PRIVATISATION: THE ZAMBIAN EXPERIENCE

E.C. Kaunga

Background to State-Owned Enterprises in Zambia

The Zambian economy is characterised by a heavy predominance of state-owned enterprises (SOEs), often referred to as parastatal organisations. Estimates put the share of SOEs in industrial activity at about 80 per cent with the private sector taking up the remaining 20 per cent. The SOEs span virtually all sectors of the economy notably mining, energy, industry/manufacturing, agriculture, transport and communications, trade, tourism and construction.

In terms of the current organisational set up, most of the state-owned enterprises are part of a conglomerate known as the Zambia Industrial and Mining Corporation Limited (ZIMCO), a state holding company charged with the responsibility of supervising and monitoring the operations of the SOEs under its wing to protect government interest in these companies. Until recently, ZIMCO also had the responsibility of undertaking new investments on behalf of government. While a number of operating companies were supervised directly by ZIMCO, the greater proportion of the group companies fell under four sub-holding companies which in turn reported to ZIMCO as follows: Zambia Consolidated Copper Mines (ZCCM), Industrial Development Corporation (INDECO), National Hotels Development Corporation (NHDC) and National Imports and Export Corporation (NIEC) taking care of the trading sector.

While the ZIMCO Group comprises the bulk of SOEs in the Zambian economy, it is important to note that there are a number of parastatals outside the ZIMCO umbrella. These would be largely statutory organisations controlled from respective parent ministries via their boards of directors. There are also a small number of companies created by Acts of Parliament. Some of the major non-ZIMCO SOEs are as follows:

- State Lotteries Board
- Diary Produce Board (DPB)
- Development Bank of Zambia (DBZ)
- National Savings and Credit Bank
- Zambia National Tourist Board
- Muhungushi Textiles Limited
In the Zambian context, therefore, the term parastatal or SOE is used to refer to a public enterprise (i.e. state-owned) which is quasi-autonomous and outside the regular civil service structure. This category comprises companies of a purely commercial nature set up under Cap 686 of the Laws of Zambia – the Companies Act; and also those on the list just referred to above, i.e. statutory boards and companies established by Act of Parliament.

It is useful to trace the background to the present predominance of the parastatals in the Zambian economy before a fuller appreciation of the on-going policy of privatisation and private sector development can be attained.

The emergence of state participation in the commercial sector dates back to the 1968 Economic Reforms – otherwise referred to as the ‘Mulungushi Reforms’ (for the location, Mulungushi Rock, at which the policy pronouncement by President Kaunda was made). The nationalisation pronouncements of 1968 resulted in the state assuming 51 per cent ownership in some twenty-five companies mostly in manufacturing, transport distribution and construction which were now brought under the umbrella of the Industrial Development Corporation (INDECO), a state-owned organisation which had been set up on colonial times essentially as an instrument for stimulating industrial development. It must be stressed that the role of INDECO in the pre-1965 period was limited to that of promotion and finance of industrial ventures. The advent of state-owned enterprises with the takeovers of 1968 saw INDECO assume new, wider roles of holding company and shareholder. The organisation was now to play a pivotal role in initiating industrial ventures as well as overseeing the operations of subsidiary companies.

At the time of the takeovers, the main concerns of the Zambian Government were the following:

- Failure by the largely foreign investors to re-invest sufficiently in the economy.
- Excess repatriation of profits at expense of development in Zambia.
- Acute economic imbalances:
- rural-urban gap accentuated by private investors' preference to concentrate activities in urban areas;

- gap between indigenous Zambians and the foreigners.

- Failure by private investors to develop local human resources with the result that virtually all aspects of economy were under the control of foreigners or settlers of foreign origin.

- Inordinate economic power wielded by foreign private investors.

- Apparent impotence of the government of the day in directing the pace and direction of economic development following from the above.

In effecting the policy of state participation, the Government sought to achieve the following:

- Take control of the "commanding heights" of the economy as it were, and be able to dictate the pace and direction of economic development.

- Restore economic power to government and through government to the people of Zambia. In the absence of a fully developed local entrepreneurial class, government was to act as surrogate for the people.

- Check the excessive outflow of profits and ensure that more earnings were retained for reinvestment in the country.

- Redress the income inequalities:
  - rural-urban;
  - foreign-local;

- Develop local human resources.

In addition to the takeover of controlling interest in the initial group of twenty-five companies, there were other accompanying measures taken in the wake of the policy address of 1968 on 'Zambia Towards Economic Independence'. Some of the measures were as follows:

- Regulation of activities, size and location of private foreign enterprise.

- Reincarnation of INDECO as a holding company.
Whereas the path-breaking speech of 1968 had made some intimation that the mining industry was not to be affected by the reforms, this position was to be quickly reviewed. In 1969, the Government took the policy a step further by announcing the takeover of the mines. The 'Matero Reforms', as the 1969 speech is often referred to, heralded the acquisition of 51 per cent equity holding in the mines owned and run then by Anglo-American Corporation (Central Africa) and Roan Selection Trust.

When the takeover negotiations were concluded in 1970, the mines were re-organised into two groups:

(i) Nchanga Consolidated Copper Mines (NCCM); and

(ii) Roan Consolidated Copper Mines (RCM).

Government created a new holding entity called Mining Development Corporation (MINDECO) which was to hold 51 per cent of the shares each in NCCM and RCM on behalf of the state.

Further Evolution of State-Owned Enterprises in Zambia

From the tentative origins of state participation in the post-independence period when the main focus was to complement private initiative, the parastatal/public sector took off at a brisk pace in the post-1969 period. More companies were to join the list of the nationalised and in addition, new SOEs were created. In due course, state participation got entrenched with the ideological blessings following the philosophy of Humanism as a path towards socialism.

As the pace of nationalisation and direct state involvement in the economy picked up, it soon became clear that the inherited organisational structure of INDECO as a holding company would not suffice. On 31 March 1970, the Zambia Industrial and Mining Corporation (ZIMCO) was incorporated to provide a single holding company for government's numerous investments previously held under INDECO. The role of ZIMCO in its simple format then was essentially that of an agent of government - to hold its investments. It is important to note that at this time ZIMCO, the apex organ, was no more than a mere paper holding company with no executive management. The actual supervisory control over the boards and company managements was vested in respective line ministries. Later on, this study will outline the subsequent re-organisations occasioned by perceived inadequacies of the above arrangements.

From its humble origins in the late sixties, the parastatal sector in Zambia grew to a position of such dominance that by 1972 it was estimated that public/parastatal sector accounted for 53 per cent of total manufacturing GDP and its share in employment...
was 42 per cent. By 1980, the shares of parastatals in total GDP and formal employment were put at 56 per cent and 54 per cent respectively.

Prior to the most recent organisation-restructuring of the ZIMCO Group in April 1993 (about which we comment later), the growth of this major category of SOEs was such that SOEs were the backbone of the economy.

The SOEs under the ZIMCO Group, i.e. those established under the Companies Act, were organised on the basis of the following structure:

**Fig. 1**

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ZIMCO

Director

Hotels & Operating

Tourism

Subsidiaries

'INDECO'

'ZCCM'

'NIEC'

'NHDC'
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In terms of the structure of equity holding of the SOEs under the Zimco wing, the pattern was as per the following chart:

<table>
<thead>
<tr>
<th>Government Equity (through ZIMCO)</th>
<th>No. of SOEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>62</td>
</tr>
</tbody>
</table>
The total size and spread of the ZIMCO Group SOEs can be assessed from Appendix 1 which lists the subsidiaries and associated companies and also the percentage of equity attributable to the group. It is important to note that the information presented here was as at the last available consolidated financial reports (i.e. 31 March 1992). It is a fact that since then a few companies have left the group with the launching of the divestiture programme.

**Review of Performance of SOEs**

As a prelude to the discussion of the series of re-organisations and restructuring of SOEs, in particular those under ZIMCO, it would be interesting to have an overview of the performance of these parastatals over the years. This would provide an appropriate backdrop to the changes that ensued, leading ultimately to the landmark decision to reverse the policy on direct state participation in industry.

The financial performance of the SOEs in the period between 1969 and 1978/79 was far from satisfactory. Losses for most SOEs mounted up and many companies were on brink of collapse. There were a number of factors which could be linked to this trend:

- poor capitalisation of companies;
- poor management – political appointees and frequent changes at CEO level;
- lack of accountability and poor supervision and monitoring systems – boards were weak and ministries too busy to execute effectively as supervisory organs;
- conflict between commercial and political/social objectives.

If one focuses on the industrial sector of the ZIMCO Group, reported results indicate that while net contributions were made to government of the period 1971-1974, the inherent financial weaknesses of SOEs in this sector manifested themselves by 1975 with several firms registering losses and government having to provide subsidies in
excess of K8 million to shore up operations of loss-makers. However, it should be emphasised that the subsidies were directed largely at those companies affected by the impact of price controls imposed by the state on so-called essential goods (mealie meal, sugar, cooking oil, etc. – at the time the controlled list comprised over eleven items).

The persistent poor financial out-turn of SOEs in the industrial sector, in particular (in several cases negative profits) had the effect of eroding the capital base of many companies resulting in excessive recourse to borrowing.

The results recorded by ZIMCO over the five-year period from 1988 to 1992, which was after several re-organisations within the group, reflect a much improved picture. The turnover for the group grew from K23.9 billion in 1988 to K232.1 billion in 1992. The profit before tax (consolidated) for the ZIMCO Group moved from K1.8 billion in 1988 to K33 billion in 1992.

The parastatal sector companies for quite some time had been miserable performers to the extent that no dividends had been paid to the ultimate shareholders – the Government. It is of significance that, since 1986, ZIMCO has been able to pay an ever-increasing dividend as shown in following chart:

**Fig. 2**

<table>
<thead>
<tr>
<th>Year</th>
<th>85/86</th>
<th>86/87</th>
<th>87/88</th>
<th>88/89</th>
<th>89/90</th>
<th>90/91</th>
<th>91/92</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Paid - K Million</td>
<td>4</td>
<td>20</td>
<td>40</td>
<td>150</td>
<td>250</td>
<td>350</td>
<td>1,050</td>
</tr>
</tbody>
</table>

Source: ZIMCO Annual Reports and Audited Accounts, 1986-1992

Apart from cash flows to government in the form of dividends, the significance of SOEs in the Zambian economy can also be assessed by looking at the trend over the years in the overall contributions of the ZIMCO Group companies to the government treasury in the form of taxes, duties and other taxes and fees as shown in Fig. 3:
Fig. 3

Contributions of ZIMCO Group to Exchequer

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>K'million</td>
<td>1,787</td>
<td>2,827</td>
<td>7,825</td>
<td>19,244</td>
<td>34,657</td>
</tr>
</tbody>
</table>

The financial performance figures referred to here have to be seen within the wider context of the size of the group which was made up of just about 110 companies as at the end of 1992 with total group fixed assets valued at about K182 billion as at 31 March 1992. The group’s share capital stood at K3,109 million.

Restructuring and Parastatal Reform

Reference was made earlier on to the poor performance of SOEs in the period up to 1979. From the inception of state participation, various organisational arrangements were tried with a view to improving efficiency of SOEs. Originally, INDECO was the sole holding company. Later in 1970, ZIMCO was incorporated to carry the increasing load of SOEs. Initially, ZIMCO fell under a Ministry of State Participation. Later on, SOEs were linked to line ministries. However, the arrangement of parastatals accountable to ministries did not really improve efficiency. Boards were weak and ministers and permanent secretaries were too busy with government functions to be able to provide effective supervision. As observed earlier, the performance of SOEs continued to slide.

The mounting concern over the poor showing of the parastatals culminated in a major re-organisation of ZIMCO in 1979. Cabinet ministers were removed from direct involvement in running of ZIMCO companies and an Executive Directorate was created at ZIMCO to be accountable for the Group’s operations. Residual political involvement was retained only at ZIMCO Board level where key economic-related ministers would sit as directors together with other directors from government institutions and the private sector. Further, some of the sub-holding companies were abolished and the operating companies placed directly under ZIMCO. INDECO sub-sectoral divisions were eliminated. The structure that emerged is the one shown earlier under Fig. 1 with four sub-holding companies under ZIMCO.
The earlier structures in the early 1970s tended to lay greater emphasis on direct political control of SOEs to achieve social-political objectives such as an increase in employment, regional spread of industry, affordable goods and services. Such bias in time resulted in the running down of companies. The thrust of parastatal reform since 1979 has been towards better management control at firm level and emphasis of political intervention. Boards have been strengthened over time by the inclusion of private businessmen. In short, government sought to restore parastatals to their rightful place as commercial concerns first and foremost.

Under the re-organised structures, ZIMCO and the few subholding companies put in place various management information reporting systems to improve monitoring and accountability. Monthly reporting of financial results to head office was instituted. Corporate/business planning systems were introduced and budget performance was to be monitored by holding company as well as by the respective boards of directors. In essence, the objective of these changes was to enable the SOEs to operate on commercial terms.

Decontrol of Prices

Apart from the organisation changes referred to above, one very significant aspect of government policy which impacted heavily on the financial health of SOEs was price control. Earlier we referred to price control as one factor which led to poor financial performance of SOEs (and indeed private sector companies). In December 1982, government lifted (formally at least) price controls on all items except maize meal, wheat products and candles. This represented a giant positive step even if informal controls were to permit for some time.

Parastatal Reform Industry Sector

In the continuing quest for improved efficiency of SOEs, the Industrial Development Corporation (INDECO) identified a total of twelve companies which were put through a comprehensive diagnostic turn round study under World Bank funding. This study (IDAT) was undertaken between 1986 and 1988 and covered the following companies:

Crushed Stones Sales Limited
Kapiri Glass Products Limited
Zambesi Sawmills Limited
Luangwa Industries Limited
Mwinilunga Canneries
Zambia Steel & Building Supplies Limited
Supa Baking Company Limited
Zambia Ceramics Limited
Consolidated Tyre Services Limited
Monarch Zambia Limited
INDECO Milling
Livingstone Motor Assemblers

The IDAT study was designed to identify major operational and organisational weaknesses of the listed companies and to propose practical ways of correcting these so that the companies could turn round. The initial results from the study were not encouraging with most of the target group companies showing improved performance.

Parastatal Reform – ZIMCO

The most recent effort in the area of parastatal reforms commenced in 1990 with the drawing up of the terms of reference for a major parastatal reform study as a follow-up to the earlier industry one. With the coming in of a new government with a stronger bias towards economic liberalisation and privatisation, the focus of the study had to be reviewed. The study considered the future roles and the necessary restructuring of ZIMCO and its subholding companies within a liberalised economy, taking into account the on-going privatisation programme. The consultants’ report (Price Waterhouse & Gopa) was presented in May 1992. The major recommendations can be summarised as follows:

(a) Transformation of ZIMCO, the holding company, into an Investment Holding Company to focus mainly on supervision and monitoring to protect government investments in SOEs prior to divestiture.

(b) The transformed ZIMCO to devolve most functions to operating companies but to insist on more accountability.

(c) Phasing out of three subholding companies, INDECO, NIEC and NHDC with oversight functions going to transform ZIMCO.

(d) Strengthening boards of ZIMCO and operating companies.

(e) Establishment of Utilities Secretariat to oversee the operations of public utilities and perform interim regulatory role.

The recommendations in the consultants’ report were accepted by the Board of ZIMCO in August 1992. The restructuring of ZIMCO and subholding companies took effect on 1 April 1993. The transformation process has resulted in considerable
downsizing of manning levels at holding and subholding level from 700 (ZIMCO, NIEC, NHDC + INDECO) to about 180 (currently in ZIMCO).

Regulation of Public Utilities

Following from the recommendations of the report on public utilities, ZIMCO's regulatory role is only transitional. The Government, through ZIMCO, has commissioned a study to look into arrangements for regulation of public utilities. The utilities in question are:

Railways (Zambia Railways)
Electricity (ZESCO)
Postal & Telecommunications (PTC)
ZIMOIL (importation and refining of petroleum)

The study is funded by IDA (under the Privatisation and Industrial Reform Credit – PIRC).

The main issued to be addressed in the study are as follows:

(i) Rationale for regulation;
(ii) Single or multiple agency option;
(iii) Legal status of agency;
(iv) Organisational structure of regulator;
(v) Monitoring of service output and standards;
(vi) Price/tariff regulator;
(vii) Environmental factors.

In promoting this study, it is clearly recognised that even with or without privatisation, utility organisations require special oversight because of the critical impact the services provided have on the entire economy. The function of regulator is one which is relatively new in Zambia. To date what we have had is merely ad hoc (arbitrary) controls on tariffs.

It is likely that the establishment of a regulatory system will run into a skills constraint for virtually all the different areas listed.

Privatisation: Policy Framework

From the foregoing analysis of endeavours made towards reforming the parastatal sector, it is clear that there had been general dissatisfaction over the performance of
SOEs. While it was acknowledged that parastatals in Zambia had scored some successes in the areas of human resource development and to some extent promoting diversification of industry, their general levels of efficiency left much to be desired especially on account of their vulnerability to political interference.

The turning point in terms of direct articulation of policy on privatisation came at the 5th National Convention of the United National Independence Party (UNIP) held from 14 to 17 March 1990. At this forum, then President of Zambia, Dr. Kaunda, emphasised the importance of promoting entrepreneurial development and the need to create private sector competition for parastatals.

At this same forum, the Committee’s deliberations on the economy addressed the issue of privatisation in serious terms. In the resolution, the convention felt that: "no national interests are threatened by opening up of any public enterprises to direct and limited individual private citizen full or part ownership (Resolutions of Economic Affairs Committee, 5th National Convention of UNIP – March 1990).

In the New Economic Recovery Programme, Economic and Policy Framework 1989-93 document of August 1989, some reference was made to the promotion of privatisation of only in a partial manner:

"...facilitate a phase out of non-viable parastatals operations, and encourage joint ventures with private sector".

There was a gradual build up of some national consensus on the need for a fundamental shift from the then entrenched policy of direct state participation in commercial activity. As a prelude to the landmark pronouncement of May 1990, President Kaunda on 19 April reviewed the major considerations of state participation as conceived in 1968 as being:

- lack of Zambian entrepreneurs;
- desire to break up monopoly pricing cartels;
- concern about the predominance of foreign investors with no commitment to development of host economy.

Having reviewed the state of the economy since 1968, the view of government was that the programme of state involvement had run its course and that it was time for change. The pronouncement of May 28 1990 set Zambia on the course towards dismantling state-owned enterprises. It was announced that government had decided to:

"devolve more economy power to the Zambian people through a scheme by which the state will sell part of its capital in state enterprises to the general public", (Dr Kaunda’s address to 5th Extra Ordinary National Council).
The privatisation programme as pronounced then was to see the state offer up to 40 per cent and 49 per cent of shareholding in the following categories of industries respectively:

(a) Public Utilities  
(b) Mining, Industrial & Commercial

The basic objectives of the new policy were to "give economic power to the people". In addition, the following broad benefits were anticipated:

- wider distribution of wealth;
- supplementation of incomes of shareholders;
- raising revenue for government from sale of shares;
- improvement in quality of company managements.

The Government was also to arrange for the setting up of a stock exchange to facilitate public participation in ownership of companies.

As a follow up to the May 1990 statement, the Budget Address of 16 November 1990 reinforced government's stand on privatisation – by indicating that outright sale of SOEs was in the offing.

The new MMD Government which came in after the general elections of October 1991 propounded economic liberalisation as the main thrust of economic recovery programme and the privatisation programme was to be a cornerstone of the strategy. At a meeting with Head of foreign missions on 5 December 1991, President Chiluba stated that the new government was totally committed to privatisation and disengaging government from direct involvement in commercial activity. The MMD Government's view was that privatisation would be total and there would be 'no sacred lambs'.

The Budget Speech of January 1992 gave a clear delineation of government's overall economic philosophy and its perspective on the roles of public and commercial sectors. Government was to revert to the normal role of providing public infrastructure and services and ensuring a sound fiscal and legal and economic environment. It was clearly stated that the privatisation programme was to proceed expeditiously.

**Progress in Implementation of Privatisation Programme**
From the outline given above, it is clear that there was an overlap between the evolvement of policy and the establishment of institutions to execute the programme. The previous government set up a Task Force on Privatisation in September 1990. The main objective of the task force was to examine and recommend modalities for implementing policy of privatisation.

The task force, which was based at ZIMCO head office, submitted its report to the Minister of Finance in January 1991. Following from the report, government set up the Steering Committee on Privatisation (whose composition was broad-based) which was to be serviced by a technical committee. It was this organ (Steering Committee) which put together the initial framework for the launching of the privatisation process. However, up to this point in time, there was still no legislation in place to give support to the institutions that had been created on an administrative basis only. By mid-1991, the Steering Committee had identified the first tranche of companies which were to be sold off on a trade basis. The list was as below:

- AFE Limited
- Consolidated Tyre Services Limited
- Crushed Stone Sales
- Eagle Travel
- Mwinilunga Canneries
- Zambia Clay Industries
- Zambesi Sawmills
- *Lublend
- *Nkwazi Manufacturing Company
- *Poultry Processing Company

*Minority shareholders had pre-emptive rights.

When the list of companies was advertised, there was an overwhelming response from investors, with over eighty inquiries for the seven companies put on open tender.

The processing of the disposal of the first tranche had to be put on hold with the ushering in of the MMD Government at the end of October 1991. There followed a period of uncertainty over the future management of the programme. The Steering Committee was suspended but the Technical Committee continued under the oversight of the Ministry of Commerce, Trade & Industry. The new government made a commitment to introduce legislation to facilitate the execution of privatisation.

In July 1992, the Privatisation Act (No. 21 of 1992) was passed, establishing the Zambia Privatisation Agency (ZPA). The main functions of the Agency were outlined as follows:
(a) recommend privatisation policy guidelines to Cabinet;
(b) implement programme as per approved guidelines;
(c) oversee all aspect of programme;
(d) monitor progress of programme;
(e) prepare long-term divestiture plan for approval by Cabinet;
(f) recommend modes of sale;
(g) maintain close liaison with relevant institutions;
(h) publicise activities of programme.

Clearly, the Act attempted to outline in considerable detail the functions of the Agency to address the many concerns expressed over sound management of this critical programme. The Act went on further to spell out the various modes of privatisation the Agency could at its discretion recommend for adoption:

- public office of shares;
- private sale via negotiated or competitive bids;
- dilution of government shareholding;
- sale of assets and business of SOEs;
- management/employee buy outs;
- lease and management agreements;
- re-organisation of SOE prior to sale – wholly or partially;
- any other mode as may be deemed appropriate by the Agency.

From the foregoing, the Agency had a very wide list of options to employ depending on the specific circumstances of a particular SOE.

With the establishment of the ZPA as a legal entity, the legal institutional basis of Zambia's privatisation programme was now secured. Once in place, the ZPA drew up
a divestiture sequence plan which was to be the basis of the execution of the programme. The plan was to span a period of five to ten years with eleven (11) tranches in all. Appendix 2 shows the original divestiture sequence plan. Notably, the first tranches were modified quite a bit with the removal of one company and the expansion of the list to nineteen.

The first tranche was made up of generally small companies with no major complications and which could thus be easily sold off on a trade sale basis. The main object was to start the programme on a high note.

To date, a total of nine companies have been privatised from tranche 1 (although the completion processes may be pending in some of these):

Eagle Travel  
Poultry Processing Company  
Auto Care  
AFE Limited  
Coolwell Systems Limited  
Zava Zambia Limited  
Prime Marble Products  
General Pharmaceuticals  
Zambia Maltings Limited

In addition to the above, Nanga Farms Limited (from tranche 2) was privatised by the restructuring of the equity holding to dilute ZIMCO's (GRZ) shareholding.

From the middle of 1993, the ZPA has made further efforts to advance the programme by initiating activity towards privatisation of some big companies in tranche 2 – especially those with minority interests carrying preemptive rights. Negotiations for the privatisation of the following companies opened in mid-1993 and have now reached an advanced stage:

Zambia Breweries  
Chilanga Cement  
ZAMEFA

Because of the size of these companies, the consummation of deals in these would boost the programme immensely. In a broader perspective, the following areas also need to be addressed as they impact on the pace of the programme:

(a) Funding of the privatisation programme itself
Government is the main source of funding for the ZPA. The various steps outlined above require massive resources. It is important for government to ensure adequate funding if the programme is to be executed well. Donor funding has been welcomed but this should only supplement local efforts.

(b) Funding of purchase of companies

For local investors funding may be a constraint. There is a need to explore funding sources - venture capital funds, etc.

(c) Human Resource Implications

Where privatisation results in retrenchment of workers, the payment of redundancy benefits can become an issue. It is important that this matter be addressed by government and the Privatisation Agency. In any case, it is necessary to undertake a social impact review of the programme to ensure that negative social effects are mitigated. This is just being undertaken in the Zambian case.

In the meantime, the Agency has obtained clearance for modes of privatisation for twelve (12) companies in tranche 1.

Procedural Aspects and Technical Skills Gaps

While the presentation so far suggests that Zambia's privatisation programme is moving smoothly, it is important to highlight some of the problems being encountered in various areas. In executing the privatisation process, the Agency has to go through the following stages:

(a) Produce Sequence Plan.

(b) Identify companies to be privatised.

(c) Prepare privatisation studies.

(d) Propose modes of privatisation and recommend approval.

(e) Prepare company and asset valuations in preparation for divestiture.

(f) Prepare Company Profile and Bid documents.

(g) Carry out negotiations with bidders and or minority investors.
(h) Prepare draft sale agreements.

The ZPA has received generous technical and financial assistance for items (c) and (e). Privatisation is a new idea in Zambia and there are a lot of areas in which the Agency could benefit from experiences elsewhere. Company valuations are of critical importance in the process. The skills levels in ZPA and in the country are generally low. On the other hand, valuations attract a lot of attention from both the investors and the general public. It is critical that these are done in a competent and professional manner to ensure transparency. The valuation of plant and equipment presents particular problems in the Zambian context as there are not many qualified in this area.

The experience in Zambia to date also suggests that there is an urgent need to address the legal issues. Often sale agreements may be taken for granted as routine, however, in the transfer of companies on going concern basis or other basis, it is necessary to get competent commercial lawyers to ensure that the interests of both vendor and buyer are clearly protected. Apart from this, record-keeping in terms of title deeds and other legal documents is absolutely important. A process of tidying up by Company Secretaries in anticipation of privatisation would go a long way in expediting the programme. The company secretarial and legal functions therefore need to receive serious attention.

Conclusion

The privatisation programme in Zambia has been in active existence for only about two years. The institutional arrangements set up to facilitate the programme are barely settling in. Nevertheless, considerable progress has been made in advancing the programme, although there are some quarters who feel the programme could go faster. It would be folly to sacrifice thoroughness and transparency in the quest for ‘speed’.

Other institutions, complementary to the ZPA, have just been established – namely the Lusaka Stock Exchange and the Privatisation Trust Fund. It is expected that in due course, these organs will make their contribution towards attaining some of the goals of the programme, such as broad-based ownership of assets.
#APPENDIX 1

##List of Subsidiary and Associate Companies
The operating subsidiaries and associate companies of Zimco are listed below.

(a) **Subsidiaries**

<table>
<thead>
<tr>
<th>Percentage of Equity Attributable to the Group</th>
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<tbody>
<tr>
<td>1992</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>* BP (ZAMBIA) LIMITED 50.50 *Zambia Re-refiners Limited 50.50</td>
</tr>
<tr>
<td>CONTRACT HAULAGE LIMITED 100</td>
</tr>
<tr>
<td>INDENI PETROLEUM REFINERY COMPANY LIMITED 50.50</td>
</tr>
<tr>
<td>INDECO LIMITED 100</td>
</tr>
<tr>
<td>*AFE Limited 100</td>
</tr>
<tr>
<td>*Anros Industries Limited 80</td>
</tr>
<tr>
<td>*Chilanga Cement Limited 60</td>
</tr>
<tr>
<td>Consolidated Tyre Services Limited 100</td>
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<tr>
<td>Crushed Stone Sales Limited 100</td>
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<tr>
<td>*E.C. Milling Company Limited 100</td>
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Zambezi Saw Mills (1968) Limited 100 100
*Zambia Breweries Limited 75 75
*Zambia Ceramics Limited 100 100
Zambia Maltings Limited 100 100
Zambia Coffee Company Limited 100 100
Zambia Oxygen Limited 100 100
Zambia Steel & Building Supplies Ltd 100 100
*Zambia Sugar Company Ltd 78 78
*Kawambwa Tea Company Limited 100 100
'LUBLEND LIMITED 51 51
MAAMBA COLLIERS LIMITED 100 100
METAL MARKETING CORPORATION OF ZAMBIA LTD 100 100
Memaco Farms Limited 100 100
Memaco Services Limited +100 100
Memaco Trading Limited * 84 84
Memaco Trading Incorporated ! 60 60
*MPONGWE DEVELOPMENT COMPANY LIMITED 60 60
*Mpulungu Harbour Corporation Limited 100 100
NATIONAL AIRPORTS CORPORATION LIMITED 100 100
NATIONAL HOTELS DEVELOPMENT CORPORATION LIMITED 100 100
Eagle Travel Limited 100 100
Zambia Hotel Properties Limited 80 80
NATIONAL IMPORT AND EXPORT CORPORATION LIMITED 100 100
City Radio and Refrigeration Supplies (1995) Limited 100 100
Consumer Buying Corporation of Zambia Limited 100 100
*Mwaiseni Stores Limited 100 100
*National Drug Company Limited 100 100
NIEC Overseas Services (Zambia) Ltd 100 100
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NIEC Agencies Limited 100 100
Zambia Horticultural Products Limited 100 100
Zambia National Wholesale &
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<td>ZAMBIA RAILWAYS LIMITED</td>
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<td>Zambia Concrete Limited</td>
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(b) Associate Companies
AGIP (ZAMBIA) Limited 50 50
DUNCAN GILBEY & MATHESON (ZAMBIA) LTD 49.7 49.7
*DUNLOP ZAMBIA LIMITED 23 23
*INDO-ZAMBIA BANK LIMITED 40 40
LIVINGSTONE MOTOR ASSEMBLERS LIMITED 35 35
ZAMBIA SEED COMPANY LIMITED 40 40

Companies marked * are not audited by Coopers & Lybrand.
Companies marked + are incorporated in England
Companies marked @ are incorporated in Zimbabwe
Companies marked ! are incorporated in the United States of America
APPENDIX 2

Zambia Privatisation Agency
Divestiture Sequence Plan

1992 Tranche 1
1. SAFE Limited
2. Crushed Stone Sales Limited
3. Consolidated Tyre Services Limited
4. Eagle Travel Limited
5. Mwinilunga Canneries Limited
6. Nkwazi Manufacturing Company Limited
7. Poultry Processing Company Limited
8. Zambia Clay Industries Limited
9. Auto Care Limited
10. Cleanwell Dry Cleaners
11. Coolwell Systems
12. General Pharmaceutical
13. Monarch Zambia Limited
15. Norgroup Plastics Limited
16. Prime Marble Products
17. Zambia Maltings Limited
18. Zambia Ceramics Limited
19. Zuva Zambia Limited

1993 Tranche 2
Agriculture/Agro-Industry
20. Antelope Milling
21. Jamas Milling
22. Olympic Milling
23. Chimanga Changa Milling
24. Kabwe Milling
25. Chico Milling
26. GMAmalgamated Milling Company Limited
27. Mpongwe Development Company Limited
28. GLNational Milling Company Limited
29. LThe Zambia Sugar Company Limited
30. MNanga Farms Limited
31. GLZambia Breweries Limited
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<td>GM National Breweries Limited</td>
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<td>33</td>
<td>SZ Zambia Cashew Company Limited</td>
<td>Construction</td>
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<td>34</td>
<td>NL Chilanga Cement Limited</td>
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<td>35</td>
<td>GM Zambia Engineering &amp; Contracting Company Limited Chemicals</td>
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<td>36</td>
<td>LK Kafironda Limited Packaging</td>
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<td>37</td>
<td>SK Kapiri Glass Products Limited</td>
<td>Tourism</td>
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<td>38</td>
<td>LZ Zambia Hotel Properties Limited</td>
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<td>ML Lusaka Engineering Company Limited (LENCO)</td>
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<td>Metal Fabricators of Zambia Limited</td>
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<td>41</td>
<td>MZ Zambia Horticultural Products Limited</td>
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<td>42</td>
<td>Lint Company of Zambia Limited</td>
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<td>L Zambia National wholesale and Marketing Company Limited</td>
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<td>57</td>
<td>SNIEC Farms Limited</td>
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<td>NS Zambia Sawmills (1968) Limited</td>
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<td>59</td>
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<td>LZ Zambia National Commercial Bank Limited (ZNCB)</td>
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<td>LN National Home Stores Limited</td>
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<td></td>
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<td></td>
<td><em>Tourism</em></td>
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64SAfrica Bound Limited
65SLake Hotels Limited
Transport
66SMulungushi Traveller

**Tranche 5**

*Agriculture/Agro-Industry*
67SKawambwa Tea Company Limited
68SMEMACO farms

*Chemicals*
69SNational Drug Company Limited

*Construction*
70SBuildwell Construction Limited
71MMpelembe Properties Limited
72MZambia Steel and Building Supplies Limited

*Engineering*
73SMIL Engineering and Tooling Limited

*Packaging*
74MKabwe Industrial Fabrics Limited

*Tourism*
75SMundawanga Zoo & Botanical Gardens
76LNational Hotels Development Corporation Limited

*Trading*
77MMwaiseni Stores Limited
78SRedirection Placement Limited
Transport
79SLusaka Urban Rail Transport

**Tranche 6**

*Agriculture/Agro-Industry*
80SZambia Coffee Company Limited
81MZambia Seed Company Limited

*Finance*
82SAfrica Intercontinental Insurance Services Ltd
83#Development Bank if Zambia Limited
84#Export and Import Bank of Zambia Limited
85SState Insurance Medical Trust Limited
86LZambia State Insurance Corporation Limited
87LZambia State Insurance Corporation Limited#
88SZambia State Financing Company Limited
89SZambia State Property Development Company Limited
90SZambia State Security Limited
Transport
Contract Haulage Limited
United Bus Company of Zambia Limited
Mpulungu Harbour Corporation Limited
Mindeco Small Mines Limited

Tranche 7
Chemicals
Zambia Oxygen Limited
Mining
Kagem Mining
Kariiba Minerals Limited
Kariiba Amethyst Marketing Limited
Reserved Minerals Corporation Limited Group
Zambia Emerald Industries Limited
Trading
City Radio & Refrigeration Supplies (1975) Limited
Transport
Intercontinental Travel Limited
Luangwa Industries Limited

Tranche 8
SMIL Sawmilling and Joinery Limited
Zambia Forestry and Forest Industries Limited (ZAFFICO)
Indo-Zambia Bank Limited
Manufacturing
Mansa Batteries Limited
Trading
NIEC Agencies Limited
Transport
Dunlop Zambia Limited
Mines Air Services Limited
Rycus Heavy Haulage Limited

Tranche 9
Agriculture/Agro-Industry
Nitrogen Chemicals of Zambia Limited
Duncan Gilbey & Matheson
Finance
Zambia National Insurance Brokers Limited
Mining
Maamba Collieries Limited

26
Real Estate
Anros Industries Limited

Tourism
117SCircuit Salaris Limited

Transport
118SLivingstone Motor Assemblers Limited
119LNational Airports Corporation
120SZamcargo Zambia Limited

Tranche 10
121SZimco Properties Limited

Energy
122LBP Zambia Limited
123SZamlude Re-refiners Limited

Real Estate
124SIndeco Estate Development Company Limited

Trading
125SNIEC Overseas Services Zambia Limited

Transport
126SEngineering Services Corporation Limited

Tranche 11

Communications
127MZambia National Broadcasting Corporation

Energy
128MAGIP (Zambia) Limited

Finance
129SZambia Housing Development Fund Limited

Mining
130LMEMACO Group
131LMEMACO Trading Limited, London
132SMEMACO Trading Limited, USA
133SMEMACO Services Limited

Transport
134LZambia Airways Corporation Limited
135MNational Air Charters (Zambia) Limited
136SZambia National Shipping Company Limited
137SZambia Concrete Limited

State-owned enterprises scheduled for privatisation
The timing for the privatisation of these companies is still to be determined:

138-Zambia Consolidated Copper Mines
139-Indeni Petroleum Refinery Company
140-Tazama Pipelines
141-Zimoil Division
142-Posts and Telecommunications Corporation
143-Zambia Electricity Supply Corporation
144-Zambia Railways

Key
#  Company not part of ZIMCO group
G  Privatisation Study to be funded through GTZ
N  Privatisation Study to be funded through NORAD
L  Large company
M  Medium-sized company
S  Small company