I recommend that the obligatory essay prepared under my supervision by

Dimple Sikand

entitled

Privatisation in Zambia - Is it a pipe-dream?

be accepted for Examination. I have checked it carefully and I am satisfied
that it fulfills the requirements relating to format as laid down in the regulations
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INTRODUCTION

"Government finances can be increased and its resources improved only through the revenue from taxes. The latter can be in turn increased only through the equitable treatment of individuals with property and regard for them. This makes their confidence rise, and they have the incentive to start making their capital bear fruit and grow. This in turn increases government revenues from taxes. Other measures taken by the government, such as directly engaging in commerce or agriculture, soon turn out to be harmful to the citizens, ruinous to the state revenues, and destructive to civilization." 1

It seems appropriate at the start of this essay to recall this part of a remarkable passage by an Arab historian and sociologist more than five centuries ago, as it best summarizes the dire consequences resulting from state intervention in what should solely be the scope of private enterprise.

The role of the state in managing national resources, providing public utilities and other services, and also in undertaking projects that require high inputs of capital or technology outside the reach of private enterprise, is widely recognised. This, however, provides even more reason for the state to adhere to high standards of efficiency and financial restraints so as to maximise its contribution to the growth of the country's welfare.

It is true to say that Zambia inherited an exceptionally sound and financially stable economy from her colonial rulers at the time of independence. However, the eventual deterioration of the economy and its
subsequent effect on the lives of citizens in Zambia can hardly be disputed. To attribute all this to "political and economic programmes without reference to the people" is but an understatement.

Although a detailed discussion on the reasons behind the deterioration of the Zambian economy is outside the scope of this essay, a crucial element in the programme set out by the present Movement for Multi Party Democracy (hereinafter referred to as MMD) Government is, in fact, the subject of this essay: Privatisation.

The obvious question raised here is, What is privatisation? "Privatisation is a transfer of ownership of State enterprises to the private sector. In Zambia, privatisation is a Government programme legislated by Parliament in 1992 as part of the Economic Structural Adjustment Programme."3

The objective of this essay is to give a detailed and critical account of the privatisation process in Zambia so as to give an informed answer to the question posed in the title of this essay: Is privatisation in Zambia a pipe-dream? Before this question can be answered, several other issues need to be discussed. A background to the nationalist policy previously in force needs to be given to demonstrate why privatisation has become necessary. The present economic situation needs to be analysed to determine whether privatisation is even desirable.

The first chapter addresses these issues. It is in fact a historical background of the Zambian economy. It begins with the advent of the British South Africa (hereinafter referred to as BSA) Company, progresses to independence in Zambia, traces the Socialist trends that emerged in Zambia including the Mulungushi, Matero and Economic Reforms that ushered in the nationalisation process and finally gives way to the
democratisation process which brought to power the MMD Government. Chapter two traces the rise to power by the MMD Government and further traces its privatisation policies which are geared to minimise state intervention and emphasize of promotion of private and individual enterprise. The chapter discusses the Zambian Privatisation Act as the principal instrument to be used and the Zambian Privatisation Agency as the key agency to implement policy.

The third chapter is a comparison of privatisation in Zambia with privatisation in other countries. The global trend to privatisise is highlighted and the different methods adopted are brought to light.

Chapter four is the final chapter. This chapter, among other things, states the conclusion of the essay, and answers the question raised in the title - Is privatisation in Zambia a pipe-dream? The chapter further puts forth some recommendations and restates all important observations made throughout the research.
Footnotes

1. Ibn-Khaludun, The Muquaddimah (Introduction to History) (AD 1377), Chapter 40.
CHAPTER ONE
A Historical Background

As mentioned in the introduction, this chapter is intended as a historical chapter that outlines the background of the Zambian economic situation. The starting point therefore, will be the advent of Western explorers on the Zambian scene.

Northern Rhodesia, as Zambia was called before independence, had her first contact with the rest of the world, particularly the West, through the exploits of a missionary called Dr David Livingstone. Dr Livingstone was a British subject, the Crown therefore felt that it had an obligation to protect its entrepreneurs and also felt it had first claim to Northern Rhodésia. Consequently, Northern Rhodesia was partitioned in 1884 by the Berlin Conference and became a British territory.

However, due to the absence of a substantial British population in Northern Rhodesia, The Crown was not keen on taking on the administrative responsibilities of Northern Rhodesia. It therefore gave the financial and territorial administration of the territory to the BSA Company on the 30th of June, 1895 through a Royal Charter.

The BSA Company consequently became the first Government in the history of Northern Rhodesia. As this was a company seeking to maximise profits, it can be said that this first Government was capitalistic and therefore ran Government on capitalistic lines.

Although company rule came in 1895, full British jurisdiction over the territory only came in 1899 with the passage of the North-Western Rhodesia Order-In-Council and the North-Eastern Rhodesia Order-In-
Council of 1900. These two Orders-In-Council provided for Her Majesty's jurisdiction in Northern Rhodesia for the administration of justice, the raising of revenue, and generally for peace, order and good government.

By the first Order-In-Council of 1899, much of government was left to the Barotse King because of his strong administrative lines. However, as North-Eastern Rhodesia was more chaotic and participated in the slave trade, the 1900 Order-In-Council linked the administration of this territory to South Africa.

The British government, however, still preserved national interests by legal means and also checked arbitrary trends. Therefore, on the 17th of August, 1911, North Eastern and North Western Rhodesia were united under one constitution through the Northern Rhodesian proclamation Number One of August 17th, 1911. This meant that Northern Rhodesia was now a British protectorate.

The 1911 Constitution lasted thirteen years. However, the BSA Company started to face financial difficulties and was also inefficient in its administration of the territory. Consequently, Britain took over control of the territory and its administration by the Northern Rhodesia Order-In-Council of 1924.

This, then, was the constitution in force for forty years under which Northern Rhodesia was governed and gave birth to Zambia in 1964. It should be noted, however, that although administration of the territory was no longer in the hands of the BSA Company, the mining sector was still under the control of the Company as the Company owned the mining industry. Thus, the Company still played a major role in the direction of economic policy.

Although several towns emerged, they were invariably located along
the line of rail. The colonial government did not see any reason to venture outside these areas as most white settlers were conveniently located along the line of rail.

Thus, although the mining industry continued to develop, such development was not matched with other sectors of the economy. Commercial and manufacturing activities were negligible and this was attributed to two main factors. Firstly, the non-availability of capital for investment and secondly, the lack of a wide local market.

As the bulk of the economy was vested in the hands of privately owned mining industries whose shareholders steadfastly refused to employ their profits towards the development of other ventures, non-mining development remained insignificant.

This trend is evidenced in Lord Robins' statement when he observed that, "We shall continue to seek profitable outlets, but have resisted and will continue to resist suggestions that it would benefit the country or its people to invest in failures and squander capital for propaganda purposes." 1

"This was typical of the philosophy of capitalism under which the mining companies operated. The duty of the managers was seen primarily as that of maximising returns to the shareholders. Social responsibilities of the companies was of secondary concern to the managers." 2

It was this deplorable state of affairs which resulted in the formation of the Northern Rhodesia Industrial Development Corporation Limited (hereinafter referred to as INDECO) in April, 1960. It was formed under the Companies Ordinance as a public company with all the attributes associated with companies and although it was funded by Government, it was to be run on commercial lines.
"From the outset INDECO was intended to serve as the government's principal instrument for industrialisation. It initiated investigations into the possibility of establishing industries for the processing of primary products and provided information and advice to investors who were interested in establishing industries in Northern Rhodesia, it provided capital for industry by making loans or guaranteeing them and, in special cases, forming companies in which it took majority holdings until private enterprise to take-over was found, and it provided management and technical assistance to existing industries - which lacked necessary expertise."3

It should be pointed out that "The policy of INDECO, as that of the Government, was not to set up in business."4 Thus, although the colonial government engaged in commercial activity through INDECO, it was to have been a mere prelude to eventual divestiture to the private sector.

The reaction of independent Zambia, however, put things in a different perspective. In 1965, the Government's policy was critically reviewed "and it was decided to articulate certain aspects of the policy. In view of this, the functions of INDECO were redefined and became as follows:

i) To be the holding, financing and management institution for Government's investments and interests in industry.

ii) To be a financial institution specifically charged with the function of the promotion of Zambian entrepreneurship in both industry and commerce.

iii) To be a financial institution charged with responsibility for the issue of loans to private enterprise on normal commercial terms.

iv) To have responsibility for the appraisal of industrial projects, which the Government wishes to promote, either itself or in partnership with
private enterprise."5

Although this meant that Government was now to participate substantially in the country’s commerce, the main role of parastatals was a direct result of the national philosophy of Humanism adopted at a United National Independence Party (hereinafter referred to as UNIP) National Council in April, 1967. The philosophy, a brain-child of the then President, Dr Kenneth David Kaunda, advocated for equal distribution of the nation’s wealth so as to restore “the equality of man”.

The Government realised that management of the means of production was not sufficient to control the economy and guarantee the success of humanism. Ownership of enterprise was essential if the policy was to work. Serious economic measures were taken to gain control. Exchange control was introduced to ensure that profits and capital reserves were ploughed back into the Zambian economy rather than repatriated. Economic reforms were introduced in three phase.

The Mulungushi Reforms6 were introduced on the 19th of April, 1968 and were meant to expand Zambian entrepreneurship and increase state participation in the economy.

“The Government asked twenty-six privately owned companies to offer 51 percent of their equity to the state. Most of these companies were accused of lack of interest in the welfare of Zambians by making excessive profits which they repatriated to other countries to the detriment of Zambia; and of organising price-rings to create a false monopoly position. Some of them were also accused of maintaining trade relationships with Rhodesia, contrary to the declared politics of Zambia. Of the twenty-six companies named at Mulungushi only one (Mwaiseni Stores Ltd) was a Zambian owned company, but the rest were foreign-owned.”7
Government's objectives were clear - to reserve certain portions of business for Zambians by wiping out any foreign competition so that Zambian entrepreneurs would be guaranteed success.

The second set of reforms, the Matero Reforms8 were even more significant as they were designed to enable Government to take over 51 percent shares in the foreign-owned mining sector.

It should be pointed out that "Apart from the mining companies, no industrial nor commercial companies were asked specifically to offer 51 percent of their shares to INDECO but all the large enterprises were advised generally to form partnerships with INDECO."9

The final set of reforms were the Economic Reforms10 which "called for state participation in the financial sector, comprising mainly the banks, insurance companies and Building Societies. The State, however, was already operating in these areas, albeit in a small way, through Zambia National Commercial Bank, Zambia State Insurance Corporation and Zambia National Building Society."11

These reforms created state monopolies in both the insurance and building society sectors. Privately owned companies were ordered to stop operations rather than taken-over as previously. Privately owned banks were merged with either Barclays or Standard Bank in which the state was to take 51 percent shares.

The Government was now fully entrenched in the Zambian economy and all control lay in its hands. The Board of Directors in parastatals were headed by Cabinet Ministers. All control was exercised by politicians and civil servants. Parastatal chiefs were appointed and dismissed by the President and financial affairs were supervised by Parliament. Ministers and their Permanent Secretaries were chairmen and vice-chairmen of the
holding companies whilst civil servants below them in their Ministries were directors of subsidiary companies.

As parastatals comprised a major section of the economy, there was no clear distinction between the social and economic policies in the country. Projects involving social as well as economic considerations that were not viable in purely commercial terms were undertaken. "For instance, the managers in INDECO prepared in 1970 a five year plan based on commercial viability of projects. That plan did not only disregard the element of social responsibility but it was also not in accord with the country's published Development Plan. As soon as it became known, there was a controversy between the Government and INDECO management which ended in its withdrawal."12

Public revenue was spent on sustaining non-viable commercial projects "for the development of the nation". Projects were undertaken more for their social implications rather than for their commercial potential. More and more public funds were pumped into loss-making ventures regardless of their impact on the economy. Government subsidies were now an essential part of the economic policy.

Parastatals became mere manifestations of the Government's bureaucratic system and performed regardless of efficiency, viability or any other commercial trait. Politics prevailed, not economics.

The Zambian economy began to suffer. Inflation and devaluation became the order of the day. Government had to resort to foreign borrowing and the national debt grew astronomically. Most industries relied on Government subsidies and had no means of self-development. Entrepreneurship, invention and innovation were stifled. State owned enterprises exploited their monopolistic position without regard to
efficiency or fair pricing.

It has been rightly pointed out that, "As long as a state owned enterprise could generate cash flow, they could either make profits, or could borrow money, the state owned enterprise was a useful agent for any political party in any country because the generation of money meant, in effect that wages could be raised, prices could be held down, small political favors, and sometimes large political favors, could be granted to the political party all out of the state owned enterprise’s cash-flow. When these cash-flows turned negative instead of positive, the state owned enterprises became an enormous embarrassment to the politicians." 13

In his zest for power, Dr Kaunda, however, seemed oblivious to the deterioration of the Zambian economy. On the 25th of February, 1972, he announced that UNIP had taken a decision that Zambia would become a One Party State. There was from 1972, only one political party - UNIP; and no opposition was allowed.

Government now began to rule arbitrarily and the country was plunged into an economic as well as a political crisis. Parastatals and the civil service became bureaucratic giants requiring huge amounts of capital input and the country existed on foreign borrowing.

Government needed a scapegoat to divert the rising hostility of the people. In 1988, Government took-over several shops belonging to Indian traders saying that they were causing the rampant black-market. The whole exercise was a disaster and most of the shops had to be given back to their previous owners. This had only succeeded in intimidating foreign investors and alienating the donor countries.

The International Community began to restrict aid to Zambia. The Government, therefore, introduced an auction system for allocation of its
meager foreign exchange. The economy kept on plunging and devaluation and inflation were on the rise.

Government found it increasingly difficult to justify state owned enterprises that generated losses year after year.

The people began to resent the Kaunda regime and began advocating for multi-party elections. The International Community also began to pressurize the Government to hold democratic elections. President Kaunda was finally forced to assent to multi-party elections in 1991.

On the 30th of November, 1991, The Movement for Multi-Party Democracy won the elections and Mr. Frederick J T Chiluba was inaugurated as the new President of the Republic of Zambia.

This ended the reign of both Kaunda and Humanism and brought with it the hope of democracy and a free market system.
Footnotes


3. Ibid pages 46-47.


5. Supra No.2 page 57.


7. Supra No.2 page 64-65.


9. Supra No.2 page 66.

10. Zambia, This Completes Economic Reforms; 'Now Zambia is Ours', Address by President Kaunda, 10th November, 1970.

11. Supra No.2 page 67.
12. Supra No.2 page 239.

13. Mr Raymond Vernon, Harvard University.
CHAPTER TWO

The Privatisation programme in Zambia

This chapter will comprise an account of the privatisation programme implemented by the MMD Government and will also be used to evaluate the Privatisation Act1 as the main tool of the programme.

The MMD Government rode to power on a wave for political change that had washed over the Zambian population. It is often said that the election of MMD was not so much a preference for policies but merely a desire to oust a dictator who had ruled the country for over a quarter of a century. The choice had been simple: election of Chiluba and his promises for a new and better life, or re-election of Kaunda and his old and tried methods.

More relevant to our topic, the choice is perhaps better expressed as between capitalism and socialism. The consequential loss of socialism was significant as it conformed with the collapse of Socialist regimes the world over, Russia and East Germany being the most notorious examples.

It is relevant at this point to diverse and give a brief background to the socialism in Zambia. It was argued that in order to develop, Governments needed to control the commanding heights of the economy. The socialists predicted that public enterprises would generate surpluses which Government would invest in areas of high priority which would consequently lead to rapid development of the economy.

With all its idealistic aims, why then, did the public sector perform so poorly? Public enterprises were merely a reflection of the interests of politicians and had nothing to do with the wishes of the local population.
Managerial positions were awarded to loyal supporters of the ruling party and jobs were given to Party members. The Zambian parastatal was merely a manifestation of the Party and its heads towed the Party line.

Two basic shortcomings of the public sector were evident: most public enterprises were liabilities rather than assets and most of them operated at low levels of efficiency. It was noticed that the only parastatals that operated profitably, were doing so by exploiting a monopolistic position or Government pricing policy which allowed even inefficient enterprises to make profits.

This poor performance by the parastatals forced the Government to increase already existing subsidies, which strained the already strained budget, which resulted in further inflation, more devaluation, and a general collapse of the already declining Zambian economy.

The Government was caught in a vicious circle by which it could neither afford to get out of the parastatal sector, as this would result in loss of jobs, nor could it afford the expensive subsidies which brought devaluation, inflation and other consequential evils that also resulted in unpopularity which UNIP could ill-afford.

It was this unfortunate trend that the MMD Government was determined to break by introducing the privatisation programme. This is clearly spelt out in both the Constitution and the Manifesto of the Party and is stated as follows:

"(c) to work towards a meaningful programme of liberalisation of commerce and industry in order to boost the national economy, encourage individual initiative and to raise the standard and quality of life of the people of Zambia."2

"The MMD is committed to privatisation in order to optimise resource
utilisation, enhance the productivity and profitability of the public sector and assist in the reduction of the government deficit. To facilitate privatisation, MMD will as a matter of urgency establish a stock market. The current economic role of government as a central participant in business undertakings shall cease. Free market and not nationalization will become the foundation stone upon which the economy under an MMD government shall operate.”

The MMD Government began to fulfill its promise by introducing a large scale campaign to publicise the need for privatisation. The President and members of his Government have continuously stressed the importance of privatisation to the Zambian economy.

In his statement on the occasion of the 29th Anniversary of the Organisation for African Unity, President Frederick T J Chiluba stated as follows:

“The restoration of individual rights and respect of human rights are the greater part of today’s democratic agenda together with new economic policies that will enhance private investment, local and foreign liberalised system of economic production that should see Africa transform itself from the present misery that characterizes most of the continent to a fair human decent level of standard of living.”

In his preface to a book on key speeches of President Chiluba, Mr Donald Chanda, Special Assistant to the President said the following:

“On the economic front the democratic practices are unlocking individual initiative, innovation and entrepreneurship which, we hope, will lead our country with its abundant human and natural resources into prosperity for generations to come.

We have opened our country for investment and business.”
Furthermore, he observes that,

"The MMD’s economic thrust is molded around private initiative, promoting market forces to allocate resources efficiently and minimising government exposure in the economy. The role of government is being redefined to one of creating an enabling environment in which private enterprise can flourish. Emphasis will be placed .... so as to reduce perpetual dependence on the state."6

That the MMD Government’s fundamental intention is to minimise state intervention and promote private and individual enterprise cannot be disputed. This is to be done through privatisation of the state owned parastatals. However, it is the economic policies and measures which will determine the success or failure of the programme.

The Privatisation Act was enacted on the 4th of July, 1992 as the principal instrument and the Zambia Privatisation Agency was established by the Act as the principal implementing agency.

The Act has three main objectives, namely, establishment of the Privatisation Agency, laying out the procedure for privatisation, and regulating finances generated from sales.

Part II of the Act establishes the Zambia Privatisation Agency,

"3. There is hereby established the Zambia Privatisation Agency which shall be a body corporate with perpetual succession and a common seal capable of suing and of being sued in its corporate name, and with power, subject to the provisions of this Act, to do all such acts and things as a body corporate may by law do or perform."7

That the Agency has a legal entity according to law is therefore established by this section. This is one of the most essential and important features of the Agency.
Section 5(1) outlines the composition of the Agency, and provides as follows:

"The Agency shall consist of the following members who shall, subject to scrutiny by a Select Committee of the National Assembly and ratification by the National Assembly; be appointed by the President".8

The Section goes on to list twelve members including the Attorney-General, and two Permanent Secretaries. The other nine members are representatives from different fields of enterprise.

The importance of this Section, however, lies in the fact that members are to be "appointed" by the President, as this is somehow reminiscent of the Kaunda regime.

It is comforting to note, however that Section 6 which deals with tenure of office, makes no reference to the President, and members enjoy a three year term of office without any interference from the President, or any other political sphere, in relation to their length of stay.

Section 8(1) lays out the functions of the Agency as follows:

"It shall be the function of the Agency to plan, manage, implement and control the privatisation of State owned enterprises in Zambia."9

However, sub-section (2) of this same Section specifically lists sixteen functions of the Agency as follows:

(a) recommend privatisation policy guidelines to the Cabinet;
(b) implement the privatisation programme according to the policy guidelines issued by the Cabinet;
(c) oversee all aspects of the implementation of the privatisation programme in Zambia;
(d) monitor progress of the privatisation programme in Zambia;
(e) prepare the long term divestiture sequence plan and submit such plan
to the Cabinet for approval;

(f) recommend to the Cabinet the most appropriate method of sale for each State owned enterprise to be privatised;

(g) carry out or cause to be carried out a valuation of a State owned enterprise that is to be privatised;

(h) set prequalification criteria for the selection of potential buyers or investors of a State owned enterprise to be privatised;

(i) evaluate offers from potential buyers with regard to the-

(i) price;

(ii) ability and commitment of buyers to develop the enterprise; and

(iii) track record of buyers and their expertise in the type of enterprise on offer,

(j) ensure that monopolies are not created in the process of privatisation;

(k) prepare or cause to be prepared the relevant documentation necessary to effect the privatisation of any State owned enterprise;

(l) seek potential investors for State owned enterprises;

(m) maintain records, safeguard information and establish administrative procedures to ensure confidentiality of information;

(n) maintain close liaison with all relevant institutions in the process of privatisation;

(o) publicise the activities of the privatisation programme; and

(p) do all such things that are necessary or incidental or conducive to the better carrying out of the functions specified in this Act."10

It is important to note that although the Agency is a body corporate with separate legal entity, sub-sections (a), (b), (e) and (f), outlined above, provide for the power of Cabinet in matters relating to policy. This is
perhaps the biggest contradiction in the Act. Furthermore, this too can be seen to be political interference carried over from the Kaunda dynasty.

The Agency is, however, empowered via sub-section 9(1) to "regulate its own procedure". However, the political implications of the sub-sections listed above are significant as they give Cabinet a large say in the operations of the privatisation process.

This has, however, been justified by the argument that it is important to maintain a certain degree of control over such a powerful agency and to date no abuse of the powers has been reported. This clean record can perhaps be attributed to the provision of Section 26 which provides that "public leaders and public officers shall publicly disclose their intention to bid for the purchase of shares in a State owned enterprise."

Part III of the Act deals with the administration of the Agency and provides for the appointment of a Director, Deputy-Director, Secretary and other necessary staff who are sworn to secrecy by an oath.

Part IV is another important section of the Act. It deals with the procedure for privatisation and commercialisation. Section 21 deals with the obligations of a State owned enterprise scheduled for privatisation and it is comforting to note that such enterprises are required by the Act to be accountable for their operations even during the period between the start of the programme and final divestiture.

The Section provides for, among other things, the settlement as far as possible, by the enterprise of all contractual, legal or other obligations. This Section is useful to most potential buyers who would not wish to invest in an enterprise bound by prior obligations which may be difficult to honor.
Section 22 deals with the different modes the Agency may adopt for privatisation. These are as follows:

(a) public offering of shares;
(b) private sale of shares through negotiated or competitive bids;
(c) offer of additional shares in a State owned enterprise to reduce Government share holding;
(d) sale of the assets and business of the State owned enterprise;
(e) reorganisation of the State owned enterprise before the sale of the whole or any part of the State owned enterprise;
(f) management or employee buyouts by management or employees in that State owned enterprise;
(g) lease and management contracts; or
(h) any other method the Agency may consider appropriate."11

The list is comprehensive and covers all possible methods. It is completely up to the Board to determine what manner of privatisation to adopt in any sale.

The Act does provide, however, that all State owned enterprises should be sold at market value and Section 23 of the Act deals with the valuation of State owned enterprises and provides for it to be done by an independent valuator who shall issue a certificate of valuation.

Sub-section (c) provides, however that valuation may be done by "any other prudent and acceptable valuation method". This provision is very significant as it gives the Agency a lot of leeway in relation to determination of price. It is so lenient that it covers any possible method the Agency may wish to adopt for a particular sale without having to account for its actions. For who is to decide what is prudent if not the Agency itself?
Part V of the Act deals with financial and other provisions. Section 39 provides for the establishment by the Minister of Finance of a Privatisation Revenue Account into all proceeds from sale of shares and assets will be paid. This account will then be used to fund the expenses of the Agency and pay for other activities of the Agency as outlined by subsection 2.

Part V goes on to lay out more Sections that deal with accounts, annual reports, progress reports and other standard requirements.

It should be pointed out that the above cited Sections are in my opinion the most important aspects of the Act, but do not comprise its entire content.

It is also my opinion that although the Act provides for approval by Cabinet of policy making, too much has been left in the hands of the Agency to guarantee that national interests are protected.

Thus, although the Act establishes the Privatisation Agency, it is the Agency which determines through its operations the success of the programme. It is therefore inevitable that the next step is to progress to the operations of the Agency.

According to section 8(2)(f) of the Act, the Agency is required to prepare the long term divestiture sequence plan 11 for all parastatal companies. Accordingly, the Agency has prepared this plan which consists of eleven separate tranches comprising of one hundred and thirty-seven parastatals out of the total of one hundred and forty-four companies. The plan does, however, state that the remaining seven companies will be privatised at a time still to be determined.

The first tranche began in late 1992. "In the case of the first tranche there were 17 SOE's selected for trade sale through competitive
bids and two through negotiated, private sale. Public competitive bid for trade sale is the preferred mode when the SOE is wholly owned (i.e. 100%) and no other mitigating factors are present, while negotiated, private sale was required in two cases because of the presence of pre-emptive or restrictive rights of minority shareholders."12

Gazette notices and invitation to participate were given and published pursuant to section 38 of the Act. Also, according to Section 8(2)(h) of the Act, applications for prequalification were submitted to the Agency by interested parties. The final bids were opened publicly and names and addresses of the bidders were announced.

According to the section 23 of the Act, independent valuers determined the value of each state owned enterprise and issued a certificate of valuation. It should, however, be pointed out that "The offer prices for the state-owned enterprises varied from the independent valuations but were generally higher."13

The evaluation of bids was done by teams comprising three or four Agency staff and consultants. The methodology for evaluation adopted by the team "encompassed both a quantitative comparison of bid prices and an assessment of the bid's qualitative variables. It was divided into three elements:

* quantitative or price comparison;
* qualitative comparison; and
* overall ranking and review of results for compatibility."14

The highest ranking price offered was awarded the maximum points, if it was equal to or greater than the "market value" established by the company valuers. Other price offers were awarded points in the direct proportion to the highest price offered or the valuers "market price".
whichever was greater."15

The team also considered three qualitative factors. Firstly, the guaranteeing of a competitive environment to ensure that no monopolies would be created. Secondly, the commitment of buyers to develop the enterprise and their ability to do so, and lastly, the record of buyers and their expertise in the type of investment they wished to make.

It is also important to note that in order to promote Zambian interests, deferred payments were only allowed in cases of bids from individual Zambians management/employee buyout teams as provided by both sections 29 and 31 of the Act. Out of three hundred and twenty one applications received to prequalify, only two hundred purchased tender packages which were sold at an equivalent of two hundred and fifty dollars, and only one hundred and twenty bids were received.

There are five companies already transferred legally from tranche 1 and these are Eagle Travel Limited, Poultry processing Company Limited, Prime Marble Products Limited, AFE Limited, and General Pharmaceuticals Limited.

Tranche 2 is also in motion and the same procedure as for the proceeding tranche was followed. Nganga Farms Limited has been legally transferred and "24 per cent of the share holding will be offered to the Zambian public through the Privatisation Trust Fund once the company shows viable returns."16

Tranche 3 is now ready to be negotiated and estimated completion dates have been set, dependent on Cabinet approvals. As of 26th July, 1994, the Agency has realized Kwacha One billion seven hundred and twenty four million three hundred and seventy six thousand nine hundred and fifty nine.17
Although it is apparent from the above that the privatisation programme is firmly in place and the Agency is operating within the perimeters laid out by the Act, a true picture of the success of the programme can only be obtained when compared with the programmes adopted in other countries.

As this is the scope of the following chapter, we now proceed to chapter three.
Footnotes


2. The MMD Constitution, Chapter 1, Article 2.


4. Democracy in Zambia, Key speeches of President Chiluba, edited by Donald Chanda 1991\92, Pages 41-42.

5. Ibid Page 3.


8. Ibid Article 5(1).

9. Ibid Article 8(1).

10. Appendix A.

11. Supra No. 7 Article 8(2).


14. Supra No.2 Page 46.

15. Supra No.2 Page 47.


17. Appendix B.
CHAPTER THREE
A Comparative Evaluation Of Privatisation

This chapter comprises of a comparison between privatisation in Zambia with privatisation in other countries, particularly, Tanzania. Today, all over the world, most Governments are withdrawing from commercial enterprise. Brazil, for example, has raised half a billion Dollars from the sale of bonds, the Government in Chile has sold numerous banks and pension funds. Japan has plans to sell Nippon Phones, Nippon Telegraph, the National Airline and the National Railways, all of which are State owned.

Privatisation is seen as a progressive step towards reduction of imbalances and restoration of positive rates of growth. Poor performance by the State owned enterprises has resulted in this growing trend towards privatisation. This has forced Governments in developed and developing countries to re-asses the desirability of State participation in commercial activity.

John Egan, Chairman of Jaguar Cars Limited, has the following to comment on the privatisation of the company: “The way the bureaucratic mind ran Jaguar Cars during the 1970’s, they were constantly striving for economies, not excellence. Economies might be a very good thing in terms of conserving resources with a controlled customer base, but when you have to go and fight for your customers and actually satisfy them, and they can buy anything in the World, you have to strive for excellence, and not, in particular, just the economies.”

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It should be pointed out here, that before tax profits for Jaguar Cars doubled from fifty million Pounds in 1983 to ninety-four million Pounds in 1984 after privatisation of the company.

Throughout the World, hundreds of companies are up for sale, including banks, telecommunications, railways, energy industries and even airlines. These sales indicate a global shift between the relationship between Government and industry, a shift towards privatisation. Most Governments are now getting out of the business of business.

The techniques of privatisation are many and varied as each Government follows the dictates of its own social and political circumstances. Privatisation can mean the sale through the public stock offering of either a major or a minor share of a State enterprise. The private sale of an enterprise to individual investors, to existing management or to the employees themselves. Partnerships can be created between the State and the private sector. The State retains responsibility for providing services, while private companies actually deliver them, operating under franchises, leases or contracts.

Although it has often been argued against privatisation that raising money for the State from the sale of its assets is a one-off excercise which cannot be repeated, it is in fact true to say that privatisation has a double effect. Firstly, you have the one time sale which is a single event, but if the company is operated well, you create employment, wealth and revenue which gives the second benefit, as over time, this revenue is taxed, thereby creating a revenue stream for Government.

Privatisation is adopted in countries to achieve different goals. Mexico adopted her programme so as to increase efficiency in her economy. Italy adopted privatisation to accelerate growth. Great Britain's
privatisation programme was geared towards reduction of the size of the State, whilst Singapore adopted privatisation to encourage private investment.

Although the decision to privatize is essentially political, certain conditions are necessary for privatisation to succeed. These are:

* The creation of an economic environment that is hospitable to private ownership. This involves the review of taxation and property rights, etc.
* The establishment of public information to help sell privatisation to the public and private sectors.
* The formulation of a plan of privatisation that is executed by well-trained specialists.
* The clear definition of targets for privatisation can reduce risks and enhance success.
* The selection of techniques and strategies that will maximise the support of the political constituency.
* The preparation of public enterprises for privatisation is a necessary condition for success, especially if it does not involve large investment."

It should be emphasized that as the whole question of privatisation has both social and political implications, it has to be carried out in conformity with the evolving social and political concepts and policies and not only on the basis of economic and financial arguments. Consequently, different countries have adopted different techniques to suit their individual positions. Although an analysis of all these techniques is beyond the scope of my research, I will discuss privatisation in Tanzania and Jordan in relation to privatisation in Zambia.
TANZANIA

Problems common to most African countries were affecting Tanzania, namely, unemployment, inflation, high rate of population growth and other social problems such as congested cities and housing shortages. Also, as in other African countries, these problems were the result of two main reasons, deficits in both the budget and balance of payments, and bad Government policy.

President Ali Hassan Mwinyi had the following to say on parastatals in his country, "Under capitalism, outmoded technology and an uncompetitive environment contributed substantially ...... The Government did not then, or now, have the resources to capitalise, modernise or bail them out. In any case, we need to direct whatever resources we have towards ..... the provision of economic infrastructure and social services.

So the decision to reform and privatise parastatal enterprises is an economic imperative ...... my Government's ability to run them is very limited. Above all, it is based on our resolve to improve overall economic and business operational efficiency."2

The Parastatal Reform Programme lays out Government strategy for privatisation and can be compared to the Zambia Privatisation Act. It establishes the Presidential Parastatal Sector Reform Commission (hereinafter referred to as PSRC) which is the equivalent of the Zambia Privatisation Agency and gives it the responsibility of steering the privatisation process.

However, unlike the Zambian system of independent valuation of state owned enterprises, the Tanzanian Programme provides in section 415 as follows:

38
"Valuation of business to be sold will be thoroughly assessed prior to inviting bids, using established techniques. These comprise assessment of the present value of future earnings, of the realisable market value of existing assets and book value ... values are what is agreed between informed sellers and buyers." 3

Section 514 gives the different methods of divestiture as trade sales through direct negotiation, tender or auction, joint ventures, public share offerings, public auctions, private placement, management and/or employee buyouts, privatisation funds and liquidation. Section 515 also provides for lease and management contracts but goes on to say that such will not be given priority.

Like the Zambian Agency, the PSRC screens the bidders for soundness and capability to “ensure that bidder’s plans are compatible with the policies and objectives of the Government.” 4

Although the above provisions are similar to the Zambian provisions, it should be pointed out that the Tanzanian Programme is not as comprehensive as the Zambian Act. Whereas the Zambian Act clearly lays out all eventualities ranging from composition of the Agency to publication of information, the Tanzanian model merely hints at a few procedures and is silent on most.

In spite of the above, the PSRC has already drawn up a divestiture plan which began in 1993 that is currently in operation. The necessary data on its performance is unfortunately, unavailable at present, therefore an analysis of its performance is not possible.
MY choice of Jordan as the second country for comparison is mainly because of its unique position as being a country that officially announced its decision to privatize in 1986 but did not have any legislature allowing sale of public enterprises.

While the Jordanian Constitution states that the economy shall be run in accordance with “private initiative,” a deviation from this rule was witnessed in 1974. Although this was initially as a result of circumstances rather than clear-cut policy, the economy began to decline from 1983. This was due to a high population growth rate and the resultant drop in standard of living as well as a drop in oil prices.

“It is within the context of such economic conditions ...... that the thinking on privatisation in the country was shaped. Government officials believed that the only viable strategy for recapturing the growth momentum was through the revitalisation of the role of the private section ...... The first was increasing autonomous private investment through deregulating the business environment in which the private sector operates. The second was trimming public involvement in commercial activities through the actual sale of assets to private entrepreneurs.”5

Although some of the public enterprises in Jordan were described as successful, the majority, as is common to public enterprises the world over, made losses and operated at the expense of taxpayers and shareholders. Overstaffing, Government pricing policies, weak control systems, lack of incentives and inadequate accounting methods are a few of the main problems that affected the public sector.

However, an initial survey conducted in 1986 to evaluate
possibilities for privatisation, targeted three enterprises which were the Royal Jordanian Airline, the Public Transport Corporation and the Telecommunications Corporation. This in itself is remarkable and very different from the Zambian situation. Zambia, like most other countries, has left the privatisation of such key industries as the three above to a much later stage in her divestiture programme.

The Government has however set itself on a path to privatisation and “It is expected that the total return to the Government from the sale of its investments over a ten-year period would be in excess of JD 700 million, which is roughly equal to 30 percent of its total foreign debt.”6
Whatever the programme adopted for privatisation, it is not a set-out plan but in fact a plan modified to the needs of individual countries in accordance with their social and political circumstances.

"Yet the process of privatisation cannot be treated on an ad hoc basis. It must be a well thought out scheme with the permanence and preserverance to ensure its success. Moreover, it must be accompanied by other reinforcing policies such as the encouragement of both domestic and foreign investment, price liberalisation, and an attitudinal change within the heirarchy itself." 7

Thus, certain features of privatisation are common to most countries. Firstly, privatisation is usually born out of an economic crisis. The process of privatisation always means the sale of state-owned assets to private investors whether for monetary value, or not. Lastly, privatisation is usually part of a larger recovery programme and not an end in itself.

Most of the developing nations have looked for aid to the World Bank which has increasingly played a major role in the global process of privatisation. "Since the early 1980's, the Bank has provided more direct assistance for the privatisation process to governments in approximately thirty countries in all regions, the majority of which are in sub-Saharan Africa. The Bank has also been involved in privatisation efforts in Brazil, Argentina, the Philippines, Morrocco, Panama, and Jamaica." 8

Like Zambia, most World Bank assisted countries draw out a Structural Adjustment Programme under World Bank guidelines. This is then used to monitor the privatisation programme and ensure the country’s commitment. As most of the Governments in privatising countries are existing on foreign aid, the World Bank threatens to withdraw its aid the
moment Governments deviate from the Structural Adjustment Programme and invariably, Governments are brought back in line.

This, then, is the scope of this chapter, what remains to be seen is the success of the privatisation programme. This is discussed in the following chapter.
Footnotes


2. The United Republic of Tanzania, Parastatal Privatisation and Reform, Master plan, August 1993, Page (i).

3. Ibid Page 17.


5. Supra No.1 Pages 211-212.

6. Supra No.1 Page 223.

7. Supra No.1 Page 224.

8. Supra No.1 Page 66.
CHAPTER FOUR
Conclusions and Recommendations

This is the final chapter in my research and has two main objectives. Firstly, to restate all important observations made in the preceding chapters, and secondly, to put forth the problems found in the Zambian Privatisation Programme and suggest recommendations to enable a smoother operation.

It is perhaps imperative that we begin by making a categorical claim: for privatisation to be a good policy in economic terms, the necessary condition is that it should result in a marked improvement in efficiency of the privatised enterprises.

The rationale behind this lies in several assertions. Firstly, that privatisation will help to reduce the borrowing requirement of the public sector as Government subsidies will no longer be required to support it. Secondly, the increase in efficiency will help to restrain inflation. Lastly, prices will be more realistic as they will be determined by competitive market forces.

It should, however, be pointed out that privatisation per se is not a solution to problems of Government finance. Public spending and increasing taxes need to be reduced along with privatisation.

Consequently, certain priorities need to be identified in the privatisation programme. Firstly, it is important to ensure that a degree of competition is introduced in the economy. Secondly, priority should be given to policies that break up monopolies. Thirdly, privatisation should aim for technological change.
The Zambian programme has, fortunately, guaranteed the above priorities. Although any increase in efficiency is at this stage impossible to determine due to the lack of statistical data of already privatised companies, it will be interesting to see how far the programme is succeeding.

From the start of the privatisation process, devaluation and inflation have been reported as being at a minimum. Interest rates have shown a marked decrease and the balance of payments are the same as the amount the MMD Government started with. However, all this cannot be accredited solely to the privatisation programme.

The constant supply of foreign exchange from the donor community is perhaps the most important factor in stabilising the local currency. Donor aid is also a crucial factor in the balance of payments situation as several loans have been written off and aid has been given to assist in some of the payments.

This does not mean, however, that the programme is not a success. Indeed, as already mentioned, inflation and interest rates are decreasing. Privatisation has already brought about a competitive environment. State monopolies in several areas including insurance have been broken. New technology is steadily being imported into the country.

This does not mean that there are no problems facing the programme. Firstly, there is need for more transparency in the operations of the agency. Although the agency releases sale prices after negotiations are complete, market value is not given to the public to use as a measure for comparison of the selling price. Furthermore, the agency does not have a public account through which its spending can be critically monitored by the electorate.

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Another cause for worry is the collapse of the manufacturing industry in Zambia. Due to the lack of duty and other restrictions on imported goods, the Zambian manufacturing industry has completely collapsed. Although this has been justified by the lack of their competitiveness, it is obviously detrimental to the economy. This raises the issue of the speed of the privatisation programme in relation to both the mental and technical attitudes prevailing in the country. The question to be asked is, Is Zambia ready for privatisation? I think not.

There are two reasons for my assumption. First is the effect of privatisation on the manufacturing industry discussed above. Second is the lack of suitable capital markets within the country. The danger of a predominately foreign owned economy is always eminent in such a situation. There is little chance of the indigenous middle class acquiring shares in privatised parastatals as there is no infrastructure in place for them to be able to afford it.

Certain steps need to be taken to improve the present state of affairs. Firstly, the agency needs to take steps to ensure transparency. This can be done through detailed accounts of its daily financial expenditures being made readily available for public inspection.

Secondly, a policy of incremental privatisation needs to be adopted. This means that the privatisation programme should be one involving gradual divestiture, so as to give the local manufacturing industry time to adjust as their collapse frustrates the purpose of the programme.

Lastly, capital markets need to be established. More management/employee buyouts should be encouraged. Capital, in the form of loans or lenient deferred payments should be made available to the middle class so that the programme can have a broader base and make the
programme more meaningful.

In conclusion, no, privatisation in Zambia is not a pipe-dream but a reality which is here to stay.
ZAMBIA PRIVATISATION AGENCY
DIVESTITURE SEQUENCE PLAN

1992

Tranche 1

1  S  APE Limited
2  S  Crushed Stone Sales Limited
3  S  Consolidated Tyre Services Limited
4  S  Eagle Travel Limited
5  S  Mwinilunga Canners Limited
6  S  Nkwazi Manufacturing Company Limited
7  S  Poultry Processing Company Limited
8  S  Zambia Clay Industries Limited
9  S  Auto Care Limited
10 S  Cleanwell Dry Cleaners
11 S  Coolwell Systems
12 S  General Pharmaceuticals Limited
13 S  Monarch Zambia Limited
14 S  National Drum & Can Company Limited
15 S  Norgroup Plastics Limited
16 S  Prime Marble Products
17 S  Zambia Maltings Limited
18 S  Zambia Ceramics Limited
19 S  Zuva Zambia Limited
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Tranche 3

Agriculture/Agro-Industry
Supa Baking Company Limited
Manufacturing
Kafue Textiles (Z) Limited
Trading
Consumer Buying Corporation of Zambia Limited
Zambia National Wholesale and Marketing Company Limited

Tranche 4

Nchanga Farms
NIEC Farms Limited
Zambesi Sawmills (1968) Limited
Construction
MIL Construction
Energy
Lubilend Limited
Engineering
ZAL Elevators
Finance
Zambia National Commercial Bank Limited (ZNCB)
Trading
National Home Stores Limited
Tourism
Africa Bound Limited
Lake Hotels Limited
Transport
Mulungushi Traveller
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| 68   | S        | MEMACO farms                                           |
| 69   | S        | Chemicals                                              |
| 70   | S        | National Drug Company Limited                          |
| 71   | M        | Construction                                           |
| 72   | M        | Buildwell Construction Limited                         |
| 73   | M        | Mpelembe Properties Limited                           |
| 74   | S        | Zambia Steel and Building Supplies Limited             |
| 75   | M        | Engineering                                            |
| 76   | S        | MIL Engineering and Tooling Limited                   |
| 77   | M        | Packaging                                              |
| 78   | S        | Kabwe Industrial Fabrics Limited                      |
| 79   | S        | Tourism                                                |
| 80   | S        | Mundawanga Zoo & Botanical Gardens                     |
| 81   | L        | National Hotels Development Corporation Limited        |
| 82   | M        | Trading                                                |
| 83   | S        | Mwaiseni Stores Limited                                |
| 84   | S        | Redirection Placement Limited                          |
| 85   | S        | Lusaka Urban Rail Transport                           |

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| 81   | M        | Zambia Seed Company Limited                           |
| 82   | S        | Finance                                               |
| 83   | S        | Africa Intercontinental Insurance Services Limited    |
| 84   | S        | Development Bank of Zambia Limited                    |
| 85   | S        | Export and Import Bank of Zambia Limited              |
| 86   | L        | State Insurance Medical Trust Limited                 |
| 87   | L        | Zambia National Building Society                      |
| 88   | S        | Zambia State Insurance Corporation Limited            |
| 89   | S        | Zambia State Financing Company Limited                |
| 90   | S        | Zambia State Property Development Company Limited     |
| 91   | L        | Transport                                              |
| 92   | L        | Contract Haulage Limited                              |
| 93   | S        | United Bus Company of Zambia Limited                  |
| 94   | S        | Mbulungu Harbour Corporation Limited                  |
| 95   | S        | Mining                                                 |
| 96   | S        | Mindeco Small Mines Limited                           |
Tranche 7

Chemicals
Zambia Oxygen Limited

Mining
Kagem Mining

Kariba Minerals Limited

Kariba 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

Agriculture/Agro-Industry

Zambia Sawmilling and Joinery Limited

Zambia Forestry and Forest Industries Limited (ZAPFFCO)

Finance

Indo-Zambia Bank Limited

Manufacturing

Mansa Batteries Limited

Trading

NIEC Agencies Limited

Transport

Dunlop Zambia Limited

Mines Air Services Limited

Rycus Heavy Haulage Limited
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<tr>
<td></td>
<td>Zambia Concrete Limited</td>
</tr>
</tbody>
</table>
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 - Tazamù 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 size company
S Small company
### PRIVATISATION REVENUE ACCOUNT - AS AT 26 JULY 1994

<table>
<thead>
<tr>
<th>REVENUE ACCOUNT(1)</th>
<th>PAYMENT TO MINORITY SHAREHOLDERS(2)</th>
<th>BALANCE PAYABLE ON COMPLETION(3)</th>
<th>TOTAL SALE PRICE(4)</th>
<th>SALES PRICE AS PER SALES AGREEMENT(5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>K</td>
<td>K</td>
<td>K</td>
<td>K</td>
<td>K</td>
</tr>
<tr>
<td>1. Eagle Travel (6.1)</td>
<td>157 135 900</td>
<td>0</td>
<td>157 135 900</td>
<td>10m+US$301 508</td>
</tr>
<tr>
<td>2. Auto Care Limited</td>
<td>165 700 000 (6.6)</td>
<td>0</td>
<td>165 700 000</td>
<td>178 200 000</td>
</tr>
<tr>
<td>3. AFE Limited</td>
<td>700 000 000</td>
<td>0</td>
<td>700 000 000</td>
<td>700 000 000</td>
</tr>
<tr>
<td>4. Zuva Zambia Limited (6.2)</td>
<td>6 840 308</td>
<td>5 034 487</td>
<td>11 343 795</td>
<td>US$ 27 690</td>
</tr>
<tr>
<td>5. Poultry Processing (6.7)</td>
<td>143 820 000</td>
<td>0</td>
<td>143 820 000</td>
<td>143 820 000</td>
</tr>
<tr>
<td>6. Coolwell Systems (6.3)</td>
<td>3 705 476</td>
<td>51 023 000</td>
<td>.54 023 000</td>
<td>US$ 74 000</td>
</tr>
<tr>
<td>7. Prime Marble Ltd (6.4)</td>
<td>164 875 275</td>
<td>41 059 725</td>
<td>205 935 000</td>
<td>US$ 500 000</td>
</tr>
<tr>
<td>8. General Pharmaceutical</td>
<td>250 000 000</td>
<td>0</td>
<td>250 000 000</td>
<td>250 000 000</td>
</tr>
<tr>
<td>9. Zambia Maltings</td>
<td>60 000 000</td>
<td>0</td>
<td>120 000 000</td>
<td>120 000 000</td>
</tr>
<tr>
<td>10. ZADL - Holding Farm</td>
<td>30 800 000</td>
<td>0</td>
<td>30 800 000</td>
<td>30 800 000</td>
</tr>
<tr>
<td>11. Simmenthal Stud</td>
<td>41 500 000</td>
<td>0</td>
<td>81 000 000</td>
<td>81 000 000</td>
</tr>
<tr>
<td>12. Chilanga Cement (6.5)</td>
<td>0</td>
<td>0</td>
<td>4 675 862 000</td>
<td>US$6 796 311</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1 724 376 959</strong></td>
<td><strong>45 563 212</strong></td>
<td><strong>4 826 385 000</strong></td>
<td><strong>6 596 325 171</strong></td>
</tr>
</tbody>
</table>

N/A