Privatization in Africa: The Zambian Example

A recent report on the progress of privatization in Sub-Saharan Africa concludes that the response to and the results of privatization have been mixed. But the report shows that there is a success story. Zambia has the most successful privatization program to date and the experience there offers many examples of best practice (Commitment is what counts: The Progress of Privatization in Africa by O. Campbell White and A. Bhatia, in press).

Like many countries in the region, Zambia embarked on privatization with, among other objectives, a desire to broaden ownership and develop the capital market. The Securities Act was enacted on 19 December 1993. It established the Securities and Exchange Commission (SEC) to regulate all participants in the stock market with the prime purpose of protecting investors. The Lusaka Stock Exchange began operations in January 1994 and was formally opened for business on 21 February 1994 after only twelve months of concerted effort on the part of the government, the private financial sector and World Bank project team. As an integral part of the privatization program, the Privatization Trust Fund was established in June 1994 to temporarily warehouse shares which are later to be sold through public flotations.

After what many observers perceived as a slow start, Zambia’s program has really taken off over the twelve months from June 1995 to June 1996. As the following table shows, not only has the number of concluded deals risen sharply, but ZPA’s scope of work has also expanded.

Privatization Program Status

<table>
<thead>
<tr>
<th>Dec 94</th>
<th>March 95</th>
<th>June 95</th>
<th>Sept 95</th>
<th>Dec 96</th>
<th>March 96</th>
<th>June 96</th>
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<tbody>
<tr>
<td>Completed privatization deals</td>
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<td>16</td>
<td>21</td>
<td>44</td>
<td>60</td>
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<tr>
<td>Negotiations completed</td>
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<td>3</td>
<td>4</td>
<td>12</td>
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<tr>
<td>Heads of agreement signed</td>
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<td>27</td>
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<tr>
<td>Companies ready/under negotiation</td>
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<td>29</td>
<td>26</td>
<td>24</td>
<td>24</td>
<td>25</td>
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<tr>
<td>Companies under preparation</td>
<td>32</td>
<td>50</td>
<td>35</td>
<td>18</td>
<td>12</td>
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<td>Probable liquidations/asset sales</td>
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<td>19</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
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<td>Litigation/injunctions/receiverships</td>
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<td>17</td>
<td>20</td>
<td>11</td>
<td>9</td>
<td>9</td>
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<td>Farm units to be privatized</td>
<td>24</td>
<td>26</td>
<td>7</td>
<td>2</td>
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<td>Tourist sector—camps and lodges</td>
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<td>0</td>
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<td>Pre-privatization preparation</td>
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<td>Commercialization of Govt. depts.</td>
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<td>Trade sector liquidations</td>
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<td>6</td>
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Source: Zambia Privatization Agency progress reports.
The 97 deals concluded to end June 1996 have been worth some $119 million in divestiture proceeds.

Factors for success

What are the measures and the reasons for the success of Zambia's program? The report uses 8 indicators for assessing the performance of divestiture programs in Africa. These are: the extent of divestiture (i.e. government's willingness to exit totally from equity ownership of enterprises), fiscal impact, the efforts made and achievement in broadening ownership, the level of foreign direct investment attracted, enterprise post-privatization performance, the depth and quality of program design and management, transparency and government commitment. Zambia rates medium to high on all 8 indicators.

Government commitment is both a measure of and the most important factor in the success of Zambia's program. Commitment is what gave prominence to the ZCCM within two years. Government commitment—both a measure of and the most important factor in the success of Zambia's program—was reflected in:

- the resources invested in careful program design and preparation,
- appropriate legislation (the Privatization Act),
- the legal authority vested in ZPA which enables it to undertake its work with minimum political interference,
- transparency- the steps taken to inform the public about the program and to encourage maximum Zambian participation in the process, and
- the decisive steps to deal with constraints, notably by addressing the weak capital market and eliminating the influence of holding companies.

Zambia's program is managed by the Zambia Privatization Agency (ZPA). A noteworthy feature—and one of the key factors in the program's success—is the involvement of the private sector in the management and oversight of the divestiture process. This takes two forms. First, ZPA is private sector-led. It has a board of 12 directors but only 3 are appointed by the government. Nine of the directors are selected by representative private sector groups such as the Zambia Confederation of Chambers of Commerce and Industry, the Zambia Congress of Trade Unions, the Zambia Federation of Employers, the Law Association of Zambia, the Zambia Institute of Certified Accountants and the Bankers Association of Zambia. ZPA's chief executive, recruited and appointed by the ZPA Board, is also from the private sector. Second, much of the preparatory work is contracted out to professional firms and all negotiations with bidders are conducted by small teams of professionally qualified individuals selected for each transaction. In this way, not only is the private sector heavily involved, the government is twice removed from deals.

Through ZPA's professional approach (the Bank project team's...
field work in Zambia last year revealed not a single complaint about lack of transparency and the results it has achieved, the government has had the confidence to broaden the Agency’s scope of work to include all parastatals. Hence, ZPA is now responsible for handling the privatization of the major utilities and Zambia’s largest public enterprise, Zambia Consolidated Copper Mines Limited. In no other country in the Africa region has a government had the confidence to place complete responsibility for privatization in the hands of one entity.

Finally, donors, including the Bank, have played an important role too in the success of Zambia’s program. Their level of support has been greater than in any other country in the region and that support has been very well coordinated. Donor cooperation and coordination in support of privatization also provides a good example for other countries in the region.

Correcting negative public perceptions

However, the program has not been without its problems. The major state holding company (ZIMCO) was a source of hindrance until its closure in March 1995. Several major public enterprises, including the United Bus Company and Zambia Airways, were put into liquidation in late 1994/early 1995 and ZPA was, shortly after, made responsible for overseeing those liquidations. In the minds of many ordinary people, “privatization” became synonymous with “liquidation.” ZPA has had to work hard to correct that popular misconception. Also, because of its fragile economic situation, Zambia was not readily attractive to foreign investors. However, multinational companies who have invested in Zambia are impressed with the way the program is being managed. As a result, the country is now one of the most attractive in Africa to investors.

For further information on Zambia’s privatization program contact Emile Sawaya, Tel. no.: (202) 4732612; for information on privatization in general in Africa and on the recent report on the privatization study findings, contact Oliver Campbell White, Tel. no. (202) 4737952 or Anita Bhatia, Tel. no. (202) 4734294. Internet enquiries to pmo-han@worldbank.org
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