion; further exploration, requiring $450 million and $50 million for a gemstone project (*EIU*q3/1992, p.19).

[7] This life expectancy of the mine is cited by NEDCOR (1995) and Smith New Court (1994). The need for ZCCM to mobilise external investment in ZCCM was recognised by Francis Kaunda who stated that "the investment required to sustain operations for the next 15 years at current levels is enormous and it is unlikely it can be generated internally" (Reuters, Lusaka, 15/10/1991).

[8] *Mining Journal* (9/10/1992). Doubts have periodically been expressed as to the potential of the Konkola Deep Mine. Morgan Grenfell (1994, p.29) judged that the mine would not be rich in copper and would be extremely vulnerable to flooding. RTZ judged that while Konkola did have potential, they did not rate it to be an exceptional ore body, and expressed concern at the high level of development costs (RTZ, Interview, 2/10/1995).

ZCCM was "preparing a long term strategy for its operations covering divestiture, joint ventures and privatisation" with immediate emphasis on divesting its non-mining assets and introducing private investment in the development of new mineral sources.[9]

Progress occurred in a number of these areas. Among the non-mining subsidiaries, Coolwell, Cleanwell Dry Cleaners and Zuva Zuva Design were included in the first tranche of companies which the ZPA advertised for sale in 1992.[10] In late 1992, the previous unwritten restriction on companies other than ZCCM to prospect for copper was lifted, attracting interests from transnational such as Phelps Dodge, Anglovaal and Biliton.[11]

Changes were made in the senior management of ZCCM, with Francis Kaunda, the Chair and Chief Executive since the its creation in 1982, being replaced by Lawrence Bwalya as Chair and Edward Shamutete as Chief Executive.[12] This responded to the criticism, from among others the Parliamentary Select Committee appointed in July 1990, which argued that the combining of the two roles reduced the accountability of the management to the shareholders.[13] The new management aimed to concentrate on ZCCM's core activity of metal production and enhance the company's commercial viability through a rationalisation program which included the reduction of expatriate staff levels and the streamlining of management structure.[14]

5.1.1. Options for Privatisation.

Between 1992 and 1996, the Zambian Government examined a number of different strategies for transferring ZCCM to the private sector. Two issues had to be addressed by the Government in designing a policy of privatisation, firstly whether control of ZCCM should pass to another mining company or whether it should enter the private sector under existing management control, and secondly

[9] Republic of Zambia (1992, p.19). By early 1993, the Government stated that it was "committed to the privatisation of the Zambia Consolidated Copper Mines," although warning that "complex nature of ZCCM and its importance to the Zambian economy requires that the method of privatisation is carefully defined and that the Government sanctions the stages for its divestiture" (Republic of Zambia, 1993, p.10).

[10] ZPA Report (4/7/1992-31/12/1992).

[11] *Mining Journal* (22/4/1994). Among other companies undertaking exploration, although not necessarily for copper, have been RTZ, Gencor, JCI, Anglo American, Western Mining, Southern Era Resources, Polygon Mines, and Fiat Rimi (*Southern African Economist*, December 1994/ January 1995, p.18)

[12] *Mining Journal* (8/11/1991 and 24/1/1992).

[13] National Assembly (1990, p.29).

[14] ZCCM (*Annual Report*, 1992, p.6 and 9) and *EIU* (q4/1992, p.17).

whether the mining operations of ZCCM should continue as a single unit or be unbundled into a number of separate companies.

Table XXII

Profitability and Output of ZCCM.

FY 1990 to FY 1996.

Financial Year.	Pre-tax Profit Margin. %	Post-tax Profit Margin. %	Change in Annual Production of Copper. %
1990	16.90	7.87	7.95
1991	17.12	7.92	(5.80)
1992	11.60	3.33	(8.29)
1993	18.46	11.57	11.63
1994	(12.42)	(12.63)	(9.26)
1995	3.11	0.31	(10.71)
1996	(0.67)	(1.88)	(12.29)
1997	(12.89)	(13.21)	4.35
1998	(35.78)	(35.96)	(11.74)

Source: Calculated from ZCCM (*Annual Reports*, 1990 to 1998).

Throughout the period on-going commercial viability of ZCCM remained under pressure. As Table XXII shows, copper production continued in the downward trend that had been established over the preceding twenty years, and although ZCCM was able to operate profitably until FY 1994, the funds that it generated were insufficient to provide for the level of investment required for its rehabilitation.[15]

[15] This was publicly recognised in 1994. The Minister of Mines, Kapinga, warned that "in the absence of new injection of funds, the company can no longer sustain its operations" (Reuters, Lusaka, 4/3/1994) and a "senior government mining official" stated that ZCCM urgently required new funding as "obsolete equipment needs to be replaced. At the moment it is welded together every day and there is no way production efficiency will be achieved" (Reuters, Lusaka, 3/5/1994). This need for new equity financing to solve this situation had been previously identified by Credit Lyonnais Laing (*Africa Research Bulletin* 16/12/1993-15/1/1994).

The three options that were examined by the government are discussed in this Section. The first of these involved a single or group of foreign transnational mining corporations acquiring a controlling interest in ZCCM and is examined in Section 5.1.1a. A second option was to restructure ZCCM by dividing it into a number of different companies which could be offered for sale on an individual basis. This option is discussed in Section 5.1.1b. The third option, of transferring ZCCM intact into the private ownership under the existing management, is examined in Section 5.1.1c. In 1996, a privatisation plan was agreed based on the unbundling option and the factors which led to this choice are examined in Section 5.1.2.

5.1.1a Partnership with a Transnational Mining Company.

The new Zambian Government began informal discussions with foreign mining companies as to the best options to rehabilitate and develop ZCCM. Primary among these companies was Anglo American. It was the second largest shareholder, with representation on the Board of Directors and extensive rights of veto over the conduct of the company, and also held pre-emptive rights of purchase over most of the government shareholding.[16]

Anglo American confirmed in November 1992 that it would be interested in increasing its involvement in ZCCM if the terms and conditions offered by the Government were attractive.[17] Interest in participation also came from a range of other companies. In January 1993, Minister of Mines, Mulemba[18] confirmed that alongside Anglo American, two other South African companies, JCI and Gencor, had also approached the Zambian Government expressing an interest in ZCCM, while other reports cited interest from the British company RTZ and from Japanese companies.[19] Because of its existing involvement in the company, however, Anglo American remained positioned as the principal transnational with which the Zambian Government was likely to reach an agreement.[20]

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[16] *New African* (April 1993, p.33) reported that "In November 1992 the Deputy Minister of Mines, Mathias Mpande said that Anglo had been given the first rights in buying back ZCCM." For early confirmation of these rights by the Zambian Government see *Business Day* (2/11/1992 and 3/6/1993).
[17] Reuters (Johannesburg, 19/11/1992). It was reported that the Zambian cabinet had rejected an initial offer by Anglo American to take-over ZCCM and pay a fixed remittance to the Government (*Africa Economic Digest* 10/8/1992).
[18] Reuters (Lusaka, 27/1/1993)
[19] *Africa Economic Digest* (25/1/1993)
[20] RTZ (Interview, 2/10/1995) stated that were Anglo American to decide against a greater involvement in ZCCM, other transnationals would be extremely cautious about stepping in.

Despite ongoing discussion between the Government and Anglo American, Ogilvie Thompson, the Chair of Anglo American, was unable to report any developments by late 1993, but said that "a mood of realism on behalf of Government" would be necessary for progress.[21] One issue to be resolved was the value of ZCCM. Morgan Grenfell (1994) noted that the World Bank had advised the Zambian Government that it could be worth in the region of $2 billion, which contrasted with Anglo American estimate of $200 million, around which Gencor and Rio Tinto Zinc concurred, and a market capitalisation of $317 million.[22] Other valuations suggested that a value between these two figures could be realised. James Capel (1992) judged that the market capitalisation of ZCCM at $127 million in January 1992 significantly undervalued the equity of the company at a price earnings ratio of 0.7, and stated that on a moderate price earning ratio of 5, the company would be valued at $929 million.[23] If the profitability of the company could be enhanced in the new political environment, they estimated that ZCCM could be valued at $1,693 million.[24]

Concerns also focused on the capacity of Anglo American to resource the rehabilitation and development of the company. In 1993, a report to the Government by Credit Lyonnais Laing, who were advising the government on options to privatise ZCCM, cast doubt on Anglo American's ability to provide the estimated $2 billion required for the future development of the industry. It suggested that Anglo American would have to overcome the problem of South African exchange controls and that it would be preoccupied with the transition to majority Government in South Africa and its other industrial interests.[25]

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21 Reuters (Johannesburg, 30/11/1993). Confirmation of these discussions from the Government was reported by *Africa Economic Digest* (23/8/1993) and from Anglo American by *Business Day* (26/10/1993).

22 These different valuations reflected divergent assessments of the potential of the assets. For example, the World Bank estimated that 400,000 tonnes of copper could be produced per annum over a twenty five year period while Anglo American estimated that production of only 350,000 tonnes per annum could be maintained over fifteen years.

23 Price earnings ratio (PER) is calculated by dividing the current market price of a company share by the most recently reported annual earnings per shares. Higher PER are associated with companies for which the prospects of future growth in profitability are considered to be better.

24 Such a valuation was on the basis that costs could be reduced by sourcing inputs from South Africa, that the sabotage of the railway in Mozambique ceased, that unit labour cost did not rise above inflation and that the Zambian Government removed the mineral levy (James Capel, 1992, p.4).

25 *Africa Economic Digest* (31/5/1993) and *African Business* (June 1993, p.44-5). Such views influenced the Government, Mpande, the Deputy Mines Minister, was reported as arguing that Anglo American would be unlikely to have the resources to solve these alone (*Africa Economic Digest* 23/8/1993; Reuters, Lusaka 12/9/1994; and *EIU*q4/1994)

An additional concern was with the monopolised control of the nation's prime asset by a foreign mining company. Some members of Zambia's business community, such as Theo Bull, argued that if Anglo American gained control of ZCCM, the rehabilitation of the copper industry and the resulting recovery of the Zambian economy would become subsidiary to their own corporate interests. Bull's preferred option was unbundling, which he argued provided the opportunity for the Government to tap the resources of a number of different transnationals, none of which would dominate the local copper industry.[26]

Anglo American also sought to clarify its own preferred options in 1995, announcing that they "would not, under any circumstances, wish to acquire a controlling interest in ZCCM on our own."[27] With a fall in the Government's shareholding to no more than 40 percent, they would not look to increase their own holding above 30 percent of equity. The proposed mechanism for this restructuring was a rights issue which could simultaneously raise new capital and allow an extension of shareholding to the Zambian public and other companies which could contribute expertise to the industry. Progress along these lines would, however, be subject to a full audit and assessment of the company, and required that the Government resolved the issues of redundancies, environmental responsibilities and the company's indebtedness.

NEDCOR's analysis of Anglo American's position was that it sought to gain control of ZCCM as a whole so that it could itself be the agent of unbundling. Its primary interest, it was claimed, was to develop Konkola Deep, and with South African exchange controls still in force, the $2 billion required to rehabilitate ZCCM would be beyond it. Anglo American's plan after having gained control would be to sell off peripheral assets to raise funds to develop Konkola Deep.[28] Any privatisation of ZCCM on that basis would leave the future of the Zambian mining industry firmly in the hands of Anglo American, which could expect to receive the principal benefits of the restructuring process.

While an agreement with Anglo American remained the most likely basis on which a partnership with a foreign transnational could be concluded, there were widespread doubts over the implications of this for the future of the copper industry and the Zambian economy as a whole. Nevertheless, by virtue of its substantial minority shareholding and its pre-emptive rights over the

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[26] *Profit* (September 1994, p.28-32 and November 1994, p.31-40).
[27] *Profit* (March 1995, p.30-1 and April 1995, p.24-5) and Reuters (Lusaka, 16/3/1995)
[28] NEDCOR (1995).

Governments shareholding, the co-operation of Anglo American remained central to a strategy of privatisation based on the participation of it, or any other transnationals.

5.1.1b Unbundling.

The option of restructuring the Zambian copper industry as a integral element of its divestiture was proposed in "Strategic Options for the Privatisation of ZCCM" (the Kienbaum Report) presented in July 1994 by Kienbaum Development Services and Inter Africa.[29] The report advised that ZCCM be broken up, rather than privatised intact, stating that;

> The strongest argument for not privatising ZCCM as a whole is that whoever (presumably foreign) should own an undivided ZCCM will have a very strong influence on the government of Zambia and the National economy.[30]

It was proposed that the current divisions should be restructured into five separate operating companies, in which private investors would take a majority share through the issue of additional equity. ZCCM would supply some technical and support services and retain a minority interest in each of the new companies.

The idea of unbundling ZCCM into a number of operating companies was not new and was advocated by the MMD before coming to power as well as by members of the Zambian business community.[31] It received renewed support from some members of the Zambian business community, such as Bull, who argued that it provided an opportunity to tap the resources of a number of foreign mining companies, while avoiding the domination of the copper industry by a single one. Further to this it would increase competition within the industry and provide a batch of new companies to be quoted on the Lusaka Stock Exchange.[32]

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[29] Reuters (Lusaka, 4/6/1994), *Mining Journal* (8/7/1994), *Southern African Economist* (September 1994, p.33-4), *Profit* (September 1994, p.28) and *EIU*(q3/1994). The report was based on a six month study funded by the World Bank.
[30] Reuters (Lusaka, 4/6/1994).
[31] *EIU* (q3/1991, p.20-1). The widespread influence of the company was criticised. Referring to it as a "State within a State," the Deputy Minister of Mines, Mpande argued that "The current ZCCM structure is just like the Zairian Mining Company Gecamines and Malawi's Press Holdings, running for the sole benefit of the country's Head of State and their local and foreign associates"(*Africa Business*, January 1992). Bull, an early advocate of unbundling, argued in *Profit* (October 1992, p.21-2) for the flotation of each of the operating companies with a dilution of the government share held in them.
[32] *Profit* (September 1994, p.28-32)

Anglo American, however, was critical of unbundling, viewing it as "long, difficult and expensive."[33] Its executives believed that the Kienbaum proposals underestimated the degree of integration within ZCCM, and that unbundling would increase operating costs by duplicating existing management and create new costs in co-ordinating mineral processing. As individual units, higher cost mines would be more susceptible to periods of low copper prices, and the overall effect of the disintegration of the company would be to increase the risk profile and decrease the value of the industry as a whole.[34]

Many of these concerns over the practicality of unbundling were shared by others. ZCCM officials themselves believed that the use of shared facilities within the group would make unbundling difficult[35] and other industry observers also doubted that ZCCM could be easily divided due to its technical integration and the absence of divisional accounting procedures.[36]

Alongside these concerns for the development of the Zambian mining industry, Anglo American also had its own reasons for opposing unbundling. One central concern was that Anglo American's minority share in ZCCM would be translated into minority shares in each of the operating companies, leaving them with a selection of small interests, but control of nothing.[37]

The Zambian Government was also doubtful about whether unbundling ZCCM was a viable option and was concerned that it would be highly controversial.[38] While support for unbundling was voiced by Deputy Minister of Mines, Mpande, and Deputy Minister of Agriculture Food and Fisheries,

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[33] Reuters (Lusaka, 4/7/1994).

[34] Gencor stated that it would be interested in a stake in ZCCM alongside Anglo American, but was also opposed to unbundling (*Business Day*, 15/9/1994).

[35] Reuters (Kitwe, 22/1/1993).

[36] Credit Lyonnais Laing (1994a, p.6) argued that the proposal would encounter a number of practical difficulties as "not only is concentrate from some mines sent in different proportions to all of the other divisions with smelters but, also, there is no accounting regime within the company that can determine whether or not such activity is profitable. With no ability to calculate the turnover and costs of the separate divisions, and with no contracts ensuring what some of those costs will be, there can be no bidders." Others took a more hostile position to the proposals. Morgan Grenfell (1994, p.30) stated that "Mining Consultants knew this was not a workable solution. The major interested parties knew it was unworkable. Even the Zambian Government knew it was unworkable. So after a long period and a lot of money, this little known German consultancy came up with suggestions that simply were not practical."

[37] Holmes stated that "Anglo will be a minority party in each of those mines. That will mean we will have a piece of each bit and we do not like that" (Reuters, Lusaka, 4/7/1994).

[38] *African Business* (December 1994, p.23) cited "a reliable source within the Cabinet" stating that "the Kienbaum report has been secretly rejected by Cabinet simply on the grounds that its recommendations were too controversial."

Ackson Sejani, others such as President Chiluba, Finance Minister, Penza, and Mines Minister, Paul Kapinga, were unconvinced.[39]

The Kienbaum report, moreover, left a number of issues unresolved. The Government believed that while giving a theoretical basis of the unbundling proposal, it did not provide a strategy through which it could be implemented.[40] In addition, it failed to address the constraints of Anglo American's existing rights without the resolution of which, it was accepted by the Zambian Government and the World Bank, no progress could be made.[41]

Rather than accept or reject the recommendations of the report, the Government's response was to undertake a number of further studies. In October 1994 President Chiluba, stating that "the Kienbaum report has not fully answered all our concerns," announced that a team drawn from ZIMCO and the Government would undertake a further study "with reference to the Kienbaum Report."[42] This position was reiterated in 1995, when ZPA Chief Executive Chitalu stated that the Kienbaum Report had not been rejected but that while "logical in its argument" it "could not support itself with the numbers and there are other technical issues of concern among the interested parties."[43]

5.1.1c Private and Independent.

Although never articulated as a comprehensive strategy, refinancing ZCCM and establishing it as an independent private sector mining company emerged as the government's preferred option in 1994.

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[39] Penza stated that "I think it is very important that we look at ZCCM as one piece of business rather than something fragmented. It will be less complicated to deal with" (Reuters, Lusaka, 3/8/1994). While Chiluba argued that; "If unbundled , we will in a short time see the closure of some units. We believe treating it as one unit helps one unit compensate the losses of the other and together they are a viable unit. This will help resuscitate the company" (Reuters, Lusaka, 21/10/1994). Minister of Mines, Paul Kapinga, stated that the privatisation of ZCCM as a single entity was preferable to unbundling (Reuters, Lusaka, 5/10/1994). Late in 1994 both Mpande and Sejani were dismissed from their positions because of their support for unbundling, although both were subsequently to return to government (*African Business*, December, 1994, p.23 and *EIU* q1/1995, p.9).

[40] Non-attributable interview.

[41] World Bank (1995a). Chiluba noted that "Whatever steps we take on ZCCM we are in touch with Anglo American and will not do anything that will breach our agreements with them. We are mindful of the law"(Reuters, Lusaka, 21/10/1994)

[42] Reuters (Lusaka 21/10/1994).

[43] Reuters (Lusaka, 6/6/1995).

The first elements of this option appeared in 1994 with the decision to appoint Nikko Europe to raise loan capital to finance ZCCM's own development of Konkola Deep.[44] In May 1994, ZCCM announced an "Interim Short Term Plan" to cover the period until March 1996. The plan aimed at concentrating capital expenditure on the most profitable units, disposing of unprofitable and under-utilised units such as the copper mines at Chambishi and Kanshansi and the Kabwe lead and zinc mine.[45] Alongside this a ten year plan was also being formulated by the management of ZCCM, on the basis of the company remaining as a single entity without any additional equity investment and with new projects financed through debt.[46]

While these initiatives appeared to offer a route for ZCCM to establish itself as a viable enterprise able to finance its own future, they did not address the issue of ownership. This was raised by Chiluba in July 1994 when he stated the Government would sell between ten and fifteen percent of ZCCM shares to the public.[47] The Minister of Finance, Penza, reiterated this position the following month, underlining it as an alternative to passing control to a private mining company and stating that;

> We are not looking for Anglo American or Gencor. We are looking to raise capital through the capital markets. The government will disengage 10 per cent to the Zambian public initially and then take some shares onto the international stock market.[48]

This approach was in line with the proposals produced by Credit Lyonnais Laing in 1993, which suggested an initial sale to the Zambian public of between five and ten percent of equity, followed by the sale of a similar portion internationally, and a sale of up to twenty percent to a major company such as RTZ which could balance the influence of Anglo American.[49] A factor with which the Zambian Government had to contend, however, was the pre-emptive rights of Anglo American should the Government shareholding fall below 50 percent. Although the Government's holding of around 60 percent of the equity of ZCCM would allow for the placement of an initial ten percent of equity, further changes in ownership would require agreement with Anglo American.

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44 ZCCM (*Annual Report*, 1994, p.11).

45 Details of the plan are in ZCCM (*Annual Report*, 1994, p.6 and 12). ZCCM announced the closure of Kabwe lead and zinc mine in June 1994 with the redeployment of 522 employees and the redundancy of 846 (*EIU*, q3/1994, p.18). James Capel (1992, p.9) noted that Kabwe had "been the subject of closure discussions for some time. ZCCM is reluctant to shut the mine down until it has successfully worked out a redeployment scheme which will enable the town to survive any job losses in the mining sector."

46 Credit Lyonnais Laing (1994a, p.6).

47 Reuters (Lusaka 5/6/1994).

48 Reuters (Lusaka, 3/8/1994). As Chiluba stated, ZCCM "is not being sold. Fresh investment is being sought for ZCCM so that the proportion of shareholding changes"(Reuters, Lusaka 21/10/1994).

49 *African Business* (June, 1993, p.44-5).

It was also not clear that this option would supply the financial resources required for the future development of ZCCM. While ZCCM announced that considerable interest had been shown by financial institutions in financing Konkola Deep,[50] the viability of adding more debt to the company's balance sheet was widely questioned.[51] In addition, the amount that could be raised through reducing the Government's shareholding to 50 percent, was at most $50 million, a figure small in comparison to ZCCM's financial needs.[52]

The question of whether ZCCM could have raised substantial funds through the issue of equity on an international basis is also open to question. The case of the Ghanaian State Enterprise, Ashanti Goldfields, which was privatised as an independent company in April 1994, provides a useful comparison. The company was privatised through a flotation on the London and Ghanaian Stock Exchanges which diluted the Government's share of equity from 55 percent to 30 percent, leaving Lonrho the largest shareholder with 44 percent. The Company had been extensively rehabilitated and developed since 1985 and its management was well respected among investors.[53] By comparison, at ZCCM the rehabilitation work was still to be done and it was doubted that the existing management had the ability to achieve it.[54]

5.1.2. Explanation of the Strategy Adopted.

A plan for privatisation was finally settled upon in 1996, the implementation of which remains in progress in March 1999. The plan, announced in May 1996, followed the unbundling option for privatising ZCCM.[55] It was based on recommendations from a report by merchant bankers N.M.

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50 Reuters (Vancouver, 2/6/1994)

51 Holmes, a Director of Anglo American (Reuters, Lusaka, 18/3/1994), Deputy Mines Minister, Mpande, (Reuters, Lusaka, 12/9/1994) and Bull (*Profit*, September, 1994, p.28-32).

52 Credit Lyonnais Laing (1994a, p.3) estimated that a one-for-five rights issue could raise in the region of $50 million while Bull (*Profit*, September 1994, p.8) put the figure lower, at between $20 million and $30 million

53 *Mining Journal* (26/1/1996 p.37-21), Credit Lyonnais Laing (1994b, p.8-12) and James Capel (1994).

54 For example a "senior government mining official," claimed that ZCCM had not been reformed under the MMD and suffered from political interference, poor management, under investment and over employment (Reuters, Lusaka, 29/12/1993). The Finance Minister, Penza, criticised management, arguing that "ZCCM could substantially improve its profit position by undertaking radical reforms. Its overheads are too high, its procurement policy is extravagant, its marketing cost are excessive, and its labour costs are inconsistent with industry standards" (Reuters, Lusaka, 28/1/1994).

55 See *Post* (29/5/1996), ZCCM (*Annual Report*, 1996), Reuters (Lusaka, 28/5/1996), Regulatory News Service (19/7/1996) and *Mining Journal* (6/9/1996).

Rothschild and lawyers Clifford Chance which was one of the those commissioned to further study the options presented by the Kienbaum Report.[56] The plan envisaged a two-stage approach to privatisation. In the first phase, the majority shares in the operating companies would be sold to new investors, with ZCCM maintaining a minority interest of up to 25 percent in each new company, and the Government retaining a golden share in key assets. With ZCCM transformed into an investment company with minority shares in a range of independently managed mining companies, phase two would commence, in which the Government would sell all or most of its shareholding in ZCCM to domestic and international investors.[57] The Government stated that the resulting companies would be registered in Zambia, that the Government would retain a golden share in each and that a monitoring group would be established by the Ministry of Mines with representation from the Ministries of Environment, Legal Affairs, Finance and Commerce, Trade and Industry.[58]

This strategy was similar to that outlined in the Kienbaum proposals which had been shelved two years previously. Like the previous report, Rothschild's suggested the unbundling of ZCCM operating units, with the Government continuing to hold a minority share in the companies. The re-emergence of this over other options of privatisation is explained by a number of factors and was the product of a number of developments which precluded some of the options that had been considered and increased the attractiveness of others.

In the mid-1990's the on-going viability of ZCCM in its existing form became increasingly doubtful. The Short Term Interim Plan which the management had undertaken was not achieving the targets which were set and copper production was continuing to decline.[59] This continued deterioration led in late 1995 to the Government requesting technical assistance from the World Bank to review operations and formulate an action plan to stabilise the operations.[60] The outcome of these studies was a

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56 Reuters (Lusaka 6/6/1995).
57 ZCCM (*Annual Report*, 1996, p.2) notes that the Government will be flexible on these arrangements, and if assets remain unsold, ZCCM may continue as an operating company.
58 Republic of Zambia (1996) and *Post* (27/11/1997). Although the unbundling process brought an end to the privileged tax position of ZCCM, such as the extended periods which it enjoyed for making payment, the Government announced in January 1997 that laws relating to pollution would be waived for the company (*Times of Zambia* 14/7/1997; and *EIU*, q1/1997/p.17).
59 ZCCM (*Annual Report*, 1995, p1). The production and profitability performance achieved by ZCCM in 1995 and 1996 fell materially short of that expected by the company itself and by UK based mining analysts (Credit Lyonnais Laing ,1994a; Hambros, 1994; Smith New Court, 1994; and NEDCOR, 1995).
60 Republic of Zambia (1995b, p.13).

restructuring of ZCCM management and the appointment of a number of expatriates to key positions within the company.[61] Further efforts were made to strengthen the management of the company in March 1996 by the appointment of Luke Mwananshiku, a former Zambian Finance Minister and an executive director of the IMF, to the Chair of the company.[62]

ZCCM's own restructuring plans were also failing to meet expectations. In early 1995, ZPA approval was given for the sale of Chambishi Mine. The asset had been on a care and maintenance basis since 1987, and through the sale ZCCM hoped to raise $50 million to contribute to its restructuring costs.[63] Bidding companies had to meet strict criteria and bids would be examined by a committee consisting of ZPA, MUZ and ZCCM.[64] Although interest was shown by a number of mining companies, no bids were submitted, and the mine continued to be kept on a care and maintenance basis.[65] Together, these developments underlined the weakness of the existing management of ZCCM and increased the doubts that the company could enter the private sector under its control.

Alongside the efforts to raise loan finance for ZCCM to develop Konkola, the Government also sought proposals from foreign mining companies interested in developing the ore body and proposals were received from Anglo American, Gencor and RTZ.[66] By late 1994 it was becoming clear that ZCCM would not be able to raise sufficient finance to undertake the Konkola project itself. In January 1995, the Minister of Finance, Penza, announced that Konkola would be developed as a joint venture

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[61] Reuters (Lusaka, 28/12/1995 and 24/1/1996) and *Post* (25/1/1996). The changes were welcomed by ZACCI and the Economics Association of Zambia (*Post* 30/1/1996). The continued problems in ZCCM's management were further highlighted when Rob Hunter, a Canadian expatriate appointed to manage Nchanga Open Pit, resigned, complaining of "the level of plunder of resources in the mine" and stating that he had "warned Shamutete against the dangers of undercapitalisation of the mining conglomerate. The mines desperately need spare parts for machinery. Unfortunately, the top management does not see level with me on this matter" (*Post*, 22/5/1996).

[62] Reuters (Lusaka, 13/3/1996) and *Post* (14/3/1996).

[63] A distinction can be drawn between the sale of a peripheral asset, such as Chambishi, as part of a strategy to maintain the core of ZCCM as a single unit, and asset sales aimed at dividing the core assets among a number of separate companies.

[64] Reuters (Lusaka, 17/1/1995) reported that "Bidders must have a net worth of $50 million, invested not less than $25 million towards the development or expansion of a metal mine in the last five years, and operated an underground mine at a rate of not less than 2,000 tonnes of ore per day over the last three years." NEDCOR (1995, p.17-8) commented that this "precludes consortia of smaller mining companies applying and big companies specialising in open pit mining who have begun to inch into underground mining. But then perhaps all this tells one is that the world of entrepreneurial and innovative thinking, which is an important feature of mining development in the West, has passed by ZCCM."

[65] Among those reported to be interested were Hindustan Copper, Kudrenukh Iron Ore Co. Ltd.; Mineral and Metal Trading Corporation and Bharat Aluminium Company (Reuters, Bombay, 23/9/1994; Reuters, London, 19/7/1995; and Reuters, Lusaka, 19/7/1995).

[66] Reuters (Lusaka, 23/2/1994; and Lusaka, 25/3/1994)

with ZCCM holding a minority of equity and the management of the project in the hands of a private mining company. The following month Anglo American confirmed that the Zambian Government had "made a definite proposal for Anglo to consider syndication on Konkola."[67] Following a meeting between President Chiluba and the Chair of Anglo American in March 1995, it was announced that Anglo American would engage in a feasibility study of the Konkola Deep deposit.[68] A Letter of Understanding was signed between the Government and Anglo American in January 1996, agreeing that Anglo American would form a consortium to develop Konkola Deep in a joint venture with ZCCM. It was also agreed that smelters from the Konkola and Mufilira divisions would be included in the venture.[69] The capital required for the project, estimated at $600 million, would be raised by the consortium while ZCCM's investment would be in the form of assets.[70]

The separation of the Konkola project from the rest of ZCCM had two consequences for the privatisation of the company. Firstly, it diminished the future prospects of the company as an integrated unit.[71] The Konkola deposits had offered ZCCM a replacement for its steadily depleting current sources of ore and without them the future position of the company as a major integrated copper producer was of limited duration. It also removed from ZCCM the prime assets that could attract a transnational mining company to seek control of the company as a whole. Alongside this, the further declines in the production and profitability performance of ZCCM brought into question whether any company or consortium would have the capacity to undertake the rehabilitation of the complete company.[72]

While these factors made the option of privatising ZCCM as an independent company or partnership with a foreign mining company less feasible, they also prompted a development in the position of Anglo American. The concluding of a Letter of Understanding on Konkola Deep between the Government and Anglo American in January 1996 secured the rights of the latter to develop its target

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[67] Reuters (Lusaka, 10/1/1995; Lusaka, 30/1/1995; and Lusaka, 24/2/1995). *Bussiness Africa* (7/3/1995) reported that the Zambian Government wanted Anglo and Gencor to be partners on Konkola Deep, with the Government holding a minority stake.

[68] Anglo American (*Annual Report*, 1995).

[69] Penza also noted that CDC, the International Finance Corporation, Mitsui and Mitsubishi could have rights in the new company that would relieve ZCCM of its debt burden (Reuters, Lusaka, 12/1/1996).

[70] Reuters (Johannesburg, 15/1/1996).

[71] As ZCCM's Chief Executive had noted "Konkola is the jewel in the crown. If we privatise Konkola the rest of ZCCM is a dead duck" (*Africa Research Report* 16/9/1994-15/10/1994).

[72] An interviewee expressed doubts that any single company or consortium would have been willing or have the capacity to acquire control of ZCCM in its entirety. Given its range of activities and social commitments, a degree of separation of the activities of the corporation appeared inevitable.

asset. Anglo American were less concerned to gain control of the rest of ZCCM and indicated that they would be willing to waive their pre-emptive rights over the Government shareholder if ZCCM was privatised.[73]

In the context of these developments the unbundling of ZCCM into a number of separate operating companies emerged as the most viable option for transferring the company to the private sector. The continuing decline of the company's performance under the existing management called for the introduction of a new controlling shareholder, and while it was unlikely that any agreement could be reached to sell the control of the company in it existing form, the opportunities to dispose of its constituent operations appeared to be greater. While Anglo American stated that the unbundling of the company was not its preferred option, having acquired rights over Konkola Deep, it indicated that it was willing to co-operate with the Government and itself recognised that unbundling offered an opportunity for it to acquire any additional assets in which it was interested.[74]

SECTION 5.2. PRIVATISING ZCCM 1996 to 1998.

Section 2 examines the implementation of the Rothschild Plan for the privatisation of ZCCM between its adoption in 1996 and the end of 1998. Although the timetable for implementation that was outlined by the Government expected that the process would be completed by mid 1998, at the end of the year the implementation remained in progress. Section 5.2.1 outlines the arrangements that were made for the implementation of the plan by the Zambian Government. In Section 5.2.2 the initial implementation of the plan to mid 1998 is examined. While in this period a number of assets were successfully privatised, a number of problems were experienced in the divestiture of others. This resulted in the Government undertaking a number of initiatives to revive the process and Section 5.2.3 examines the further progress achieved to the end of 1998.

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[73] The *Sunday Telegraph* (31/12/1995). An interviewee noted that continued decline in the performance of ZCCM also led Anglo American to view more of the assets of the company as liabilities.

[74] Non-attributable Interview. Anglo American reiterated their opposition to unbundling following the acceptance by the Government of the Rothschild plan (*Post* 3/9/1996; and Reuters, Lusaka, 4/9/1996).

5.2.1 Implementing the Rothschild Plan.

The packages on sale were announced in September 1996, with some adjustment to the those that had been proposed by Rothschild.[75] Package 'A' consisted of the bulk of the Nchanga and Nkana Divisions of ZCCM which accounted for around 60 percent of its copper production.[76] Alongside this, a number of peripheral assets from these divisions were offered as separate packages. Chambishi Mine which was maintained on a care and maintenance basis was offered as Package 'D', Kanshansi Mine as Package 'E', Chambishi Cobalt Plant as Package 'G', and the Chingola Refractory Ores as Package 'L'. The remaining mining and processing assets were divided between a number of packages. Luanshya Division, which as Package 'B' represented the second largest package to be offered; Package 'C' which constituted Mufilira Mine and Concentrator, the smelter and refinery being within the Konkola Deep negotiations; Package 'F' consisting of the Nampundwe Pyrite Mine and Package 'H' consisting of the Ndola Precious Metals Plant. The electricity distribution system, which constituted the Power Division of ZCCM, was placed in Package 'J'.[77] The remaining assets of ZCCM were dealt with outside of the package format. Negotiations on the development of Konkola Deep Mining Project and Konkola North were continued outside of the framework of packages. The nine non-mining subsidiaries of ZCCM were to be sold individually on the basis of competitive tender.[78]

The first stage of the privatisation, in which the operating companies would be privatised, was to be completed by the end of 1997, with the second stage in which the Government would privatise the ZCCM holding company, completed by mid 1998.[79] Pre-qualification of bidders was required by late September 1996, with the deadline for bids set for the end of February 1997.[80]

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[75] The proposal by Rothschilds had recommended the division of ZCCM into four units "KonkCo" based on the Konkola and Mufilira divisions and including the Konkola Deep prospect; "NCo" based on the Nchanga and Nkana divisions; "BalubaCo" based on Luanshya division, and Baluba and Chambishi mines; and "PowerCo" based on the Power Division (ZCCM, *Annual Report*, 1996).
[76] Details of the assets included in each package are outlined in *Northern Miner* (26/1/1998), *Min:.ing Journal* (8/11/1996) and Societe Generale Frankel Pollak (1998).
[77] The package also included some electricity generating assets. The mining sector accounts for over two thirds of the electricity used in Zambia (*Global Private Power*, 26/3/1997).
[78] The non-mining subsidiaries are discussed only to the extent to which they became linked to the sale of the mining packages. By the end of FY 1998, seven had been privatised (ZCCM, *Annual Report*, 1988; and *Mining Journal* 31/7/1998).
[79] *Mining Journal* (26/7/1996)
[80] *Mining Journal* (30/8/1996) Excluding Kanshansi for which bidding was scheduled to close at the end of November 1996. (*Mining Journal*, 6/9/1996).

The process attracted initial applications for pre-qualification from 40 companies, including major transnationals from South Africa, North America, Japan and Australia.[81] The final bids that were submitted in February 1997 revealed some lessening of interest, with 12 different companies and consortia bidding for the mining and processing assets and 3 others bidding for electricity packages.[82]

The course of the bidding process required that the ZPA amended its initial position on a number of issues.[83] Originally it had been hoped that some of ZCCM's creditors would bid for packages, and that the negotiations could involve the swapping of assets for debt. The failure of any of ZCCM's creditors to pursue an interest in any packages, however, ruled this option out. The ZPA, therefore, sought to negotiate with bidders over the level of debt which they might assume. Alongside this, the ZPA found that the bids that were made did not in all cases match the asset packages that had been offered. The ZPA decided to allow for flexibility in the content of the packages, with any residual assets returning to ZCCM for later sale.

The negotiation with selected bidders was to be conducted by a joint Government and ZCCM negotiation team, headed by former Chair and Chief Executive of ZCCM Francis Kaunda.[84] The negotiation team was to reach an agreement of the terms of sale, and then recommend the terms to a Cabinet Committee, ZPA Board and ZCCM Board for approval.[85] Anglo American stated that in the first stage of the privatisation of ZCCM, its Directors would abstain from voting on any proposal concerning the divestiture of assets to any associate or subsidiary of Anglo American or ZCI, and that they would otherwise evaluate the proposed terms of sale on the basis of its value. In the second stage of the privatisation, in which the Zambian Government would diminish its shareholding in ZCCM, ZCI undertook to waive its pre-emptive rights to those shares on the condition that the Zambian Government reciprocated by waiving its own pre-emptive rights, agreeing to the removal of the separate 'A' and 'B'

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[81] *Post* (1/10/1996), Reuters (Lusaka 31/10/1996) and *Mining Journal* (8/11/1996).
[82] ZCCM (28/2/1997)
[83] *Post* (14/3/1997) and *EIU*(q2/1197/p.15).
[84] *Post* (12/3/1997). A number of concerns were raised as to the appointment of the negotiation team. Agenda for Zambia MP, Colonel Mwiya Nawa, and Independent MP, Dipak Patel, formerly the Minister of Commerce, Trade and Industry, questioned whether the appointment of Francis Kaunda by President Chiluba, rather than the ZPA, was within the provisions of the *Privatisation Act*, a situation which Finance Minister, Penza, hoped would be regularised by the appropriate authority (*Post* 4/12/1997) The appointment of Francis Kaunda was also criticised by Robert Sichinga and Alex Luhila, both independent MP's, and Alfred Chioza, an MMD MP. Nawa also criticised the appointment of Kaunda, a Bemba, alongside ZCCM Chair Luke Mwananshiku and the Head of the Government Privatisation Unit Willa Mun'gomba, who were also Bemba, which he suggested could lead to corruption (*Post* 3/12/1997).
[85] *Times of Zambia* (28/8/1998).

classes of ZCCM shares, ensuring that ZCI could dispose of any of its shares in ZCCM on the same terms.[86]

The discussion presented in the following sections is focused primarily on the negotiations of the terms of sales of the packages between the bidding companies and the Zambian team. It will highlight a number of issues which emerged in the process that, while not featuring prominently in the sales agreements, have had an impact on the communities in which they took place.

The first of these relate to the role of ZCCM as a provider of health and educational services to its employees.[87] Whereas the Kienbaum Report suggested that the medical and educational services of ZCCM should be taken over by the Government, the Rothschild report recommended that they be included in the assets sold to the bidders.[88] While not a central issue in the sales negotiations, these services were not peripheral to the Zambian public. In the mid 1990s it was estimated that ZCCM provided 12 percent of the financing for the entire Zambian health sector.[89] Although some agreements have been reported to include the sale of medical facilities, the future terms of access to them are yet to emerge.[90]

A related area has been the future of the houses owned by ZCCM. Following moves by the Government to sell council houses to tenants in 1996, the sale of ZCCM houses was also undertaken. While allowing Zambians to participate in the sale of ZCCM assets, the process was open to manipulation at a local level.[91] On 30th April 1998 the Government suspended all sales, pending the establishment of new procedure, on the grounds that anomalies had been reported.[92]

Concern was also expressed that the new owners of the mines would rely less on local inputs. While local suppliers hoped that the new investment in the mines would increase the demand for locally produced inputs, there was concern that the new transnational companies might source their supplies

86 ZCI stated these terms would not be applicable if the Zambian government sought to reduce its shareholding in ZCCM without the completion of stage one (ZCI Undated I).
87 Smith New Court (1994, p.10-1) estimated the provision of these services to account for 11 percent of production costs.
88 Non-attributable interview. Finance Minister Penza confirmed that ZCCM schools and hospitals would be sold (*Post* 29/5/1996).
89 *Post* (24/10/1996) and *Times of Zambia* (25/10/1996).
90 Binani acquired two hospitals and nine clinics from ZCCM in its purchase of package 'B' and two clinics in with package 'H' (*Times of Zambia*, 18/4/1998 and 5/9/1998).
91 See for example *Times of Zambia* (1/1/1998) which reported the eviction of tenants employed by non-mining subsidiary companies of ZCCM.
92 This did not, however, affect the sales that had already been completed which the Mineworkers Union estimated to be 80 percent of cases (*Times of Zambia* 30/4/1998; and *Post* 30/4/1998).

from existing suppliers overseas.[93] Uncertainty also existed over the unbundling of the industry, with the complaint from suppliers that they would have to deal separately with each unit rather than with a central purchasing authority.[94]

The future level of employment in the mining industry has also been an area of concern. While the central issue has been speculation over the level of redundancies that may occur with the sale of the mines, concern was also expressed over the possible increase in expatriate miners.[95] In addition, issues have also been raised about the security of workers' terminal benefits and pension arrangements after the unbundling, when they would become the employees of a multiplicity of new companies.[96]

5.2.2 Initial Progress in Divestiture.

Section 5.2.2 examines the progress that was achieved in implementing the privatisation plan up to mid-1998. Although the implementation timetable had aimed to have completed the first phase of privatisation by the end of 1997, the negotiations for a number of the asset packages continued beyond this date. Section 5.2.2a examines those packages for which were sales agreements were reached in this period, while the asset packages which remained unsold are examined in Section 5.2.2b. Alongside the sale of existing assets, negotiation were also undertaken for the development of the Konkola prospects, and these are examined in Section 5.2.2c.

5.2.2a Completed Sales.

An agreement in the first half of 1997 for the sale of Kanshansi Package 'E' to Cyprus Amax was the first privatisation to be accomplished.[97] The package contained an operational mine, which continued to be managed by ZCCM, while the development potential of the properties was to be

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93 *Times of Zambia* (2/1/1997; 12/1/1997; and 6/11/1997). The Turborep of South Africa announced that, in anticipation of the rise in demand for mining equipment, they planned to begin the manufacture of compressors in Zambia (*Times of Zambia*, 8/5/1997).
94 *Times of Zambia* (2/1/1997).
95 Following the appearance of advertisements for mine positions in South African newspapers, the Zambian government stated that it would not allow the hiring of expatriate workers to take positions for which Zambian were qualified (*Times of Zambia*, 19/5/1997).
96 These concerns were raised by MMD MP Vernon Mwaanga (*Times of Zambia*, 13/11/1996).
97 *Mining Journal* (18/4/1997). Other bids had been received from Anvil Mining of Australia, Canadian First Quantum Mining, Reunion Mining of Britain , Woolwich Resources of Hong Kong and a consortium consisting of Metorex and Randex of South Africa with the Canadian AfriOre Ltd. (*Mining Journal* 20/12/1996).

explored by Cyprus Amax.[98] Cyprus Amax agreed to invest $5 million in the initial two years to conduct a pre-feasibility study and if this was successful, a further $15 million investment would follow on the undertaking of a full feasibility study. Following an initial cash payment of $3 million, subsequent to a decision to undertake a full feasibility study, Cyprus Amax undertook to pay ZCCM an additional $10 million, with a further $15 million due should they decide to undertake production. The assets were incorporated as Cyprus Amax Kanshansi Mine Plc., with ZCCM retaining a 20 percent interest[99]

The Luanshya Package 'B' attracted three bids, from First Quantum Minerals Ltd of Canada, Binani Industries Ltd and Sterlite Industries (India) Limited.[100] The award of the package to Binani Industries was challenged by First Quantum Minerals, who argued that the ZPA led them to believe that they were the only bidder engaged in negotiations for the sale of the package.[101] Press speculation suggested that the switch between bidders was prompted by the liquidity crisis of ZCCM, and that an agreement with Binani could be negotiated more quickly than with First Quantum.[102] In July 1997, the sale of the package to Binani Industries was announced for a consideration of $35 million, with a commitment of $69 million of investment. The assets were incorporated as Roan Antelope Mining Corporation of Zambia Plc. with a 15 percent interest retained by ZCCM.[103]

The Chambishi Package 'D' attracted bids from Farrell Associates, First Quantum Minerals, Sterlite Resources Limited and Aur Resources. Although the package was initially awarded to Ivanhoe Capital Corporation of Canada in November 1997, they withdrew in March 1998.[104] In June 1998, the ZPA reached an agreement with Foreign Engineering and Construction, part of China Non-Ferrous Metal Industries, for the purchase of the package for a cash payment of $20 million, with $70 million of

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98 ZPA, The Zambia Consolidated Copper Mines (ZCCM) Kanshansi Mine Sale. ZCCM halted production at the mine in January 1998 in the face of low copper prices (*Mining Journal* 23/1/1998; *Times of Zambia* 16/1/1998; and *Post* 26/1/1998).

99 ZCCM (*Annual Report*, 1998) and Cyprus Amax (17/1/1997). ZCCM (16/1/1997) stated that if Cyprus Amax withdrew from the project, the assets will revert to ZCCM and Cyprus Amax would be liable to pay to ZCCM half of the value of any outstanding committed investment.

100 In addition, partial bids were received from Reunion Mining and Straits Resources Ltd (ZCCM 18/2/1998).

101 *Mining Journal* (19/9/1997). First Quantum discontinued legal action against ZCCM in June 1998 (ZCCM, *Annual Report*, 1998)

102 *Post* (17/7/1997) and *Business Day* (21/7/1997)

103 Binani also pledged $69 million of committed investment and $103 of contingent investment (ZCCM, *Annual Report* 1998).

104 *Mining Journal* (30/1/1998 and 3/7/1998), *Post* (10/11/1997) and *Financial Times* (16/1/1998)

committed investment and a 15 percent interest retained by ZCCM. The assets were incorporated as NFC Africa Mining PLC[105]

Package 'J' constituting Power Division assets received bids from Tractebel of Belgium, Eskom of South Africa and a joint bid from the British based Midlands Power International and National Grid.[106] An agreement was reached in 1997 with a Consortium of Midland Power International, National Grid and five Zambian members of the division's senior management, and the assets were incorporated as the Copperbelt Energy Consortium. The terms of sale included an cash payment of $50 million, debt assumption of $73 million, committed investment of $25 million and the retaining by ZCCM of a 20 percent interest.[107]

Although Chibuluma Mine was originally included in package 'A', it was subject to separate sale negotiations. The Metorex Consortium approached the Zambian negotiators with the proposal that the mine should be treated separately, since a large mining company acquiring the whole of package 'A' would be unlikely to prioritise the development of the relatively small Chibuluma South deposit.[108] In August 1997, its sale to the Metorex Consortium was agreed on the basis of a cash payment of $17.5 million, additional payment of $5.5 million net present value relating to copper and cobalt price participation and $34 million of committed investment to the development of the orebody. The assets were incorporated as Chibuluma Mine PLC in which ZCCM retained an interest of 15 percent[109]

Of the four companies that completed successful acquisitions, Cyprus Amax and the Metorex Consortium both have internationally recognised mining expertise. Cyprus Amax was previously involved in the Zambian copper industry through ownership of a majority stake in Roan Selection Trust before its nationalisation in 1969, while the Metorex Consortium combines Canadian and South African mining companies.[110] Non Ferrous Metals Industries is less prominent in the international mining

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105 ZCCM (*Annual Report*, 1988).
106 ZCCM (28/2/1998). Midland Power is itself owned by the US based companies Cinergy Corporation and General Public Utilities of New Jersey.
107 Additional cash payments and debt assumption of up to $79 million are conditional on future demand for power and the development of Konkola Deep Mine (ZCCM, *Annual Report*, 1988, and 8/12/1997).
108 *Northern Miner* (18/8/1997).
109 ZCCM (*Annual Report*, 1988, p.15 and 31/10/1997).
110 The Metorex Consortium consisted of the Canadian Crew Development Corporation with a 35 percent interest, alongside three South African companies Metorex, Miranda Mines and Genbel Securities, with interests of 15, 30 and 20 percent respectively. The operation of the mine was to be conducted by Metorex. Crew subsequently acquired a 50 percent stake in Metorex, which itself had an

industry, but is considered to be financially sound and has existing involvement in the copper industry.[111] Binani Industries is an Indian based diversified transnational which has bought copper from Zambia since the 1950s, and in the 1990s extended its interests through the acquisition of the Inshimbi Copper Rod Making Plant and Kawambwa Tea Estate.[112] Although the company has experience in metal processing, doubts have been expressed over whether it possesses the necessary mining expertise.[113]

5.2.2b Unsold Packages.

The key to the overall success of the privatisation plan was the sale of package 'A'. In February 1997, it was announced that the only bid received for the package was from the Kafue Consortium.[114] This consisted of four companies, Avmin of South Africa, Noranda Mining and Exploration Incorporated of Canada, the Commonwealth Development Corporation of Britain and Phelps Dodge Corporation of the United States.[115] The Kafue Consortium also bid for Chambishi Cobalt (Package 'G') and Chingola Refractory Ores (Package 'L'), and the negotiations for all three packages was conducted through a single process.[116]

It was announced in November 1997 that the assets had been awarded to the Kafue Consortium subject to contract.[117] However, in the following months, the terms offered by the Consortium became subject to revision and negotiations ended without the conclusion of an agreement in June 1998.

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existing holding of 30 percent interest in Miranda (*Mining Journal* 8/8/1997 and *Times of Zambia* 1/8/1997).

111 Non-attributable interviews.

112 *Post* (1/7/1997). Binani Industries' existing enterprises are involved in metal trading, zinc processing and the production of glass fibre and cement (Binani, 1998).

113 Non-attributable interviews. Binani have begun the establishment of a new open pit operation at Muluishi North and have commissioned a feasibility study for the establishment of an Integrated Copper Recovery Processing plant (*Times of Zambia* 8/4/1998 and *Mining Magazine* September, 1998).

114 Two bids were received for parts of the package by the Metorex Consortium and by Straits Resources Limited (ZCCM 28/2/1997).

115 The formation of the full Consortium was subsequent to the prequalification process in which Avmin and CDC had prequalified as a single bidder, Noranda and Phelps Dodge had qualified separately. The consortium is also referred to as the AVMIN Consortium, and Copperbelt Mining Consortium.

116 Although the Kafue Consortium was the only bidder for Package 'A', the 'G' and 'L' Packages for which it was also negotiating had attracted rival offers. ZCCM (28/2/1997) states that other bidders for Package 'G' were First Quantum Minerals, Binani Industries and a ZCCM MBO. For Package 'L' two bids had been received, from Cyprus Amax and jointly from ZCI and Falconbridge.

117 ZCCM (7/11/1997)

The terms that were agreed in November 1997 were the product of extensive and combative negotiations.[118] The negotiations had begun in February 1997 with the Consortium offering a package, the principal terms of which consisted of a $140 million cash payment, the assumption of $125 million of debt, committed investment of $200 million and a 10 percent retained interest for ZCCM. The terms were dependent upon the agreement that the privatised company would receive certain tax concessions from the Government over a period of twenty years. The Zambian negotiation team rejected this bid, and the Kafue Consortium made a revised offer in June 1997. This was based on increasing the cash element of the agreement to $160 million with debt assumption rising to $150 million. Committed investment was increased to $400 million and the interest of ZCCM was raised to 12 percent. The offer was, however, still subject to the agreement of tax concessions, without which the cash element of the offer would be reduced to $75 million. This offer continued to be unacceptable to the Zambian negotiators. In October 1997 the Kafue Consortium made a further revised offer which the Zambian negotiation team accepted in the following month. While the cash element of the offer was $150 million, with an assumption of $75 million of debt, the demands for tax concessions were withdrawn. The investment commitment of $400 million was maintained, as were the terms of ZCCM's 12 percent retained interest.

The acceptance of the terms offered by the Consortium in October 1997 reflected a number of factors. The Zambian negotiators had increased the terms initially offered by the Consortium for the cash payment, the level of committed investment and the retained interest by ZCCM. Although the level of debt to be assumed by the Consortium had diminished, the demand for tax concessions had been removed from the negotiations and certain assets, such as Chibuluma Mine, were also excluded. In addition, the timetable for the implementation of stage one of the Rothschild Plan had projected that privatisation of all of the packages would be completed by the end of 1997 and the Government was under pressure from the World Bank and donors to meet that deadline.[119]

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118 The terms offered by the consortium during the negotiations were not made public. The discussion below relies on the subsequent account of the negotiation in the *Times of Zambia* (8/4/1998). They differ from those suggested by Mining Journal for November 1997 of $220 million cash, plus $750 million capital expenditure and $250 million in social obligations and debt assumption (*Mining Journal* 14/11/1997). These figures latter are also cited by *EIU*(q1/1998/p,16)

119 Despite the agreement of terms in November 1997, the following month the World Bank postponed a Consultative Meeting of Zambia's donors because of continued concerns over the slow pace of ZCCM privatisation (*EIU*q1/1998, p.19).

On the 10th March 1998, however, the Kafue Consortium revised the terms which were offered in October 1997. The initial cash element was reduced to \$50 million, with a further \$150 million payable over four years, subject to the level of the copper price. The debt assumption was reduced to \$35 million, with an additional assumption of \$40 million over 5 years being conditional on the copper price.[120] In addition to this the Consortium requested the inclusion of Ndola Lime Company, Nampundwe Mine and Dar Es Salaam port facilities to be included in the package at no additional cost. On the 31st March 1998 the Consortium suggested a further revision based on a cash payment of \$105 million and a \$35 million debt assumption, subject to extensive further options. Additionally they renewed their demands for extensive tax concessions and for the addition of extra assets within the package.[121] The terms of both of these offers were rejected by the Zambian negotiation team.

In April 1998, ZCCM announced that the negotiations between the Kafue Consortium and the Zambian privatisation team had broken down, and further exploratory talks between the Consortium and Zambian bodies did not result in their recommencement.[122] Subsequently, Noranda Incorporated and Phelps Dodge withdrew from the consortium in late May, and in June, Avmin and CDC decided against pursuing a further involvement in the sale of the assets.[123]

Apart from the failure to reach agreement on the assets under negotiation with the Kafue Consortium three other asset packages remained outstanding in mid-1998. No bids were received for the acquisition of Nanpundwe Mine (Package 'F') and none of the three bids which were received for Mufilira (Package 'C') or Ndola Precious Metals Plant (Package 'H') proceeded to negotiations.[124]

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[120]The retained interest of ZCCM was maintained at 12 percent although the benefits attached to their holding were reduced.

[121] The tax exemptions requested by the Kafue Consortium are reported to have included the suspension of mineral royalty tax for 7 years and excise duty on electricity for 5 years, and an exemption from import declaration fees and any import duties on imported finished fuel products (*Times of Zambia* 8/4/1998).

[122] See *Mining Journal* (10/4/1998); *Times of Zambia* (3/4/1998 and 1/5/1998); and *Post* (1/5/1998).

[123] *Mining Journal* (5/6/1998) and *Post* (10/6/1998). Renewed attempts to restart talks in late June 1998 also proved unsuccessful (*EIU*(q3/1998,p.17; and *Post* 15/6/1998).

[124] Post (2/2/1998). ZCCM (28/2/1997) stated that bids had been received for Package 'C' from Farrell Associates, Sterlite Resources and Aur Resources, while Avmin had bid for a management contract for Package 'F' and First Quantum was the sole bidder for Package 'H'.

5.2.2c The New Development Properties.

Securing the long term future of the Zambian mining industry required not only the rehabilitation of the existing mines but also agreements relating to the development of new ore sources of Konkola Deep and Konkola North. The development of these projects, however, also remains to be finalised. Following the agreement of a Letter of Understanding between the Zambian Government and Anglo American in January 1996, the latter formed a consortium consisting of itself, Gencor, and the Western Mining Company of Australia.[125] Progress towards the agreement of a Memorandum of Understanding between the parties was slow, however, prompting Finance Minister, Penza, to warn Anglo American that there were other mining companies willing to develop Konkola Deep if they were not.[126] The Consortium faced further difficulty in October 1996 when Western Mining withdrew from the project, although a replacement was found in the Canadian company Falconbridge.[127]

Konkola Deep Mine Project was the subject of a further Memorandum of Understanding between the Consortium led by Anglo American, ZCCM and the Zambian Government in February 1997, which granted the consortium the exclusive right to conduct a feasibility study of the prospect.[128] This confirmed that the Consortium would take the lead in the project, and that ZCCM would contribute the Mufilira smelter and refinery and retain a 20 percent interest in the company. The revised capital cost of the project was estimated at between $700 million and $800 million The finalisation of the agreement was to be subject to a number of conditions including the completion of the privatisation of Nchanga and Nkana Division of ZCCM and the successful completion of due diligence studies. The consortium would be required to reach a decision on whether to continue with the project by the date of the privatisation of the Nchanga and Nkana Divisions of ZCCM, with the asset returning to the control of ZCCM if they decided against its development.[129]

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125 Reuters (Johannesburg, 24/6/1996 and Johannesburg, 19/11/1996).

126 Reuters (Cape Town, 24/5/1996; Lusaka, 3/7/1996; and Lusaka, 22/719/1996). Anglo American had sought the inclusion of the Konkola North prospect alongside Konkola Deep. The Zambian Government had been concerned that this would delay the development of the former, for which other companies had expressed an interest (*Africa Confidential* 21/6/1996, p.2).

127 Western Mining, stated that while the project was viable, it entailed too great a commitment to Africa for the company (*Post* 4/10/1996). In its place, entered the Canadian mining company, Falconbridge in November 1996 (*Post* 25/11/1996).

128 For details of the agreement see ZCCM (12/2/1997) and *Mining Journal* (14/2/1997).

129 At the time of this agreement, the sale of the Nchanga and Nkana divisions was scheduled to be completed within 6 months.

In May 1997 Gencor withdrew from the consortium and was followed by Falconbridge in March 1998 which cited lower copper price forecasts as the reason for their reassessment.[130] By August 1998, the completion of the feasibility study of Konkola Deep was still awaited, and the sole remaining member of the consortium, Anglo American, warned that the undertaking of the projects still depended on the sourcing of third party finance and the completion of the privatisation of ZCCM.[131] By the second half of 1998, the delay in undertaking the project prompted speculation over its potential for commercial viability. Some sources within the industry estimate that the cost of developing the project may be as high as $1.5 billion and that the level operational costs at which copper could be produced would not be profitable at prevailing prices.[132]

Although the subject of less exploration, the Konkola North orebody is potentially as extensive as that identified at Konkola Deep. The two developments were separated, with ZCCM reaching an agreement with Avmin for the study of Konkola North in July 1996.[133] A Memorandum of Understanding was agreed between the Zambian Government, ZCCM and Avmin in February 1997.[134] The terms of the agreement committed Avmin to conduct a pre-feasibility study, and on the basis of its results, to either undertake a bankable feasibility study, or return the assets to ZCCM.[135] Should a mining development go ahead, ZCCM would be able to retain a holding of 10 to 15 percent. In the undertaking of its pre-feasibility study, Avmin reached agreement with the Korea Zinc Company for the latter to take a 30 percent stake in Avmin's subsidiary, Konnoco Zambia Ltd, through which the exploration was being undertaken.[136]

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130 On Gencor's withdrawal see *Mining Journal* (12/9/1997), *Business Day* (22/5/1997) and *Financial Post* (23/5/1997). On Falconbridge see *Mining Journal* (27/3/1998) and *American Metal Market* (26/3/1998).

131 *Mining Journal* (7/8/1998). It has been suggested that Anglo American sought to delay the final agreement, perceiving that the greater pressure on Zambia to secure an early start to the project would increase its bargaining position over time (*EIU* q1/1998/p.9). Anglo American stated in March 1998 that the completion of the feasibility study was scheduled for the second quarter (*Times of Zambia* 26/3/1998).

132 Non-attributable interviews.

133 Reuters (Johannesburg, 8/7/1996).

134 Republic of Zambia (1997), *Post* (24/1/1997) and *Mining Journal* (12/9/1997)

135 The assets will also revert to ZCCM if no decision to develop the project has been taken within 5 years of the agreement of the Memorandum.

136 ZCCM (1988) and *Post* (29/7/1997).

5.2.3 Repackaging and Progress to December 1998.

By the end of June 1998 the implementation of the Rothschild Plan was behind schedule. It was intended that by this date the second phase of the privatisation of ZCCM as an investment holding company would have been completed. Instead, major operational assets that were to have been divested in the first phase remained unsold. In addition, these delays were an obstacle to the finalisation of the negotiations on the Konkola Deep Project, the swift undertaking of which was vital to the future development of copper mining in Zambia.

The successful privatisation of Nchanga and Nkana Divisions remained central to the completion of phase one of the privatisation plan. The primary factor which the Zambian negotiators cited for the breakdown of the negotiation with the Kafue Consortium was that the revised terms offered by the Kafue Consortium in March 1998 were too low and did not reflect the true value of the assets that they were seeking to acquire. As the Zambian team stated at the breakdown of talks in April 1998:

> even at current prices, the assets represent a valuable and unique opportunity for investors to acquire significant existing copper and cobalt producing assets with potential for expansion.[137]

The Zambians entered the negotiations aiming for a price of $300 million for the assets.[138] The terms agreed in November 1997 of a combined cash and debt assumption of $225 million had, therefore, required the Zambian side to lower their initial expectations. The revised terms offered in March 1998, with the guaranteed cash and debt assumption reduced to $85 million moved the price into territory which the Zambian negotiators would not contemplate.

While President Chiluba expressed support of the stand taken by the negotiating team, stating that the mines should be sold for their full value, others suggested that the Government should have concluded an agreement on the terms that were available.[139] International financial opinion has tended

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137 *Post* (3/4/1998). The Consortiums estimated future life of 10 years for Nkana was below that expected by ZCCM; the copper prices projected by the Consortium were between 10 and 20 percent less than those expected by ZCCM, while the difference on the cobalt price was even greater. In addition to this, ZCCM believed that the discount rates used in the investment projections of the Consortium were excessive and that the costs of redundancy that would be incurred were significantly exaggerated (*Times of Zambia* 8/4/1998).

138 *Times of Zambia* (19/11/1997) and *Mining Journal* (14/11/1997).

139 President Chiluba's position was reported in the *Times of Zambia* (8/4/1998, 16/4/1998 and 15/8/1998). Finance Minister Nawakwi also defended the rejection of the terms offered by the Consortium (*Post* 9/4/1998). *Profit* (May 1998) speculated that one of the reasons for the dismissal of Penza as Finance Minister on 20th March 1998 was the result of his recommendation of the acceptance of the terms offered.

to support the view that the terms offered by the Kafue Consortium were the best that were available to the Government.[140] As the *Economist* magazine stated;

> few believe that Zambia will get a better deal than the one Kafue is offering... Zambians, who are among the world's poorest people, could be paying a high price for their government's belief that the family silver is worth more then it is.[141]

This perspective was also reflected within Zambia. Among others, Ben Kapita, the President of the National Lima Party, expressed concern that an agreement had not been concluded with the Consortium, stating that "a very good deal" had been lost because of the failure of the Government to finalise the sale.[142] Some local observers suggested that the negotiation team had placed too great an emphasis on the cash element of the agreement, and argued that the long term value of the sale to Zambia depended more on the commitment of future investment that could revive the industry.[143]

Members of the Consortium stated that the lower price that they had offered was a response to the effects of the financial crisis in East Asia, which materially reduced expectations of future copper prices, and the continued physical deterioration of the assets which they sought to acquire.[144] The economic problems arising from the Asian financial crisis were certainly a key factor in the failure of the two parties to reach an agreement. By late 1997, copper mining capacity was being reduced worldwide in response to lower copper prices, and the outlook for future price trends appeared uncertain.[145] These conditions also affected investors of other packages, and were cited among the reasons for the withdrawal of Ivanhoe Capital from the acquisition of package 'D' and of Falconbridge from the Konkola Deep consortium.[146]

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140 Non-attributable Interviews.
141 *Economist* (9/5/1998).
142 *Post* (4/5/1998). Mining Consultant Silane Mwenechanya also suggested that the failure to finalise the November agreement was due to the prolonged and excessive process of Zambian political supervision of the agreement (*Post* 11/6/1998). At the time of the November 1997 agreement, Theo Bull was critical of the decision by ZCCM not to settle with the Consortium in August 1997 on what he judged to be better terms (*Times of Zambia* 19/11/1997).
143 For example Silane Mwenechanya, a mining consultant addressing an Economic Association of Zambia meeting (*Post* 11/6/1998), and Theo Bull (*Post* 10/6/1998).
144 *Mining Journal* (10/4/1998) and *Post* (3/4/1998 and 2/4/1998).
145 *Financial Times* (20/1/1998). *Financial Times* (30/1/1998) reported the recent closure of 110 thousand tonnes of capacity world wide in the copper industry, and expected that mines producing a further 250 thousand tonnes were vulnerable to closure. Between the first offer made by the Consortium in June 1997, and the revised offer made in March 1998, the copper price had declined by 30 percent (*Post* 19/3/1998).
146 *Financial Times* (16/1/1998).

While attention has focused on the distance between the terms offered by the Consortium and those sought by Zambia, other factors may also account for the inability of the two sides to reach a compromise. The Zambian side in the negotiations were starting from a weaker position than the Consortium, with both the financial position of ZCCM and pressure from donors placing a high premium on their agreement of terms. It received only one bid for the entire package from a consortium formed by a number of companies that pre-qualified on a separate basis, an outcome which some, such as Moses Banda of the Economic Association of Zambia, interpreted as a deliberate move by the companies to avoid bidding the price higher.[147] The pressure from the Consortium for additional assets and tax exemptions may have heightened the apprehension of the Government over the of degree control that it would relinquish to a single group of companies and led them to stall in the negotiations.

On the Consortium side, the *Economist Intelligence Unit* has speculated that the decline in the copper price was such that the Consortium may "have chosen to withdraw from the deal by making an unacceptable offer to ZCCM, in order to avoid having to bear anticipated heavy losses in the Nkana and Nchanga divisions."[148] The emergence of differences between members of the Consortium may also have been a factor in the failure of negotiations. As noted previously, Avmin and CDC had pre-qualified for bidding as a consortium and initially sought to continue with negotiations with the Zambian Government following the withdrawal from the negotiations of Phelps Dodge and Noranda in May 1998. Noranda's associated company, Falconbridge, had withdrawn from the Anglo American led consortium to develop Konkola Deep in March 1998, and both Noranda and Phelps Dodge were subsequently reported to have turned their attentions towards mining opportunities elsewhere[149]. CDC and Avmin, however, continued to pursue the acquisition of various ZCCM assets which had been among those included in the negotiations.[150]

In response to the failure of negotiations with the Kafue Consortium, the Government undertook a number of steps to restart the privatisation process for the outstanding assets. A pro-active approach to finding buyers was pursued with the British based Hong Kong and Shanghai Investment Bank engaged

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147 *Post* (20/10/1997) While Avmin and CDC had prequalified as a single group, Phelps Dodge and Noranda had prequalified individually (*Times of Zambia* 8/4/1998).
148 *EIU*(q2/1998, p.16).
149 *Post* (22/4/1998 and 2/6/1998) and *Metal Bulletin* (4/6/1998)
150 CDC unsuccessfully sought to acquire the ZCCM subsidiary Ndola Lime, while Avmin's subsequent purchase of the Chambishi Cobalt Plant is discussed below.

to identify potential investors.[151] The Government also indicated its willingness to unbundle the remaining asset packages to improve their marketability.[152] This approach met with some initial success and an agreement was reached in August 1998 with Avmin for the sale of the Chambishi Cobalt Plant from package 'G' and the Nkana Slag dump for a cash payment of $50 million with an investment commitment of $120 million over 3 years.[153] Zambian Government ministers pointed to this as evidence of the continuing implementation of the privatisation programme and proof that the assets for which the Kafue Consortium had bid could be sold to other investors at better terms.[154] In addition, the bidding for Package 'H', the Ndola Precious Metals Plant, was successfully reopened and an agreement reached for its sale to Minerva, a subsidiary of Binani Group, in September 1998.[155]

However, the ability of the Government and ZCCM to further prolong the privatisation process was limited by a number of factors. Pressure was brought upon the Zambian Government to complete the first phase of the privatisation process by donors who postponed the release of $530 million of balance of payments support pledged in May 1998 until this condition had been met.[156] Concerns were also expressed within the Zambian business community over the costs of the continued delay in privatisation to the economy as a whole and its secondary effects on other sectors.[157]

Alongside this, the continued viability of ZCCM as a going concern appeared to be increasingly doubtful. The falling copper price that prompted potential investors to re-examine their commitments, also impacted on the financial position of ZCCM.[158] In August 1998 the Zambian Government and

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151 *Post* (27/7/1998).

152 Reuters (Johannesburg, 23/4/1998), *Platt's Commodity News* (21/7/1998) and Reuters (Lusaka, 4/9/1998). The further unbundling of the large asset packages to allow smaller companies to enter negotiations had previously been advocated by Moses Banda, the Chair of the Economic Association of Zambia and by some at the Ministry of Mines (*Post* 6/8/1997, 20/10/1997 and 7/4/1998).

153 The assets were to be incorporated as Chambishi Metals Plc. with a 10 percent interest retained by ZCCM and the potential for further payment linked to the price of cobalt (*Times of Zambia* 28/8/1998 and 29/8/1998; and *Business Day* 17/8/1998).

154 This argument has been made by Finance Minister Edith Nawakwi and Mines Minister Syamukayumbu Syamujaye (*Times of Zambia* 29/8/1998).

155 *Times of Zambia* (5/9/1998) reported the sale to Minerva for $350,000 with a commitment to invest $1.4 million in rehabilitation work.

156 *Times of Zambia* (6/1/1999).

157 ZACCI's concerns were reported by *Post* (3/4/1998). The point was also made by Murray Sanderson of the Kitwe Chambers of Commerce and Industry (*Post* 7/4/1998).

158 Mark O'Donnell of the Zambian Association of Manufacturers also expressed concern that ZCCM could be forced into liquidation by the pre-emptive actions of secured creditors (*Times of Zambia*, 7/4/1998). In April 1998, ZCCM had announced that as a consequence of the failure of the sale of Package 'A', it had suspended all labour retrenchment because it could not fund termination payments (*Times of Zambia*, 29/4/1998).

Anglo American, as the major shareholders in ZCCM, drew-up a survival plan aimed at maintaining the company as a going concern until the end of March 1999, during which time the remaining assets of ZCCM could be privatised.[159] The plan underlined the critical financial state of ZCCM and included provisions for managing the possible liquidation of the company and for safeguarding its assets in such a outcome.[160]

Despite the renewed attempts of the Zambian Government to identify investors interested in acquiring the mines, few were willing to pursue the assets.[161] The British based Reunion Mining emerged as the only party interested in the acquisition of the Mufilira mine, while Anglo American agreed to undertake studies of the remaining assets of the Nkana and Nchanga Divisions.[162]

The potential acquisition of the Nkana assets by Anglo American had consequences for the Mufilira assets that remained outstanding. In the January 1996 agreement with Anglo American for the development of Konkola Deep, ZCCM undertook to contribute the Mufilira smelter and refinery to the project, leaving the Mufilira Mine and concentrator to be included as Package 'C' of the Rothschild Plan.[163] No acceptable bids had been submitted for this asset Package and the future operation of the Mufilira Mine was in doubt. The Nkana Division, however, included processing facilities which could substitute for those of the Mufilira Division, and allow for the sale of the Mufilira Division as an integrated unit. An offer for the Mufilira Division as a whole was received from a consortium consisting of the British based Reunion Mining, the CDC and the existing managers of the division, and a Memorandum of Understanding was concluded between the parties in November 1998.[164] The finalisation of this, however, remained subject to Anglo American agreeing to waive its existing rights

159 *Platt's Commodity News* (2/10/1998), Reuters (Lusaka, 14/10/1998) and *Mining Journal* (23/10/1998).

160 Particular concern was expressed at the potentially irreparable damage that could be caused to the mines through flooding (*Platt's Commodity News* 23/10/1998)

161 Discussions were reported with, among others, Chinese, Indian and South African interests. See *Mining Journal* (31/7/1998 and 7/8/1998), *EIU*(q3/1998/p.18), *Post* (15/5/1998), *Times of Zambia* (29/8/1998) and *Financial Times* (2/6/1998).

162 *Platt's Commodity News* (16/9/1998) and *Metal Bulletin* (14/9/1998).

163 The unbundling of Mufilira division was criticised in the National Assembly by MMD member Steven Chilombo, and independent Robert Sichinga (*Post* 3/12/1997 and 20/2/1997).

164 *Times of Zambia* (4/10/1998) and Regulatory News Service (3/11/1998). It was planned for the assets to be incorporated as Mufilira Copper Mines PLC, with ten percent of equity retained by ZCCM (*Business Day*, 4/1/1999). The cash price agreed was reported to be $17 million (*Metal Bulletin* 4/2/1999).

over the smelter and refinery, which depended upon their successful acquisition of the Nkana Division.[165]

Further negotiations resulted in a Memorandum of Understanding being concluded with Anglo American for the acquisition of the Nchanga and Nkana Divisions, the Nampundwe Mine, the Chingola Refractory Ores and Konkola Deep development rights in November 1998. The assets are to be incorporated into a new company in which ZCCM would retain 20 percent of equity[166]. The terms of sale were to include a cash payment of $90 million, investment commitments of $300 million over three years and an undertaking to implement the Konkola Deep project with a capital investment of $800 million. The agreement also entailed the purchase by the Zambian Government of Anglo American's minority stake in ZCCM. The conclusion of a final agreement on these terms remained conditional on the satisfaction of a number of criteria, including Anglo American successfully forming a consortium with other companies to undertake its commitments, and the Zambian Government sourcing donor funding for specified retrenchments at ZCCM. It was envisaged that the transaction would be completed by 31st of March 1999 and Anglo American placed personnel at the assets to facilitate the transfer of ownership. The agreement of December 1998 also involved Anglo American waiving its rights to the Mufilira smelter and refinery, which facilitated the conclusion of the sale of the Mufilira Division to the Consortium led by Reunion Mining. In February 1999 Reunion mining stated that they expected that this would soon be achieved.[167]

The Zambian Government stated that the terms of the agreement reached with Anglo American were an improvement on those offered by the Kafue Consortium.[168] The evaluation of this claim is, however, subject to a number of difficulties. Firstly, the assets for which the Kafue Consortium bid are not the same as those which Anglo American would acquire. For example, the Kafue Consortium bid included the Chambishi Cobalt Plant and the Nkana Slag Dump which were sold separately to Avmin, while the agreement with Anglo American included the rights for the development of the Konkola Deep mine. Secondly, the full terms of the agreement between the Zambian Government and Anglo American remained to be disclosed. The *Post*, for instance, reported that the agreement included the granting of

165 *Mining Journal* (23/10/1998) and Reuters (Johannesburg, 5/10/1998).
166 *Times of Zambia* (22/12/1998; 23/12/1998 and 23/1/1999) and Regulatory News Service (22/1/1999).
167 *Metal Bulletin* (4/2/1999).
168 *Platt's Commodity News* (29/1/1999) and Reuters (Cape Town, 4/2/1999).

tax exemption which effectively reduced the price to around $8 million.[169] Thirdly, the terms concluded with Anglo American included non-monetary benefits, in particular the facilitating of the divestiture of the entire Mufilira Division, whose future was uncertain under the terms agreed with the Kafue Consortium.

With the conclusion of the agreements with Anglo American and Reunion Mining, the privatisation of all the mining assets that were offered for sale in the first phase of the Rothschild Plan would be achieved. This would allow for the conversion of the ZCCM holding company into the mining investment company which would itself be privatised under in the second stage of the Rothschild Plan.

SUMMARY.

This Chapter has examined the design and implementation of the privatisation of ZCCM. The discussion has emphasised the degree of choice open to the Zambian government to decide on the method of privatisation. Whereas a private sale of a majority interest would have transferred control of the industry to a foreign based mining transnational, a public sale of equity could have resulted in the creation of a major independent private enterprise under indigenous control. The unbundling option which was finally chosen has resulted in the control of the industry passing to a plurality of transnational mining enterprises, although Anglo American is pre-eminent among these.

The choices which were made by the government were shaped by a number of factors, of which the financial and commercial weakness of ZCCM was particularly important. The initial decision to privatise the company reflected the view that neither existing operations, or the development of new sources of ore, could be undertaken without the introduction of additional investment. Given the financial constraints on the government, this had to be sourced from the private sector, and given the outstanding indebtedness of ZCCM, had to include equity investment.

Between 1994 and 1996, the weakness of ZCCM also precluded the option of privatising it as an independent company. The failure of the Short Term Interim Plan to revitalise the performance of the operating units, and the inability to source third party finance for the development of the Konkola prospect, ensured that a new controlling shareholder was required. Alongside this, the continued deterioration of the company resulted in it being less attractive to potential investors. In particular, this

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169 *Post* (13/1/1999).

prompted Anglo American to redefine its strategy towards the acquisition of particular assets rather than of the company as a whole, which facilitated the adoption of the unbundling option.

The implementation of the Rothschild Plan was adversely affected by the declines in the international price of copper which were a result of the East Asian financial crisis. While this contributed to the continued commercial decline of ZCCM, it also lowered the bidders perceptions of the value of the assets that were to be privatised. In particular, this contributed to the failure of the negotiations between the Government and the Kafue Consortium for the important Nchanga and Nkana assets.

Throughout the process of privatisation the choices open to the government were also affected by the actions of other actors. The principal actor in the privatisation process, apart from the Zambian Government, was Anglo American. As a major shareholder, with pre-emptive rights over most of the government shareholding, and a right of veto over the sales of assets, the co-operation of Anglo American was crucial for the implementation of the privatisation of ZCCM. While Zambian concerns over their influence were an important factor in preventing their takeover of the whole of ZCCM in the early 1990s, Anglo American's opposition to the unbundling of ZCCM was influential in the shelving of the Kienbaum Report in 1994.

Nevertheless, the degree to which in 1998 Anglo American re-emerged as the principal company involved in the Zambian mining industry was not only a result of its influential position. With the exception of the Konkola Deep project, the government had the opportunity to divest the other assets to Kafue Consortium. That it did not, reflected the government's apprehension over the concentration of ownership within a single private company, and the expectation that they could achieve a higher sale price for the assets. The result, however, has been to produce a greater concentration of ownership in Anglo American. That the Government chose to accept this in December 1998, reflected the pressure from donors, who had withheld financial assistance, and the possibility of the liquidation of ZCCM, unless an agreements with the available bidders.

CHAPTER 6.

CONCLUSION.

This thesis has examined the growth, operation and privatisation of the Zambian State Enterprise Sector between 1968 and 1998. Throughout, the focus has been upon the choices made by the Zambian state between alternative policy instruments, through which it could pursue its objectives. These were made within a constrained environment and were subject to uncertain outcomes. This Chapter summarises the primary factors which the study has identified as material to this process, and the arguments that have been advanced through the thesis.

At independence in 1964, the Zambian economy was dominated by the copper mining industry. The industry was under foreign ownership, producing metals for export, and had minimal links to other sectors of the Zambian economy. Nevertheless, the industry provided an important source of revenue to the newly independent state, which allowed it to undertake ambitious plans for economic development. The primary aim of these development plans was to overcome the dependence of the economy on the copper mining industry through the creation of a diversified industrial sector. This was pursued through a policy framework which offered incentives to the existing private sector. Among other measures, tax incentives were offered to promote the establishment of new industries, tariffs were set to encourage domestic production of imported goods and limited restrictions were placed on capital flows. Direct investment by the state was concentrated on infrastructural projects, and productive investment was limited to sectors in which private enterprise was unwilling to invest or which were of particular strategic significance.

In the late 1960's, the government increasingly came to doubt that this approach provided the most effective means for it to implement its policy objectives. In particular it perceived that the existing foreign and expatriate private sector was unwilling to reinvest the profits that it was deriving from the economy. In addition, the South African and Rhodesian connections of many of these enterprises contributed to the mistrust of them by the government.

Progress in encouraging the emergence of an indigenous private enterprise was also disappointing. Among the problems that were identified were the difficulties of competing with established expatriate enterprises and in obtaining finance from the established private sector financial institutions. While a number of policy initiatives were undertaken by the government to address these issues, it was recognised that the development of indigenous private enterprise would require active support over a long period.

In contrast to these experiences, the government's use of state enterprise appeared to be successful. Through INDECO it established a number of new industries with the participation of a variety of transnational investors. The extension of the state enterprise sector was not, however, the only policy option pursued by the government to overcome the problems in the performance of the private sector. For example, in 1968 limits were placed upon the levels of dividends to encourage private enterprise to increase its level of reinvestment. The continued reluctance of private enterprise to positively respond to such measures further encouraged the government to choose state enterprise as the means through which they would implement policy.

The structure of the state enterprise sector that was created reflected both the industrial structure of the Zambian economy and the strategy through which the state sought to transform it. Within ZIMCO the state mining enterprises constituted the majority of the state enterprise assets and were also the main source of Group profits. INDECO was refocused towards industrial development and relied on the funds that could be raised from profitable activities within the INDECO Group and by other profitable divisions within the ZIMCO Group.

In this, the Zambian government replicated within the state enterprise sector the dependence on the copper mining industry that characterised the economy as a whole. As long as the copper industry provided revenues, INDECO could direct these towards new investments, which in time could provide an alternative basis of economic activity. If, however, the copper revenues declined, the state enterprise sector would lose its primary source of investable funds and could become a burden on government finances.

The fall in the international copper price in the 1970s, therefore, had a number of consequences for the Zambian economy as a whole and on the state enterprise sector in particular. While the copper price had previously been cyclical, these declines were the beginning of a prolonged downward trend which was the result of the changing dynamics of the global economy and the international copper industry. In the space of a few years, the Zambian economy faced drastic reductions in its ability to fund imports and in the revenues which the government received from the copper mines. The result of this was that Zambia became dependent upon external financial support and the conduct of economic policy became increasingly focused on the ability of the government to reach agreement with the World Bank and the International Monetary Fund.

Within the state enterprise sector, the downturn in the copper industry undercut the strategy of industrial diversification by removing the source of investable funds. The continued expansion of the state enterprise sector became reliant on the provision of new funds from the government and minority shareholders, or through increased borrowing. Reflecting the financial constraints upon the Government, and the reluctance of many minority shareholders to increase their equity investments, the state enterprise sector became increasingly reliant on debt finance.

The decline in the copper industry was not the only problem faced by the state enterprise sector during this period and reference has been made to the many reports which cited the inadequate management of state enterprises. To overcome the problems faced by the state enterprise sector, the government undertook a number of measures during the 1970's to re-organise the structure of supervision. This reflected the view among the government and many of its political opponents that the state enterprise sector could be restructured to become an effective agent of development.

Through the 1980's the state enterprise sector concentrated increasingly upon the rehabilitation of existing state enterprises. This reflected the increasing problems which were being experienced in maintaining the commercial viability of many enterprises and the financing of these rehabilitations also demonstrated the growing dependence of the Zambian government and the state enterprise sector on the support of the World Bank and donors.

In 1990 the Zambian government adopted a limited programme of privatisation. The scope of this was extended in 1991 to cover all non-strategic enterprises outside of the utility sectors, and following the accession to government of the MMD, to all state enterprises. The principal factor prompting the initial adoption of the policy was the pressure placed on the government by the IMF, the World Bank and international donors. Their ability to influence the government at this time was a product of the increasing dependence of the government and the state enterprise sector on funds which they provided.

While this continued to be an important factor in the commitment to implement privatisation, it was also contributed to by a number of other factors. Despite the rehabilitation work which had been undertaken, and the return of many enterprises to profitability, the state enterprise sector remained in need of new investment which the government was unable to provide. In this context, privatisation has frequently, therefore, been an alternative to the closure of enterprises. In addition, domestic support for the continued existence of the state enterprise sector had declined and, since the re-establishment of a multi-party system, all major political parties have supported privatisation.

On achieving power in 1991, the MMD suspended the programme of assets sale that was begun under UNIP and established a more formal framework based upon new legislation. The central provision of the *Privatisation Act* of 1992 was the creation of the ZPA as the body charged with the implementation of the privatisation process. The subsequent progress has been substantial. By the end of 1998 the majority of all state enterprises had been privatised, including two-thirds of those rated as large and three-quarters of those rated as medium and small. The minority of enterprises which remained outstanding were often those situated in strategic or utility industries, and in most cases the government remains committed to their sale.

The choice of method through which these enterprises have been privatised has reflected both the objectives which the government has sought to achieve through the privatisation process and the constraints under which it has been undertaken. While public sales offered the opportunity to establish a number of independent private enterprises with diversified ownership, this option was constrained by the pre-emptive rights of existing minority shareholders, which required that they were divested through private negotiated sales. Nevertheless, in many cases the ZPA was able to secure a limited public participation in ownership through the flotation of minority interests in enterprises. Minority interests also limited the degree to which monopolistic state enterprise could be demerged prior to privatisation, to prevent the creation of privately owned monopolies.

In addition to these legal constraints, the financial and commercial weakness of many enterprises was also a factor in the method through which they were privatised. Often this required the introduction of a new controlling shareholder. In other instances, however, it resulted in the liquidation of enterprises.

The influence of donors has also affected the process of implementation and on two occasions was particularly explicit. In 1994 the failure of the Zambian government to produce a rescue plan for Zambian Airways that was within the financial parameters agreed with the IMF brought direct pressure from the donors for the government to liquidate the enterprise. In 1998, following the failure of the government to reach an agreement for the privatisation of the Nchanga and Nkana assets with the Kafue Consortium, donors withheld balance of payments support until the completion of the assets sales. Such interventions have, however, been rare, and donors have generally directed their influence towards quickening the overall pace of implementation, rather than to influence the policy towards particular enterprises.

The design of the privatisation of ZCCM constituted an important example of the interaction of these factors in the choice of the method of privatisation. Between 1992 and 1996, the Zambian government examined a number of options through which the company could be divested. Central to this were the choices of whether the company should remain as a single entity or be unbundled into a number of smaller units, and whether it should be privatised under the control of the existing management or through the introduction of a new controlling shareholder.

The government's ability to choose between these options was constrained by a number of factors. While ZCCM traded profitably during the early 1990s, the existing operations and the development of new sources of ore urgently required new investment which would have to be sourced in the private sector. In addition, Anglo American held pre-emptive rights over the much of the governments shareholding, and a right of veto over the sale of any of the assets of the company.

The choice in 1996 to implement a plan based on the demerger option reflected a number of factors. Although the government's preferred option had been the privatisation of ZCCM under the control of the existing management, the commercial and financial weakness of the company proved too great an obstacle to this. The failure of the management to revive the performance of ZCCM through the Short Term Interim Plan and to raise loan finance for the development of Konkola Deep finally precluded this option. A substantial obstacle to the unbundling of ZCCM had been the opposition of Anglo American. By the mid-1990's, the financial and commercial weakness of ZCCM had reduced the attractiveness of the company as a whole. In this context, Anglo American re-oriented its strategy to securing the rights to develop Konkola Deep and co-operate with the government in the unbundling of ZCCM.

Although the process of divesting the assets of ZCCM has resulted in the re-emergence of Anglo American as principal owner of Zambia's mining industry, other transnational mining companies have been introduced into the sector and the concentration of ownership is less than it would have been had ZCCM been privatised intact. In addition, the government has secured golden shares in the new mining companies that have been established and the equity interests retained by the ZCCM holding company will allow for its privatisation.

Given the scale of the state enterprise sector in Zambia at the beginning of the 1990's, the process of privatisation has restructured the ownership and structure of much of the economy. The Zambian government has sought, through the privatisation process, to strengthen the commercial and financial position of the enterprises within the economy, and to promote competitive industrial structures and indigenous ownership. As with the construction of the state enterprise, the results of this will only become apparent over time.

APPENDIX 1.

ZIMCO FINANCIAL RESULTS.

1.1: ZIMCO. Summary Profit and Loss Account. Financial Year 1971 to Financial Year 1989.

Financial Year.	Turnover. Kwacha millions.	Profit before Tax . Kwacha millions.	Profit after Tax. Kwacha millions.	Profit Attributable to ZIMCO. Kwacha millions.	Pre-Tax Profit Margin. %	Post-Tax Profit Margin. %	Attributable Profit Margin. %
1971	1,027	398	187	90	38.75	18.21	8.76
1972	728	150	105	49	20.60	14.42	6.73
1973	843	178	128	60	21.12	15.18	7.12
1974	1,246	523	217	116	41.97	17.42	9.31
1975	1,248	264	111	53	21.15	8.89	4.25
1976	1,041	(46)	12	7	(4.42)	1.15	0.67
1977	1,404	169	24	3	12.04	1.71	0.21
1978	1,328	(4)	(7)	(7)	(0.30)	(0.53)	(0.53)
1979	1,521	75	50	23	4.93	3.29	1.51
1980	2,172	307	200	135	14.13	9.21	6.22
1981	2,193	57	49	20	2.60	2.23	0.91
1982	2,220	(83)	(134)	(93)	(3.74)	(6.04)	(4.19)
1983	2,265	(87)	(134)	(101)	(3.84)	(5.92)	(4.46)
1984	3,121	142	(2)	(16)	4.55	(0.06)	(0.51)
1985	3,890	168	(35)	(49)	4.32	(0.90)	(1.26)
1986	7,062	472	15	(28)	6.68	0.21	(0.40)
1987	12,438	974	(8)	81	7.83	(0.06)	0.65
1988	19,197	1,961	(a) -	(a) -	10.22	(a) -	(a) -
1989	29,786	4,492	3,017	(a) -	15.08	10.13	(a) -

Source: Calculated from ZIMCO (*Annual Report*, 1972) for 1971 to 1972, (*Annual Report*, 1981) for 1973 to 1981, (*Annual Report*, 1986) for 1982 to 1986, (*Annual Report* 1987) for 1987, ZIMCO (1990) for 1988, Republic of Zambia (*Report of the Auditor-General on the Accounts of Parastatal Bodies* 1988) for 1989(b), and calculations.

Note: (a) data unavailable from sources consulted. (b) The *Report of the Auditor-General on the Accounts of Parastatal Bodies* (1988) was in fact presented in March 1990.

1.2: ZIMCO. Capital Structure. Financial Year 1971 to Financial Year 1989.

Financial Year.	Shareholders Funds Kwacha million.	Minority Interests. Kwacha million.	Long Term Debt. Kwacha million.	Total Capital Employed. (a) Kwacha million.	Shareholders Funds as a share of Capital Employed. %	Minority Interests as a share of Capital Employed. %	Long Term Debt as a share of Capital Employed. %
1971	139	269	287	695	20.00	38.71	41.29
1972	183	296	346	825	22.18	35.88	41.94
1973	262	339	366	994	27.09	35.06	37.85
1974	320	372	407	1,136	29.12	33.85	37.03
1975	535	394	496	1,467	37.54	27.65	34.81
1976	514	399	633	1,595	33.25	25.81	40.94
1977	516	417	732	1,724	30.99	25.05	43.96
1978	559	439	1,054	2,120	27.24	21.39	51.36
1979	677	439	1,266	2,466	28.42	18.43	53.15
1980	897	485	1,254	2,735	34.03	18.40	47.57
1981	963	510	1,370	2,962	33.87	17.94	48.19
1982	971	465	1,591	3,166	32.08	15.36	52.56
1983	920	423	1,790	3,297	29.36	13.50	57.13
1984	757	435	2,077	3,467	23.16	13.31	63.54
1985	2,190	1,183	2,323	5,935	38.45	20.77	40.78
1986	6,995	4,655	6,521	18,455	38.50	25.62	35.89
1987	10,166	7,291	9,660	27,493	37.49	26.89	35.62
1988	8,822	4,606	9,264	23,172	38.88	20.30	40.82
1989	11,337	5,394	10,526	27,832	41.59	19.79	38.62

Source: Calculated from ZIMCO (*Annual Report*, 1972) for 1971 to 1972, (*Annual Report*, 1981) for 1973 to 1981, (*Annual Report*, 1986) for 1982 to 1986, (*Annual Report* 1987) for 1987, ZIMCO (1990) for 1988, Republic of Zambia (*Report of the Auditor-General on the Accounts of Parastatal Bodies* 1988) for 1989(b), and calculations.

Notes:(a) Total capital employed has been calculated by adding together shareholders funds minority interests and long term debt. This excludes certain other liabilities stated in the Group's accounts. The most significant of these was Insurance Funds, related to the activities of ZISCO, and at no point did these did not exceed 6 percent of ZIMCO's capital employed. (b) The *Report of the Auditor-General on the Accounts of Parastatal Bodies* (1988) was in fact presented in March 1990.

APPENDIX 2.

STATE MINING ENTERPRISES. FINANCIAL RESULTS.

2.1: Combined Summary Profit and Loss Account of NCCM and RST. Financial Year 1971 to Financial Year 1982.

Financial Year.	Turnover. US $ millions.	Profit before Tax. US $ millions.	Profit after Tax . US $ millions.	Pre-Tax Profit Margin. %	Post-Tax Profit Margin. %
1971	935	404	204	43.21	21.82
1972	755	224	164	29.67	21.72
1973	936	285	204	30.45	21.79
1974	1493	775	452	51.91	30.27
1975	1161	277	141	23.86	12.14
1976	859	(90)	(6)	(10.48)	(0.70)
1977	1028	83	29	8.07	2.82
1978	807	(75)	(26)	(9.29)	(3.22)
1979	1116	126	113	11.29	10.13
1980	1329	284	172	21.37	12.94
1981	1312	42	68	3.20	5.18
1982	1061	(186)	(189)	(17.50)	(17.81)

Source: Radetzki (1985, p.120) and calculations.

2.2. ZCCM. Summary Profit and Loss Account. Financial Year 1981 to Financial Year 1998.

Financial Year.	Turnover. Kwacha millions.	Profit before Tax. Kwacha millions.	Profit after Tax. Kwacha millions.	Pre-Tax Profit Margin. %	Post-Tax Profit Margin. %
1981	1093	34	57	3.11	5.22
1982	977	(171)	(173)	(17.50)	(17.71)
1983	973	(123)	(127.5)	(12.64)	(13.10)
1984	1,426	97	1	6.80	0.07
1985	1,862	145	0.7	7.79	0.04
1986	4,097	300	(56)	7.32	(1.37)
1987	6,976	211	(562)	3.02	(8.06)
1988	11,882	644	372	5.42	3.13
1989	18,135	2,723	1,832	15.02	10.10
1990	32,876	5,556	2,586	16.90	7.87
1991	65,559	11,225	5,189	17.12	7.92
1992	123,333	14,310	4,103	11.60	3.33
1993	359,086	66,293	41,557	18.46	11.57
1994	574,957	(71,409)	(72,638)	(12.42)	(12.63)
1995	1,121,301	34,823	3,461	3.11	0.31
1996	1,591,158	(10,637)	(29,981)	(0.67)	(1.88)
1997	1,504,730	(193,996)	(198,722)	(12.89)	(13.21)
1998	1,301,797	(465,720)	(468,108)	(35.78)	(35.96)

Source: ZCCM (*Annual Report*, 1982) for 1981 and 1982, respective *Annual Reports* for 1983 for 1998, and calculations.

2.3: Combined NCCM and RST. Capital Structure. Financial Year 1971 to Financial Year 1982.

Financial Year.	Shareholders Funds. US $ million.	Long Term Debt. US $ million.	Total Capital Employed. US $ Million.	Shareholders Funds as a share of Capital Employed. %	Long Term Debt as a share of Capital Employed. %
1970	585	46	631	92.71	7.29
1971	707	50	757	93.39	6.61
1972	771	111	882	87.41	12.59
1973	942	153	1095	86.03	13.97
1974	1034	183	1217	84.96	15.04
1975	1113	285	1398	79.61	20.39
1976	1099	360	1459	75.33	24.67
1977	911	314	1225	74.37	25.63
1978	870	244	1114	78.10	21.90
1979	1209	267	1476	81.91	18.09
1980	1314	234	1548	84.88	15.12
1981	1349	337	1686	80.01	19.99
1982	1033	502	1535	67.30	32.70

Source: Radetzki (1985, p.120) and calculations.

2.4: ZCCM. Capital Structure. Financial Year 1981 to Financial Year 1998.

Financial Year.	Shareholders Funds. Kwacha Millions.	Long Term Debt. Kwacha Millions.	Total Capital Employed. (a) Kwacha Millions.	Shareholders Funds as a share of Capital Employed. %	Long Term Debt as a share of Capital Employed. %
1981	1,124	207	1,331	84.45	15.55
1982	951	405	1,356	70.13	29.87
1983	1,062	545	1,607	66.09	33.91
1984	1,063	710	1,773	59.95	40.05
1985	2,925	1,027	3,952	74.01	25.99
1986	11,019	3,926	14,945	73.73	26.27
1987	15,831	5,970	21,801	72.62	27.38
1988	10,203	5,261	15,464	65.98	34.02
1989	11,294	5,773	17,067	66.17	33.83
1990	8,306	13,816	22,122	37.55	62.45
1991	59,221	31,566	90,787	65.23	34.77
1992	43,598	76,605	120,203	36.27	63.73
1993	311,173	273,293	584,466	53.24	46.76
1994	1,338,955	334,735	1,673,690	80.00	20.00
1995	1,342,733	384,429	1,727,162	77.74	22.26
1996	1,164,639	504,039	1,668,678	69.79	30.21
1997	994,499	435,289	1,429,788	69.56	30.44
1998	(294,725)	508,275	213,550	(b) -	(b) -

Source: ZCCM (*Annual Report*, 1982) for 1981 and 1982, respective *Annual Reports* for 1983 for 1998, and calculations.
Notes: (a) Total capital employed has been calculated by adding together shareholders funds minority interests and long term debt. This excludes certain other liabilities stated in the Group's accounts. The most significant of these was deferred liabilities, which principally related to provisions for employees retirement benefits, and minority interests, which were only stated in the accounts after FY 1993. (b) Shareholders funds are negative and long term debt exceeds capital employed.

APPENDIX 3.

INDECO FINANCIAL RESULTS.

3.1: INDECO Summary Profit and Loss Account. Financial Year 1970 to Financial Year 1989.

Financial Year.	Turnover. Kwacha thousands.	Profit before Tax. Kwacha thousands.	Profit after Tax. Kwacha thousands.	Profit Attributable to INDECO. Kwacha thousands.	Pre-Tax Profit Margin. %	Post-Tax Profit Margin. %	Attributable Profit Margin. %
1970	123,753	10,997	9,281	5,989	8.89	7.50	4.84
1971	183,084	17,456	11,320	5,767	9.53	6.18	3.15
1972	247,096	23,523	14,313	7,078	9.52	5.79	2.86
1973	286,022	27,046	15,332	7063	9.46	5.36	2.47
1974	329,670	28,895	17,817	9,361	8.76	5.40	2.84
1975	292,414	8,690	2,840	2,474	2.97	0.97	0.85
1976	308,035	3,197	(3,065)	(6,380)	1.04	(1.00)	(2.07)
1977	347,637	8,802	3,868	2,179	2.53	1.11	0.63
1978	397,860	9,204	1,167	993	2.31	0.29	0.25
1979	406,013	(12,139)	(20,668)	(15,066)	(2.99)	(5.09)	(3.71)
1980	465,704	(7,364)	(15,796)	(14,745)	(1.58)	(3.39)	(3.17)
1981	526,928	3,504	(6,616)	(11,552)	0.66	(1.26)	(2.19)
1982	604,905	32,529	13,217	5,066	5.38	2.18	0.84
1983	713,178	13,144	5,630	(4,284)	1.84	0.79	(0.60)
1984	827,702	10,200	(1,601)	(7,051)	1.23	(0.19)	(0.85)
1985	972,650	11,702	(1,430)	(11,495)	1.20	(0.15)	(1.18)
1986	1,372,966	103,574	75,644	32,786	7.54	5.51	2.39
1987	2,266,601	250,387	192,720	117,806	11.05	8.50	5.20
1988	3,501,588	402,740	315,844	224,642	11.50	9.02	6.42
1989	4,684,757	702,843	502,101	372,571	15.00	10.72	7.95

Source: INDECO (*Annual Report*, 1972) for 1970 to 1972, (*Annual Report*, 1981) for 1973 to 1980, (*Annual Report*, 1989) for 1981 to 1989, and calculations.

3.2. INDECO. Capital Structure. Financial Year 1970 to Financial Year 1989.

Financial Year.	Shareholders Funds. Kwacha thousands.	Minority Interests. Kwacha thousands.	Long Term Debt. Kwacha thousands.	Total Capital Employed. Kwacha thousands.	Shareholders Funds as a share of Capital Employed. %	Minority Interests as a share of Capital Employed. %	Long Term Debt as a share of Capital Employed. %
1970	44,142	15,266	60,459	119,867	36.83	12.74	50.44
1971	56,927	19,357	69,608	145,892	39.02	13.27	47.71
1972	62,198	25,009	80,663	167,870	37.05	14.90	48.05
1973	71,367	40,921	110,905	223,193	31.98	18.33	49.69
1974	83,308	45,180	119,293	247,781	33.62	18.23	48.14
1975	68,166	30,433	91,013	189,612	35.95	16.05	48.00
1976	65,109	32,495	103,485	201,089	32.38	16.16	51.46
1977	68,660	33,513	131,031	233,204	29.44	14.37	56.19
1978	73,258	32,221	252,884	358,363	20.44	8.99	70.57
1979	58,514	25,304	294,905	378,723	15.45	6.68	77.87
1980	61,348	30,491	343,962	435,801	14.08	7.00	78.93
1981	113,633	35,148	343,600	492,381	23.08	7.14	69.78
1982	207,651	40,715	343,930	592,296	35.06	6.87	58.07
1983	228,165	48,563	250,549	527,277	43.27	9.21	47.52
1984	222,322	52,750	265,445	540,517	41.13	9.76	49.11
1985	273,508	62,657	307,057	643,222	42.52	9.74	47.74
1986	276,229	111,610	364,036	751,875	36.74	14.84	48.42
1987	584,729	264,227	498,725	1,347,681	43.39	19.61	37.01
1988	849,630	315,732	477,768	1,643,130	51.71	19.22	29.08
1989	1,262,923	353,589	505,129	2,121,641	59.53	16.67	23.81

Source: INDECO (*Annual Report*, 1972) for 1970 to 1972, (*Annual Report*, 1981) for 1973 to 1980, (*Annual Report*, 1989) for 1981 to 1989, and calculations.

APPENDIX 4.

PRIVATISED ENTERPRISES AT DECEMBER 1998.

4.1. Privatised Large-Sized Enterprises. (a)

Enterprise.	Tranche. (a)	Method of Privatisation.	Sector. (a)
BP Zambia Ltd.	10	Private negotiated sale with minority flotation (1996).	Energy.
Chilanga Cement.	2	Private negotiated sale with minority flotation (1994).	Construction.
Consumer Buying Corporation of Zambia.	3	Unbundled.	Trading.
Contract Haulage Ltd.	6	Liquidated (1994).	Transport.
Kafironda.	2	Private negotiated sale with minority flotation (1997).	Chemicals.
Maamba Collieries.	9	Private tender sale with minority flotation (1997).	Mining.
MEMCO Group.	11	Liquidated (1996).	Mining.
Metal Fabricators of Zambia	2	Private negotiated sale with minority flotation (1996).	Engineering.
National Home Stores Ltd.	4	Unbundled.	Trading.
National Hotel Development Corporation.	5	Unbundled.	Tourism.
National Milling Company.	2	Private negotiated sale (1996).	Agriculture/ Agro-Industry
Nchanga Farms.	4	Unbundled.	Agriculture/ Agro-Industry
United Bus Company.	6	Liquidated (1995).	Transport.
Zambia Airways Corporation Ltd.	11	Liquidated (1994).	Transport.
Zambia Breweries Ltd.	2	Unbundled.	Agriculture/ Agro-Industry
Zambia Hotel properties.	2	Unbundled.	Tourism.
Zambia National Wholesale and Marketing Co.	3	Unbundled.	Trading.
Zambia Sugar Co.	2	Private negotiated sale with minority flotation (1995).	Agriculture/ Agro-Industry

Source: Compiled from ZPA (various), *Times of Zambia* (various), *Post* (various), Pangaea Partners (undated I) and Reuters (various).

Note: (a) The list includes enterprises for which privatisation has been completed which were included in the portfolio of the ZPA (*Progress Report*, 31/12/1992). The classification of enterprises by size, sector and tranche is from ZPA (ibid).

4.2. Privatised Medium-Sized Enterprises. (a)

Enterprise.	Tranche. (a).	Method of Privatisation.	Sector. (a)
AGIP (Zambia) Ltd.	11	Private negotiated sale with minority flotation (1996).	Energy.
Amalgamated Milling Co.	2	Unbundled.	Agriculture/ Agro Industry
Dairy Produce Board.	2	Unbundled.	Agriculture/ Agro-Industry
Indeco Milling Ltd.	2	Unbundled.	Agriculture/ Agro-Industry
Kabwe Industrial Fabrics.	5	Private tender sale (1996).	Packaging.
Lint Company of Zambia	2	Unbundled.	Agriculture/ Agro-Industry
Lusaka Engineering Co.	2	Private tender sale (1996).	Engineering.
Mpelembe Properties.	5	Liquidated (1995).	Construction.
Mpongwe Development co.	2	Private negotiated sale with minority flotation (1995).	Agriculture/ Agro-Industry
Mwaiseni Stores Ltd.	5	Unbundled.	Trading..
Nanga Farms.	2	Private negotiated sale with minority flotation (1993).	Agriculture/ Agro-Industry
National Air Charters (Zambia) Ltd.	11	Liquidated (1995).	Transport.
National Breweries Ltd.	2	Private negotiated sale with minority flotation (1995).	Agriculture/ Agro-Industry
Premium Oil Industries Ltd.	2	Liquidated (1996).	Agriculture/ Agro Industry
ROP Ltd.	2	Private tender sale with minority flotation (1995).	Agriculture/ Agro-Industry
Supa Baking.	3	Unbundled.	Agriculture/ Agro-Industry
United Milling Ltd.	2	Unbundled.	Agriculture/ Agro-Industry
Zambia Agricultural Development Ltd.	2	Unbundled.	Agriculture/ Agro-Industry
Zambia Cold Storage Corporation.	2	Unbundled.	Agriculture/ Agro-Industry
Zambia Engineering and Contracting.	2	Private negotiated sale (1995).	Construction.
Zambia Horticultural Products	2	Unbundled.	Agriculture/ Agro-Industry
Zambia Oxygen Ltd.	7	Private tender sale with minority flotation (1997).	Chemicals.
Zambia Steel and Building Supplies.	5	Unbundled.	Construction.

Source: Compiled from ZPA (various), *Times of Zambia* (various), *Post* (various), Pangaea Partners (undated I) and Reuters (various).

Note: (a) The list includes enterprises for which privatisation has been completed which were included in the portfolio of the ZPA (*Progress Report*, 31/12/1992). The classification of enterprises by size, sector and tranche is from ZPA (ibid).

4.3. Privatised Small-Sized Enterprises. (a)

Enterprise.	Tranche. (a).	Method of Privatisation.	Sector. (a)
'AFE Ltd.	1	Private tender sale (1993).	Not Stated.
Africa Bound Ltd.	4	Liquidated (1995).	Tourism.
Anros Industries.	9	Liquidated (1996).	Real Estate.
Antelope Milling	2	Returned to Previous Owner.	Agriculture/ Agro-Industry
Auto Care Ltd.	1	Private tender sale (1993).	Not Stated.
Buildwell Construction.	5	Liquidated (1995).	Construction.
Chico Milling.	2	Returned to Previous Owner.	Agriculture/ Agro-Industry
Chimanga Milling.	2	Returned to Previous Owner.	Agriculture/ Agro-Industry
Circuit Safaris Ltd.	9	Unbundled.	Tourism.
City Radio and Refrigeration Supplies.	7	Liquidated (1994).	Trading.
Cleanwell Dry Cleaners.	1	Private tender sale (1996).	Not Stated.
Consolidated Tyre Service	1	Private tender sale (1996).	Not Stated.
Coolwell Systems.	1	Private tender sale (1993).	Not Stated.
Crushed Stone Sale.	1	Private tender sale (1994).	Not Stated.
Eagle Travel	1	Private tender sale (1993).	Not Stated.
General Pharmaceuticals Ltd.	1	Private tender sale (1994).	Not Stated.
Intercontinental travel Ltd.	7	Private tender sale (1996).	Transport.
Jamas Milling.	2	Returned to Previous Owner.	Agriculture/ Agro-Industry
Kabwe Milling.	2	Returned to Previous Owner.	Agriculture/ Agro-Industry
Kapiri Glass.	2	Private negotiated sale (1995).	Packaging.
Kawambwa Tea Co.	5	Private tender sale (1996).	Agriculture/ Agro-Industry
Lake Hotels Ltd.	4	Private tender sale (1996).	Tourism.
Livingstone Motors Assembly.	9	Liquidated (1995).	Transport.
Luangwa Industries Ltd.	7	Private tender sale (1997).	Transport.
Lublend Ltd.	4	Private negotiated sale (1997).	Energy.
Mansa Batteries Ltd.	8	Liquidated (1994).	Manufacturing.
MEMACO farms.	5	Private tender sale (1996).	Agriculture/ Agro-Industry
MIL Construction.	4	Privatised by management buy-out (1996).	Construction.
MIL Engineering and Tooling.	5	Privatised by management buy-out (1995).	Engineering.
MIL Sawmilling and Joinery Ltd.	8	Private tender sale (1996).	Agriculture/ Agro-Industry
MINDECO Small mines Ltd.	6	Privatised by management buy-out (1996).	Mining.
Mines Air Services Ltd.	8	Private tender sale (1998).	Transport.

Appendix 4.3 Continued.			
Monarch Zambia	1	Privatised by management buy-out (1995).	Not Stated.
Mulungushi Traveller.	4	Private tender sale (1996).	Transport.
Mwinilunga Canneries Ltd	1	Liquidated (1995).	Not Stated.
National Drug Co.	5	Unbundled.	Chemicals.
National Drum and Can Co.	1	Liquidated (1997).	Not Stated.
National Tobacco Co.	2	Private tender sale (1996).	Agriculture/ Agro-Industry
NIEC Agencies Ltd.	8	Unbundled.	Trading..
NIEC Farm.	4	Private tender sale (1996).	Agriculture/ Agro-Industry
NIEC Overseas Services.	10	Private tender sale (1995).	Trading.
Nkwazi Manufacturing CO.	1	Private negotiated sale (1995).	Not Stated.
Norgroup Plastics Ltd.	1	Private tender sale (1997).	Not Stated.
Olympic Milling.	2	Returned to Previous Owner.	Agriculture/ Agro-Industry
Poultry Processing Company	1	Private negotiated sale (1993).	Not Stated.
Prime Marble Products.	1	Private tender sale (1994).	Not Stated.
Redirection Placement Ltd.	5	Liquidated (1995).	Trading.
Rycus Heavy Haulage Ltd.	8	Privatised by management buy-out (1996).	Transport.
State Insurance Medical Trust.	6	*Private tender sale (1995).*	*Finance.*
ZAL Elevators.	4	Privatised by management buy-out (1996).	Engineering.
Zambia Cashew Co.	2	Private tender sale (1997).	Agriculture/ Agro-Industry
Zambia Ceramics Ltd.	1	Private tender sale (1996).	Not Stated.
Zambia Clay Industries	1	Private tender sale (1995).	Not Stated.
Zambia Coffee Co.	6	Private tender sale (1996).	Agriculture/ Agro-Industry
Zambia Concrete Ltd.	11	Private tender sale (1997).	Transport.
Zambia Emerald Industries Ltd.	7	Liquidated (1998).	Mining.
Zambia Housing Development Fund.	11	Liquidated (1995).	Finance.
Zambia Maltings Ltd.	1	Private tender sale (1994).	Not Stated.
Zambia National Insurance Brokers	9	Private tender sale (1997).	Finance.
Zambia National Shipping Co.	11	Liquidated (1995).	Transport.
Zambia State Financing Company.	6	Private tender sale (1997).	Finance.
Zambia State Property Development Co.	6	Liquidated (1995).	Finance.
Zambia State Security Ltd.	6	Liquidated (1995).	Finance.
Zamcargo Zambia Ltd.	9	Private tender sale (1996).	Transport.

Appendix 4.3 Continued.			
Zamlube Rerefiners Ltd.	10	Private negotiated sale (1996).	Energy.
Zuva Zambia.	1	Private tender sale (1993).	Not Stated.

Source: Compiled from ZPA (various), *Times of Zambia* (various), *Post* (various), Pangaea Partners (undated I) and Reuters (various).

Note: (a) The list includes enterprises for which privatisation has been completed which were included in the portfolio of the ZPA (*Progress Report*, 31/12/1992). The classification of enterprises by size, sector and tranche is from ZPA (ibid).

APPENDIX 5.
ENTERPRISES AND ASSETS REMAINING WITHIN THE STATE ENTERPRISE SECTOR AT DECEMBER 1998.

5.1 Large-Sized Enterprises (a).

Enterprise.	Tranche. (a)	Sector. (a)	Changes in Status not Resulting in Privatisation.
Kafue Textiles.	3	Manufacturing.	-
MEMCO Trading, London	11	Mining.	Sold to ZCCM (1996).
National Airports Corporation.	9	Transport.	-
Nitrogen Chemicals of Zambia Ltd.	9	Agriculture/ Agro-Industry	-
Reserved mineral Corporation Ltd.	7	Mining.	-
Zambia Forestry and Forest Industries Ltd.	8	Agriculture/ Agro-Industry	-
Zambia National Building Society.	6	Finance.	-
Zambia National Commercial Bank.	4	Finance.	-
Zambia State Insurance Corporation.	6	Finance.	-

Note: (a) The list includes enterprises for which privatisation has been completed which were included in the portfolio of the ZPA (*Progress Report*, 31/12/1992). The classification of enterprises by size, sector and tranche is from ZPA (ibid).

5.2 Medium-Sized Enterprises. (a)

Enterprise.	Tranche. (a)	Sector. (a)	Changes in Status not Resulting in Privatisation.
Dunlop Zambia ltd.	8	Transport.	-
Indo-Zambia Bank Ltd.	8	Finance.	-
Zambia National Broadcasting Corp.	11	Communications.	Withdrawn from the Privatisation Process.
Zambia Seed Co.	6	Agriculture/ Agro-Industry.	-

Note: (a) The list includes enterprises for which privatisation has been completed which were included in the portfolio of the ZPA (*Progress Report*, 31/12/1992). The classification of enterprises by size, sector and tranche is from ZPA (ibid).

5.3 Small-Sized Enterprises. (a)

Enterprise.	Tranche. (a)	Sector. (a)	Changes in Status not Resulting in Privatisation.
Africa Intercontinental Ins. Services Ltd.	6	Finance.	-
Duncan Gilby Matheson.	9	Agriculture/ Agro-Industry	-
Engineering Services Corp.	10	Transport.	-
Indeco Estate Development.	10	Real Estate.	-
Kagem Mining.	7	Mining.	-
Kariba Amethyst Marketing Ltd.	7	Mining.	-
Kariba Minerals Ltd.	7	Mining.	-
Lukanga Investment and Development Company.	2	Agriculture/ Agro-Industry	-
Lusaka Urban Rail Transport.	5	Transport.	-
MEMCO Services Ltd.	11	Mining.	Sold to ZCCM.
MEMCO Trading, USA.	11	Mining.	Sold to ZCCM.
Mpulunga Harbour Corporation.	6	Transport.	-
Mundawanga Zoo and Botanical Gardens.	5	Tourism.	-
Zambezi Sawmills (b).	4	Agriculture/ Agro-Industry	-
ZIMCO Properties Ltd.	10	Construction.	-

Notes: (a) The list includes enterprises for which privatisation has been completed which were included in the portfolio of the ZPA (*Progress Report*, 31/12/1992). The classification of enterprises by size, sector and tranche is from ZPA (ibid). (b) Zambezi Sawmills was subsequently privatised in 1999.

5.4 Enterprises Size Unclassified. (a)

Enterprise.	Tranche. (a)	Sector. (a)	Changes in Status not Resulting in Privatisation.
Development Bank of Zambia.	6	Not Stated.	-
Import and Export Bank of Zambia.	6	Not Stated.	-
Indeni petroleum Refinery.	Untranched.	Not Stated.	-
Post and Telecomunications Corp.	Untranched.	Not Stated.	Although unbundled, to create Zambia Telecommunications (ZAMTEL) and the Zambia Postal Service (ZAMPOST), none of the resulting assets have been privatised.
Tazama Pipelines.	Untranched.	Not Stated.	-
Zambia Electricity Supply Corporation.	Untranched.	Not Stated.	-
Zambia Railways.	Untranched.	Not Stated.	-
ZCCM	Untranched.	Not Stated.	Privatisation through unbundling in progress.
Zimoil Division.	Untranched.	Not Stated.	Reconstituted as the Zambia National Oil Company (ZNOC).

Note: (a) The list includes enterprises for which privatisation has been completed which were included in the portfolio of the ZPA (*Progress Report*, 31/12/1992). The classification of enterprises by size, sector and tranche is from ZPA (ibid).

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