

**PRIVATISATION AND ITS IMPACT ON HUMAN RIGHTS: A
CASE STUDY OF THE ZAMBIAN PRIVATISATION
PROGRAMME, 1991-2001**

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DECLARATION

I, Susan Lungowe Kongwa, declare that the attached dissertation is my own original work undertaken in fulfillment of my degree and, has not been previously submitted for the award of the LLM Degree in International and African Regional Law in the School of Law at this University or any other institution. I have made no use of sources, materials or assistance other than those that have been openly and fully acknowledged in the text. If any part of another person’s work has been quoted, this appears in inverted commas or (if beyond a few lines) is indented.

Any direct quotation or source of ideas has been identified in the text by author, date and page number(s) immediately after such an item, and full details are provided in a reference list at the end of the text.

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Susan Lungowe. KONGWA 

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Abbreviation and Acronyms

AAC	Anglo American Corporation
AMC	Roan Consolidated Copper Mines
BPD	Business Partners For Development
FFTUZ	Federation of Trade Unions
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country
IFIs	International Financial Institutions
IMF	International Monetary Fund
JCTR	Jesuit Centre for Theological Reflection
KCM	Konkola Copper Mines
KDMP	Konkola Deep Mining Project
LDCS	Least Developed Countries
MMD	Movement for Multi Party Democracy
NCCM	Nchanga Consolidated Copper Mines
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PRS	Poverty Reduction Strategy
RAMCOZ	Roan Antelope Mining Company of Zambia
SADC	Southern African Development Community
SADOCC	Southern African Documentation & Cooperation Centre
SOE	State Owned Enterprise
SAP	Structural Adjustment Programme
TI	Transparency International
UN	United Nations
UNIP	United National Independence Party
UNDP	United Nations Development Programme
WB	World Bank

WTO	world Trade Organisation
ZAMTEL	Zambia Telecommunication Company
ZCCM	Zambia Consolidated Copper Mines Limited
ZESCO	Zambia Electricity Supply Corporation
ZNCB	Zambia National Commercial Bank

Abstract

The focus of this study was an analysis of the Zambia privatisation from 1991 to 2001. The study also provides an overview of the impact of privatisation on human rights. To accomplish this objective, case studies of Zambia were undertaken within the concept of the social and economic impacts, seeking to answer six basic research questions posed: What were the objectives of the Zambian privatization programme? Was the privatization process executed according to the provisions of the Zambian Privatization Act of 1992 and 1996? How is the outcome of the privatization process perceived by Zambians, success or failure, what are some of the social and economic consequences of privatisation programme? What are the human rights implications of the privatization programme undertaken in Zambia?

Mainly qualitative data collecting methods, involving semi-structured interviews, document analyses and direct observations of activities of the privatised companies were employed, to answer these questions.

The study examines Zambia's background to privatisation, posits implications of privatisation on the realization of human rights, looks at the case study of privatisation of the ZCCM and the outcomes of privatisation. The study has been influenced by a number of conflicting divestiture evaluation outcomes: for some the Zambian privatization process represents a model programme, the 'most successful in Africa', which serves as an example for other developing African countries to emulate whilst for others, it is a "deeply flawed experience", resulting in negative social and economic consequences which permitted the withdrawal of the provision of social services, massive human rights violations and job losses. Based on evidence from these outcomes, the principal findings from the study suggest that Zambia's privatisation programme has had both negative and positive results. In reviewing the outcomes of the privatisation process, the intent is neither to justify nor reject privatisation, but rather, on the basis of past experience, to highlight key elements of outright failures and success and provide recommendations for future use.

CHAPTER 1: INTRODUCTION

1.1 Background to the Study

Zambia, which until three decades ago was one of the most prosperous countries in sub-Saharan Africa, presently ranks one of the least Developed Countries in the World, and has qualified as one of the Highly Indebted Poor Countries (HIPC). In the 1960s, Zambia was the third largest copper-producing nation, after the United States and the Soviet Union. Its total dependence on copper during this boom period contributed to more than 90 per cent of the country's foreign exchange earnings, 15 per cent of employment and 30 per cent of gross domestic product. In 1967, production in copper amounted to 662,000 metric tonnes (\$1014m) and 60% of central government revenue. There was a high per capita growth rate, positive balance of trade and terms of trade and a zero debt. However, in the mid 1970s, world copper prices collapsed with devastating consequences on the economy.

By the time of the political transition from the one party state to the multiparty state in 1991, the economy had collapsed: huge budget deficits, a large external debt of US \$7 billion¹, infrastructural collapse, rampant inflation, no private sector investment and per capita income had declined from US\$900 in 1970 to US \$450 in 1990.²

This poor economic record was mainly due to colonial neglect, global copper price collapse, economic mismanagement, the oil shock of the mid-1970s, external debt and disease. Since the Zambian government in 1990 had in its control 280 state-owned enterprises or public companies, the government of the republic of Zambia decided that transfer of ownership of these enterprises would be the best policy decision.

In addition to economic imperatives, Zambian government under the leadership of UNIP (United National Independent Party) had come under tremendous pressure from the IMF

¹ World Bank *African Development Indicators 2003* (2003).

² Bized *Privatisation* (2004).

and World Bank in the 1980s to privatise its state owned enterprises (SOEs) as part of the conditionalities for accessing the Bretton Woods Institutions' loans.

The Bretton Woods Institutions were therefore glad that the Zambian government was finally in agreement for the privatisation of these state-owned enterprises, including the vital mining sector, as the best available option to revive the economy. It was easy for the new government, i.e. the Movement for Multiparty Democracy (MMD), as compared to its predecessor the UNIP government, to embark on this policy because privatisation was part of its 1991 election manifestoes.³

Apart from the need to resuscitate the economy, the MMD set privatization high on its policy agenda because privatization was one of the conditionalities for meeting various bilateral and multilateral agency requirements in order to receive more funding in the form of Aid and the promise that Zambia's debt burden would be reduced in the form of debt relief. The MMD went full throttle with privatization on the overriding assumption that it would bring with it more efficiency, effectiveness and an end to the parastatals' drain on government resources.

The objectives of privatising the Zambian state-owned enterprises, like all divestitures were:

- to create a commercial environment in all business sectors thereby improving operational efficiency;
- to stimulate public participation in business enterprises;
- to stimulate competition in all business sectors
- to generate investible funds where companies are sold for cash;
- to reduce the governments budgetary obligations in subsidized parastatal operations;
- to reduce government's involvement in business and consequently its administrative load;
- to develop wider business ownership through public and employee ownership;
- To create an indigenous middle class that would ensure political stability and strongly resist the return to the one-party system and erosion of human rights and personal freedoms; and

³ L Rakner *Political and Economic Liberalisation in Zambia 1991-2001* (2003) 73.

- To create a mechanism for creating, dissipating and redistribution of wealth.⁴

By the year 2001, Zambia had privatized over 80% of its economy resulting both in positive and negative outcomes. In reviewing the outcomes of privatisation one is supposed to get an idea of the social and economic impact of privatisation on the economy. Some of the negative outcomes identified in the study were the massive job losses, poorer provision in basic services, violations in the realisation of social, economic & cultural rights, collapse of several privatized companies, increase in poverty levels, closure of some existing companies due to their inability to compete, asset stripping, etc.

Some of the positive outcomes identified have been increases in government revenue from sale of assets or companies and as a direct result of cuts in subsidies, reduction in budget deficit, increased Zambian participation in the economy, influx of foreign investors etc.

The study also provides an overview of the socio-economic impact of privatization on the mining communities as a result of the massive retrenchments/redundancies and discontinuation of the provision of social services by the Zambia Consolidated Copper Mines in Zambia. As Privatisation's main aim was resuscitate the economy, in determining whether this aim was achieved or not one ought to weigh the success or failures thereof.

1.2 Problem Statement

The purpose of this study is to investigate the socio-economic impact of privatization in Zambia. The study has been influenced by a number of conflicting divestiture evaluation outcomes: For some the Zambian privatization process represents a model programme, the 'most successful in Africa', which serves as an example for other developing African

⁴ J.R Chamberlain and J.E Jackson Privatization as Institutional choice: *Journal of Policy Analysis and Management* (1987) 586-604.

countries to emulate. For others, it is a “deeply flawed experience”, which permitted the corrupt acquisition of assets by those politically connected to the ruling MMD party.⁵

1.3 Theoretical Framework

The privatisation theory postulates that privatisation is justified on a number of micro and macroeconomic considerations.

1.3.1 Microeconomic considerations

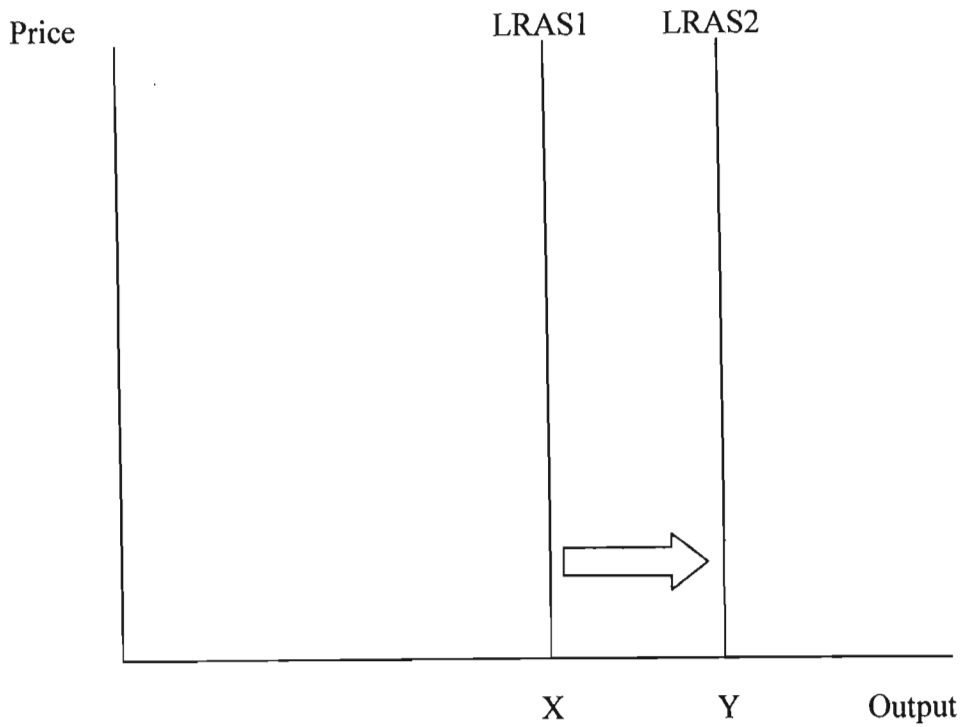
Privatization is a supply side approach to bringing about increases in economic growth. Supply side economics is the application of microeconomic policies intended to increase the overall supply of goods and services. By increasing the efficiency of the factor inputs in the production process output should increase. This should have the effect of shifting aggregate supply to the right and increasing the potential level of output.⁶

The effect of shifting aggregate supply to the right and increasing the potential level of output is shown in Figure 1 below.

⁵ J Craig Evaluating Privatization in Zambia: A Tale of Two Processes Review of African Political Economy (2000) 357-366.

⁶ Bized *Privatisation* (2004).

Figure 1.1: Long-Run Aggregate Supply Curve



Source: Adapted from the Zambia Virtual Website⁷

Figure 1 shows the Long run aggregate Supply Curve represented by LRAS1 and LRAS2. The vertical axis shows the Price and the horizontal axis shows the Output represented by X and Y respectively. Output X is the point of inefficiency. This is because at point X, there is inefficiency in the use of factor inputs in the production process, other things remaining equal. As the government undertakes the privatization programme, private individuals who have a comparative advantage in a specific field are the new owners. In this instance, privatization has the effect of shifting the Long Run Aggregate Supply curve from LRAS1 to LRAS2 at an optimum output level of Y. At LRAS2, output increases as a result of the efficient use of factor inputs in the production process, this in turn as the added effect of increasing economic growth.

⁷ Ibid.

Similarly, Fundanga and Mwaba provide a body of theory on the arguments with regard to the superiority of private over public ownership.

Privatization, it is argued, enhances both productive and allocative efficiency. The main arguments are that under public ownership, enterprises are often used to pursue non-commercial objectives of government, including employment maximization and uneconomic investment choices. These activities are very often inconsistent with efficient financially viable performance and lead to poor managerial supervision. Private ownership on the other hand is associated with better defined profit maximization objectives which lead to higher levels of performance and the institution of effective forms of incentives: the switch from public to private ownership resulting in the adoption of more precise and measurable objectives on that part of the owners which create the environment and incentives to monitor and control management more effectively.⁸

1.3.2 Macroeconomic considerations

The major macroeconomic consideration is the direct effect on public finances. The immediate effect of an asset sale by the government is an increase in revenues or a reduction in the budget deficit, with the impact being greater where the major participants in the acquisition of the assets are foreign investors bringing in new resources”.⁹

Privatization is, but one, of the conditionalities of the structural Adjustment policies imposed by the IMF/World Bank. Structural Adjustment policies is based on what John Williamson called the “Washington Consensus”. According to Williamson the term “Washington Consensus” focuses “on the importance of the neoliberal program for economic development and its emphasis on free markets, trade liberalization, and a greatly reduced role for the state in the economy”.¹⁰ A proponent of the neo-liberal theory is Joseph Stiglitz. Stiglitz states: “Competing private enterprises can perform such functions more efficiently. This is the argument for privatization – converting state-run industries and firms into private ones.”¹¹

⁸ C.M Fundanga and A Mwaba *Privatization of Public Enterprises in Zambia: An Evaluation of the Policies, Procedures and Experiences* (1997) 2.

⁹ Ibid 4.

¹⁰ R Gilpin *Global Political Economy: Understanding the International Economic Order* (2001) 315.

¹¹ J Stiglitz *Globalization and its Discontents* (2002) 54.

1.4 Research Questions

The following five research questions will guide the study:

1. What were the objectives of the Zambian privatization programme?
2. Was the privatization process executed according to the provisions of the Zambian Privatization Act of 1992 and 1996?
3. How is the outcome of the privatization process perceived by Zambians, success or failure?
4. What are some of the social and economic consequences of privatisation programme?
5. What are the human rights implications of the privatization programme undertaken in Zambia?

1.5 Rationale for the Study

The study has been motivated by the following:

- To contribute knowledge to the on-going debate about the desirability of privatization in developing countries;
- The positive impact of privatisation will be able to contribute to the solution of Zambia's economic underdevelopment so that it can be able to share in the benefits of globalization and the promises offered by the New Partnership for Africa's development;
- To provide a pool of information to academic researchers who are eager to see Zambia eradicate extreme poverty and hunger through privatisation;
- To assist Zambia in meeting the challenge of the millennium development goals;
- To provide valuable information to other countries, which have not yet walked the path of privatization as Zambia.

1.6 Operational Definitions

The following definitions are conceptualized and operationalised in this study:

1.6.1 Structural Adjustment Programmes

These are prescriptions imposed by the International Monetary Fund (IMF) and World Bank, which aim to foster economic policies in developing countries in order to support their balance of payments difficulties. To qualify for structural adjustments loans, a country must implement the conditions/prescriptions imposed. Implementation of the conditions/prescriptions is intended to increase the growth rate and to improve and maintain the balance of payment position in the medium term. In the words of Thompson:

“structural adjustments, from the 1980s onwards gave international financial institutions (IFI)’s such as the world Bank and the International Monetary Fund considerable influence over the formulation of public policy within debtor states. In return for external loans, African countries were compelled to follow strict instructions on how to govern. Failure to comply to this external bidding would have resulted in bankruptcy”.¹²

Under the arrangement, the country is obliged to implement the following policy measures:

- Supply-side reforms, for example improving the efficiency with which markets operate;
- Price reforms;
- Changing the price of tradable;
- Getting the correct terms of trade between agricultural goods and Industrial goods;
- Financial reforms;
- Tax reforms.¹³

¹² A Thompson *An introduction to African Politics* (2000) 168.

¹³ A.P Thirlwall *Growth and Development: With special reference to developing economics* (1999) 390.

1.6.2 International Monetary Fund (IMF)

Along with its sister organization, the World Bank, the IMF was set up after World War II. The agreement was signed in Bretton Woods in 1945 and together the IMF and World Bank are known as the “Bretton Woods Institutions”. The IMF was set up to regulate international money flows, but has subsequently dedicated itself to de-regulating them. It makes short-term loans to countries (mainly developing countries) with balance of payments difficulties, often resulting from their heavy burden of debt payments. It imposes harsh economic conditions, known as Structural Adjustment Programmes (SAPs), on lending countries.¹⁴

1.6.3 World Bank

The World Bank was originally set-up to rebuild Western Europe after World War II, and later extended to Third World countries. The World Bank makes long-term loans to governments for projects and loans in support of IMF Structural Adjustment Programmes. The poorest countries get loans on concessional terms. The World Bank has come in for heavy criticism over its lending for large infrastructure projects, such as dams, that have displaced indigenous people and caused environmental damage. The World Bank has adopted much of the language of the NGO movement, but opinion is divided as to whether the changes are real or just window-dressing.¹⁵

1.7 Methodology

This qualitative research method was used in conducting the research. The following methods and procedures were used in collecting primary and secondary data.

¹⁴ World Development Movement (WDM) *Treacherous conditions: How IMF and World Bank policies tied to debt relief are undermining development* (2003).

¹⁵ World Development Movement (WDM) *Treacherous conditions: How IMF and World Bank policies tied to debt relief are undermining development* (2003).

1.7.1 Data Collection

Relevant documents were obtained from the Zambian government departments, Zambia privatization Agency, Zambia Investment Centre, Bank of Zambia, Zambia National Commercial Bank, the Zambia Consolidated Copper Mines, Lusaka Stock Exchange, International Monetary Fund (IMF) and World Bank Branches in Zambia.

Parliamentary Acts, such as the Zambia Privatization Act, were studied and scrutinized to provide information on the rationale for privatization. Other material was sourced from publications and reports from the press and published media.

Literature concerning the explanation of political, economic and industry, using models and theories was examined.

Access to relevant sites has been secured, where open-ended interviews will be conducted in order to obtain primary data.

A sample of five respondents agreed to be interviewed. Four male and one female. Three are University graduates and two possess higher secondary qualifications. The five respondents who agreed to be interviewed represent a cross-section of the Zambia population mix: they are aged between 21 and 70; their professional background also confirm the diversity of this Zambian sample: two professional bankers; one development economist; one politician and one non-governmental organization official representing the Zambian lobby group.

The overriding intention of the research is to ensure that the research design selected is appropriate to answer the three research questions mentioned previously in this chapter.

1.8 Delimitations and Limitations of the Study

The study was delimited to the Zambia privatisation programme that was implemented between the period of 1991 and 2001. However, where necessary an analysis of privatisations that took place after this period was made.

Several limitations were encountered. Firstly, two of the selected participants who were scheduled to be interviewed were unavailable. To counter this problem, the constructed questionnaire was typed and sent to the two interviewees via electronic mail. Secondly, it was difficult to follow-up with the interviewees during the interview as they were unclear and tended to drift to other topics. To contain this problem, a tape recorder was used during the interview. This made it possible for the researcher to read through the cassettes by listening to the data until it made sense or was clear and also to carefully note down what was relevant to the study.

1.9 Organization of Chapters

Following this introductory chapter, chapter two to five reviews empirical and theoretical data and chapter six, the conclusion, recapitulates the findings and discussions of the study.

Chapter 2 begins by exploring the history of privatisation in Zambia. That is the reasons as to how and why Zambia came to a period in which privatization seemed as the only viable solution to its problems. It then discusses the role of the IMF/World Bank in Zambia's Privatization Programme by linking Aid to Privatization.

Chapter 3 examines the consequences of privatization in relation to the realization of human rights. The study argues that they have been massive violations of economic, social and civil rights as a result of the implementation of the IMF/World's sponsored structural Adjustment Programme particularly Privatization. Reference is made to other international human rights instruments that Zambia is party to and to the Zambian

Constitution, with specific reference to the government's stance on the justiciability of social, economic and cultural rights.

Chapter 4 provides a comprehensive overview of Zambia's privatisation programme with particular emphasis on the privatisation of the Zambia Consolidated Copper Mines. It starts by giving justifications for the reasons that invoked the Zambian government to embark on a road to privatisation of its mining industry. This chapter also shows how the IMF/World and the rest of the Donor community exerted undue influence on the Zambian government to privatise quickly, resulting in costly mistakes. Post-privatisation issues such as the uncertainty experienced in the Zambian Copper Industry as a result of the withdrawal of Anglo-American Corporation from the Konkola Mines, flaws in the privatisation process that are attributable to the problems experienced in the mining industry today, and the social and economic impact of privatising the ZCCM with particular reference to the withdrawal in the provision of social services by ZCCM and the mass unemployment as a result of redundancies/retrenchments following the sale of the mines are all examined.

Chapter 5 provide an in depth discussion as to the reasons why some have termed the privatization Programme of Zambia as the "best in Africa" whilst others have claimed it was the worst. This is done by the way of reviewing both positive and negative outcomes of the privatisation process. The intent is neither to justify nor reject privatisation, but rather, on the basis of past experience, to highlight key elements of outright failures and success.

Chapter 6 concludes the study by providing a summary and findings of the study. This is followed by providing the contributions made in the study and providing possible recommendations and the way forward.

1.10 Summary of the chapter

This study is informed by the historical background of Zambia's privatization programme. Next the problem was stated and the theoretical framework of the issues was presented. The research questions were outlined and the significance of the study was justified. Finally, the chapter presented the delimitations and limitations to the study, the methodology and the organization of the rest of the chapters. Chapter 2 is the proceeding chapter.

CHAPTER 2:THE HISTORY OF THE ZAMBIAN PRIVATISATION PROGRAMME

2.1 Introduction

The year 1991 witnessed the political transition from a one state party regime to a multiparty democracy in Zambia. A Single political party, the United National Independence Party (UNIP), under the leadership of Dr Kenneth Kaunda, had been in power from 1964 to 1991. However, in 1991, the Movement for Multiparty Democracy (MMD), under the leadership of Frederick Chiluba assumed the reins of government after defeating Dr Kenneth Kaunda in the 1991 presidential and general elections by a clear majority.

The year 1991 did not only mark the political transition from a one state party to a multiparty democracy but also to an economic transition, i.e. the transition to a “macro-economic liberalization policy. The policy of macro-economic liberalization, which includes, among other elements, the implementation of a privatization programme was included in the MMD’s election manifestoes”¹⁶. With support from the International Monetary Fund (IMF), the World Bank and the bilateral donor Community, the MMD government implemented this policy. Testimony of this is stated: [In February 1991] an agreement was reached between the Zambian government, the IMF and the World Bank on a policy Framework Paper 1992-1994, focusing on privatisation of the parastatal enterprises...¹⁷ The privatization programme was to be administered through an independent agency called the Zambia Privatisation Agency (ZPA).

The Zambian Privatisation programme has been described as one of the best on the African Continent.¹⁸ Over the past decade, the Zambian Privatisation Agency (ZPA) has

¹⁶ L Raker *Political and Economic Liberalisation in Zambia 1991-2001* (2003) 72.

¹⁷ *Ibid*, 202.

¹⁸ *Business Times Zambia needs to privatize copper mines* (2004).

privatised more than 258 companies/units. It is against this background that the following discussion is based.

2.2 Structural Adjustment Programmes (SAP)

The transition to democracy in 1991 also marks the transition from a state-centred economy to a market economy, through the implementation of stringent reforms as part of the infamous Structural Adjustment Programmes (SAP) under the auspices of the World Bank and International Monetary Fund (IMF).¹⁹

2.2.1 Structural Adjustment Programmes under the UNIP Government

The SAPs were first introduced in Zambia from 1983 to 1985. Prior to the 1980s, when several African countries were introduced to the stringent financial measures or SAP reforms, Zambia and a few Less Developed Countries (LDCs) were skeptical of these SAP reforms. “Zambia a socialist government whose aim was to continue with its socialist development strategies, tried as much as possible to resist SAP reforms but by the late 80s, it had no choice but to go along, as there was no alternative sources of economic activity.”²⁰

The earliest form of economic policy reforms is taken note of during the second oil crisis in 1979. According to Fitzgerald, McLennan and Munslow, Zambia “negotiated a standby agreement with the IMF. Inside a four-year period (1979-82) the country absorbed significant reforms, most orientated towards reducing demand, government expenditures (mainly subsidies), and centralized government controls”.²¹ The shortcoming of these reforms is that they neglected the welfare of the Zambian society.

¹⁹ The World Organisation Against Torture (OMCT) *Zambia: Violations of Economic, Social and Cultural Rights, Violations and the Protection Against Torture* (2001).

²⁰ A Thompson *An introduction to African Politics* (2000) 173.

²¹ Fitzgerald, McLennan & Munslow *Managing sustainable Development in south Africa* (1997) 372.

At the height of Structural Adjustment Programmes, under the presidency of Dr K. Kaunda, the Zambian government entered into a SAP arrangement with the International Monetary Fund (IMF). To qualify for this loan, the Zambian government had to agree to the stringent economic reforms imposed by the IMF. Failure to structurally adjust would mean the cancellation of the loan.

The period from 1983 to 1985 witnessed more efforts at structural change, following renegotiations with the IMF and WB. [In the midst of these reforms], economic conditions continued to deteriorate and increasing social pressure emerged to 'reform the reforms'.²² Eklund elaborates on this and points out that the reforms implemented "the reforms implemented would have decreased the role of the government in the economy, and to some extent they were implemented...[and they also] faced a large degree of political resistance. Workers were laid off and cost of living increased as prices became determined by the market."²³ In retaliation to these stringent reforms "the Zambian government's response was to introduce in 1985 even more liberalizing changes in economic policy, such as a foreign exchange auction and the awarding of more freedom to parastatals. Attention to implementing and sustaining existing reforms had taken a back seat to the introduction of new initiatives."²⁴

The government faced strikes and riots, as well as more aggressive unions. The lifting of price controls on mealie meal, this being Zambia's staple food, led to riots on the Copperbelt, which caused the loss of lives. According to Eklund, "the price of maize was decontrolled in December 1986, violent riots broke out in several places killing 15 people and wounded several more. In the context of this resistance, the government severed its ties with the IMF in May 1987 and halted the economic process".²⁵ Fitzgerald et al elaborate on what followed:

²² Ibid.

²³ Eklund *The Cases Of Botswana And Zambia: A Comparative Study Into The Causes Of Corruption* (1999) 22.

²⁴ Fitzgerald et al. *Managing sustainable Development in south Africa* (1997) 372.

By early 1987, further declines in the value of Zambia's currency threatened further stabilization efforts. The government unwilling to confront strong national vested interests, reintroduced interest rate controls. In addition, the further design and implementation of tariff, parastatal, and civil service reform came to a halt along with efforts to control budget deficits. Public outcry and the government's perception of the political necessity to back off brought policy reform to a virtual stand still. Finally on 1 May 1987, Zambia announced a suspension of its structural adjustment activities, rejecting both IMF and WB sets of conditionalities and the accompanying action programme.²⁶

The announcement, by the reigning president at that time, President Kaunda, to suspend its structural adjustment activities (i.e. breaking ties with both the IMF/ World Bank) and to devote only 10% of its GDP to debt servicing in 1987, had serious repercussions on the already huge outstanding debt and arrears²⁷.

This decision to break away from the IMF and World Bank and to reduce debt servicing to 10%, angered both the creditors and donors, who reacted by cutting aid to Zambia. The cut in aid forced the Zambian government to resume their relations with the IMF in 1989.

The political unrest brought on by the stop and go of the structural adjustment programmes had disappeared by now, leaving Zambia in a financial crisis. Due to this situation the Zambian government went once again 'on its knees' begging the assistance of the IMF and World Bank. Hence in 1989, the IMF's assistance was once again sought. At this time the Zambian people were still traumatized by the political unrest that had just taken place. The SAP agreement was resumed in June 1989, but was interrupted again when the government rioting broke out in Lusaka and in the Copperbelt towns following an increase by over 100% in the price of high-grade maize.²⁸ UNIP had lost the support of its people as a result of this political unrest. Hence, it was not surprising that, in the 1991 presidential and general elections, Kaunda and his party UNIP lost to Frederick Chiluba and his Movement of Multi-party Democracy (MMD).

²⁶ Fitzgerald et al. *Managing sustainable Development in south Africa* (1997) 373.

²⁷ JCTR *Debt Project* (2001) 5.

²⁸ The World Organisation Against Torture (OMCT) *Zambia: Violations of Economic, Social and Cultural Rights, Violations and the Protection Against Torture* (2001).

2.2.2 Structural Adjustment Programmes under the MMD Government

Following its victory in the 1991 elections, the MMD government under the leadership of Chiluba resumed relations with the IMF and the World Bank. According to the World Organisation Against Torture (OMCT), “the reforms had become, at that time, politically and economically unavoidable. These reforms aimed at stabilizing the economy, providing an environment capable of enhancing productivity and creating employment, facilitating the emergency of a market economy and stimulating economic growth”.²⁹ This period saw the MMD government making increased borrowings from the IMF. In 1991 and 1992, arrears to the World Bank were cleared with the election of Frederick Chiluba as president. Frederick Chiluba tackled the debt crisis through “restructuring”- an economic plan that cuts public spending; takes away government subsidies; privatizes or sells state-owned industries, opens up trade and financial market.

Now that the MMD government was in good books with the IMF and the World Bank, it was able to borrow, and surely it did. An example of this is the Structural Adjustment loan granted by the IMF and World Bank to the MMD government to repay old debts. JCTR reports “...an IMF loan of US\$2.2 billion that Zambia received in 1992/3 - a loan to given to repay old debt”.³⁰ As a condition, the adjustment measures mandated by the IMF and World Bank required:

- Lifting agricultural price controls and liberalizing maize markets;
- Lifting exchange controls and allowing the kwacha to float freely;
- Liberalizing the banking sector;
- Removing restrictions on imports and exports;
- Severe cutbacks to government spending;
- Abolishing marketing boards and privatization of parastatals.³¹

²⁹ The World Organisation Against Torture (OMCT) Zambia: *Violations of Economic, Social and Cultural Rights, Violations and the Protection Against Torture* (2001).

³⁰ JCTR *Debt Project* (2001).

³¹ KAIROS Zambia: *Failed Policies Deepen Misery* (2001) 2.

Similarly, the OMCT also lists some of the elements that were included in the SAPs (now called policies) by the IMF and World Bank.

- The abolition of export and import controls (market Liberalisation),
- The Liberalisation of interest rates,
- The abolition of foreign exchange controls,
- The privatization of state-owned companies/ the liquidation of loss-making state owned enterprises,
- The de-regulation of agricultural prices,
- The removal of subsidies on maize meal and fertilizers,
- The restructuring of the civil service and
- The introduction of user fees in the educational and health sectors, as well as the commercialization of some governmental departments.³²

Throughout the 1990s, the MMD government made increased borrowings in the name of the so-called Structural Adjustment Programmes (SAPs). As a condition for getting back into good books with the IMF, the MMD government agreed to show its commitment under the ‘Rights Accumulation Program’. Zambia had indeed demonstrated its commitment to SAPs for three years under the ‘Rights Accumulation Program’ to the IMF. The KAIROS notes: “Zambia has made great strides in some areas of structural reform under the Rights Accumulation Program’ (RAP), notably in freeing markets and by eliminating government intervention and control”.³³ For the reason that Zambia had implemented the structural reforms successfully, the IMF gave Zambia a new loan, this is taken note of:

“...the IMF extended Zambia a new loan in 1995 under it’s enhanced structural Adjustment Facility (ESAF) which was funded through donor aid budgets. However, most of these loans were recycled right back to the IMF to pay for its 1991 loan. These new loans came with a five-year grace period, which meant that the country would be facing a significant debt servicing burden directly to the IMF at the end of 2000”.³⁴

It is at this stage clear that structural adjustment programmes under the UNIP Government started as early as 1983. Any study on privatisation would be incomplete without the mention of SAPs, as there exists a close correlation between privatisation and

³² KAIROS *Zambia: Failed Policies Deepen Misery* (2001).

³³ Ibid

³⁴ Ibid

SAPs. This is because a structural adjustment programme is a broad based economic reform programme initiated to effect the policy of liberalisation. A Privatization programme on the other hand, is an important part of this economic reform programme intended in helping to create a private sector driven economy with little interference from the Government.³⁵

In other words, privatization is being implemented as part of the overall economic reform program. This was in view of the declining government revenue that could not provide the investment capital needed to enable profitable companies to grow, and the failure to finance the losses of those companies that were not profitable. “Privatisation of these enterprises was therefore seen as the only available option for their survival. This was the dominant reason for the privatization decision.”³⁶ The next topic aims to show when a structured privatization programme started and why it was started.

2.3 The Genesis of the Zambia Privatisation Programme

The idea of the current privatization process was conceived in 1991, after the MMD Government came into power. However, a “structured, finalised privatization programme started in July 1992 with the enactment of the Privatisation Act of 1992, which gave the legal basis to the privatization programme and gave the ZPA the responsibility for all government privatization issues”.³⁷

Privatisation in Zambia came about more as a practical way to recapitalise the State-Owned Enterprises (SOEs) and let them operate efficiently and viably. In the first decade after Independence “(1964-73) Zambia followed a development policy of import substituting industrialization, and nationalization of enterprises”.³⁸ This was supported by the abundant mining revenues which contributed half of the GDP and almost all

³⁵ The Zambia Privatisation Agency (ZPA) *The Privatisation Programme and the Zambia Privatisation Agency* (2001).

³⁶ Ibid.

³⁷ Ibid.

³⁸ S Kangwa *Report on the Privatisation of Zambia Consolidated Copper Mines* (2001).

export earnings. However, since 1973 Zambia has been the victim of massive external shocks, collapsing copper prices and soaring oil prices, and significant internal mismanagement. Zambia believed that the shocks were “temporary, and would be reversed, and therefore, undertook huge external borrowings (which peaked in 1985) to avoid having to restructure the economy. Exchange and trade controls were introduced as the foreign exchange shortages became more severe”.³⁹

However, external lending dried up as commercial lenders realized that Zambia’s capacity to repay debt was seriously compromised. Debt repayment problems quickly emerged. A state led industrialization was no longer affordable. Policies to support the diversification of the economy in favour of the agricultural sector, which had been analysed and debated since independence – but which had not began – were now urgent. During the 1980s, some sporadic policy reform efforts were made. But there were many set backs and reversals, too little reforms occurred and they came too late. A breakdown in dialogue and support from the donor community in the mid/late 80’s compounded the economic problems. To provide a detailed understanding, the following themes will be discussed in this sequence:

- Zambia’s High Mineral Dependency
- Infrastructural Constraints: Education and Health
- The 1973-4 and 1979 World Oil Crisis
- The Development Policies such as Import substituting industrialization, Agricultural performance, Nationalization of Enterprises and the Growth of Parastatal Body

2.3.1 Zambia’s High Mineral Dependency

At independence in 1964, Zambia had one of the highest per capita incomes in Africa and it owed this primarily to the mining sector. The period after independence became known

³⁹ The Zambia Privatisation Agency (ZPA) *The Privatisation Programme and the Zambia Privatisation Agency* (2001).

as the “fat decade” because of the abundance of revenue provided by copper exports. During the copper boom years, Nelson states “from 1964 to 1974, copper and related minerals accounted on average for more than 90 percent of foreign exchange of about 40 percent of GDP and about 70 per cent of total government revenue, and 15 per cent of employment”.⁴⁰

During this decade from Independence Zambia was one of the largest producers of copper in the world. “In 1967, [for instance] production of copper was 662 000 tons with an export value of \$ 607 million, in 1968 it produced 685 000 tons with an export value of \$720 million and by 1969 it produced a high production of 720 000 tons with export value of \$1014 million.”⁴¹

Given this it can be seen why Zambia is regarded as a monocrop developing country that relies heavily on earnings from copper as its sole source of economic activity, hence implying that it is heavily dependent on copper exports for its development. But according to Kongwa,

Zambia’s dependency on an export commodity with such a highly volatile international market price has proved the most enduring source of domestic instability. This instability factor has been exacerbated firstly by history and secondly by policy responses of the Zambian government since independence: Government policy responses have often involved continuing with social investments during the boom years and borrowing when copper prices declined.⁴²

The degree of dependency is nowhere as extreme as Zambia’s dependence on the export of copper and other minerals. A comparison of dependence on copper by some of the world’s major copper exporters in 1965 shows extreme variances with Zambia, (see Table 1).

⁴⁰ G.M Nelson *Economic Crisis and Policy Choice: The Politics of adjustment in the 3rd World* (1990) 280.

⁴¹ A.M O’Connor *The Geography of Tropical African Development* (1971) 75.

⁴² K.S Kongwa “Zambia beyond the One-party state” in Benjamin L and Gregory C (eds) *Southern Africa at the Crossroads?: Prospects for Stability and Development in the 1990s* (1992) 174.

Table 2.1: Dependence on copper by the world's major copper producers in 1965
(percentages)

Country	GDP	GNP	Exports	Revenue	Employment
Zambia	40	34	93	68	15
Zaire	18	23	51	45	2
Chile	4	3	65	14	3
Peru	2	1,5	18	12	1

Source: Kongwa (1992) quoted in Greg Lanning and Marfti Mueller, **Africa Undermined**, Penguin 1979, p.199.

Because of the economic structure of Zambia's economy, it remains very vulnerable to external shocks, principally ...copper price variability.⁴³ The depletion of copper as a non-renewable resource is yet another form of external shock that Zambia has to contend with. Due to these fluctuations or variability on the price of copper on world market, the collapse in world copper prices had the effect of reducing the contribution of copper revenue to the Zambian government (see table 2). The contribution of copper to Zambia government revenue dropped from 71 per cent in 1965 to zero percentages in 1977, 1978 and a further reduction of minus two percent in 1980.

In addition to these changes, due to variability in the price of copper (collapse in copper prices), the contribution to GDP reduced.

⁴³P Marren *Zambia And The Enhanced HIPC Deal: A Lasting Solution To The Debt Problem?* (2001) 11.

TABLE 2.2: CONTRIBUTION OF COPPER TO GDP, REVENUE, EXPORTS AND EMPLOYMENT

Year	Contribution To GDP		Contribution To Government revenue		Copper + Cobalt		Employment contribution	
	Km.	%	Km.	%	Value Of exports	Contribution to exports	'000	%
						%		
1964			57	53	302	92	46,7	17,7
1965	290	40	134	71	347	93	47,9	15,9
1967	379	44	163	64	465	95	48,9	15,7
1968	379	39	146	53	440	94	48,0	15,1
1969	411	38	183	60	520	96	48,2	14,7
1970	637	48	237	59	729	97	49,7	14,1
1971	457	36	218	52	688	97	49,7	13,6
1972	268	23	114	36	454	95	50,8	13,8
1973	317	23	56	19	500	93	52,8	14,1
1974	509	32	108	29	703	95	56,1	14,6
1975	607	32	341	53	846	94	57,5	14,6
1976	204	13	59	13	479	93	57,1	15'5
1977	330	18	12	3	705	94	59,1	15'9
1978	223	11	-1	-	661	94	56,7	15'4
1979	272	12	-	-	634	92	55,5	14'9
1980	470	18	-10	-2	926	86	57,7	15,0
	520	17	41	6	960	96		

Source: Kongwa (1992) ⁴⁴

⁴⁴ K.S Kongwa "Zambia beyond the One-party state" in Benjamin L and Gregory C (eds) *Southern Africa at the Crossroads?: Prospects for Stability and Development in the 1990s* (1992) 175.

The “the fat decade” was succeeded by the “lean decade” following the oil increases and the collapse of the copper market in 1973-1974. The effects of the collapse in world price of copper was exacerbated by the increase in oil prices. The overall growth rate dropped to an overwhelming low.

Auty suggests the “Zambian government interpreted the mid-70s copper price fall as temporary and concentrated on stabilization rather than long-term economic restructuring.”⁴⁵ To the dismay of the Zambian government, *the price of copper stayed low*. The perceived temporary fall in world prices of copper was again worsened by the second oil crisis.

Under these circumstances, the government relied on increased external borrowing, hoping it would repay the loans with the eventual recovery of the world price of copper. Auty notes

“foreign borrowing was the principal adjustment mechanism to external shock. The annual increments in foreign debt in 1975-79 exceeded \$400 million, equivalent to 17 percent of GDP each year in the mid-1970s. Zambia’s total debt tripled over 1974-9 to \$3 billion, a level slightly above total GDP.”⁴⁶

The 1990’s called for privatization of the mining industry. In the year 2000, ZCCM’s (Zambia Consolidated Copper Mines) privatization process was completed. This period was shaped by the collapse of the copper prices that reduced the share of copper in export earnings from approximately 80% in 1990 to 50 % in 1998.

The revenue from copper earnings is utilized for the development of the Zambian economy as it provides for social services, i.e., infrastructure, employment etc. Thus the fall since 1975 in the copper price has led the economy to experience:

“cutbacks in government services import of essential goods and services, raw materials, rise in the cost of living, increased borrowings from the IFIs and other institutions, hyperinflation, shortages of basic needs and essential goods, deterioration of health and

⁴⁵ Ibid.

⁴⁶ R.M Auty *Sustaining Development in Mineral Economics: The Resource Curse Thesis* (1993) 227.

education facilities; severe decline in real incomes; sharp reductions in foreign reserves and deterioration in the balance of payments position; rising national debt; reductions in the level of investment and declined in terms of payment real GDP growth”.⁴⁷

As a result of cutbacks in government services, import of essential goods and services, deterioration of health and education facilities, severe decline in real incomes, deterioration in balance of payments position etc, Zambia increased her external borrowings. The fall in International prices of copper meant that Zambia’s sole source of foreign exchange had been reduced. With the copper revenues dried up, Zambia also had to borrow to meet its debt obligations. The years following 1989 have experienced a downward spiral in the price of copper.

2.3.2 Infrastructural Constraints in Education and Health

The copper boom period hence the name “Fat Decade” was a time of great prosperity. Kongwa provides evidence of this: “copper provided ninety four percent of the gross domestic exports, thirty-two per cent of the gross domestic product, fifty-three per cent of total government revenue and fifteen per cent of employment”.⁴⁸

Despite the great prosperity of her copper Industry, Zambia was born with exaggerated features of underdevelopment characterized by major bottlenecks in the physical infrastructure and social infrastructure.

In other words, Zambia inherited an inadequate social service sector namely in health and education. A high value was therefore attached to the provision of social services after Zambia gained its independence.

The Zambian government took steps in transforming the Education sector. It invested a lot from its foreign exchange earnings in this sector. It built schools, increased primary school enrollments and secondary school graduates. Accessibility to higher education

⁴⁷ K.S Kongwa “Zambia beyond the One-party state” in Benjamin L and Gregory C (eds) *Southern Africa at the Crossroads?: Prospects for Stability and Development in the 1990s* (1992) 175.

⁴⁸ Ibid 174.

Zambia borrowed most of this money and in doing so it created a massive debt. De Beer and Swanepoel note

... during this period, loans were cheap because money was available and interest rates were low. The availability of vast amounts of money and low interest rates were the result of the fourfold increase of the oil price in 1973 which enabled oil producing states to deposit then profit they were making on the new oil price in Western banks.⁵⁰

In borrowing these petrodollars, as they became known, from commercial banks, Zambia hoped that it would *repay them from copper earning*. Since this was the ‘fat decade’ – the International price of copper was artificially inflated, this meant Zambia could therefore afford to borrow and repay using earnings from copper. Unknown to the Zambia government the future price of copper on the world market would continuously fall and the interest rates on its loans would rise.

With no alternative source of economic activity, Zambia rapidly found itself unable to service the debt they had incurred. Mofya takes note of this

Zambia hoped that the money borrowed would enable it to improve its educational, health, and living standards and create new industries. It anticipated an income from these industries, which together with the high stable income from commodity prices would pay the interest due and eventually repay the debt. It did not foresee the fall in commodity prices or the sharp rises in interest rates that were to come. Seeing that the prices of copper continuously declined, the government borrowed more in order to keep the economy going in the short term while at the same time using the money to pay back debt.⁵¹

But as we all know, the international price of copper never recovered implying that Zambia could not repay its debt.

2.3.4 Import Substituting Industrialization

The boom period meant that there was an abundance of foreign exchange from copper earnings. Zambia made use of this abundance of copper earnings to create new industries.

⁵⁰ F De Beer and H Swanepoel *Introduction to Development Studies* (2001) 252.

⁵¹ B Mofya *Debt In Zambia: A Human Rights Issue* (2000) 2.

At the time of Independence, Industry was an underdeveloped sector. Zambia invested a lot of money in the creation of these industries. These industries were very reliant on importation of capital to service the machinery. In the words of Turok

“Post-Independence Africa was invaded by hordes of economic advisers lacking in local know-how. They espoused the post-war wisdom about growth and modernization and encouraged Africa to build Industries which would enhance the image of government and increase GDP statistics. But the import substitution model they advocated was not based on domestic inputs, nor primarily directed to the internal market. The fallacy of this model became evident when the terms of trade moved steadily against exporters, so that less and less could be bought with the same amount of exports”.⁵²

Due to the dangers of over-reliance on an import-intensive Industrial sector, Zambia tried to promote Import-substitution so that it could be less reliant on imports of capital inputs for its industries. This strategy, however failed. Riddell states

The industrialization objectives were not tailored to Zambia’s administrative and policy implementation capacity. Then in the Mulungushi Declaration of 1968 the government set itself the task of decentralizing Industrial location away from the rail line; encouraging labour-intensive techniques of production and small-scale industries, utilizing domestic products and promoting import substitution of intermediate products & essential consumer goods.⁵³

The politically determined objectives were not realized even during the next two decades, largely for want of feasible strategies for attaining them.

Two fundamental issues were not explicitly addressed. First, how to develop an alternative source of financing new manufacturing investment, as opposed to the historical, copper-generated investment, and second, how to promote manufacturing activities that would be net earners of foreign exchange. The absence of these strategies “had very negative effects on Industrial growth and structural change in the aftermath of the copper boom”.⁵⁴ Zambia was locked into exporting copper to the west and importing manufactured goods in return. As a result, regular economic crisis arose when International prices of copper dropped. Prices paid for exports fell, while the price of manufactured imports increased. This meant that the industries were operating at a loss as the capital needed for operations

⁵² B Turok (ed) *Debt and Democracy: Alternative Strategies for Africa* (1991) 5.

⁵³ R.C. Riddell et al *Manufacturing Africa: Performance and prospects of seven countries in Sub-Saharan Africa* (1990) 306.

⁵⁴ Ibid.

was costing more. Consequently, *the west's terms of trade improved while those of the developing world such as Zambia declined*. Third World terms of trade have continued to worsen while those of the West or industrialized countries have appreciated.

Unfavourable terms of trade has resulted in trade imbalances which has contributed to the worsening of the deficit position forcing Zambia to borrow funds to resolve their balance of payments position.

Another reason for the increased borrowing is as a result of the need for income to be pumped into the industries that were operating at a loss. Initially, as stated earlier, the income was invested in industrialization, which came primarily from copper earnings. But as copper reserves dried up as a result of the downward spiral in world prices of copper, money had to be borrowed to absorb the losses in industries and to import capital inputs.

2.4.5 Agricultural Performance

Apart from Industrialization, Zambia also invested most of its foreign exchange earnings to improve the agricultural performance. Unfortunately, the agricultural performance was very disappointing. Zambia also invested a lot in an effort to diversify its export base, which also failed. Mkandawire states

Although the first years after independence was a veritable boom period, the high growth rates had some disturbing features. First was its reliance on an import intensive industrial sector, the lethargic performance of the mining industry, which had underwritten the process of industrialization with its surpluses and foreign exchange earnings; third was the poor performance of agricultural; and fourth was the failure to diversify its export base”.⁵⁵ In order to continue the new agricultural policy, the government continued buying agricultural instruments, such as tractors, from abroad utilizing foreign exchange from copper or borrowed from the International Financial Institutions (IFIs).

⁵⁵ T Mkandawire “Zambia” in Taylor, L (ed) *The Rocky Road to Reform Adjustment, Income Distribution and Growth in the Developing World* (1993) 460.

Both the poor performance of agriculture and failure to diversify its export base meant that Zambia had increased borrowings in order to continue operations when the foreign exchange earnings from copper dried up leading the economy to be in the position the new government found it in - financial crisis.

It is also important to note that had the huge investments made in the Agricultural sector or the industries yielded large economic returns, that is, had they been successful, Zambia would have had no reason to make so many external loans. The income would have been available when its national reserves dried up.

2.3.6 Nationalisation of Enterprises

On attaining Independence, the immediate task of the newly independent government was to achieve effective control of the country's economy. Zambia achieved this task with the introduction of the Economic Reforms in 1968. Embarking upon a policy of controlling and nationalizing the economy, Dr Kenneth Kaunda, in a progress report presented to the UNIP (United National Independence Party) National Council the following:

The main objectives of Economic Reforms were to reorganize the economy from a purely capitalist system of the Independence period to one which is more in keeping with the philosophy of Humanism. Another objective was to bring under the control of the Zambian people and Government most of the economic activities which were hitherto in foreign hands. In pursuit of this objective, certain areas of action were selected. These included the industrial, commercial and Agricultural sectors of the economy. In the public sector, the transport sector was also to be substantially reorganized to improve efficiency and to provide better services for the people”⁵⁶.

Nationalisation of the Mining Industry

The mining industry fell under state ownership. In 1969, the state gained 51 percent of the nationalized mines as its major means to control the conditions and effects of mine

⁵⁶ Republic of Zambia *The nation is You: Addresses to, and Resolutions of, the National Independence Party at Mulungushi Hall* (1972) 23.

production. Eklund provides testimony of this: "In August 1969 it also gained control of a majority of the shares in the copper mining industries."⁵⁷ The government acquired 51 per cent of Anglo-American and Roan Selection Trust in January 1970. It increased its stake in 1974 when the 10-year sale and management contracts of the two MNCs were cancelled, and again in 1979 when the MNCs declined to expand their equity participation.⁵⁸

Before nationalization, Anglo American Corporation (AAC) group and Roan Selection Trust (RST) group controlled the Zambian mining Industry. After nationalization, when the Zambian government acquired 51 percent share in the ownership of the mining companies, the foreign minority shareholders received compensation based on "a fair value" represented on the book value and payments for the shares would be made out of dividends that would accrue to the Zambian government after nationalization. Sklar explains

In return for a 51 percent interest in the equity of the operating companies the former owners accepted Zambia Industrial and Mining Corporation Limited (ZIMCO), issued loan stock and bonds bearing interest at 6 percent per annum that. Repayment was calculated on the bases of book value of the mining and metallurgical assets of the companies concerned at the end of 1969... Shareholders of the AAC group received loan stock in return for assets worth [Kwacha] K84 million (\$117.8 million). The loan stock and bonds were freely negotiable, fully guaranteed by the Zambian government, exempt from Zambian taxation, and payable in United States dollars, in equal semiannual installments. Repayment periods of eight and twelve years were set for RST and AAC respectively. It was agreed that when installments due come to less than two-thirds of the dividend received by the Zambian government, payment to the creditors would be accelerated. This provision would come into effect for RST in 1971 and for AAC in 1972 depending upon the price of copper.⁵⁹

The terms of this arrangement turned out to be very generous for the minority shareholders and costly on the side of the government. The provision of this arrangement depended on the price of copper. At the time of the arrangement, the terms were in favour of both the Zambian government and the minority shareholders. Sklar notes on the generous extent of the terms

⁵⁷ M Eklund *The Cases Of Botswana And Zambia: A Comparative Study Into The Causes Of Corruption* 1999 21.

⁵⁸ R.M. Auty *Sustaining Development in Mineral Economics: The Resource Curse Thesis* (1993) 256.

⁵⁹ R.L Sklar *Corporate Power in an African state: The political Impact of Multilateral Mining Companies in Zambia* (1975) 40.

... the authorized cash payments to foreign shareholders were indeed very generous: dividends would be paid to foreign owners without limitations; there would be no special taxation on such dividends for ten years, nor would they be subject to restrictive exchange controls; the interest on ZIMCO loan stock and bonds would be exempt from Zambian taxation, the repayment schedule provided for semiannual installments on both principal and interest (to be completed in only eight years in RST's case' while repayment to the Anglo American Corporation would take four additional years). Furthermore' the mining companies were permitted to externalize their liquid assets.... And the tax system had been adjusted to conform to their interests in various ways.⁶⁰

During the lean period, the former President Kaunda, in 1973, realized that the 'generous' terms of the arrangement with the foreign owners were proving to be a burden on the Zambian government. Kaunda stated the reasons for his dissatisfaction with the arrangement as being "the lack of a provision to decelerate compensation payments ... when profits are low as a result of production losses or poor market conditions".⁶¹ Kaunda denounced some of the terms of the agreement, which he stated as being "excessively generous'. Consequently, he announced that Zambia would immediately redeem the outstanding bonds and loan stock in order to allow for the ratification of these and other objectionable arrangement.⁶²

The mere fact that this was during the 'lean period', there were insufficient funds to backup the redemption of the outstanding bonds and loan stock to pay to the foreign shareholders. The Zambian government had no choice but to borrow money from foreign banks. According to Sklar "...government financed this costly maneuver mainly by means of extensive borrowing from foreign banks."⁶³

In sum, the costly arrangement for the payment of compensation and the excessively generous concessions to minority owners as a result of majority participation by the state can be stated as one of the contributing factors to Zambia's present day, debt problem.

⁶⁰ R.L Sklar *Corporate Power in an African state: The political Impact of Multilateral Mining Companies in Zambia* (1975) 60.

⁶¹ Ibid.

⁶² Ibid 61.

⁶³ Ibid.

2.3.7 Growth of Parastatal Body

Another implication of state intervention was the magnitude at which the parastatal body was enlarged. The government nationalized most industries so that large industrial plants had majority or total state ownership. Eklund points out that

... the government launched a campaign to increase its participation in the economic sector through the Industrial Development Corporation (INDECO)...INDECO played a much more active role through its investments, controlling the majority of the shares in several companies. In 1968 the government purchased 51% of the shares in 26 large private companies, in areas such as retail, building material, construction road transport and breweries.⁶⁴

The Zambian government inherited less than 15 parastatals at independence. Following the economic reforms, the new government expanded its role in the economy by establishing a huge parastatal sector. Nelson notes on how Zambia's parastatal body became to be one of the largest, even by African standards, in Africa

By 1985, there were 147 parastatals - 121 state owned companies organized under a single holding company, the Zambia Industrial and Mining Corporation (ZIMCO), and 26 corporations and boards under direct Ministerial control, including the National Agricultural Marketing Board (NAMBOARD). The two largest units of ZIMCO were ZCCM, the mining parastatal, and INDECO, the Industrial holding company subsidiary. Of ZIMCO's 121 companies 82 were wholly state owned, the state had a majority share in 28, and a minority share in only 10. The parastatal sector long accounted for more than 30 percent of Zambia's GDP, a figure high even by African standards. It accounted for roughly 66 percent of total investment and about 37 percent of nonagricultural employment. The ZCCM mining group represented about 30 percent of ZCCM's turnover.⁶⁵

It is clearly evident that the former President Kaunda successfully managed to accomplish the policy of large state intervention, however the performance of these parastatals was very poor. In the words of Eklund, "the performance of most of Zambia's parastatals was quite mediocre...it was supposed to operate commercially and preferably make a profit, but over time they tended to become unproductive and a burden to the

⁶⁴ M Eklund *The Cases Of Botswana And Zambia: A Comparative Study Into The Causes Of Corruption* (1999) 22.

⁶⁵ G.M Nelson (ed) *Economics Crisis and Policy Choice: The Politics of adjustment in the 3rd World* (1990) 288.

state”.⁶⁶ Eklund’s citing Hawkins states: “...the parastatals, despite their size and control of the market, were often inefficient and poor performers. Government control, although pervasive, was generally uncoordinated. Government control of the market reduced competition among producers. The parastatals were, therefore, frequently unproductive and dependent on government subsidies”.⁶⁷

Not only was the performance of parastatals inefficient and unproductive but the “role of the government in the economy had some interesting effects on the opportunities for corruption...there was the considerable increase in the size of the state bureaucracy itself”.⁶⁸ Eklund goes on, quoting Mpuku and Zyuulu stating, “that the large parastatal body became a breeding ground for corrupt activities. As the parastatals declined in performances and lost direction through excessive politicization, they became instruments of political patronage and agents for rewarding political loyalts.”⁶⁹

To understand the nature of parastatals one needs to take into account the following two important features of parastatals. Firstly is that, they are highly dependent upon internal and external borrowings. Secondly, the accessibility to these foreign loans to International Financial Institutions is very easy.

The failure of parastatals to generate profits meant that the state had to absorb these losses incurred from copper earnings. With the collapse of world prices in copper in since the 1970s, the parastatals on registering losses found it easy to borrow in order to absorb any losses incurred. As these losses were incurred concurrently, the parastatals increased their borrowings.

As the burden of the parastatals and the worsening prices of copper were felt, the state resorted to the structural Adjustment loans of the IMF. Eklund, notes

⁶⁶ M Eklund *The Cases Of Botswana And Zambia: A Comparative Study Into The Causes Of Corruption* (1999) 22.

⁶⁷ M Eklund *The Cases Of Botswana And Zambia: A Comparative Study Into The Causes Of Corruption* (1999) 22.

⁶⁸ Ibid.

⁶⁹ Ibid.

weakened/sidelined due to its participation in business.⁷³ Finally, the new government wished to let the private sector to be a driving force of commercial and business activity with government playing a steering role and providing a conducive environment for business.⁷⁴

To briefly summarise the chapter, the 1960s to the 1970s shows evidence of how Zambia's economy flourished during the period termed as the "fat decade". This is when Zambia, solely based on the production and export of a monocrop – copper ranked third among the world's largest producers of copper. The crunch, however, came in the wake of the double shock – the decline in copper prices following the oil increases of the 1970s that affected the Zambian economy in a very negative manner. Zambia hoped that these shocks were temporary, and the economy would stabilize in time. Based on this judgment, the government undertook huge borrowings to avoid having to restructure the economy. Zambia's economy, however, did not recover as a result of these shocks. These borrowings were utilized to sustain the state led industrialization and the policies undertaken to support the diversification of the economy in favour of agriculture sector. To make matters worse this venture in agriculture failed. Borrowings were also utilized to sustain the loss-making parastatals and the provision of basic social services. The result of these borrowings was a very large debt owing to bilateral and multilateral lenders. Zambia was virtually in a debt crisis. It also faced the problem of its inability to service its debt.

Social and economic indicators began declining at an alarming rate. This poor performance in the economy brought about undertaking of various structural adjustment programmes over the period 1986 to 1990. The undertaking of these reforms brought about unrest in food riots in the years 1986 and 1990, leading to the stop and go of the reforms.

⁷³ Ibid.

⁷⁴ Ibid 14.

By the time of the political transition in 1991, the new Government faced a daunting task. Huge budget deficits, largely due to the State Owned Enterprises, were being financed by printing money and borrowing on the local market. Inflation was rampant and real interest rates increased rapidly following controls. Private sector investment was depressed. Zambia had already faced two decades of steady declines in per capita income, (US\$900 in 1970, US\$600 in 1980 and US\$450 in 1990). The coming into power of the MMD government led to the recognition of the need to minimize the role of government in the economy and to promote policies that seek to create a private sector led economy. The MMD government viewed parastatals as being inefficient, ineffective and a drain on government resources. It is for this reasons that Zambia went throttle with privatization, which was being undertaken at breakneck speed. The privatization programme can also be seen a 'damage control' exercise, undertaken during a period of long standing extreme economic stress.

CHAPTER 3: THE HUMAN RIGHTS IMPLICATIONS OF PRIVATIZATION

3.1 Introduction

This chapter presents evidence to substantiate the allegations that economic and social rights are increasingly denied and actively violated as a direct result of the implementation of the privatisation programme in Zambia.

Zambia has ratified more than 10 international conventions on human rights alone. To name a few, Universal Declaration of Human Rights (1948), International Covenant on Economic, Social and Cultural Rights (1966), International Covenant on Civil and Political Rights (1966) and The African Charter on Human and Peoples' Rights (1984).

But of all these conventions, it is the international covenant on economic, social and cultural rights (ICESCR) "that obligate the government to work towards the progressive realization of these rights. By appending its name to this convention, government has, in principle, recognized the provisions of the covenants as rights to be enjoyed by its citizens".⁷⁵

The problem, however, is that there is "a glaring gap between what the government pledged to undertake in international fora and what it implements at home. As long as the government does not put into action what it agrees to in the international fora it will not be taken seriously".⁷⁶

Various nations have gone further in their commitment to human rights by enshrining most of the provisions into their constitutions and into domestic law. However, when it comes to Zambia, the position of economic, social and cultural rights has not been as such. The World Organization Against Torture (OMCT) quoting two articles two articles of the 1991 Zambian Constitution as amended in 1996, show that the current Zambian

⁷⁵ AFRONET The Zambia Human Rights Report 1998: Economic, Social and Cultural Rights (1998).

⁷⁶ Ibid.

system fails to recognize the justiciability of economic, social and cultural rights. These articles are noted:

Article 111 states that economic, social and cultural rights shall not be justiciable and shall not thereby ...,despite being referred to as rights in certain instances, be legally enforceable in any court, tribunal or administrative institution or entity.

Article 112 lists the Directives of State Policy, which include, inter alia, ...; the conditions under which all citizens shall be able to secure adequate means of livelihood and opportunity to obtain employment; the provision of clean and safe water, adequate medical and health facilities and decent shelter for all persons; the provision of a clean and healthy environment for al; the recognition of the right of every person to fair labour practices and to a safe, healthy environment.⁷⁷

Still on the same plane, the 1998 Zambia Human Rights Report on Economic, Social and Cultural Rights reported that one of the reasons why the realization of economic, social and cultural rights in Zambia have been “constrained is because the legal system does not recognize the justifiability of these rights. While the Zambian constitution guaranteed civil and political rights, it did not accord the same significance to economic and social .rights”.⁷⁸

Dr Kenny, in his report to the UN Committee on economic, social and civil rights, goes on further to make an argument that the economic, social and cultural rights violations experienced will only be felt in the short term, so as to have positive results in the long-run. In his words, he states

Some of the apologists for the worst excesses of free market reform have insisted that hardship and a reversal in social standards for many, that is, a denial of social and economic rights – the price to be paid in the short-term for a longer-term advance in social well-being and an improvement in the standard of living.⁷⁹

But if this is so, then it can be argued that privatisation is in direct violation to the covenant on social, economic and cultural rights. “Each state party to the covenant undertakes to take steps, especially economic and technical, to the maximum of its

⁷⁷ The World Organisation Against Torture (OMCT) *Zambia: Violations of Economic, Social and Cultural Rights, Violence and the Protection Against Torture* (2001).

⁷⁸ AFRONET *The Zambia Human Rights Report 1998: Economic, Social and Cultural Rights* (1998).

⁷⁹ T Kenny *Zambia, Deregulation and the Denial of Human Rights* (2000).

available recourses with a view to achieving progressively the full realization of the rights by all appropriate means.”⁸⁰ The covenant also states: “the state party must undertake to guarantee that rights enunciated will be exercised without discrimination of any kind”. The covenant also states: “the state party must undertake to guarantee that rights enunciated will be exercised without discrimination of any kind”.⁸¹

Massive violations of economic, social and civil rights as a result of the rigorous implementation of the IMF and World bank’s sponsored structural adjustment programme, particularly privatization, has been felt in all spheres of the economy. “Nearly 80% of the population lives in poverty with little or no access to basic necessities such as decent shelter, adequate food, health and education. Less than 20% of the population is in formal employment.”⁸²

It is clearly impossible to discuss the implications of the privatisation programme on all Economic, social and cultural rights within this chapter. Consequently, this chapter will merely provided an outline of the economic, social and cultural rights within the scope of the right to work, freedom of Association, Social Security and the Right to an adequate standard of living including adequate food, clothing and housing, health and education etc. Each right will be scrutinized in terms of its implications and the summary to this discussion will follow.

3.2 Economic, Social, Cultural, Civil and Other Rights in Zambia

3.2.1 The Right to work

Zambia, as a member state of the universal human family, has pledged itself to the full realization of human rights and freedoms enshrined in the Universal Declaration of

⁸⁰ International Covenant on social, economic and cultural rights, Art. 2 (1).

⁸¹ Ibid, Art.2 (2).

⁸² The Human Rights Observer *Governance and Human Rights in Zambia* (2001).

Human Rights (UDHR). The UDHR includes, particularly relevant to this chapter, economic, social and cultural rights. It states:

1. Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.
2. Everyone, without any discrimination, has the right to equal pay for equal work.
3. Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.⁸³

In addition to the UDHR, Zambia, as stated in the introductory paragraph, is party to various international human rights instruments, with related provisions on economic, social and cultural rights. Among these instruments, is the International covenant on economic, social and cultural rights (ICESCR).

The right to work, as enshrined in the ICESCR, includes, inter alia, steps to be taken by a state party to achieve full realization of the “right to work and the enjoyment of just and favourable conditions of work”. Article 7 is broken down into three broad categories, that is, “remuneration, safe and healthy working conditions, equal opportunity for promotion and a decent standard of living”.⁸⁴

Despite all these provisions as stated in the UDHR, ICESCR and other regional and international human rights instruments, Zambia is party to, the right of work still continues to be violated, partly as a result of the implementation of the Zambia privatisation programme. Further in this section, the occurrence of violations to the right to work is noted.

On a theoretical level, privatization aims at giving control of economic enterprise to the private sector because it is better able to run businesses for profit and therefore the creation of wealth.⁸⁵ Privatization, according to the neo-liberal theory, is regarded as the most viable way of injecting fresh capital and innovative management into the sector.

⁸³ United Nations (1948) Universal Declaration of Human Rights Art. 23(1-3).

⁸⁴ International Covenant on Economic, social and cultural rights Art. 6-7.

⁸⁵ S Kangwa *The Privatization of Zambia Consolidated Copper Mines* (2001).

However, the downside of Privatization is that it has the effect of downsizing the number of staff, this is done on the assumption that there will be efficiency and effectiveness with the smaller number of Staff. Kangwa argues: “Privatization leads to rationalization of staffing and operations due to the need to make companies more effective and competitive. This frequently leads to redundancies which leave communities dislocated from what in some cases may be their only means of livelihood”.⁸⁶ In the words of Stiglitz: “the impact on employment has perhaps been both the major argument for and against privatization, with advocates arguing that only through privatization can unproductive workers be shed...”⁸⁷

Hardstaff, citing a study conducted by four IMF researchers, concluded, “the empirical evidence suggests that significant reductions in employment are indeed associated with Privatization”.⁸⁸ AFRONET also attests to this: “...the right to work has been seriously affected by the implementation of economic reforms since 1991. The privatization of parastatal companies, in which the state previously held controlling shares and all statutory bodies, ...have steadily increased unemployment levels in the country”.⁸⁹ In addition to this study, commentators have noted that “the competition associated with the liberalization and rationalization associated with privatization has been at odds with the right to work. These policies have been the cause of significant job losses”.⁹⁰

Zambia’s controversial programme, a key condition for donor aid, “has resulted in the loss of more than 105 000 formal sector jobs over 10 years...”⁹¹ Indeed, according to the Institute of Development Studies, AFRONET and ZARD,

the privatization of the parastatal sector has led to massive unemployment. For instance, employment in this sector fell by one-third between 1992 and 1996...between September 1992 and June 1995; the parastatal sector lost about 40,900 employees. In 1999, nearly 100,000 had lost their jobs, while the ILO reports that employment in the informal sector

⁸⁶ Ibid.

⁸⁷ J Stiglitz *Globalization and its Discontents* (2001) 56.

⁸⁸ P Hardstaff *Treacherous conditions: How IMF and World Bank policies tied to debt relief are undermining development* (2003).

⁸⁹ The World Organisation Against Torture (OMCT) *Zambia: Violations of Economic, Social and Cultural Rights, Violence and the Protection Against Torture* (2001).

⁹⁰ AFRONET *The Zambia Human Rights Report 2001: Economic, Social and Cultural Rights* (2001).

⁹¹ Mail & Guardian *Privatization under scrutiny in Zambia* (2003) 1.

dropped from 555,000 in 1985 to 478,000 in 1999. The increased unemployment in the formal sector pushed an important number of workers into the informal sector: between 1995 and 1998 informal sector employment is estimated to have grown by 15 percent in non-agricultural sectors and by 35 percent in agriculture.⁹²

The right to work came under severe attack, in that, formal sector employment is estimated to have fallen by 0.2 per cent (only 476, 347 jobs in 2000, or less than 12 per cent out of the total workforce). In the meantime, real average earnings continued on a downward slide in the face of inflationary pressures.⁹³

Reference of the employment and Earnings precedence to the year 2000 is given in Table 3.1 below.

Table 3.1: Employment and Earnings in Zambia

INDICATOR	1996	1997	1998	1999
Total labour force('000)	3, 993	4,411	4,029	4,635
Employment Total labour force('000)	3, 377	3,739	3,518	4,344
Unemployment Total labour force('000)	615	671	511	413
Formal Sector Employment as Percentage of Total Labour Force	12	11	10	11
Average Monthly Earnings (Kwacha)	121,365	150,230	184,281	233,687

Source: The Zambia Human Rights Report 2001

Increased levels of unemployment in both the formal and informal sectors prevented an important number of the population from enjoying their right to work. Referring to the table above, 1998 estimates showed that out of a total labour force estimated at 4 million,

⁹² The World Organisation Against Torture (OMCT) *Zambia: Violations of Economic, Social and Cultural Rights, Violence and the Protection Against Torture* (2001).

⁹³ AFRONET *The Zambia Human Rights Report 2001: Economic, Social and Cultural Rights* (2001).

formal sector employment stood at only 10 per cent or 472 000. 50 per cent or Two million, eked out a precarious existence [or conditions] in the informal sector. Unemployment ranks were bursting at the seams at 40 per cent.

The Privatization of the crucial Parastatal mining sector has indeed led to significant job losses. The Privatization of the Zambia Consolidated Copper Mines (ZCCM Ltd) alone “resulted in more than 8,000 redundancies between 1992 and 1998. Just before the final sale of ZCCM, a further 8,329 employees were made redundant by the end of 1999”.⁹⁴

However, Chipwende argues

“...80% of the workers in most parastatals that have been privatized would have been retrenched had the companies remained in government hands.... Some state enterprises that closed have been resuscitated.. Furthermore, when Privatization started in 1992, most manufacturing companies were operating at 30% capacity utilization and a reduction in the workforce was inevitable to increase competitiveness and rationalize operations”.⁹⁵

‘As this were not enough, the situation in the private sector showed bad signs of working conditions. There were reports of workers working long hours for little pay in a number of newly privatised companies. There was also trouble over the non-fulfillment of contractual obligations by the new owners of the companies.’⁹⁶

A fear that the average Zambian has is that his/her job will be given to a foreign person despite promises that this would not happen once the state-owned company is privatized. The 2001 Zambia Human Rights Report shows that there were numerous complaints of expatriate workers coming to take up jobs in the country, which Zambians were qualified to perform. This is demonstrated in the following cases:

- In Livingston, the construction of the Sun Hotels International was surrounded by controversial recruitment of unskilled cheap labour from Zimbabwe;
- Lusaka, the construction of the Millennium Village intended for the heads of state that attended the Organization of African Unity (OAU) 2001 Summit also raised controversy because of importation of cheap labour from Malaysia; and

⁹⁴ S Kangwa *The Privatization of Zambia Consolidated Copper Mines* (2001) 4.

⁹⁵ Mail & Guardian *Privatization under scrutiny in Zambia* (2003) 1.

⁹⁶ AFRONET *The Zambia Human Rights Report 1998: Economic, Social and Cultural Rights* (1998).

- On the Copperbelt, there were reports of drivers, boiler makers and other categories of skills already available in the country, being imported by the new mine owners.⁹⁷

Overall, the employed labour force continued to shrink during the 1990s, and the few jobs that survived are reported to have been characterized by insecurity and poor conditions of work.⁹⁸ Job insecurity and mass unemployment eclipsed the fact that work is a right to which citizens are entitled.

3.2.2 The Right to life

Everyone has the right to life.⁹⁹ “Depriving people of the right to food, shelter, health and education is directly threatening life itself and thus violating this very basic human right, the right to life”.¹⁰⁰

Privatization demands the removal of subsidies. The removal of subsidies has the effect of increases in prices. Stiglitz states: “The reduction of government subsidies leads to a rise in prices of basic goods and services”.¹⁰¹ The rapid rise in price of basic goods and services has been evidenced in Zambia.

The removal of subsidies, particularly in reference to food subsidies, required the cut on food subsidies among other things – lifting of price controls on mealie meal, the basic staple food. The removal of subsidies on mealie meal was perhaps the cruelest manifestation of the conditionalities of the “evil twins” on the majority of the Zambian poor. Mealie or maize meal is Zambia’s staple food such that doing without it threatens their very survival. Thompson states

...urban poor, in particular had come to rely on these subsidies simply in order to survive. They had other sources of food (unlike their rural compatriots, who could grow their own).

⁹⁷ AFRONET *The Zambia Human Rights Report 2001: Economic, Social and Cultural Rights* (2001).

⁹⁸ Ibid

⁹⁹ Constitution of Zambia Art 11.

¹⁰⁰ B Mofya *Debt In Zambia: A Human Rights Issue* (2000).

¹⁰¹ J Stiglitz *Globalization and its Discontents* (2002) 30.

...During 1977, the maize subsidy amounted to 71 percent of the market value for this staple. By 1983, Zambians were expected to pay the full price themselves.¹⁰²

As a result of the removal of subsidies on mealie meal, many people continue to suffer from starvation resulting in death. Thus depriving people of the right to food directly threatens life itself, that is, the right to life.

3.2.3 The Right to Social Security

According to the ICESCR, “the state parties to the present covenant recognize the right of everyone to social security ...”¹⁰³ However, the Social Security system in Zambia is not fully developed to take care of the retrenches resulting from privatization.¹⁰⁴ The country’s social security remained grossly inadequate and ineffective. Former employees of companies that had gone into liquidation waited in vain for their dues. Those who were fortunate enough to hear from liquidations were shocked by the pay amounts they received...¹⁰⁵

The extended family system came under further pressure as lack of income drove the needy to seek refuge with their family members. This was made worse by increased mortality arising from the HIV/AIDS pandemic. This consequence of privatization on the Zambian Copperbelt, the mining communities that once contained fully employed miners but now homes to hundreds of unemployed men, is noted of below

This has led to changes in inter and intra family relationships with consequent breakdowns in the traditional support structures of the extended family. Relationships between rural and urban families have begun to weaken due to lack of capacity to support rural based relatives. The effects of HIV/AIDS on families has seen an increase in the number of orphaned children leading to increased numbers of street kids. It is estimated that there are over 45,000 orphans in Kitwe alone.¹⁰⁶

¹⁰² A Thompson *An introduction to African Politics* (2000) 177.

¹⁰³ International Covenant on Economic, social and cultural rights Art 9.

¹⁰⁴ The Zambia Privatisation Agency (ZPA) *The Privatisation Programme and the Zambia Privatisation Agency* (2001).

¹⁰⁵ AFRONET *The Zambia Human Rights Report 1998: Economic, Social and Cultural Rights* (1998).

¹⁰⁶ S Kangwa *Privatisation and Social Management* (2000).

The Social Security system in Zambia has therefore been characterized by inadequacy and ineffectiveness in form of delay in payment to retrenched and inadequate pay to those who have received their payment. The negative consequences culminating from this should not be ruled out.

3.2.4 The Right to Health, Education and Adequate Housing

In terms of the ICESCR, everyone has the right to an adequate food, education and housing and to the continuous improvement living conditions.¹⁰⁷ But this right has been hampered by the stoppage of the provision of free social basic services by the Zambian government as a result of privatisation of the ZCCM.

Before privatization, the ZCCM served as a vehicle through which the Zambian Government sought to fulfill certain rights. The ZCCM provided social services for free to the mining community that is the employees of ZCCM and their families. These 'services included housing, medical and health care in local hospitals & clinics, Education to employees' children, subsidies on school fees, electricity, water and telephone bills and other social amenities such as collection of garbage and general house maintenance. Kangwa gives testimony of this: "while a miner was in employment, they were entitled, together with their registered dependents to access company provided medical and education services, recreational facilities, sports clubs and essential municipal infrastructure including electricity, water supply and sewerage services".¹⁰⁸

With the eventual privatization of ZCCM, social services that were offered to the community were cut back. This has meant that the majority of Zambians have been denied their economic and social rights. The consequent loss of these social benefits has had a negative impact on health, education and general well being of the mine communities: ...the loss of income has meant that the majorities now have difficulties

¹⁰⁷ International Covenant on Economic, Social and Cultural Rights Art 11 & 13.

¹⁰⁸ S Kangwa *Report on The Privatisation of Zambia Consolidated Copper Mines* (2001).

paying for services. In an environment where many have no incomes, the possibility of serious health problems as a result of withdrawal of services cannot be ruled out.¹⁰⁹

Although many of the retrenched miners were given an opportunity to buy the houses they were occupying from ZCCM, they are unable to pay for the upkeep or maintenance of their houses. Kangwa takes notes of this problem.

Since the houses were sold, some beneficiaries mainly those who were in the higher income categories have begun to add value to their properties by way of making extensions and other additions. However, many who cannot afford to do this moved out of the houses and put them on the rental market. In the townships housing the lower ranks of former ZCCM employees, the houses have begun to show signs of neglect due to lack of maintenance as well as the addition of unauthorized extensions.¹¹⁰

3.2.5 The Right to Gender Equality

Everyone has the right to the full and equal enjoyment of all rights notwithstanding their gender, sex, marital status, pregnancy etc. The situation of women is not at a stage where women can be said to be enjoying full rights. In the case of the country's privatization programme that has led to massive job losses, women were usually the first to be retrenched. According to the world Organisation Against Torture (OMCT), women were especially affected, particularly by the diminution of employment in the formal sector. The OMCT state that

Many women lost their employment in this sector [formal] during restructuring, despite the fact that a minority were employed in this sector before 1991. Women were very often the first to be lay-off because they are more concentrated in unskilled occupations or are mostly working in the tailoring and cloth-manufacturing sectors that were seriously hit by the competition brought by the economic liberalization.¹¹¹

Moreover, women in the informal sector have also been adversely affected, as increased unemployment shifted the work force towards this sector, with women working in rural

¹⁰⁹ S Kangwa *Privatisation and Social Management* (2000).

¹¹⁰ Ibid

¹¹¹ The World Organisation Against Torture (OMCT) Zambia: *Violations of Economic, Social and Cultural Rights, Violence and the Protection Against Torture* (2001).

areas in small-scale farming activities and in urban areas as stonebreakers, vendors or traders. According to KAIROS

Zambian women disproportionately bear the costs of [Privatisation]. As a result of privatization and restructuring more women than men were laid off. As a result women have become more prominent in the informal sector especially as small traders where incomes are low or they become unpaid family workers. [Moreover] In the agriculture sector there has been a marked decline in production of marketed crops as a result of liberalization and the removal of subsidies. This decline has worsened poverty among the rural women who are predominately involved as subsistence small-scale farmers.¹¹²

The lay-off of women has also pushed women towards more precarious and less-remunerated occupations. For instance, many women have been pushed towards prostitution.

3.2.6 The Right to Human Dignity

Those workers who have not been hit by the massive lay-offs nevertheless face numerous difficulties particularly in terms of loss of dignity. There are those few that are employed by foreign investors who have been stripped of their dignity as they have been ridiculed and abused by their new employers. The 2001 Zambia Human Rights reports: through out the year, there were numerous reports of expatriate workers coming to take up jobs in the country, which Zambians were qualified to perform.¹¹³ In addition, it is noted that in some companies, one can find a situation where a person who had a high position or who was a superior in a state-owned company is now a junior for the same job in the privatized company while the same job is done by someone from outside Zambia who it can happen has the same qualifications or less than the Zambian person.

In a Zambian Human Rights Report, it was reported, “the situation in the private sector was ...bad. There were reports of workers working long hours for little pay in a number of newly privatized companies. There was also trouble over the non-fulfillment of

¹¹² KAIROS *Zambia : Failed Policies Deepen Misery* (2002).

¹¹³ AFRONET *The Zambia Human Rights Report 2001: Economic, Social and Cultural* (2001).

contractual obligations by the new owners of the companies.¹¹⁴ In this respect one can imagine the difficulties faced by these people.

In another twist, there has been an increase in the number of expatriates in mining, particularly the Copperbelt. These expatriates have a tendency of using their own foreign contractors, which in the process degrades the dignity of locals who have the same capabilities. Kangwa states

Some of the mining companies are using contractors based in South Africa to undertake some construction contracts. These contractors generally bring in foreign labour (black and white) together with the equipment and supplies needed for the contract duration. This practice appears to be connected to short term contracts where a quick turn-around is crucial. This may be acceptable in the short term but in an environment of high unemployment, such practices will tend to alienate the locals by making them feel that their skills are looked down upon.¹¹⁵

Apart from the massive loss of jobs by thousands of Zambians through retrenchments and redundancies in privatized companies and other adverse effects mentioned, the government does not even have the capacity to offer its current work force favourable remuneration and good working conditions to ensure an existence worthy of human dignity...¹¹⁶

As a result of these adverse effects, many Zambians have been reduced to such a state that they doubt their true value or capabilities. An increase in alcoholism, substance abuse, crime and other social pathologies cannot be ruled out in this scenario.

3.2.7 The Right to Accountability and Transparency

There have been numerous assurances of promises of full accountability of the privatization programme to the public. Accountability makes it possible for the role-players to make decisions and perform their duties according to the will, wishes and

¹¹⁴ AFRONET *The Zambia Human Rights Report 1998:Chapter5 - Economic, Social and Cultural Rights* (1998).

¹¹⁵ S Kangwa *Privatisation and Social Management* (2000).

¹¹⁶ B Mofya *Debt In Zambia: A Human Rights Issue* (2000) 4-5.

benefit of the people, and not only for themselves. A critical note that deserves mentioning is that accountability can only be possible where there is the presence of transparency. This makes it possible for citizens to get available information on what decisions are being made, by whom and based on what reasons. The result of transparency and accountability ensures that all affected groups have input into the decisions made.

It has, however been alleged that the Privatisation Act has failed to guarantee accountability and transparency in the sales process. Of itself, this is a denial of certain human rights.¹¹⁷ In addition, the report states that

...in practice, the Independent operation of the implementing agency has been compromised. This has resulted in malpractice, the diversion of sale proceeds, and allegations of corruption and the award of sales to buyers without an industry track-record. There has been no popular participation. The public floatation of the most lucrative businesses has resulted in a concentration of share ownership in the hands of elite investors. To attract foreign buyers, not only have tax and other incentives been offered into the long-term, but environmental and social safeguards have been relaxed. Overall, a number of economic and social rights are jeopardized as a result.¹¹⁸

The above shows how the privatization exercise has allegedly been characterized by lacking accountability and transparency where there has been the presence of corruption and some proceeds from privatization have not been properly accounted for.

3.3 Summary of the Chapter

The privatisation programme of the multiparty era, in as much as it has opened up more opportunities for the 'local man' to ownership of the Zambian economy, has also opened up more ways to exaggerate the current poor economic situation.

The ripple effects of Privatisation have been felt throughout all levels and sector of Zambian society, urban and rural. The majority of Zambians have suffered greatly as a result of the negative effects of privatisation. Massive layoffs has meant that bread

¹¹⁷ T Kenny *Zambia, Deregulation and the Denial of Human Rights* (2000).

¹¹⁸ Ibid.

winner have lost their jobs and have in some instances not even received their social security, burdening families even more. Cutbacks in social benefits such as health, education etc, has transformed the cost of social benefits, from the state to the individual. This has put a heavy burden on individuals, hence resulting to malnutrition, recurrence of previously eradicated diseases and poverty. Cutbacks in the health system has meant that the majority of Zambians are unable to access affordable medical care. Cutbacks in subsidies such as on mealie meal has meant that people, especially the poor, have been disproportionately hurt leading to some families sleeping on one meal a day. On the education front, this has also meant that children cannot go to school due to lack of finances.

All in all, there has been a sharp decline in the enjoyment of economic, social and other rights for the majority of Zambians who had previously been dependent on the provision income and social services & goods. There is evidence that the situation for many people is worsening.

Finally, another critical issue to take note of is the fact that economic, social and cultural rights are not justiciable. That is, the current constitution (1996) does not provide for any of these rights. Because the legal system does not recognize the justifiability of these rights, victims of violations cannot lay a claim in the court of law for compensation or redress thereof.

CHAPTER 4: PRIVATISATION OF THE ZAMBIA MINING INDUSTRY: THE CASE OF THE ZCCM

4.1 Introduction

The main objective of this chapter is to discuss the privatisation of the Zambia Consolidated Copper Mines (ZCCM). A discussion of the Zambian privatisation programme would be incomplete without mentioning of the privatisation of the ZCCM. This is so because the ZCCM represents the major source of foreign revenue for the economy and about 10% towards GDP.

This chapter attempts to provide reasons that invoked the Zambian government to embark on a road to privatisation of its mining industry. Secondly, the influence exerted by the IMF and World Bank on Zambia's arriving at the decision to privatise the mining industry is shown. Thirdly, post-privatisation issues are considered. Post-privatisation issues are with regards to the uncertainty experienced in the Zambian Copper Industry as a result of the withdrawal of Anglo-American Corporation from Konkola Mines, an outline of the flaws that took place in the privatisation process that are attributable to the problems experienced in the mining industry today, and lastly the social and economic impact of privatizing the ZCCM is shown. The social and economic impact makes reference to the withdrawal in social service provision by ZCCM and the mass unemployment as a result of redundancies/retrenchments following the sale of the mines. Finally, the summary of the chapter is provided.

As the Zambian economy is heavily and solely dependent on the proceeds from copper, one can only envisage that the social and economic effects of the privatisation programme undertaken be a favourable outcome.

4.2 Reasons for privatizing the ZCCM

Due to Zambia's high reliance on its sole monocrop, copper, the core of the entire privatisation programme has been the privatisation of the mining conglomerate namely, the ZCCM. The other reason for it being the main issue has been because of the potential economic turnaround, should the programme be successfully undertaken.

On attaining independence in 1964, the immediate task of the new government – the United National Independence Party (UNIP), was to achieve effective control of the country's economy. With this task in mind, Zambia embarked upon a policy of economic reforms.

This policy of nationalization came to be known to the public during the Mooting of the Mulungushi Declaration of 1968.

[Following] the Mulungushi Declaration of 1968, was the Matero Declaration at which 51 per cent take over of the mining companies was announced. The government acquired 51 per cent of Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Mines (RCM). In 1982, the two largest copper mining companies (NCCM and RCM) merged to form the ZCCM. The formed ZCCM became the largest mining company in the world.¹¹⁹

In the decade following independence, “copper earnings accounted for 95% of export earnings and contributed 45% of government revenue. Following the collapse of international copper prices, the government resorted to heavy external borrowing to starve off the effects of recession”.¹²⁰

In addition to the volatile copper prices, Zambia was also negatively affected by the oil increases of the 1970s. In the years that followed, Zambia continued to experience setbacks in the international price of copper and oil.

Zambia believed that these external shocks were temporary, and would eventually be reversed, and therefore continued to depend on huge foreign borrowings to cover its

¹¹⁹ S Kangwa *Report on the privatisation of the Zambia Consolidated Copper Mines* (2001).

¹²⁰ S Kangwa *Privatisation and Social Management* (2000).

increased oil costs and also to improve the well being of its citizens in areas such as the Infrastructure.

Zambia hoped that it would repay the loans when the international price of copper improved. Unknown to the Zambia government the future price of copper on the world market would continuously fall and the interest rates on its loans would rise. With no alternative source of economic activity, Zambia rapidly found itself unable to service the debt they had incurred. Mofya states:

Zambia hoped that the money borrowed would enable it to improve its educational, health, and living standards and create new industries. It anticipated an income from these industries, which together with the high stable income from commodity prices would pay the interest due and eventually repay the debt. It did not foresee the fall in commodity prices or the sharp rises in interest rates that were to come. Seeing that the prices of copper continuously declined, the government borrowed more in order to keep the economy going in the short term while at the same time using the money to pay back debt.¹²¹

Eventually, Zambia could no longer rely on external borrowings. The lenders had also finally realized that Zambia's capacity to repay its debts was seriously hampered. According to a study by the JCTR in 2001, it is estimated that

From the early 1970s Zambia's total external debt has had a phenomenal growth pattern and the trend continued almost unabated in the 1980s and for the most parts of the 1990s. For instance, between 1970 and 1974 the debt was US\$776 million while for the period 1980-84 it stood at US\$3629 million representing a staggering increase of 367.5 from the previous period.¹²²

Debt repayment problems quickly emerged. Zambia was now severely indebted as it never recovered from its external shocks. Just in the period 1993 to 1994 alone, it is reported:

As at 1st April, 1993 ZCCM's external debt burden stood at US\$518m with an internal debt of K164.5bn. The company had incurred losses for the first half of the year to the tune of US\$135m. In the same year, a decision was made to develop the Konkola Deep shaft at a cost of over US\$600m. This action was effectively double ZCCM's debt while copper production had also fallen by 20% representing a loss in revenue of some US\$30m to

¹²¹ B Mofya *Debt in Zambia: A Human Rights Issue* (2000).

¹²² Jesuit Centre for Theological Reflection (JCTR) Report *Debt Project* (2001).

US\$50m. The production cost per pound of copper had risen and was much higher than the selling price.¹²³

The Pangaea Partners Limited also paints a similar picture of the ZCCM's state of affairs: "Just before the completed privatisation, the [ZCCM] was highly indebted, with estimates running as high as US\$1.0 billion, and was losing an estimated US\$ 1.5 million a day".¹²⁴ According to Furguson, this "extreme burden of debt has left the country little choice but to yield to the demands made by lenders via the International Monetary Fund and World Bank...".¹²⁵ It can therefore be said that the deepening economic crisis and the drying up of the sources of long-term borrowing contributed to the dire straits the country was in.

Another reason for the ZCCM's problems is attributed to the rate at which the output of copper was gradually falling. A report by the Pangaea Partners Ltd. states that "copper output consistently fell from its peak of 720, 000 tonnes in 1969 to just over 286, 000 tonnes at the end of 1999 and the cost of production exceeded the price of copper".¹²⁶ As the cost of production was more than the price of copper, it meant that the ZCCM was 'operating at a loss. This in turn led to Zambia "experiencing serious difficulties in servicing its loans. [Moreover,] operations of the mines were only sustained by short-term borrowings".¹²⁷ The lack of capitalization has, according to Transparency International been herald has the reason for the "decline in copper production. In addition, Plant and equipment steadily deteriorated as a result of lack of re-capitalization and servicing of debts."¹²⁸

Since ZCCM was brought under state control, research, exploration & development, maintenance, and capital re-investment was neglected.¹²⁹ According to a study conducted by Kangwa, sources within the mining industry overseas were said to be of the opinion

¹²³ S Kangwa *Report on the privatisation of the Zambia Consolidated Copper Mines* (2001).

¹²⁴ Pangaea Partners Limited *Zambia: Moving onward and upward?* (2000).

¹²⁵ J Furguson *Expectations of Modernity: Myths and Meanings of Urban Life on the Zambian Copperbelt* (1999) 9.

¹²⁶ *Ibid*

¹²⁷ Transparency International *Transparency and the rule of law in the privatisation of the Zambia Consolidated Copper Mines (ZCCM) Assets* (2002).

¹²⁸ *Ibid*.

¹²⁹ Pangaea Partners Limited *Zambia: Moving onward and upward?* (2000).

that the needed finance for ZCCM's re-capitalization could only come by way of privatisation.¹³⁰

Government mismanagement is another problem attributing to the ZCCM's problems. The reason given is that government has no part in running a business instead it is responsible for the welfare of its people. The poor performance in the mining sector was evidence that "Government is not good at managing business. [T]he historical background of the Zambian mining industry shows that the decline in copper production started after the Government had acquired 51 per cent shares in mining companies. Since the Government was the major shareholder, it had powers to appoint top managers and make company policies."¹³¹

Finally, the ZCCM faced a decline in performance. Kangwa notes:

The problems, which led to decline in performance, were operational within ZCCM. After 1985, ZCCM started facing financial constraints. The financial problem became so severe that the company was failing to procure essential implements to use for copper production. Workers were forced to improvise, made short cuts to working procedures and did not only get low salaries but got them late. As a result, employees were demoralised and developed bad working habits. It was apparent that the Government had failed to profitably run the copper mining industry, and to be internationally cost competitive. The reduced capital inflow into the production process, meant that growth, employment creation and revenue accruals to Government were constrained.¹³²

It was mainly due to these reasons mentioned above, that the new elected government, the MMD, decided to privatize the ZCCM as part of its overall economic reform programme. In the words of Kangwa:

The problems in ZCCM led to privatization...The Government of Zambia realized that revitalization of the Zambian copper mining industry could only be achieved through restructuring involving private investments and participation, since the industry has the potential to substantially increase its production. It was comprehended that long-term economic benefits can be maximized when production is not only increased, but increased together with efficient operation. Only as a cost-competitive producer can Zambia assure itself a proper place on the world copper market.¹³³

¹³⁰ S Kangwa *Privatisation and Social Management* (2000).

¹³¹ S Kangwa *Report on the privatisation of the Zambia Consolidated Copper Mines* (2001).

¹³² Ibid.

¹³³ Ibid.

4.3 Role of the International Monetary Fund (IMF) and the World Bank in privatisation of the ZCCM

An issue that needs mentioning is the influence of the International Monetary Fund (IMF) and the World Bank on the government. Prior to the 1991 presidential and parliamentary elections, relations between the IMF, World Bank and the then ruling party the UNIP government was in tatters.

At this point Zambia was in dire need of financial aid. Aid was tied to privatisation of the ZCCM and other state owned enterprises (SOEs). Re-establishment of relations with the IMF and World Bank would be the MMD's priority. Raker states:

... the immediate issue confronting the MMD government in 1991 was the external financial situation. Due to the withdrawal of the IMF and the World Bank credits, Zambia had incurred arrears on its debt to the multilateral institutions. Zambia's financial credibility was at a low-point as the country was ineligible to draw on IMF funds as well as the World Bank and bilateral balance-of-payments support grants. The need to restore international confidence and to increase the level of donor funding was therefore of paramount importance for the government.¹³⁴

The reason for the postponement of the economic reform process was because of the food riots and strikes that had occurred in response to the public's frustrations on the removal of subsidies on the staple food, maize, as well as general resistance to the negative effects of the reform process. Raker provides an account of the events during this period.

In September 1991, shortly before the elections which brought MMD to power, the relationship between the UNIP government and its external donors was nearing the level of conflict reminiscent of the 1987-89 period. When President Kaunda in early 1991 announced that the full liberalization of maize subsidies would be postponed until after the 1991 elections the World Bank suspended its second tranche of funding agreed to in March 1991 because Zambia had failed to meet the 60-day deadline for the reduction of its arrears. The World Bank suspension led a number of the bilateral donors to cease disbursements to Zambia at a time when donor patience with the slow pace of economic reforms was wearing out. As a result, a number of bilateral donors withheld balance-of-payments support and programme aid. This was the situation shortly before MMD's victory. The suspension of the aid programme meant that the new government had to convince aid donors that it was willing to make difficult and potentially unpopular political decisions. The debt to the multilateral institutions was not subject to forgiveness...¹³⁵

¹³⁴ L Raker *Political and Economic Liberalisation in Zambia 1991-2001* (2003) 135.

¹³⁵ Ibid 135-136.

As it can be seen the Zambian government had very little choice but to accept the policy packages and prescriptions presented to it by the external donors. To show its commitment to the bilateral and multilateral donors: “In December 1991, president Chiluba called the largest international donors ... and declared that the Zambian government intended to re-establish its creditworthiness and international image by honouring the conditions laid down by the international finance institutions and bilateral donor governments”.¹³⁶

The MMD government was so eager to show its commitment to reforms that even the IMF was amazed by this strong determination. According to Hanson and Hentz “four years later [in 1991], the MMD was elected on a platform built on neoliberal policies, which was described as “too aggressive for even the IMF’s tastes”. In 1991, both the donors and the government described their relations as a ‘partnership’”.¹³⁷

Since the policy prescriptions demanded privatisation of the giant mining conglomerate, ‘among other sectors, privatisation of the ZCCM was therefore included in the MMD’s 1991 election manifesto. Kangwa elaborates on this issue and points out that:

Privatisation of ZCCM was therefore affected as part of an extensive programme of economic reform which began in 1991. The Privatisation Act was enacted in 1992 and the Zambian Privatisation Agency (ZPA) was established in January 1995. The Government, the International Monetary Fund (IMF) and the World Bank were the architects of structural Adjustment in Zambia. The architects of economic reform argued that in order for the mining industry in Zambia to compete in global market place and improve in social standards, the mines should be in private hands.¹³⁸

Although, the MMD government was now fully aware that privatisation of the ZCCM was a key condition for the much-needed aid, there were delays in implementing this programme. This issue was postponed to the very end of the second elections due to political reasons.

¹³⁶ Ibid

¹³⁷ M Hanson and J Hentz *Neocolonialism and Neoliberalism in South Africa and Zambia* (1999) 483.

¹³⁸ S Kangwa *Report on the privatisation of the Zambia Consolidated Copper Mines* (2001).

Due to lack of consensus on the issue of privatisation, even within the MMD cabinet, privatisation of the ZCCM was excluded in the government's original portfolio. It was only in 1996 that the government accepted the advice to begin the process of privatisation of the ZCCM... The decision to privatize was made during a fierce debate with the bilateral donors in the aftermath of the 1996 presidential and parliamentary elections.¹³⁹

Apart from reluctance from the government, public opinion is another important reason for postponement of overall privatisation. "The general hostility of the public has been based on fear of employee layoffs, price increases and the perception that the benefits and distributional impact of privatisation are long in coming."¹⁴⁰

According to Berthelemy, Kauffmann, Valfort and Wegner, the issue of postponement as its consequences, they state,

The reluctance of governments to sell companies in some vital sectors of the economy ... often resulted in neglect of the economic situation of SOEs, which became increasingly unproductive, inefficient, overstaffed and characterized by bad management and corruption. Postponement of privatisation accompanied by the deteriorating situation of some SOEs led to local and foreign investors to adopt a wait-and-see attitude, which ultimately exacerbated governments' difficulties in attracting potential investors.¹⁴¹

A summary provided by Raker provides a fair summary of the way the second Chiluba administration handled the privatisation process:

"In September 1997, The Kafue Consortium presents a bid to buy major ZCCM units. In February 1998, the government and Kafue Consortium were still failing to finalise the transaction agreement for the transfer of the main assets of ZCCM. [Failure to reach agreement forced] Kafue Consortium to withdraw from negotiations. In March 1998, Kafue Consortium presents a new and lower bid but the government again rejects this bid."

"In May 1998, Donors pledge US\$530 million for balance-of-payments support, but make disbursement contingent on the sale of ZCCM and governance issues. World bank also postpones its balance-of-payments support ...reflecting the postponement of ZCCM's privatisation."

"In March 1999, Anglo-American announces its intention to buy the major assets of ZCCM,[but it is only in] March 2000 that the sale of ZCCM [is] completed, prompting donors to release balance-of-payments support."¹⁴²

¹³⁹ L Raker *Political and Economic Liberalisation in Zambia 1991-2001* (2003) 77.

¹⁴⁰ J Berthelemy, C Kauffmann, M Valfort and L Wegner *Privatisation in Sub-Saharan Africa* 2004 121.

¹⁴¹ *Ibid* 120.

¹⁴² L Raker *Political and Economic Liberalisation in Zambia 1991-2001* (2003) 205-206.

general lack of capacity led to reversal of privatisation. They also state that strategic companies had to be nationalized, either because they proved to be unprofitable or because investors proved unable to comply with their contractual obligations.

In the case of Zambia, for instance the government renationalized Konkola Copper Mines (KCM), which accounts for about two-thirds of the country's copper production. KCM was sold in 2000 to the Anglo-American Corporation at a highly discounted price, mainly because of the obsolescence of the plant. After incurring substantial losses due to the inherited poor state of the plant, Anglo-American pulled out in 2002.¹⁴⁸

In earlier sections it was stated that the Zambian government moved to privatize the copper industry so as to attract local and foreign investment. In light of the uncertainties faced by the government due to the pull out of the major shareholder in the Konkola Copper Mines, one would therefore understand why the future of the copper industry looks very bleak

4.5 Social Impact of Privatising the ZCCM

Before the privatisation of the Zambia Consolidated Copper Mines (ZCCM), the community infrastructure and other support social services were all managed and maintained by the giant mining conglomerate.¹⁴⁹ These included services such as housing, health care, education, food, physical infrastructure etc to the community residing in the vicinity of the mines.

But following the privatisation of ZCCM and the mine-owned houses to mine workers some of the new workers of the mines stopped maintaining and managing the community infrastructure and support services.¹⁵⁰ The result of this was the accompanied withdrawal of the mining industry from the provision of support social services. Not only this but the privatisation of ZCCM also resulted in retrenchment/redundancies affecting standard of living of both former ZCCM employees and their dependents.

¹⁴⁸ J Berthelemy, C Kauffmann, M Valfort and L Wegner *Privatisation in Sub-Saharan Africa* (2004) 120.

¹⁴⁹ *Zambia Times* *Bakabomba Trust helping Chambishi residents* (200) 4.

¹⁵⁰ *Ibid.*

4.5.1 Retrenchments/Redundancies

With the final completion of the ZCCM privatisation, workers have been declared redundant while some have opted for retrenchment packages and this has contributed to the already existing high levels of unemployment in the country.

In the harsh economic climate that characterized the year 1999, retrenchment/redundancies were rocketing sky-high. With reference to figures in Table 1, by the end of 1999, a staggering total of 8, 329 employees were made redundant.

Table 4.1: ZCCM Redundancies – 1992 to 1999

Division	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	Total
Nchanga	4	0	0	152	569	0	0	638	1363
Mufulira	0	0	6	183	357	0	28	869	1443
Nkana	0	4	7	600	135	2	0	457	1205
Luanshya	3	8	0	457	228	0	0	0	696
Konkola	0	0	1	133	494	0	0	639	1267
Chibuluma	0	0	0	0	0	0	0	0	0
Kabwe	0	0	0	813	101	31	36	0	981
Nampundwe	0	0	0	138	52	0	0	0	190
NCR	0	0	0	0	0	0	0	108	108
Power	1	1	0	26	0	0	0	0	28
OPC/CSD	0	0	7	142	162	0	2	566	879
CHO	0	1	0	25	84	0	26	33	169
TOTAL	8	14	21	2669	2182	33	92	3310	8329

Source: Mineworkers Union of Zambia (MUZ), 2000.

Kangwa in his report on the privatization of Zambia Consolidated Copper Mines indicates the highlights of table 1. He states:

There have been three peak periods in the cycle of ZCCM redundancies. The first peak occurred in the 1994/95-budget year with a high figure of 2,669. This figure was mainly due to closure of Kabwe mine. This was then followed by a figure of 2,182 in the 1995/96-budget year. The redundancies then dropped to a low of 33 during 1996/97. This was an election year and as it was vital for the MMD government to win a second term, the negotiations for the sale of the Nkana/Nchanga package to the Kafue Consortium dragged

on with the consequence that no further redundancies could be effected until after the elections. This explains the modest rise in redundancies to 92 in the period immediately following the elections. The all-time high figure of 3,310 at the end of 1999 signaled the completion of sale negotiations for the remaining units.¹⁵¹

On a similar note, a study by Business Partners for Development, also indicate the changes in employment in Copperbelt Mines as a result of retrenchments. The figures below are a reflection of retrenchments that occurred after the government's decision to privatise the mining industry:

“Konkola:	4,637 (July 1998)
	2,972 (end of 2000)
Nchanga:	8,578 (July 1998)
	6,490 (end of 2000)
Nampundwe:	384 ((July 1998)
	293 (end of 2000)”, ¹⁵²

With reference to the figures above, between the years 1998 and the end of 2000, one can deduce that Nampundwe mine had the lowest retrenchments of 91. This was followed by The Konkola division were 1665 retrenchments occurred. The all-time high figure of 2088 occurred in the Nchanga division. Hence the total number of retrenchments on the Copperbelt Mines came to **3,844** between July 1998 and December 2000.

Kangwa takes note of the implications of these retrenchment programmes on the whole mining industry:

If it is assumed that each employee affected was responsible for the livelihoods of at least five other family members, this represents a total of 41,645 people that have been impacted by the retrenchments. This figure is roughly equivalent to the population of Kitwe, the largest town on the Copperbelt. The retrenched miners have not found alternative employment as there are no viable non-mining economic sectors. The majority are surviving on subsistence agriculture. This is having a secondary impact on the state forests which are under pressure for de-gazetting.¹⁵³

¹⁵¹ S Kangwa *Privatisation and Social Management* (2000).

¹⁵² Business Partners for Development (BPD) *Local Business Development, Zambia* (2002).

¹⁵³ S Kangwa *Privatisation and Social Management* (2000).

Privatisation of ZCCM has definitely resulted in large numbers of retrenchments/redundancies adversely affecting the standard of living, of not only the former employees of ZCCM, but also their dependents.

4.5.2 Cut-back in Provision of Social Services

The decision to privatise entailed the separation of ZCCM from the provision of social services. This has led to adverse implications for service delivery in the mining communities. Information collected and compiled from interviewees' responses indicate an abstract picture of the hardships experienced as a result of the drastic cut in social services.

In answer to the research question: "what are the disadvantages of privatisation of ZCCM" respondents pointed out to twenty-one social services that were formerly offered by ZCCM. Provided below is an outline of the twenty one social services, formerly offered by ZCCM, that were discontinued when ZCCM was privatized:

- Aids awareness and counseling;
- Provision of mine hospitals and clinics for mine employees. An implication of the discontinuation of this service has meant that people in need of medical and health care will go to the hospital or clinic in emergencies only;
- Provision of free ante natal facilities to pregnant spouses and families of mine employees;
- Provision and general maintenance of township roads and houses;
- Provision of free and subsidised clean water supplies to mine residents in the locations;
- Provision of garbage collection from employees' residential areas;
- Provision of free and subsidised electricity supplies;

- Provision of telecommunication facilities in the residential areas;
- Provision of primary and secondary education facilities in all mining towns;
- Provision of bursaries and scholarships to all deserving children of mine employees to study at secondary and tertiary institutions, locally and internationally;
- Provision of free and subsidised accommodation to all mine employees;
- Provision of kindergarten facilities for children of mine employees;
- Provision of interest free loans to mine employees;
- Provision of all expenses free annual holidays to senior mine employees;
- Sponsorship of sporting activities for mine employees and their children;
- Provision of free sporting facilities for mine employees and their children;
- Provision of mealie meal (the staple food-flour from maize grains) coupons to junior mine employees;
- Provision of free mine insurance cover for mine employees;
- Provision of professional skills training centres for mine employees;
- Provision of free adult literacy education for mine employees; and
- Provision of buses to transport employees to and from work free of charge.¹⁵⁴

Although the discontinuation of social services paints a very bleak picture, there is a light at the end of the tunnel. Of great significance is the government's deliberate decision to sell mine houses and non-core assets to Zambians. The effect that this action has had

¹⁵⁴ The information used to complete the 'discontinuation in the Provision of Social Services by ZCCM' came mainly from the respondents' answers to the "Questionnaire on the Zambia Privatisation Programme" through the Authors' interviews. Appendix 1 provides the questionnaire and appendix 2 provides a summary of informants.

on the individuals is that of empowerment. To own a house is a great achievement but because of lack of money, the condition of the houses dilapidate due to lack of maintenance.

According to a study by Kangwa, he states that at least “two companies have embarked on long-term sustainable social development programs. In the sale agreement, long-term sustainability of the local community was incorporated, but most mining companies have not come up with policies on social development”¹⁵⁵.

4.5 Summary of the Chapter

The Zambian government, solely dependent on an unpredictable roller coaster that is the world copper market and facing a debt burden of over \$6 billion, was in need of foreign aid. The only viable way to get this aid was through privatisation of its State-owned enterprises, more particularly the ZCCM.

It was not until March 2000 that the entire state-owned conglomerate and indisputably the dominant entity in Zambia’s economy - the ZCCM, had reached completion point in its privatisation. This agreement between the Zambian government and Anglo American Corporation resulted in a major landmark i.e. the privatisation of the entire ZCCM including its assets and the return of the mining industry to the private sector. The privatisation of the ZCCM also brought with its renewed confidence in the Zambian economy through the eyes of the bilateral and multilateral donors who were constantly pushing for the privatisation of the ZCCM.

But within Zambia, this sale was met with resentment and criticism as it was felt that the donors had exerted far too much pressure on the government to sell the mines quickly. As the government was in dire need of aid, Zambia had to accept an offer that was far less attractive than previous offers that it had refused in earlier bids. While the government was delaying accepting an offer to privatize, probably in the hope that it would get a

¹⁵⁵ S Kangwa *Privatisation and Social Management* (2000).

better offer, the international price of copper was also worsening. This, however, should not have been an excuse for moving the privatisation slowly, as the cost for delays turned out to be very high. By the time the government accepted Anglo American Corporation's offer, the price of copper was much lower and not to mention the terms of the sale. Although the government was aware of this, it was forced to accept the lower terms from Anglo American Corporation since this finalisation was the precondition to get balance of payment support.

The withdrawal of ZCCM from supporting municipal services, which included amenities such provision of treated & clean drinking water, sanitation & waste management disposal as well as other social benefits such as health care and education, has had adverse effects on the local mining communities. With the privatisation of the country's giant mining parastatal having reached its conclusion in the year 2000, large numbers of redundancies were inevitable. As a result, a staggering 8,329 people were made redundant as of December 1999. This total added to the already high unemployment figure has led to less-than-desired employment levels. Both these aspects of privatisation have brought serious hardship and a decline in social development of the local mining communities as well as the country as a whole.

CHAPTER 5: POSITIVE AND NEGATIVE OUTCOMES ARISING FROM PRIVATISATION

5.1 Introduction

From its inception until now, the Zambia privatisation programme has resulted in the transfer of over 260 State-Owned Enterprises (SOEs) and assets to the private sector. As to its success, the body of evidence reveals an ambivalent response.

On the one hand, there are those who have judged the Zambia privatisation programme as a failure. These negative sentiments have come from its citizens, civil servants, public sector workers, government, unions, etc, who see it as having been wrought with too many problems as compared to benefits. The privatisation process has led to riots and protracted political debate. This is evidenced in the quotes from various persons who in their statements reveal these negative sentiments:

“President Levy Mwanawasa has called on IMF not to force Zambia to complete the privatisation of key public firms. He said Zambia was not against privatisation per se, but the manner in which the exercise had been conducted. [Furthermore,] rather than benefiting Zambians, privatisation had contributed to high levels of poverty, loss of employment and asset stripping.”¹⁵⁶

“On 14 December 2002, thousands of people joined in a demonstration in the capital, Lusaka, to support the President’s decision, to oppose the IMF and call a halt to other privatisations ... [Also,] the President of Zambia’s Federation of Trade Unions (FFTUZ), Joyce Nonde, told the rally that “we do not see any need to privatise our vital institutions when have not taken stock of what happened in the past privatisation. She said implementation of privatisation policies had left many unemployed and that people were wallowing in poverty. Having privatised 80 per cent of our economy, why is it that we have become one of the poorest countries in Africa and the whole world?”¹⁵⁷

“Zambians are opposed to privatisation of the companies. The reason for this unease is the experience of the mess of privatisation. Take for instance, the privatisation of one of the big copper mines, KCM. After many concessions were made to Anglo-American, the company pulled out after barely a year. The government is now saddled with the task of finding new buyers yet again. In the mean time, 10 000 people will lose their livelihoods. Another mine that was privatised about four years ago is still unable to pay workers. The

¹⁵⁶ Times of Zambia *Zambia: IMF Urged to Understand privatisation concerns* (2003).

¹⁵⁷ World Development Movement (WDM) *States of Unrest III: resistance to IMF and World Bank in poor countries* (2003).

fund champions in the name of government, yet none of the ideals of governance – openness, accountability and participation – have been achieved in the privatisation process.”¹⁵⁸

On the other hand, they are those who have hailed the Zambia privatisation programme as the most successful by far on the African continent.

“The two Bretton Wood Institutions have hailed Zambia for what it calls a successful privatisation programme. In fact, the late finance Minister Ronald Penza was selected as one of the two best finance ministers in the world largely because of the rate at which he concluded the privatisation process.”¹⁵⁹

“The outcome however of our privatization process has been that we have had one of the most transparent, successful, far reaching and world acknowledged privatization cases. We have in less than seven years brought an economy which was 80% in the hands of the State to 180 degrees round to more than 80% in the private sector hands today [Speech by the former President of the Republic of Zambia, Mr. Frederick J.T. Chiluba].”¹⁶⁰

Similarly, a recent report of privatisation in Sub-Saharan Africa concludes that the response to and the results of privatisation have been mixed but the case of Zambia is a success story. The report quotes: “Zambia has the most successful privatisation program to date and the experience there offers many examples of best practice”.¹⁶¹

In the face of such diversity of opinion, this chapter takes as its central argument that while many positive aspects of privatisation exist there are also serious negative aspects that have been brought about by this phenomenon. It is therefore the inherent task of this chapter to reveal the outcomes, i.e., the positive and negative aspects, of the Zambia privatisation programme.

¹⁵⁸ M Akapelwa *The Fund or the People* (2003).

¹⁵⁹ Southern Africa Documentation and Cooperation Centre (SADOCC) *Discussion on Privatisation of remaining parastatals* (2002).

¹⁶⁰ Republic of Zambia, State House, Speech by the President of the Republic of Zambia, Mr. Frederick J.T. Chiluba, Monday, January 15, 2001.

¹⁶¹ O Campbell-White and A Bhatia *Commitment is what counts: The Progress of Privatization in Africa* (1996).

5.2 Criterion used in Assessing success of the Zambia privatisation programme

An area of constant discussion relates to the criteria used in assessing the success of Zambia's privatisation programme. The report on the "progress of privatisation in Sub-Saharan Africa" made the use of 8 indicators for assessing the measures and the reasons for the success of Zambia's privatisation programme. These indicators are summarized as follows:

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.¹⁶²

It is significant to note that government commitment is often used as a measure of the success of the Zambia privatisation programme. It is therefore not surprising that, based on the same indicators mentioned above, 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 private sector's role in the process and is 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: 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. ,
- transparency- the steps taken to inform the public about the program and to encourage maximum Zambian participation in the process [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. In no

¹⁶² World Bank *Privatisation in Africa: the Zambian Example* (1996).

other country in the Africa region has a government had the confidence to place complete responsibility for privatization in the hands of one entity.],

- the decisive steps to deal with constraints, notably by addressing the weak capital market and eliminating the influence of holding companies, and
- 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.¹⁶³

The article 'Privatisation: The Zambian Experience' charts in briefly on how the privatisation process initially started out slowly but eventually picked up to become one of the most successful cases in Africa. This article also attributes the success to government commitment and other factors. The article states:

Despite the initial teething problems, the programme has been tremendously successful and the World Bank and Stanford Research Institute have cited the Zambian privatization programme as the best in Africa. The success of the Zambian privatization programme is due to the unwavering commitment of Government, a rare political consensus and the dedication of the professionals working at the ZPA.¹⁶⁴

Similarly, Former President Chiluba also attributes the outcome of the Zambia privatisation programme to some of the 8 indicators mentioned above. He comments that it is due to these indicators that Zambia's privatisation programme was most successful, transparent, far reaching and worldly acclaimed cases of privatisation. In his speech, he makes reference to the election manifesto, statutory aspects of privatisation and steps taken to ensure transparency in the privatization process.

"In our 1991 Manifesto, the Movement for Multi-party Democracy (the MMD) outlined its principles of transforming the economy through the privatization of public and parastatal sector companies. Indeed when we assumed power, we embarked on this policy programme among many others.

In July 1992 we passed the Zambia Privatization Act, which created an independent board comprising various peoples from independent institutions and the Civil society. Members of the board are subject to approval by Parliament.

It also created the Zambia Privatization Agency (ZPA) to implement the programme. It set out open rules, where all companies were advertised in public media, and ensured that interested individuals in public office like Ministers published their interests publicly in the media. In short, our privatization process has been open and transparent to all. The

¹⁶³ World Bank *Privatisation in Africa: the Zambian Example* (1996).

¹⁶⁴ S. Cruickshank *Privatization: The Zambian Experience* (1998).

decisions as to who was awarded the bid or won was made by the independent board of the ZPA. As I speak today, some public officers won, some also failed.”¹⁶⁵

5.3 Outcomes of Privatisation

The privatisation process is acknowledged to have had a number of both positive and negative outcomes. But before, one can try to anticipate or determine these outcomes, it is very critical that the essence of privatisation i.e., objectives of privatisation are borne in mind. The objectives of the Zambia privatisation programme as listed by the Zambia Privatisation Agency are as follows:

- to scale down the Government's direct initiative in economic activities and correspondingly its administrative load
- to reduce its Government budgetary costs arising from subsidies and capital expenditure
- to promote competition and improve the efficiency of enterprise operations
- to encourage wide ownership of shares
- to promote the growth of capital markets
- to minimise the involvement of Government bureaucracy in enterprise operations
- to stimulate both local and foreign investment
- to promote new capital investment
- to derive capital incomes for the Treasury.¹⁶⁶

In the planning phase of privatisation over 150 companies, comprising of over 300 units, were scheduled for privatisation covering all sectors of business from trade to manufacturing, agriculture to services, retailing to tourism. A compilation of news on privatisation by Noah Ndumingu states to this effect: “There were over 150 state-Owned Enterprises (SOE’s) before the start of privatisation. However, some of these SOE’s were split up thus resulting in approximately 300 companies and units.”¹⁶⁷

As at 28 February 2005, the ZPA had successfully transferred “262 companies and units” into the hands of the private sector. Some of the few that are still pending transformation

¹⁶⁵ Republic of Zambia, State House, Speech by the President of the Republic of Zambia, Mr. Frederick J.T. Chiluba, Monday, January 15, 2001.

¹⁶⁶ Zambia Privatisation Agency (ZPA) *The privatisation Programme and the Zambia Privatisation Agency* (2005).

¹⁶⁷ N Ndumingu *Privatisation in Zambia: More on All you need to know about Privatization in Zambia* June/July (2000) 13.

into private hands are the following SOEs: “Zambia National Commercial Bank, Nitrogen Chemicals, Mukuba Hotel, Njanji Commuter Services Limited, Maamba Colliers Limited and Zambia State Insurance Corporation”.¹⁶⁸ Of the SOEs that are still pending privatisation, the Zambia Electricity Supply Corporation, the Zambia Telecommunication Corporation and the Zambia National Commercial Bank, are at present causing a series of debates and demonstrations to their privatisation for fear that the outcome will resemble that of past privatisations and also because these companies are considered too strategic to the Zambian economy.

Based on the objectives of privatisation stated above, the following were found to be some of the major outcomes of privatisation in Zambia.

5.3.1 Stimulation of foreign Investment

One of the major objectives of privatisation is to stimulate both local and foreign sector investment in the Zambian economy. In the need to stimulate private sector investment, government has come up with ways to entice investors to invest through the provision of several attractive incentives and measures, which would guarantee investment security in a liberalized economy. Listed below are some of the incentives Zambia offers to investors:

- A maximum of 3 percent personal income tax; tax for companies listed on the Lusaka Stock Exchange is also 30 percent compared to the normal 35 percent corporate tax;
- Tax of only 15 percent on the income from farming and non-traditional exports;
- Dividends from a rural enterprise exempt from tax for the first five years of operation;
- Wear and tear allowances of 50 percent per annum for the first two years on implements or machinery used for farming, tourism or manufacturing; and
- Capital expenditure on the growing of coffee, tea, bananas, citrus fruit or similar plants qualify for a development allowance of 10 percent for the first year of production.¹⁶⁹

“Foreign investment was at it’s lowest following the nationalization of the previously private owned companies by the previous government in the 70’s. Foreign investment

¹⁶⁸ Ibid

¹⁶⁹ Ibid.

could not flow to Zambia due to the non-conducive investment environment.”¹⁷⁰ It was for this reason that one of the paramount objectives of privatisation was to stimulate foreign investment and to promote new capital investment into privatised companies.

It is therefore interesting to note that privatization in Zambia has led to an influx of some of the most influential and well-established international investors. This group of investors also include the return of some the Foreign Investors who had left the shores of Zambia. Cruickshank provides testimony of this: “Importantly, privatization in Zambia has led to an influx of major international investors and these investors are a cross section of leading multinationals. There has also been a return of a host of leading international companies which have used privatization as a vehicle for re-entry.”¹⁷¹ Among the major investors considered to be the driving force behind major changes and increased flows of investment into Zambia are, namely

The Commonwealth Development Corporation of the United Kingdom (in agriculture and the cement industry); Premier Food group and Bonnita of South Africa (in food and dairy processing); Binani Industries of India (in the tea estates and in the mines); Phelps Dogde of the USA (in copper cable manufacturing); Herbo Herberigs BV of the Netherlands (in tourism); Taj Hotels of India (in the Hotel industry); African Plantations of Israel (in coffee growing and exports); and the Madhavani Group of Uganda (in clear beer and the Hotel Industry).¹⁷²

Since it is not an easy endeavor to attract foreign investment into the country, various measures were undertaken to ensure that investors were attracted to the Zambian market. One of these measures is that “Zambia has no foreign exchange restrictions, with statutory protection of investment and [investors have] the right to repatriate 100 percent of profits and dividends without any restrictions”.¹⁷³ In the words of Fundanga and Mwaba,

A critical element in any such measure are the removals of exchange controls. Investors who bring funds into the country want to be assured that they can take them out whenever they feel like doing so. Zambia guaranteed this with the initial liberalization measures

¹⁷⁰ N Ndumingu *More on: All you need to know about Privatization in Zambia* June/July (2000) 14.

¹⁷¹ S. Cruickshank *Privatization: The Zambian Experience* (1998).

¹⁷² S. Cruickshank *Privatization: The Zambian Experience* (1998).

¹⁷³ Y A Badat *Country Profile: Zambia* (2003).

taken in 1992. Other measures to attract foreign investors have included the investment Act (No. 19 of 1991) under which a number of incentives are offered to investors.¹⁷⁴

The measures taken to attract foreign investors have not come without their disadvantages. Among the major observations cited is relating to small investors. One such observation cited has been that

Small investors, especially from South Africa had been attracted to Zambia mainly because of its more liberal exchange control regulations compared to those obtaining in their home and neighboring countries. Some of them used short term high investments such as bringing into the country scarce consumer goods, selling the goods and then externalizing the proceeds to some third country.¹⁷⁵

Another of these negative observations cited is that relating to tax concessions awarded to investors in the short to medium-term. It has been observed that

“nearly all new mining companies have been awarded generous tax concessions for many years to come, and the resultant loss of revenue to the government means that a number of vital social sector expenditure plans will not be met. This is expected to remain so, at least in the short to medium-term period during which the mining tax concessions remain in force.”¹⁷⁶

One of the arguments against privatisation is that, privatisation of strategic industries such as the copper industry results in lesser government revenue. The fear that “government revenue will diminish as profits from copper sales are directed to the shareholders, many of whom, in the case of multinationals live abroad. Lower government revenue may mean lower government spending on education and health”.¹⁷⁷ This seems like a genuine fear in that the bulk of gains of privatisation might accrue to foreigners rather than nationals.

¹⁷⁴ C Fundanga and A Mwaba *Privatisation of Public Enterprises in Zambia: an Evaluation of Policies, Procedures and Experiences* (1997) 17.

¹⁷⁵ Ibid 18.

¹⁷⁶ KAIROS *Zambia : Failed Policies Deepen Misery* (2002).

¹⁷⁷ *Bized Theories: The arguments for and Against Privatisation*. Available from: <
<http://www.bized.ac.uk/virtual/dc/copper/theory/th15.htm>.

5.3.2 Zambian Participation in the Privatisation Programme

Of great importance to privatisation is achieving the objective of broader participation of the economy by its citizens. In order to facilitate public participation into the privatisation programme, “government set up the Lusaka Stock Exchange, which is operating well. A number of companies are now listed at the Lusaka Stock Exchange where they are raising capital for their companies”¹⁷⁸. There has been an increase in the level of Zambian participation in the economy.

This participation in the programme has been significant with a high number of management buyouts and Zambian led trade sales creating a new entrepreneurial class capable of protecting its own interests and resting comfortably with the foreign companies which have invested in the economy. Significantly, of 258 companies and units sold, over 60% have been sold to Zambian owned companies or Zambian individuals. A number of companies sold to Zambians have been sold on deferred payment terms as provided in the Privatization Act. The privatization programme has also created thousands of Zambian shareholders in various companies.¹⁷⁹

Recognizing that participation in the privatisation programme is the basis for sustainable economic growth, Zambia has taken great efforts to *facilitate* public participation. Of significance, are the efforts taken by the government to encourage participation by Zambians in the economy, these include:

the establishment of funds to encourage Zambian entrepreneurs to borrow e.g. \$45 million facility by the World Bank under the Ministry of Commerce, establishment of the Zambia Venture Capital Fund, allocation of government supply contracts to Zambians, providing selective tax incentives to foreign investors who include Zambian shareholders in their ventures, and by providing economic incentives to companies that utilize local suppliers.¹⁸⁰

According to post-privatisation figures, most of the sales in number terms were to Zambians, and these went mainly in the smaller-scale trading, service and agriculture sectors.

Out of a total of 254 units 83 were sold to foreigners, 28 as joint ventures between Zambians and foreigners, while 143 units were sold to Zambians. Over 90% of trade sector

¹⁷⁸ Y A Badat *Country Profile: Zambia* (2003).

¹⁷⁹ S. Cruickshank *Privatization: The Zambian Experience* (1998).

¹⁸⁰ *Ibid*

properties have been sold to Zambians. Further, thousands of non-core assets (housing) have also been sold to Zambians, mainly, at discounted prices.¹⁸¹

According to an article by the Zambia privatisation Agency the benefits as a result of privatisation, that is, in terms of Zambian participation are as follows:

- Employee share Ownership Programmes: Privatised companies have been, in some cases, required to implement Employee Share Ownership Schemes such as in all MBOs, Zambia Sugar, Chilanga Cement, BP Zambia;
- Non-core Assets: Zambians have benefited through the privatisation programme, largely through the sale of non-core assets such as parastatal residential houses. This has been one of the more effective methods of direct Zambian participation with residential properties sold to Zambian sitting tenants;
- Zambians have benefited through the provision of management, technical, and skill development to Zambian staff, by companies like Shoprite with their programme of training Zambian managers in their South Africa operations. [Examples of this are that of Zambia Sugar Company and Chilanga Cement], Zambia Sugar Company had a programme of attaching Zambian managers to their worldwide operations and Chilanga Cement also had similar arrangements through shareholders worldwide operations;
- Zambians have also continued to participate indirectly (not as shareholders) through programmes to promote and source goods and services locally wherever possible, as in the case of Shoprite, Lonrho/Dunavant Cotton Clark Cotton, Bonnita/Parmalat Zambia, Zambia Sugar Company, Lever Brothers and for ZCCM's successor companies where local business development programmes have been put in place. This in addition to the decision by privatised companies to out source the provision of support services such as food catering, cleaning services and workers transport directly to Zambian entrepreneurs; and
- Expanding Zambian small-holder agricultural schemes as in the cases of Zambia Sugar with 8,000 sugar out growers; Clark Cotton & Lonrho/Dunavant Cotton jointly have over 200,000 cotton out-growers. Bonnita/Parmalat Zambia are assisting dairy farmers in Southern, Copperbelt and Lusaka Provinces.¹⁸²

5.3.3 Job losses

If one were to reveal some of the negative outcomes of privatisation, among them would be unemployment. In the face of increasing poverty and other negative social consequences prevalent after the completion of the privatisation programme in Zambia, unemployment is one such factor needing mentioning. The restructuring of previously 'overstaffed' SOEs has led to redundancies, which in turn implies rising unemployment. The immediate impact of these redundancies has been adverse.

¹⁸¹ Zambia Privatisation Agency *Privatisation Programme in Zambia* (2003).

¹⁸² Zambia Privatisation Agency *Privatisation Programme in Zambia* (2003).

“Privatisation led to the loss of over 60 000 jobs in Zambia. Supporters of privatisation point out that some privatised parastatals have performed well and even increased the number of workers they employed. Some managed to improve conditions of service, but those were exceptions.”¹⁸³

Important to note is the large number of workers who were declared redundant whilst some opted for retrenchment packages following the final completion of the ZCCM privatisation. The end of 1999 made a staggering total of 8, 329 ZCCM employees redundant. Although this was a catastrophe, supporters of privatisation say that “long before privatisation, ZCCM had plans to retrench over 12,000 employees because it was over staffed. [But,] could not implement this exercise due to lack of funds”.¹⁸⁴

Apart from the apparent and visible signs of the large number of job losses, the consequences of job losses have been catastrophic.

In most cases, privatisation programmes increased the hardships for the poor. The worst consequences of privatisation in [Zambia] were the retrenchments of thousands of workers and worsening conditions of employment for those who were lucky enough to keep their jobs. Wages of workers support large families in urban and rural areas and retrenchments therefore lead to increased levels of poverty. This has always hit African women the hardest who have to shoulder the main burden of running the household, raising the children and looking after the sick and elderly.¹⁸⁵

Supporters of Privatisation have acknowledged that many people have lost their jobs in the process of privatisation. “Originally hailed as a success story, it was subsequently described as more problematic in terms of employment impact. It did lead to substantial lay-offs, especially in the copper mining sector, with great impact on the local economy.”¹⁸⁶ Supporters of privatisation, however argue that that retrenchments would have been underway had the companies remained under government control and that given the state of the SOEs, reduction of the workforce was inevitable. IRIN, a UN humanitarian information unit, citing a study presented by Zambia Privatisation Agency (ZPA) Chief Executive Andrew Chipwenda at an Economic Association of Zambia forum in Lusaka noted the following:

¹⁸³ H Jauch *The Big Debate – African Experiences* (2002).

¹⁸⁴ Zambia Privatisation Agency *Privatisation Programme in Zambia* (2003).

¹⁸⁵ H Jauch *The Big Debate – African Experiences* (2002).

¹⁸⁶ J Berthelemy, C Kauffmann, M Valfort and L Wegner *Privatisation in Sub-Saharan Africa* (2004) 78.

Of the total jobs lost, 50, 000 were attributable to companies closing after privatisation. However, Chipwenda said the programme had recorded more successes than failures, despite criticisms from trade unions and civil society groups and Zambia's difficult economic environment. [On employment, he argues] that 80 percent of the workers in most parastatals that have been privatised would have been retrenched had the companies remained in government hands. [Fortunately for] some state enterprises that closed have been resuscitated. [Moreover,] when privatisation started in 1992, most manufacturing companies were operating at a 30 percent capacity utilization, and a reduction in the workforce was inevitable to increase competitiveness and rationalize operations.¹⁸⁷

Comparisons made by Ndumingu of the Zambia Privatisation Department in the rate of unemployment before and after privatisation, reveal a somewhat positive outcome. Statistical figures based on the Republic of Zambia's Central Statistical Office Publications reveal that the rate of unemployment after privatisation is lower than it was before the start of privatisation. The percentage rate of unemployment (according to 2000 figures) before the start of privatisation process was '23.4%' of the total labour force [formal and informal employment]. But current rate of unemployment has dropped to approximately '12.7%'.¹⁸⁸

The general perception of privatisation is that it leads to job losses. Supporters of privatisation, however, have been trying to change this perception in the minds of people. They want for people to bear in mind job losses ought not be blamed entirely on privatisation. They also perceive the impact of privatisation to unemployment as being minimal and that some of these job losses were on a voluntary basis by employees who asked to be laid off. In addition, they add that although privatisation has led to job losses, it has however, contributed to job creation which would never have been possible had the SOE's remained under state control.

Privatisation contribution to unemployment has been minimal as minimal retrenchments have been registered at privatisation. For example, between 1992 and 1996, out of 60,000 formal sector jobs lost in Zambia only 6,000 were due to privatisation and out of these 6,000, 4,000 were on account of the state trade sector which had collapsed prior to privatisation. [Moreover,] Some of the jobs losses were voluntary by the workers. Privatisation has actually assisted reserve the jobs which could otherwise have been lost

¹⁸⁷ IRIN *Zambia: Privatisation under scrutiny* (2003).

¹⁸⁸ N Ndumingu *More on: All you need to know about Privatization in Zambia* June/July 2000 13.

had the SOE's not been privatised. Privatisation has also led to job creation especially in the agricultural sector.¹⁸⁹

5.3.4 Price Increases

Privatisation demands the removal of subsidies. The removal of subsidies is considered socially damaging as it has the effect of increases in prices. Stiglitz states: "The reduction of government subsidies leads to a rise in prices of basic goods and services".¹⁹⁰ The rapid rise in price of basic goods and services has been evidenced in Zambia.

Recent studies on privatisation in Zambia have shown that privatisation led to increases in price of services:

"Privatisation led to increases in the price of services. In Zambia, a privatised bus company dramatically increased the bus fares and closed down unprofitable - mostly rural - bus routes. As a result many Zambians now walk many kilometres to their workplaces and schools because they can no longer afford the bus fares or because the busses no longer service the areas where they live."¹⁹¹

Price increases has also affected the price of essential services such as health, education, water, etc

Another negative result of privatisation has been the increase in prices for essential services. Driven by mere profit motives, privatised SOEs usually waste no time to increase prices and to offer services only to those who can afford them. In a situation of mass poverty that exists in most African countries, this usually means that a large part of the population cannot pay for services and therefore does not receive them. In many cases privatised health and education services prevented people from going to hospitals or sending their children to school. They simply could no longer afford to do so. Even access to water and electricity was threatened as water and electricity cuts for those who were too poor to pay became a sad reality in several African countries.¹⁹²

Privatisation in power and water has also generally led to higher tariffs. Prior to privatisation, electricity and water tariffs were subsidised. But in the privatisation era, "many holders of concession and lease agreements have had to re-adjust tariffs to cost-recovering levels subsequent to privatisation. In many cases e.g. such as in Zambia, tariffs have been raised before the actual privatisation in order to reduce the companies' financing gap and to

¹⁸⁹ Ibid 13-14.

¹⁹⁰ J Stiglitz *Globalization and its Discontents* (2002) 30.

¹⁹¹ H Jauch *The Big Debate – African Experiences* (2002).

¹⁹² H Jauch *The Big Debate – African Experiences* (2002).

attract strategic buyers”.¹⁹³ Berthelemy et al, however, argue “despite the adverse impact of tariff increases, consumers have generally benefited from improvements in quality after privatisation. The reduction of distribution and transmission losses and the elimination of blackouts and brownouts appear to have more than offset increase in prices”¹⁹⁴.

Tying in with the point on the negative results of privatisation being the increase in prices for essential services, is the introduction of user fees. The introduction of user fees was part of privatisation and resulted in increased fees in health and education. As a result, these services have become unaffordable for the poor.

5.3.5 Fiscal Impact of Privatisation

One of the explicit objectives of privatisation was to reduce government budgetary costs arising from subsidies and capital expenditure. To justify this further Berthelemy et al state that several forces drove the need to privatise and budgetary concerns was among these forces.

The sale of assets was aimed at raising immediate revenue for the government and solving the inability of the state to finance needed expenditures on new investment and/or maintenance. Privatisation was also driven by the need to stop subsidizing SOEs in order to release resources for other pressing public expenditure and to overcome the poor performance of state-run utilities in terms of high costs, inadequate expansion of access to services for the poor and /or unreliable supply.¹⁹⁵

This, it was hoped would be done through proceeds generated from the sale of companies, and subsequently tax revenues from the expanded operations of the privatised firms. It was also anticipated that the elimination of subsidies and receipt in tax revenues would bring a substantial improvement in and increment to government revenue.

¹⁹³ J Berthelemy, C Kauffmann, M Valfort and L Wegner Privatisation in Sub-Saharan Africa (2004) 123.

¹⁹⁴ Ibid

¹⁹⁵ J Berthelemy et al Privatisation in Sub-Saharan Africa (2004) 119.

5.3.6 Proceeds From Privatisation

One of the objectives of privatisation was to raise immediate revenue for the government through the sale of assets. One would ask ‘How much money has been realized by the ZPA since the privatisation programme began.’ To answer this question, Fundanga and Mwaba provide the amounts of proceeds realized in 1995 and 1996: “Modest gains have been made in that direction. Total receipts from privatisation amounted to about USD 25 million in 1995 when the process started in earnest. By the end of 1996, the program had generated about USD 200 million”.¹⁹⁶

According to Berthelemy et al, the first privatisation took place in 1992. The total number of privatisations up to 2002 was 255 and of those pending as of March 2003 were 3 companies. More relevant to this section, “total proceeds from privatisation totaled US\$717.5 million”¹⁹⁷. Based on recent data, as at 31st January, 2004, that is according to the ZPA study, Zambia has earned

“Approximately US\$ 101 million plus K25.6bn cash has been raised from the sale of parastatals. This does not include proceeds from the sale of ZCCM. In addition, a further US\$150 million and K65 billion in liabilities have been assumed by purchasers. Approximately US\$300 million and K9 billion have been pledged as capital expenditure commitments.”¹⁹⁸

Important to note is the US \$990 million from the sale of mining assets such as Konkola Copper Mines. As mentioned earlier in the study, Anglo American, the new owners of the Konkola Mines, withdraw from this venture soon after it acquired it at US\$90 million, an amount that was reportedly three times less than its true value.

5.3.7 Elimination of Subsidies

For decades, the culture of subsidies was sustained by the large mineral incomes derived from the booming copper industry. These subsidies, ranging from housing, food (such as

¹⁹⁶ C Fundanga and A Mwaba *Privatisation of Public Enterprises in Zambia: an Evaluation of Policies, Procedures and Experiences* (1997) 17.

¹⁹⁷ J Berthelemy et al *Privatisation in Sub-Saharan Africa* (2004) 23.

¹⁹⁸ Zambia Privatisation Agency (ZPA) *The privatisation Programme and the Zambia Privatisation Agency* (2005).

maize) to fertilizer, eventually became a liability largely due to the experience of the two oil shocks in the 1970s, the dramatic fall in the international price of copper and a huge debt burden. With Zambia in extreme debt, the economy was not able to sustain the culture of subsidies during this era of “economic disruption and distinguished growth. The subsidies enjoyed by urban consumers had become broadly accepted entitlements, which the government could only remove at high political cost”.¹⁹⁹

Privatisation transactions are often “considered detrimental to the poor because they entail the elimination of subsidies to products and services needed by the poor, such as water, electricity and public transportation”. [The justification for elimination of subsidies is that,] when public money is saved through privatisation, this money may be made available to invest in poverty-targeted projects.²⁰⁰

Arguably it is said that not all subsidies to SOEs are geared to reduce poverty. The question here is ‘how can one say that subsidies are intended to assist the poor access goods and services when the people who have access to the services are those that comprise the richest part of the population?’ Examples of this are made:

In many instances, public enterprises have been used to secure rents to a relatively small clientele, offering either above-market wages or under-pricing for those with access. Indeed, the blanket nature of many subsidies makes them poorly targeted. Furthermore, even when significant rates of subsidies are applied on the official market, many poor people are forced to buy from secondary markets (because of lack of legal access, and the benefits of low official prices are also enjoyed by the rich.²⁰¹

On a more positive note, the revenues earned as a result of the elimination of subsidies have been substantial to Zambia’s deficit problem. Revenues from the privatization process which have “been boosted by the elimination of subsidies, and [subsequently] assisted the government to reduce the fiscal deficit to single digit levels in 1993 and cutting the primary deficit to close to zero in 1994”²⁰² have been substantial.

¹⁹⁹ A Bigsten and S Kayizzi-Mugerwa *The Political Economy of Policy Failure in Zambia* (2000) 6.

²⁰⁰ J Berthelemy et al *Privatisation in Sub-Saharan Africa* (2004) 121.

²⁰¹ *Ibid*, 122.

²⁰² C Fundanga and A Mwaba *Privatisation of Public Enterprises in Zambia: an Evaluation of Policies, Procedures and Experiences* (1997) 17.

The elimination of subsidies, apart from reducing the government deficit, has a positive effect social service delivery. The savings derived as a result of elimination of subsidies causes a ripple effect in that as the government deficit improves, it means more revenue to the budgetary allocation of social services such as health, education and so on.

5.3.8 Tax Revenues

Another visible result of privatization is the evidence of an expansion in the tax base as a result of more revenue from tax contributions of new private companies.

The tax base has now been widened with several profitable companies and government has higher revenues. The tax base is expanding under the leadership of the Minister of Finance and the new Zambia Revenue Authority. The VAT from the new business generated is being collected and is not being avoided and illegal smuggling of goods that distort the legitimate economy is being significantly reduced.²⁰³

There have been substantial fiscal benefits brought about by privatisation proceeds generated from sale of privatised companies and reduction of the massive subsidies which were previously granted to often lose-making SOEs, together with an increased tax base as privatised firms became profitable the revenues increased. Although these have improved the government's fiscal position, it is hoped that the government's fiscal position will improve even further with the successful privatisation of the remaining parastatals.

5.4 Resistance to Privatisation

Privatisation is still being promoted by the IMF and World Bank in Zambia, based on the same assumptions that “this policy will help them [governments] solve financial problems and inefficiency in parastatals. Local and foreign businesses usually push for the privatisation of profitable parastatals as investment possibilities with high returns”²⁰⁴. The Zambian government has therefore found itself, once again, in the predicament that it was in not so long ago – “to privatise or not to privatise”. With pressure mounting from

²⁰³ H Jauch The Big Privatisation Debate – African Experiences (2002).

²⁰⁴ Ibid.

the IMF and World Bank, the Zambian government is in a serious dilemma as to the privatisation of its remaining parastatal companies.

The privatisation of the remaining parastatals has generated a lot of controversy and media coverage from the public, trade unionists, IMF representatives and parliamentarians. Community organisations and especially trade unions have pointed to the negative social consequences of privatisation in Zambia. Trade unions in Zambia have even started to protest against further privatisation. Zambia's trade Union, the Federation of Trade Unions (FFTUZ), for example, staged a national demonstration on 14 December 2002, to demand an end to further privatisation, as it affects basic services and national infrastructure.

Apart from pressure from trade unionists at its neck, government must also heed the advice of the parliamentarians, who have called on government not to give-in to pressure from the IMF and World Bank. Government is therefore expected to move fast, to either privatise the country's three choicest utilities or heed the advice of the parliamentarians and trade unionists not to privatise. Although Government has expressed willingness to privatise ZAMTEL, ZESCO and ZNCB in the past, statements coming from its senior officials have been rather contradictory. While others have said it is not safe to privatise the three utilities, the voice of those calling for the disposing off has equally been strong. The following are some quotes by a few Zambian senior officials stating their dissatisfaction to further privatisation.

- In March 2002, Communications and Transport Deputy Minister Willie Nsanda said it was not safe to privatise Zamtel because it was the only mode of communication system that served citizens in and outside Zambia.
- And in the same month, Energy and Water Development Minister Kaunda Lembalemba maintained that Government would not privatise Zesco because it was the backbone of Zambia.
- Chipata MP Matthew Mwale said a clear message should be sent to the IMF and World Bank that the people of Zambia had rejected the sale of ZNCB, arguing that privatisation had failed and that the bank with 41 branches across Zambia was a strategic institution meant to serve the Zambian people.
- Mbala MP (MMD) Gaston Sichilima said Zambia had experienced enough lessons to stop privatisation and cited cases of investors taking away assets of sold companies to neighbouring countries.

- Munali MP Edith Nawakwi, said ZNCB was still profitable as it closed with over K600 billion deposits each day. The other MPs who supported the motion not to privatise included Kabushi MP Neddy Nzowa, Kawambwa MP Africa Chungu, Luena MP Chrispin Sibetta and Emmanuel Hachipuka.²⁰⁵

With pressure mounting on the Zambian Government from the IMF and World Bank as well as parliamentarians and trade unions on the other hand, it remains to be seen whether these strategic institutions will be privatised or not.

5.5 Summary of the Chapter

Through the Zambia Privatisation Agency, the Zambia privatisation process has resulted in the successful transfer of 262 assets and units to the private sector.

The World Bank has rated Zambia's privatisation as one of the most successful programmes on the entire African continent. The World Bank and many other studies undertaken to evaluate success rate of privatisation have used a criterion that makes use of 8 indicators. Among these indicators, is government commitment. The Zambian government has displayed genuine and sustained commitment to privatisation with the implementation of the Zambian Privatisation Agency, enactment of the Privatization Act, and transparency, as significant examples. It is mostly due commitment shown by government that the success of the Zambian privatisation programme ranks so high.

Of the visible outcomes of privatisation is that government has succeeded in improving its deficit position through the broadening of its tax base (owing primarily to tax revenues from profitable privatised companies) and those stemming from cuts in subsidies. Proceeds earned from the sale of SOEs assets can also be attributable to the increase in revenue.

Other visible areas of success as a result of privatization have been the benefits realized through capital investments that local and foreign investors have put in private

²⁰⁵ Southern Africa Documentation and Cooperation Centre (SADOCC) *Discussion on Privatisation of remaining parastatals* (2002).

companies. Of great importance is that the Zambian privatisation programme has been characterized by a large number of Zambians participating in the programme. Moreover, Zambia has witnessed an influx of foreign investors onto Zambian shores. In an effort to stimulate local and foreign investment, the government has undertaken measures that do not have regulations/restrictions and a number of attractive incentives so as to lure investors to contribute to private sector development. Apart from these capital investments, these new owners have contributed to the creation of jobs.

Outcomes of privatisation have not been limited to benefits and gains only, the impact of privatisation on social welfare must also be considered as well, as they have been catastrophic. The concern of the public, unions and some sections of government is that privatisation, despite its potential positive economic impact, has an adverse social impact. On 14 December 2002, for instance, when thousands of people demonstrated against privatisation and the thousands of job cuts, the ultimate question posed by the trade unions, which happen to be the most vehement opponents of privatisation, is whether 'privatisation has benefited the poor. After having privatised 80 per cent of the Zambian economy, privatisation had left many unemployed and a lot more of people wallowing in absolute poverty.

CHAPTER 6: FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.1 Overview

The purpose of this study has been to investigate the socio-economic impact of privatization in Zambia. Its primary goal is to assess the appropriateness of the role of privatisation in the development and growth in economies of African countries. In this study, Zambia is used as an example to assess the contributions of privatisation to the sustainable development of the economy.

During the development of this study, I have been drawing some explicit conclusions that were stated at the end of each chapter. A complete overview of the whole study is presented in the form of a combined series of the earlier statements and concluding remarks. There are now presented in the following sequence.

The first section of this chapter starts by providing summary by Zambia's background to Privatisation, posits implications of privatisation on the realization of human rights, a case study on the privatisation of the Zambia Consolidated Copper Mines and the outcomes of privatisation considering the positive and negative aspects of it. The second section provides the main findings. This chapter further draws conclusions about the findings and makes recommendations in the context of how best future privatisations can be improved on in the context of the lessons learnt in this study and also points direction to future research and practice. In essence, the major sections of this chapter summaries the results and discuss their implications.

6.2 Summary of the Study

The study addressed important and pertinent contextual issues of the investigation in five chapters and are summarised below:

6.2.1 Summary of chapter 1

The qualitative research approach was chosen as the appropriate method of collecting data. This study is informed by the historical background of Zambia's privatization programme. The problem was stated and the theoretical framework of the issues was presented. The research questions pertaining to the objectives of the Zambian privatization programme, whether the privatization process was executed according to the provisions of the Zambian Privatization Act of 1992 and 1996, how the outcomes of the privatization process are perceived by Zambians, social and economic consequences of privatisation programme and the human rights implications of the privatization programme, provided the rationale of the study. The significance of the study was justified. Finally, the chapter presented the delimitations and limitations to the study, the methodology and the organization of the chapters in this study.

6.2.2 Summary of chapter 2

Chapter 2 provided the background and rational for the privatisation programme. As a way of providing this background to the inception of the Zambia privatisation programme, the chapter provides a comprehensive overview to the history of the Zambia privatisation programme with a special focus on the reasons as to how and why Zambia came to a period in which privatisation seemed as the only viable option or solution to its problems.

As Zambia's economy never really recovered from the world recession in which it experienced a double shock following the dramatic decline in copper prices following the two oil increases of the 1970s, it has found itself in a debt crisis. The chapter takes note of the fact that given Zambia's high mineral dependence on copper it serves to explain the subsequent problems Zambia faced when the price of copper fell. Noted, as one of the failed attempts to restructure the economy is diversification of the agriculture sector, which left Zambia in a worse condition, as the loans used to fund this venture did not

materialise. In addition, huge borrowings were also used to sustain the survival of loss-making parastatals in which a large number of parastatals were consuming a lot of resources from the state in terms of investment requirements and subsidies whilst achieving a negative return to government, payments for debt-servicing, and the provision of basic social services. The result was that Zambia was now in a debt crisis.

Of great significant to this chapter is that the factors mentioned above that is global copper price collapse, oil shock of the mid-1970s, debt crisis, mismanagement & inefficiency of parastatals, and other factors such as disease and colonial neglect were noted as the reasons attributable to the state that the economy was in when the MMD government came to power in 1991. It states that the economy was characterized by huge budget deficits, a large external debt of US \$7 billion, infrastructural collapse, rampant inflation, no private sector investment and at this stage Zambia had already faced two decades of steady declines in per capita income.

The chapter indicates that its was due to this poor economic situation that the MMD government decided to embark on a privatisation programme with the intent of restructuring the failing economy through privatization of state-owned industries. It was at this stage that Zambia was led to the recognition of the need to minimize the role of government in the economy and to promote policies that seek to create a private sector led economy. Given these reasons MMD government went throttle with privatisation, which to them was seen as a 'damage control' exercise, to reverse a period of long standing extreme economic stress.

The chapter also looks at the role of the IMF/World Bank in the implementation of the Zambia privatisation programme, which according to them would be undertaken as part of the overall economic reform program mandated by them. This part of the chapter provides a review of the evolution of Structural Adjustment Programmes (SAPs) under the UNIP and MMD government.

6.2.3 Summary of chapter 3

This chapter deals with the economic, social and cultural rights, which includes the right to work, food, housing, health care, education and culture. In this chapter, the main argument put forward is that privatisation is attributable to massive violations of economic, social and civil rights in Zambia, that is among other factors. In order to justify this argument, reference was made to other international human rights instruments that Zambia is party to and to the Zambian Constitution, with specific reference to the government's stance on the justiciability of social, economic and cultural rights was used.

This chapter therefore shows how the implementation of the IMF/World's sponsored structural adjustment programme - particularly privatisation, has hampered the realisation of social, economic and cultural rights and the consequences of this thereof. This has been demonstrated in the severe attack on the right to work as a result of job losses, 'adequate standard of living including adequate food, clothing and housing, health and education right etc.

6.2.4 Summary of chapter 4

Chapter 4 provides a comprehensive overview of Zambia's road toward privatisation with particular emphasis on the privatisation of the giant mining industry, that is, that of the Zambia Consolidated Copper Mines. This chapter provides objective justifications for the reasons that invoked the Zambian government to embark on a road to privatisation of its mining industry. This chapter also shows how the IMF/World and the rest of the Donor community exerted undue influence on the Zambian government to privatise quickly, resulting in costly mistakes. Post-privatisation issues are also considered. Post-privatisation issues are with regards to the uncertainty experienced in the Zambian Copper Industry as a result of the withdrawal of Anglo-American Corporation from the Konkola Mines, flaws in the privatisation process that are attributable to the problems experienced in the mining industry today, and the social and economic impact of

privatising the ZCCM with particular reference to the withdrawal in the provision of social services by ZCCM and the mass unemployment as a result of redundancies/retrrenchments following the sale of the mines.

In summary of chapter 4 it was shown that as a result problems in the ZCCM, the government of Zambia realized that revitalization of the Zambian copper mining industry could only be achieved through restructuring involving private investments and participation. In essence privatisation of the ZCCM was seen as the only viable way to revitalise the loss-making industry and to attract the much needed investment.

Another reason for the privatisation of the ZCCM that was not ruled out is the influence that the IMF and World Bank had on Zambia. As relations between the UNIP government and the IMF & World Bank were in tartars, re-establishment of relations with these donors would be the newly elected party's (MMD) priority. Moreover, Zambia was in dire need of financial aid and the donors stated that disbursement of balance-of-payments support would be contingent to the sale of the ZCCM and governance issues. There were, however, delays in implementing this programme due to lack of consensus on the issue of privatisation within the MMD cabinet. It was only in 1996 that the MMD government accepted the advice from the donors to begin the process of privatisation of the ZCCM. This decision to privatize was made during a fierce debate with the bilateral donors in the aftermath of the 1996 presidential and parliamentary elections. As this balance-of-payments support was tied to privatisation of the ZCCM, Zambia had no choice but to accept the decision to privatise. It was only in March 2000 that the privatisation of the ZCCM reached its completion point.

As to the post-privatisation issues the chapter reviews the criticisms faced by the government. This refers to the manner in which the second Chiluba administration carried out the ZCCM privatisation process, which has been met by a lot of criticisms and resentment within Zambia. This is in reference to the deal with Anglo-American Corporation for the sale of Konkola Deep, Nchanga and Nampunde, which was regarded less advantageous as compared numerous offers turned down from Kafue Consortium.

In spite of these criticisms one ought to remember that Zambia had no money, the only way to get that money was through privatisation, which tied in brilliantly with privatisation. Another issue taken note of is that throughout the whole of the mid-1990s, the World Bank and the IMF was flashing this much-needed money to Zambia, the pressure exerted to privatise quickly drove Zambia to accept an offer that was relatively less advantageous than previous offers that were passed up in the hope of securing a better deal.

Finally the chapter touches on a very sensitive post-privatisation issue, that of the withdrawal in the provision of social services by the mining industry. The social and economic outcome of privatising the ZCCM has been a decline in the provision of basic social services that had been previously provided by ZCCM to the local mining communities. The decline of the provision of these essential basic benefits has not only affected ZCCM employees but also their dependents. The large number of ZCCM employees who were made redundant/retrenched has exacerbated this adversity. The effect that this has had on the already high unemployment rate is immense. Not forgetting the number of persons and their families who had previously depended on the mining industry for income.

6.2.5 Summary of chapter 5

The Zambia Privatisation Programme in, as much as it has brought with it positive outcomes in more ways than one, it is difficult to ignore that there have been negative outcome as well. In this scenario, it only made sense to include this in this study. This chapter therefore reveals both the positive and negative outcomes of the Zambia privatisation programme. Given that the Zambia privatisation programme has been hailed as the most successful by far in Africa, the chapter starts by touching on that area of constant discussion that which relates to the criterion used by many studies in assessing this success. Bearing in mind the objectives of privatising Zambia's State Owned Enterprises, the outcomes and subsequent consequences are demonstrated.

6.3 The Main Findings of the Study

As has already been indicated in subsequent conclusions, the study has found that the results of the overall privatization process in Zambia that is between 1991 and 2001 reveal a mixture of positive and negative outcomes.

6.3.1 Positive Outcomes of Privatisation

The positive outcomes can be summarised as follows:

As at 28 February 2005, the Zambia Privatisation Agency (ZPA) had successfully transferred 262 companies and units into the hands of the private sector, which it is said, are better equipped to run business than the public sector.

Privatisation of SOEs has contributed to the increased inflows in both local and foreign investment to the economy of Zambia. The Zambian economy has therefore attracted a number of foreign investors who are added advantage to the Zambian economy as they have brought with them new technologies and have placed Zambian business in foreign markets where they have become more competitive.

The programme has more than achieved the objective of broader participation by its citizens. This is evidenced by the increase in the level of Zambian participation in the economy. This has been possible through efforts by government to encourage individual Zambians and companies to participate in the privatization programme

Resultant advantages from privatization are the gains as a result of the elimination of subsidies. The savings derived from cuts in subsidies means that a bit more will be allocated to the provision to social services such as education and health.

The tax base has also widened as a result of the eruption of several profitable and efficient private companies. Taxes paid to government by these profitable newly

privatised companies is seen as a means of increasing government revenue and hence a reduction in government deficit.

The privatisation programme has resulted in the gain of substantial proceeds from the sale of 262 state-owned enterprises. This financial return is however, considered less because it appears to be less than the amount initially estimated.

Privatisation has contributed to the recreation of jobs and in cases where companies were close to liquidation, quick privatisation of these companies has saved a couple of jobs.

Of great significant are the thousands of Zambians who have become homeowners through the sale of parastatal houses at discount prices.

6.3.2 Negative Outcomes of Privatisation

While it is clear that many positive aspects of privatisation exist, there are also serious negative outcomes that have been evidenced as a result of privatisation of SOEs. To name but a few of these negative outcomes, the study provides them as follows:

Massive lay-offs have been a characteristic of privatization. The worst consequence of privatisation were the retrenchments of thousands of workers and worsening conditions of employment for those few who were lucky enough to keep their jobs. A consequence of retrenchments is the high levels of poverty. The opportunity cost of wages lost as a result of retrenchment is that the immediate and extended families residing in urban and rural areas who depended on that income have no other source of livelihood.

Subsequent to privatisation of the giant mining industry has been the withdrawal of the provision of social services by ZCCM. This has impacted very negatively on the lives of a lot of people. It is a double blow to an ex-miner. He/she has been hit twice: On one side it is the loss of income as a result of being retrenched and on the other, it is that the new private owners have brought an end to the provision of social services to the community.

The reality of this catastrophe is that the delivery of social services is only made available to those few who can afford it.

Privatisation has led to significant price increases in basic commodities and essential services. Already swimming in mass poverty, increases in prices have meant that the large part of the population cannot access services such as health, water and electricity because they cannot afford to pay for them.

The fact that Zambia has more liberal foreign exchange restrictions and investors are given the right to repatriate 100 percent of profits and dividends without any restrictions, makes Zambia prone to foreign investors but is not a benefit to the Zambian economy because all the profits earned are repatriated to the country of origin, leaving the economy in shambles, that is, in a situation worse than it was before privatization.

After a decade of continuous privatisations in various sectors of the economy, violations of human rights have been witnessed. Human rights violations have been felt throughout all levels and sectors of Zambian society, urban and rural. The ripple effects of privatisation on human rights have reverberated to contribute to one of the worst crises of health as well as other social benefits in the world. The standard of living for the majority of Zambian has not improved but has deteriorated tremendously. The discontinuation of the provision of social services by the mining industry to communities in mining areas has disproportionately hurt the poor through deep cuts in social programmes. The economic and social outcome of this has been the sharp decline in the realisation of economic, social and cultural rights for the majority of persons and their dependents who had previously relied on the mining industry for income and the provision of essential services.

Coupled with this, massive layoffs, elimination of subsidies, increase in prices of essential services have led to extreme hardships in the form of malnutrition and deepening poverty. The resultant effect is violation of certain rights such as the right to

work, life, human dignity, health, education, adequate housing etc. The state has the responsibility to respect, protect and fulfill human rights. This should not be compromised - not even at the expense of trying to achieve the dream of a successful privatization programme.

6.4 Conclusions of the Study

The conclusion of this study does not suggest in anyway that nationalization is better per se than private sector development, but it can be suggested as a matter of fact that there has been a negative impact on social welfare, particularly, on the poor as a result of privatisation. Moreover, privatisation has led to massive job losses and this increase has contributed to the already existing high levels of unemployment in the country and its consequences of social problems such as crime, HIV/AIDS etc. Despite the prevalence of job losses, supporters of privatisation argue that job losses should not be blamed entirely on privatisation, as plans for reduction of the workforce were inevitable subsequent to privatisation.

A fundamentally important overall conclusion from this study is that, while it is clear that privatisation has not had a positive impact on employment in terms of the large number of workers laid-off, constructing a realistic counterfact of what would have happened on employment had the government not re-vitalized the companies through privatisation, is extremely difficult to quantify.

Eventually, this study raises a couple of recommendations concerning possible solutions to some problems that maybe encountered in future privatisations. Some of the recommendations, like that dealing with the justifiability of economic, social and cultural rights, stem directly from the main arguments of the study and should be regarded as strong recommendations for immediate action. Other recommendations are more loose speculations about exceedingly complex and important matters; the intention for their presentation in this study is in order to stimulate debate and further research.

One of the recommendations is that this study ought to be used as a reference guide in that it provides an extensive account of the lessons learnt from the past ten years of privatisation. Such a guide should be made available to policy makers, politicians, International Organizations, developers, academics, bankers and the civil society. Access of this information can be used to improve privatisation methods for the companies that remain to be privatised, which happen to be among some of the largest and most strategic companies in Zambia. Particularly to government, the findings of this study should contribute to better policy framework for the ongoing privatisation programme. The findings should also guide the government in the accounting area of the proceeds from privatisation.

Moreover, the way forward to further privatisation has a considerable impact on public opinion. In order to win their approval, aspects of privatisation that they think should be improved upon, this is in the context of past privatisation experiences, should not be ignored. These would be the best people to use in assessing the degree to which privatisation has been successful and the obstacles they have faced, as they are the recipients of any changes as a result of privatisation. This entails putting the voice of the average Zambian at the core of decision-making as opposed to treating them as recipients, during the decision-making phases.

The inclusion of people at the community level, unions, International Organizations, politicians etc during the decision-making process is also an important aspect to the success of a privatisation programme. These groups of people will have direction, want direct benefit, and will help to drive the privatisation process in a thought-provoking and invigoration direction, during the decision-making phase as opposed to voicing their disapproval on after privatisation has been implemented in the form of strikes or marching.

There is need for further research to determine further the reasons for Zambia's dismal economic performance. This dismal record is despite the fact that Zambia is the only country in Africa to have privatized over 80 per cent of its assets, and yet the standard of living has not improved. If anything, the commitment to privatisation should be based on

pragmatic consideration for the upliftment of the standard of living of the many living in abject poverty.

Another critical issue that needs reviewing is for economic, social and cultural rights to be regarded as justiciable rights. The current constitution (1996) does not provide for any of these rights. Therefore, the Zambian legal system should be reviewed to recognize the justifiability of these rights so that victims of violations are able to lay a claim in the court of law for compensation or redress thereof.

Finally the contributions of the study are recommended to the policy makers:

- There is a need for a future policy on privatisation;
- Better accounting procedures from privatisation must be devised;
- Devise appropriate social policies to mitigate the negative consequences of privatisation; and
- Devise alternative employment strategies or retraining of the retrenches in new skills.

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APPENDIX 1: QUESTIONNAIRE

Phone: 031-2607888
Fax: 031-2607412
E-mail: kongwas@ukzn.ac.za

July 15, 2003

Dear Sir/Madam,

REF: QUESTIONNAIRE ON THE PRIVATISATION PROGRAMME IN ZAMBIA.

In order for this research to give a general understanding of privatization of ZCCM and the overall privatisation programme, it would be appreciated if you could offer your assistance in completing the attached questionnaire.

I thank you in advance for taking your valuable time on this questionnaire.

Yours faithfully

Susan Kongwa
Researcher

QUESTIONNAIRE

DATE:

PROFESSION:

PLEASE GIVE YOUR ANSWERS IN THE INDICATED SPACES OR ON A SEPARATE PAPER

1. What are the reasons that led to privatization of Zambia Consolidated Copper Mines (ZCCM)?
2. What are the advantages and disadvantages of privatisation?
3. What benefits have resulted from privatization of ZCCM?
4. State the failures experienced since the launch of the privatisation programme?
5. What are the social impacts of privatization of ZCCM?
6. What has been the impact of privatisation on the economy?
7. State how the withdrawal of the mining industry from the provision of many services (physical infrastructure, housing, health care, education, food) impacted on the lives of the Zambian community?
8. What are the human rights implications of the privatization programme undertaken in Zambia?
9. Generally, how would you classify the Zambian privatisation programme: successful or unsuccessful? Explain

Appendix 2: List of Interviewees

A sample of five respondents agreed to be interviewed. The five respondents who agreed to be interviewed represent a cross-section of the Zambia population mix: they are aged between 21 and 70; their professional background also confirm the diversity of this Zambian sample: two professional bankers; one development economist; one politician and one non-governmental organization official representing the Zambian lobby group. There are listed as follows:

Zambia National Commercial Bank [Anon.], Interview by author, 23 December 2003, Lusaka, Zambia.

ZCCM former employee [Anon.], Interview by author, 19-23 September 2005, Transkei, South Africa.

Bank of Zambia Employee [Anon.], Interview by author, 19-23 September 2005, Transkei, South Africa.

Zambia Privatisation agency Employee [Anon.], Interview by author, June 2004, Lusaka, Zambia.

Zambia Investment Centre [Anon.], Interview by author, January 2004, Lusaka, Zambia.