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Zambia: A Shining Example of Privatisation?

Zambia's seven year programme of privatisation in which 229 of the 280 earmarked companies have been sold, is widely hailed as 'the success story of Africa'. But is it the example that everyone should be following?

A report of the UN's *Integrated Regional Information Network* (IRIN) this June quoted a source close to the programme as saying that the privatisation process, instituted shortly after President **Frederick Chiluba** took over from **Kenneth Kaunda** in November 1991, was complete, and 'except major utilities, we are now just a clearing up operation'. Now that the country's largest employer—Zambia Consolidated Copper Mines (ZCCM)—has been taken out of the hands of the Zambia Privatisation Agency (ZPA), the remaining major firms include a state-owned bank and insurance company and the assets of the Tazara railway (linking Zambia and the Tanzanian port of Dar-es-Salaam), and the Indeni refinery and pipeline. (Indeni was badly damaged by a fire in May, and is expected to be closed for up to eight months for repairs.) A scaled-down ZPA is now expected to remain in business only until the year 2001.

"ZCCM has been the great prize in the privatisation process"

Accounting at its peak for 90% of Zambian exports by value, the ailing ZCCM has been the great prize in the privatisation process, and will involve a considerable investment by South African-linked operations. With nationalisation, annual production fell from 720,000 tons in 1969 to 450,000 in 1993 and around 300,000 today, with the effect that Zambia slipped from the world's fourth largest producer in 1970 to 12th place in 1996. ZCCM has also been constrained for a number of years by the extent of its debt (some US$800 million at the start of 1998), and a lack of cash to make essential capital investments to regain competitiveness and undertake mineral exploration. This dearth of capital expenditure contributed towards Zambia being located in the top quartile of high-cost producers. And, importantly, haggling over the price for the mines amidst a global collapse in copper prices which halved between 1995-98 from over US$3,000 per tonne, has resulted in the Zambian government receiving much less from the sale than anticipated.

Transparency and Privatisation

According to a recent World Bank report, few governments have been able to introduce—and keep in place—the large number of complex and demanding measures needed for effective public enterprise reforms. Among the requirements necessary are for governments to devise policies to protect competition; establish sound regulatory frameworks; maintain transparency in transactions; ensure that the proceeds from privatisation are put to productive use; and manage the inevitable political and social tensions that arise from reform.

Rumours of corruption and bribe solicitation involving key personalities have dogged the process. One analyst working on advocacy issues surrounding privatisation has reflected that her concern was the 'government's competence in handling implementation' and that 'too many politicians have got involved over the heads of the technical people' illustrating the need 'for a more open flow of information'. ZPA has, however, taken a number of MPs, including ministers, to court and dispossessed others over their failure to make downpayments on bids.

Certainly if the break up of ZCCM is anything to go by, the privatisation process has not always been above board and transparent. The failure of the Kafue Consortium (including South Africa's Avmin, Noranda Mining, the Commonwealth Development Corporation, and Phelps Dodge) to secure the purchase of the Nchanga and Nkana mines which account for 65% of ZCCM output, and of First Quantum Minerals of Canada to buy the Luanshya Mine and Smelter, are steeped in controversy. Both bids of the Kafue consortium collapsed: the first in 1997 reportedly comprised US$160 million in cash, US$150 million in debt assumption, US$400 million in committed investment, and US$350 million in uncommitted investment—for 88% of ownership; and a second, revised bid in May 1998 comprising US$130 million in cash, US$35 million in debt assumption, US$76 million in working capital investment, and US$708 million in capital investment for five years.

The last-minute failure of the Luanshya deal led to First Quantum questioning the rationale behind the decision given that, as its press release put it, 'the economic value of its bid was superior' to the winning competitor, Binani Industries. Binani allegedly paid the sale price of US$32 million for Luanshya through money lent by ZCCM realised through mortgaged copper sales. Some have queried the role played by the ZPA's Francis Kaunda, the former ZCCM supremo, in this process.

Allegations aside, this delay has been expensive. One analyst, Theo Bull, has estimated that it has cost Zambia around US$1.7 billion in terms of lost investment and

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potential profits, and ongoing operating losses. This has been exacerbated by the apparent failure of some of the concerns to turn the sold assets around—such as, for example, in the operation of Luanshya by the Indian-based Binani which has reportedly run into financial trouble, causing constant strikes, closures and running battles between police and workers. Luanshya's production levels are apparently just 30-40% of those pre-privatisation.

Assessing the Socio-Economic Impact

The ZPA has contended that since the privatisation programme began, very few of the companies sold have 'died'. There have, however, been substantial lay-offs from former state-owned companies, the majority of which were technically bankrupt. Of the 61,000 jobs lost between 1992-95, only about 6,000 are estimated to be as a result of privatisation.

In the case of the mines, the anticipated retrenchment of 25% of the workforce of 33,000 will have a notable short-term impact on the local copperbelt economy where the informal sector relies on the spending power of the mine workers. These workers provide support for an estimated 200,000 Zambians already affected by an environment of high inflation and reduced export earnings. Inflation spiralled from 18.6% in 1997 to over 30% in 1998. The Zambian kwacha fell in value by 69% over this period, while formal employment and the GDP dropped by 3% and 2% respectively.

"About one-third of the Zambian budget is dependent on aid"

But a failure to complete the process has arguably greater longer-term costs in terms of lost investment and profitability. Around 100 companies have been directly dependent on ZCCM for business, many of which have battled for payment by the cash-strapped mines in the past. The delay has also created uncertainty. As one miner put it: 'The sooner the mines are sold the better then we will know whether we will be retrenched or retained.' And there are wider spin-offs.

The World Bank's approval this January of a US$170 million loan for Zambia's balance of payments (BoP) support followed closely the signing of a memorandum of understanding the same month between Anglo American, which already owns a 27% stake in ZCCM, and the Zambian government to buy an 80% share in the rump of ZCCM's best assets—Nkana and Nchanga divisions, Nampundwe mine, the Konkola Deep prospect, and the pyrite mine at Nampundwe for US$90 million, plus US$300 million in committed investment over three years. Ironically, this offer is just 40% of that made by in 1997 by the Kafue consortium, rejected then by Chiluba's government on the grounds that the government had an obligation to Zambians to obtain the best possible price. The Anglo investment is expected to boost Zambia's copper output from 4% to 10% of world supply, extending the life of Konkola by about 30 years.

The World Bank country director for Zambia, **Phyllis Pomerantz**, has noted that future balance of payments support funding will be linked to continued public sector reforms and completion of the ZCCM sale. In March, the International Monetary Fund approved a Special Drawing Rights US$349 million loan package. The IMF/World Bank had, for 14 months, refused to release funds until the ZCCM deal went through. Zambia is dependent on BoP support given its foreign exchange needs which, in turn, are linked to its heavy debt-serve commitments, the low price of its copper and cobalt exports, and the demand for imports as the economy expands. Zambia's foreign reserves fell to a record low of US$92.7 million in December 1998 compared with US$209 in the year-earlier period, and fell again to US$76 million in February. In February, Finance Minister **Edith Nawakwi**—who replaced the controversial **Ronald Penza** who was dismissed by Chiluba in March 1998 and later murdered in November 1998—said that Zambia would require donor inflows of up to US$300 million if it was to balance its US$1 billion budget.

At this May's Paris Club meeting, donors pledged US$530 million in support of the economic reform programme, though these guarantees were again linked to the final sale of ZCCM assets. About one-third of the Zambian budget is dependent on aid. Currently Zambia's external debt stands at US$6.5 billion. The current account deficit increased from US$437 million in 1997 to US$514 million in 1998.

Lessons from the Zambian Experience

Zambia's great tragedy is that it blinked over the sale of ZCCM when it needed to have courage. When the global copper price fell, with it went the hoped-for ZCCM sale price which could never be recovered.

Why did Lusaka balk? There is an important psychological and political reason. For Chiluba and his government this was a case of selling off Zambia's perceived crown jewels and largest employer, even though it was losing US$2 million per day simply to keep going.

The lesson from Zambia's process is clear. Privatisation demands transparency every step of the way. It is, too, as much a political leap of faith as an act of economic good sense.