

**The Impact of Privatization on Employment, Firm Performance and General Economic
Situation in Zambia: Did Privatization Achieve the Government's intended Goals?**

By

KAITE McBride Brian

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfilment of the requirements

for the degree of

MASTER OF PUBLIC MANAGEMENT

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ABSTRACT

The Impact of Privatization on Employment, Firm Performance and General Economic Situation in Zambia: Did Privatization Achieve the Government's intended Goals?

By

KAITE McBride Brian

Privatization is the transfer of productive asset ownership and control from the public to the private sector and this transfer of assets can be total, partial or functionary. The underperforming parastatals coupled with the ailing economy in the 1970s triggered the need to privatize a number of state owned enterprises. This was seen to be the panacea of keeping the economy on track as prescribed by the classical economic theories that claim that the private sector is more efficient than the public sector. In Zambia, privatization was implemented following the establishment of the Zambia Privatization Act. This saw over three quarters of the state owned enterprises falling into private hands in order to revitalize the economy.

This study sought to establish the impact of privatisation on employment, firm performance, and the general economic situation in Zambia. The results of the study show that privatisation led to some relative improvements in the economy although the process was marred with irregularities and policy failures. For example, Mines on the Copperbelt Province were sold to foreign investors who managed to negotiate very cheap purchase prices and obtained a number of concessions that have deprived the government of huge sums of income through tax holidays and

other concessions. Similarly, many citizens have not directly benefitted from the privatisation programme because they were victims of job losses and the government did not put in place any safety nets for such people resulting in the programme having a negative social impact both in the short and long terms. In spite of these policy failures and considering the poor state of the economy prior to the privatisation exercise, the programme has scored some notable successes. For instance, the sale of Mines on the Copperbelt province saw a lot of positive developments taking place in terms of plant rehabilitation, new plants being opened up and so forth. Employment levels grew after privatization and production of copper and other minerals such as Cobalt increased to meaningful levels. Even with the privatization of banks such as Zanaco, success was the outcome. It, too, embarked on an expansion programme and introduced a number of facilities as such Xapit features and increased its ATMs countrywide, increased its workforce and paid huge sums in form of dividends to government. Both the mining and financial sectors had created positive levels of impact on variables such as firm performance, standard of living and employment. The mining sector alone made a contribution of 1.7% of the total labour force in 2012. In the same year, foreign direct investment as far as the mines were concerned stood at 86% with exports averaging 80% and government revenue standing at about 25%.

From the foregoing, the study has revealed overall that privatisation of SOEs is good for the economy of a country but is not the end in itself. There is need to have a good policy framework in place to support the exercise. In the same vein, the study revealed that other reform programmes can produce similar if not better results compared to privatisation. Countries like Korea and Japan have employed programmes that were aimed at improving the management of

SOE through restructuring and they produced far better results than what Zambia achieved through privatisation.

In view of the above, the study has made some recommendations aimed at redressing the challenges and failures noted in the privatisation programme in order to avoid similar pitfalls in the future. The paper recommends that rather than privatizing the remaining SOEs in Zambia, different policies of reforms to turn around underperforming SOEs should be adopted by the Zambian government. The paper also recommends that should the government decide to privatize the remaining SOEs, programs aimed at mitigating the negative social effects of privatisation should be drawn up to serve as safety nets for those affected. For example, a law should be passed which requires that employees are given entrepreneurial training before being laid off by the company after the privatisation program. This would prepare them to survive and earn income in the private sector even if they fail to find alternative jobs.

DEDICATION

This study is dedicated to my wife Racheal Koota Kaite. You have been an inspiration to me through your wisdom, hard work, your commitment, your love and sacrifice for me and our children. Darling, without you, I would not be what I am.

Thank you.

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ABBREVIATIONS

ATM.....	Automatic Teller Machine
FDI.....	Foreign Direct Investment
GDP.....	Gross Domestic Product
IMF.....	International Monetary Fund
MBO.....	Management Buy Out
SOE.....	State Owned Enterprise
USAID.....	United States Agency for International Development
ZAMTEL.....	Zambia Telecommunication
ZANACO.....	Zambia National Commercial Bank
ZESCO.....	Zambia Electricity Supply Corporation
ZIMCO.....	Zambia Industrial and Mining Corporation
ZPA.....	Zambia Privatisation Agency
ZCCM.....	Zambia Consolidated Copper Mining
ZRA.....	Zambia Revenue Authority

CHAPTER ONE

1.0 Introduction

Privatization has been advocated by most developed countries and embraced by many developing countries as a very important economic reform programme that can redress the economic challenges and inefficiencies faced by the public sectors the world over. The concept of privatization can generally be defined as the transfer of productive asset ownership and control from the public to the private sector. The transfer of assets can be total, partial or functionary, with the sale being implemented by methods such as private sales, leasing arrangements, employee buy outs and share issues (Fundanga & Mwaba, 1999). Privatization became so popular around the early 1980s when advanced countries like the United Kingdom started placing state owned enterprises into private hands by means of selling. This was based on the belief that high levels of efficiency characterize the private sector than the public sector and that if correctly applied, it fosters private investments and thus frees public resources for investment in infrastructure and social programmes. Later, developing countries embraced the notion of privatization, seeing it as one of the effective panaceas that could neutralize some serious economic challenges. Privatization now is a fundamental concept that has its share in many government policy statements as well as conditionalities from donors and international financial lending institutions. For instance, the World Bank and the IMF provide developmental packages that encourage developing countries to introduce policy reforms that emphasize economic liberalisation and privatization of state enterprises with a clear focus on market-oriented approaches and less government involvement.

Zambia is one of the many countries in the world that embarked on the privatization of public enterprises based on the neo-classical theory prescription for resolving the inherent inefficiencies

of public enterprises. The failing Zambian economy seen during the 1970s right up to the early 1990s predominantly blamed on the underperforming state owned enterprises that were incurring huge losses and relied heavily on government subsidies to remain afloat was the main reason for the Zambian government's decision to embark on the privatization program. Given the failure of State owned enterprises coupled with the deteriorating economy, privatization was advocated as the surest way of redressing the economic quandary that the country was in. However, it must be noted that as much as the Zambian government was keen to institute the privatization programme as a way to turn around the failing economy at the time, the international financial lending institutions and donors were the major force behind the government's decision to carry out the process in earnest (Craig, 1999). The Zambian privatization programme was actively initiated in 1992 with the establishment of the Zambia Privatization Agency (ZPA). At inception, a number of objectives of the programme were set forth. These were for instance, to reduce the costs of capital expenditure and subsidies from public funds, to promote the growth of capital markets, to promote competition and improve efficiency of enterprise operations, to scale down government's direct involvement in the operations of enterprises, to derive capital income for the treasury, to minimize state bureaucracy in enterprise operations, to stimulate both local and foreign investment, to encourage wide ownership of shares, to promote new capital investment and to reduce the administrative load associated with this direct involvement. The overall aim of these objectives was to improve firm performance with expectations of an overall improvement in the economy. Private investment was expected to create employment opportunities for the Zambian citizens leading to improved standard of living in the country.

Despite the privatization process being initiated in 1992 in Zambia which is over two decades ago, there is no agreement as to whether the privatization exercise has achieved its intended

goals. However well articulated and intentioned the aforesaid objectives were, the outcome of the privatization exercise has received mixed reviews. Studies that have been undertaken by scholars and organisations such as the African Development Bank and the World Bank, centering on this topic, have brought out different conclusions thereby triggering more doubts about the benefits of privatizing public enterprises leading to the prevailing gaps between the theoretical conceptualization of privatization and the empirical evidence. For instance, Cheelo and Munalula (2006) state that the theoretical basis for the privatization argument is that in general, the transfer of property from public sector to private sector hands leads to different structure of management incentives, firm performance, and quality of service. However, Laffont and Tirole (1993) argue that theory alone is unlikely to be conclusive with respect to adequately exposing the impact of privatization. In the case of Zambia, there is no comprehensive empirical evidence of its impact on employment, firm performance and general economic situation. Empirical evaluation is therefore necessary for providing an appreciation of the economic changes ascribable to privatization. This study therefore seeks to address this gap by explaining the impact of privatization on employment, firm performance and the general economic situation in Zambia between 1993 and 2013.

1.1 Problem Statement

Notwithstanding the claim by the neo classical school of thought that privatisation is the panacea to the economic ills necessitated by high levels of inefficiency of SOEs, there exists very reasonable disagreements in terms of what privatisation has been able to achieve in countries where it has been implemented. In Zambia for instance, privatisation has been hailed as a success story by the World Bank and the IMF and it is said to have achieved most of the set economic

goals while some quarters of the country claim that, infact, it has brought more harm than good to the economy based on its negative impact on employment, performance of selected firms and the general economic situation in the country (Sharife, 2009). It is against this background that this study seeks to establish the impact of privatisation on employment, firm performance and the general economic situation in Zambia. The question that needs to be answered is: has privatisation of SOEs achieved the government's set goals with respect to employment, firm performance and general economic situation in Zambia?

1.2 Purpose of the study

The purpose of this study is to find out if privatization of state owned enterprises in Zambia has had a positive impact on employment, firm performance and the general economic situation in the country.

1.3 Research objectives

The following are the specific objectives that this paper sought to achieve:

- ❖ To determine whether the privatization programme in Zambia has achieved the government's intended goals as outlined at its inception.
- ❖ To establish whether the privatization programme has led to job creation in Zambia.
- ❖ To explain the impact of privatization on firm performance in Zambia.
- ❖ To find out the impact of the privatization programme on the general economic situation in Zambia.
- ❖ To draw lessons from the privatization exercise in Zambia for future policy direction with regards to policy implications.

1.4 Research questions

In attempting to establish the impact of privatization of state owned enterprises in Zambia on employment, firm performance and general economic situation, the following questions were asked:

- ❖ Has the privatization exercise led to increased levels of employment in Zambia?
- ❖ Have the people of Zambia benefited directly or indirectly from the privatization programme with respect to their standard of living?
- ❖ What is the impact of privatization on firm performance in Zambia?

1.5 Hypothesis

This research examines the hypotheses that:

- ❖ Privatization leads to improved firm performance in terms of efficiency and profitability.
- ❖ Privatization leads to higher employment levels.
- ❖ Privatization leads to improved economic performance of the country and subsequently improved standard of living for the citizens.

1.6 Thesis Statement

As already pointed out, the theoretical arguments as well as the advocates of privatisation, share the view that privatisation leads to improved firm performance, increased employment levels and overall economic performance due to the inherent efficiency of the private sector. On the basis of the evidence that will be presented, I will argue, however, that the privatisation process may not necessarily produce the results as claimed by the theorists and advocates of privatisation.

Government policy, speed or pace of the privatisation process and capacity of the officials involved in the process are key the success or failure of the programme. By means of case studies conducted in Zambia in the mining and banking sectors, I will try to map out the current ambiguities existing in the results of the privatisation programme.

1.7 Data Collection and Methods

To adequately achieve the objectives of the study, an in-depth analysis of the impact of privatization in Zambia was carried out. Secondary data from relevant literature on privatization (i.e. books, journals, policy papers and other relevant sources) was consulted. The data was analysed both qualitatively and quantitatively.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature that was reviewed on the subject of this research. The primary aim of this literature review was to analyse what has been researched in relation to the impact of privatization on firm performance, employment and the general economic situation in the world in general and Zambia in particular. This has provided a profound insight into the topic and will facilitate the interpretation of the findings. The source of this literature includes books, academic journals, scholarly papers, relevant organizational websites and reports of specific institutions.

2.2 Theoretical framework

The theoretical basis for privatization is anchored on two fundamental claims provided by a couple of theories which includes the property rights theory and the Coase Theorem. The two fundamental arguments are “individual rationality” and “minimum role of the state in the market”. Based on the two aforesaid arguments, the assumption by classical economic theorists is that human beings are rational beings who are calculative and invariably endeavour to maximize their gains in any transaction and that the state’s role in an economy ought to be limited to providing an enabling environment. These assumptions are key to the claims advanced by advocates of capitalism (and privatization). According to Sturdivant (1994), he states that the relationship between these two assumptions led classical economists to believe that if all artificial barriers to economic behaviour are removed (e.g., tariffs, monopolies and wage

controls) labour, capital and natural resources will all seek their most profitable and efficient employment; thus rational persons seeking their own economic interest without interference from government or monopolies who enjoy “unnatural” powers in the market place, will create wealth and this wealth will benefit others. The essential elements of capitalism that flow from these assumptions are: private property, economic incentive in the form of a profit motive, a free market system and political and economic freedom.

From the aforementioned assumptions, privatization advocates claim that there is need to privatize state enterprises with the sole purpose of enabling a country to achieve economic gains. The notion that levels of efficiency in the private and public sectors are different with the former enjoying the advantage is quite compelling and certainly not new. In 1776, Adam Smith wrote: *“In every great monarchy in Europe the sale of the crown lands would produce a very large sum of money which, if applied to the payments of the public debts, would deliver from mortgage much greater revenue than any which those lands have ever afforded to the crown. When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated”* (Smith 1776). The systems or means via which those improvements in efficiency would come about, however and the basis on which the government's financial health would essentially improve were not clear for a long period of time.

A theoretical body elucidating the supremacy associated with private ownership as compared to public ownership has fully emerged with the economic claims banking on a number of hypotheses about the relationship between ownership, management incentives and market structure on the one hand and performance on the other. One argument that can be advanced is

that privatization leads to an improvement in production and efficiency. The bottom line is that, as far as public ownership is concerned, enterprises do not run on a commercial basis and so the objectives to achieve are non commercial. In addition, these enterprises tend to maximize employment as well as pursue investment choices that lack economical value. As a result, the reality tends to be that there is lack of consistency with these activities as far as good performance is concerned which often paves way for poor managerial supervision. The opposite about private ownership tends to be true. The objectives in the private sector are profit oriented and performance in this sector tends to be high especially coupled with effective forms of incentives compared to the public sector. This is the foremost claim for privatization in terms of efficiency: the swap from public to private ownership resulting in the espousal of more exact and measurable objectives on the part of the owners which lead to a creation of a better environment including incentives to monitor and control management more effectively (Adams, 1993).

What should be noted is that, under private ownership, the long term sustainability of firms hinges predominantly on their viability and if this viability loses strength, the firm's resources will be reallocated by the market to other uses. This is differentiated with the underperforming State Owned Enterprises which are sustained by say subsidies, access to cheap credit, preferential treatment by means of allocation of scarce resources such as foreign exchange and political and other non-economic pressures. This works well in keeping underperforming firms afloat but it is a drain on the government's resources. According to Fundanga & Mwaba, (1999), this problem is further compounded through inducement of fiscal deficits and increased external borrowing, which feeds the unsustainable external debt of most countries especially in Africa.

2.2.1 Property Rights Theory

Latching on the notion of property rights can help know the theoretical framework behind the idea of privatization. According to Mankiw (2001), it is of paramount importance for any society to embrace efficient ways in as far as dealing with a number of transactions taking place in a specialized economy is concerned if it is to develop an expanded, specialized market system. It should be noted that low transaction costs drive a society's specialization and allocation of resources which are dictated by prices in market economies. Markets with high levels of competition do see a number of business deals effectively dictated by market prices and these heavily bank on well defined property rights. De Soto underpins the claim by elucidating that, "to be traded in expanded markets, property rights must be 'formalized', in other words, embodied in universally obtainable, standardized instruments of exchange that are registered in a central system governed by legal rules" (1996). In fact, De Soto argues that, without formal property rights, it is difficult for developing countries to be able to achieve long term sustainable growth.

De Soto (1996) further states that there is bound to be a limitation on goods and services to be traded in the market if property rights are missing. By implication, a well defined property rights is able to form good individual inducements which are an indispensable factor in the quest for sustainable growth. Through generation of good inducements, certainty and security surrounding prospective investment(s) are high amongst individuals and this leads to increased investment. By creating strong incentives, property rights lead to an increase in investment given that people are sure and secure about the ownership of their property. Moreover, there tends to be increased access to credit which enables people to offer titles as collateral for loans, ultimately leading to

an increase in investment. Lastly, it can be said that the property rights do drive or stimulate people to achieve long term economic goals. De Soto further asserts that where a person has a fixed asset such as land, whose ownership is secure and well defined, he/she will efficiently invest in it.

2.2.2 Coase Theorem.

Another key feature of privatization, which is said to play an indispensable role in the enhancement of efficiency, is embodied in the Coase Theorem. According to the theorist, Ronald Coase, he states that difficulties induced by externalities are effectively solved by the private sector via forms of tactical bargaining driven by individual incentives. This theory states that, with the cost-benefit analysis, there is direct/indirect participation by individuals and that this helps to arrive at efficient solutions (Mankiw, 2001). The efficiency is greatly enhanced if the legal system plays a crucial role to come up with rights that empower the private sector to diffuse externality problems using effective solutions. Furthermore, where bargaining parties are from the private sector, there is a good possibility of achieving a Pareto optimal solution. From the perspective of privatization, the Coase Theorem Issues in Political Economy, Vol. 14, August 2005 implies that there tends to be an increase in market effectiveness as far as dealing with numerous externalities is concerned when ownership of assets is in private hands (Medema and Zerbe, 1999).

The theoretical assumptions in support of privatization based on the property rights theory and the Coase Theorem are quite compelling to the extent that many countries, especially in the developing world, do not ask whether they should privatize but how and when they should do it.

Privatization is believed to be a panacea to the economic ills of the underperforming public enterprises. Besides the willingness to pursue privatization as a means to address inefficiencies of the public enterprises, the World Bank, IMF and donor countries also put pressure on developing countries to adopt the programme as an urgent matter.

2.3 Historical Perspective of Privatization.

According to Boorsma (1994), economic activities were dominantly handled by the state during the period 1960 to 1980. Nellis and Kikeri (1989) also stated that this was done for the simple reason that it was deemed to result in high employment levels, friendly environment for good investment and that price for goods and services offered would be controlled. However, increased role of the state in economic matters/activities after the 1980s brought with it undesirable results such as fiscal deficit and foreign debt (Seock, 2005). According to Guislain (1997), he stated that a number of state owned enterprises did underperform as they were inefficient while a few managed to do well in terms of performance.

It would be interesting to know that developed countries such as the United States of America and Britain decided to embrace or adopt privatization programs in order to deal with the high inefficiencies of State owned enterprises. The results of the privatization programmes especially in Britain were largely successful. The project became a dominant strategy in most developed countries as a way of neutralizing the problems presented by the underperforming state owned enterprises while at the same time reducing the role of the state as a major player in fundamental economic activities. Consequently, privatization was aligned with the Bretton Wood Institutions (i.e. IMF and World Bank) as a prescription for economic development in both the developed and developing countries.

Basing on the fact that privatization worked in Britain and other developed countries, that it was a success, least developed countries began to see it as a way of extricating them from the shackles of poverty. Eventually, these countries began to adopt such programmes although in most instances, international lending institutions had influential roles to play prior to implementation of the programme. Economic liberalisation and privatization (albeit with conditions attached) was prescribed as an effective remedy to the economies not doing fine in developing countries brought to the fore predominantly by the inefficiencies and underperformance of State owned enterprises. In Africa for instance, developmental aid from lending institutions such as the International Monetary Fund would only come after such needy countries embarked on privatization. This programme was, in essence, a pre-condition for receiving such aid (Fundanga & Mwaba, 1999). Although success on privatization has been scored in the western world; results for Africa have not been generally impressive. Some empirical evidence suggests that privatization has not really achieved the intended goals in Africa and this was underpinned by a number of scholars such as Kumssa (1996) who argues that, unlike what policy makers make of it, privatization has not worked to the expectation of Sub-Saharan African countries.

2.4 Dominant Arguments on Privatization.

The mixed results of the privatization programme in different countries has given rise to a debate on the benefits of privatization with one school of thought arguing for the programme while another group arguing against it.

2.4.1 Motives and Arguments for Privatization

Any country that embarks on the privatization programme undoubtedly has attainment of economic benefits as a prime objective regardless of whether such a strategic move is driven by external forces or is a local initiative. What any sound government craves is generation of additional state revenue apart from upholding economic efficiency while at the same time, ensuring that employment levels remain undisturbed as it reduces its influential role in the management of enterprises. According to Megginson et al (1994), the government also has other objectives, in light of privatization, such as the introduction of the needed competition in the private sector through economic liberalization, subjecting all privatized public enterprises to market discipline, developing capital markets and attracting national and foreign investors. By achieving these goals, the implication is that any government is in a position to save money which would otherwise have been spent on subsidies and this greatly helps in achieving political and social stability through a more balanced allocation of resources. Moreover, there will be more economic growth and new opportunities will be created with respect to employment. Makalou (1999) stated that what tends to be anticipated are a number of factors such as a rise in investment levels, introduction of new technology, goods and services going at relatively low prices, increase in employment levels with increased pay, greater output, low taxation levels, effective corporate governance and financial benefits. In addition, governments aim at obtaining a maximum output from scarce resources and reducing poverty.

Further, the other less focused aim of privatization is that it helps governments reduce their size based on the notion that a number of governments have become too large thereby triggering an unnecessary increase in bureaucratic levels. Therefore, a number of countries see it fit to adopt

the privatization programme in order to restructure so as to enhance efficiency. As has been stated in the objectives above that by privatizing, the role of the government in the economy is reduced, thus there is less chance for it to negatively impact the economy (Poole, 1996). And like it has been stated above also, privatization is equally deemed to have a positive secondary effect on a country's fiscal situation. In view of this, governments ought not to use it to finance their new expenditures and pay off future debts. The idea is that privatization should make it possible for countries to pay part of their existing debt, thus reducing interest rates and raising the level of investment. When a government restructures itself, the expected end results are that total expenditure undoubtedly goes down and it (government) begins to collect taxes from all privatized businesses. This process can help bring an end to a vicious cycle of over-borrowing and continuous increase of the national debt (Ibid).

2.4.2 Arguments against Privatization

From the theoretical assumptions and reviews above on privatization and its benefits, it is clear that the advocates of privatization believe that privatization is an effective remedy in addressing the poor performance and inefficiencies associated with the public enterprises. However, other scholars have been critical of the programme.

Advocates against privatization such as Wortzel and Wortzel (1989) argue that public enterprises do have an acceptable level of performance and that there are a number of them that actually perform quite well, for example, those in Brazil and Korea. It all goes down to good management, not just looking at it from the type of ownership if it is private or public. Important measures in this respect are inducing a stimulating organizational culture as is pointed out by

Schwartz & Davis (1981), appointing good managers as observed by Vernon(1984), designing effective control systems as stated by Ramamurti(1987) and formulating attractive incentive schemes as Aharoni(1981). These are crucial to achieving organizational success. Research work on ownership transfer reveals that privatization alone is no guarantee for increased productivity or cost reduction.

Mittleman (1994) claims that privatization and the market forces imposed on Sub Sahara African countries have not lived up to their expectations in terms of stimulating desired economic growth and reducing poverty. Take Zambia, for instance, it is indisputable, according to him that the country's poverty has not only exacerbated but has also been accompanied by a wide income gap between the rich and the poor. He further turns down the concept that democracy and privatization are parallel. He posits that if democracy is taken to imply social equity and fair distribution of income and empowering the poor, then privatization is not the answer. In the same vein, Kumssa (1996) argues that the successes scored in countries such as South Korea, Japan and other Asian tigers cannot be used as basis for advocating for privatization in Africa because these countries were able to manage these programmes effectively using strong state intervention in the economy and sub-division of the important sectors of their economy to give them an edge in international competition. Given the above, Kumssa wonders why some policy makers do not think outside the box when evidence is overwhelming that privatization has no real or observable impact in Sub-Saharan Africa as has been seen in Asian countries. He also makes it clear that, unlike in Africa, just a few public enterprises in developing Asian countries have been privatized. According to him, these are growing economies in Asia's developing countries.

It may also be interesting to learn that even countries that led the way in privatizing and thus used as good basis for success stories have had unparalleled outcomes as far as empirical evidence is concerned. According to Wright *et al.* (1993) privatization has had a meaningful impact on variables such as firm performance through what is usually termed as management buy-out practices. However, other studies have brought out a rather uninteresting picture; that privatization policies have led to ‘unplanned’ transfer of public wealth into private hands thereby triggering widened income distribution in the country. A typical example is one study conducted by Shaoul (1997) on the privatization of the provision of water. His study revealed that, unlike what the government was anticipating following the implementation of the programme, it did not achieve any efficiency gains. In fact, the programme compounded the already worse situation by resulting in lost jobs, consumer prices going up and the infrastructure worsened. Another study conducted by Arnold & Cooper (1999) revealed that following the sale of a port by the British government, only £ 13,1 million was realized from this sale. This seemed to make sense in the short term for the government. However, the port was later resold for a record fee of £ 103,7 million. Those who mainly gained from this business deal were the managing directors and the banks that financed the buy-out. The public lost out looking at the huge difference in the sales.

It is quite clear from the arguments for and against privatization highlighted above that the impact of privatization varies according to different countries or contexts. It is therefore important to have a fuller contextual understanding of privatization in Zambia before one can appreciate its impact on the economy.

2.5 Privatization in Zambia

The privatization programme in Zambia can be traced back to 1992 following an unfavourable period of a run down in the country's economy that saw a number of state owned enterprises making huge losses and bringing about unnecessary debts for the country. The situation had become so unhealthy for the country and quick measures had to be taken to arrest the problem. This led the government to adopt the privatization programme as it was deemed to be the most viable panacea in improving the economy.

In order to appreciate the designed policies of privatization by the government of the republic of Zambia, perhaps it would be imperative to take a closer look at the background surrounding the creation of state owned enterprises. Note also that these state enterprises differ to an extent in terms of the objectives to achieve, their legal form and even their origin. However, according to Craig (1999), they may be collectively defined as businesses in which a state, directly or indirectly, owns a controlling interest. When Zambia attained its independence from Britain in 1964, she took over a predominantly copper-dependent economy which was foreign dominated with high dependence on imports. This foreign dominion of the economy was triggered or induced by policies of segregation designed to favour colonialists rather than the local citizens. During the period between 1964 and 1969, the economy was dictated by the private sector enterprises operating under the free market conditions and due to high Copper revenues, the economy remained relatively strong.

Thus the country recorded an economic boom which predominantly benefited the foreign owned enterprises and in light of good production output and higher Copper prices, the Zambian

economy attained growth rates averaging 2% and 3.4% between 1965 and 1970 and 1970 and 1975 respectively. According to McGrath and Whiteside (1989), the economic boom was made possible by an increase in copper prices which further led to an increase in copper related fiscal revenue to virtually 25% of the country's Gross Domestic Product. From all accounts, there was a recorded positive change standing at an average of 31% between 1965 and 1974. This was a change in the national welfare with Gross Domestic investment as a percentage of nominal GDP. In addition, Kani (1996) stated that during the same period, gross domestic savings as a percentage of the nominal Gross Domestic Product averaged 42.5%. It is assumed that with such favourable levels of fiscal revenue, it would have led to a fairly free flow of increased levels of public investment in social and economic infrastructure. The opposite happened. Foreign entrepreneurs neglected the notion or concept of using part of their profits to invest in the development and re-development of their business. Instead, these profits exited the country thereby denying the government the needed revenue to grow the economy. This had devastating repercussions. For instance, such a selfish move by foreign investors, according to Kaunda (1968) resulted in gross under-capitalization, unwarranted local borrowing and virtually 100% increase in foreign exchange expenditure on invisibles.

In the wake of government's resolve to initiate economic reforms (Mulungushi Reforms), the year 1968 witnessed a paradigm shift from a market-based economy to a command one. In other words, this year saw the nationalization of a number of major enterprises resulting in the state assuming 51 per cent ownership in some 25 firms that were mainly in construction, manufacturing and transport distribution sectors. According to Craig (1999), by leaps and bounds, the aforementioned reforms were ensued by what were known as Matero Reforms in 1969 which

evidenced the taking over of mines by the government. After the aforesaid economic reform programmes, the government had slightly over 80% of state owned enterprises to manage at its disposal and hopefully control its economy. According to Craig, the government had the following concerns at the time of the takeovers:

- ❖ Lack of re-investment into the local economy by foreign investors.
- ❖ Unwarranted taking of profits outside the country at the expense of its development.
- ❖ Acute economic imbalances:
- ❖ Closing of the rural-urban gap triggered by concentration of private investment activities in urban areas.
- ❖ Reducing the prevailing gap between indigenous Zambians and the foreigners in terms of wealth accumulation.
- ❖ Lack of capacity building by private investors
- ❖ Unwarranted economic power in the hands of foreign private investors.
- ❖ Government's incapability to dictate the pace and direction of economic development following from the above.

By adopting a policy of direct state participation in the economy, Craig (1999) states that the government endeavored to achieve the following objectives:

- ❖ Be at the helm to determine the direction of the economy.
- ❖ Restore economic power to government and ensure equal distribution of wealth to the public.
- ❖ Monitoring the huge outflow of profits to ensure that most of it stays within the country for re-investment thereby adding value to the economy.

- ❖ Reduce the common inequalities in income amongst locals characterized between foreigners and locals and between rural based people with urban based residents.
- ❖ Embark on capacity building programmes.

It ought to be noted that even after the economic reforms of 1968 and 1969; the Zambian economy was doing fine due to prices of copper being relatively high on the market. The hiccups in the economy started being felt in 1973 and according to Bigsten and Kayizzi-Mugerwa (2000), from that time, the country's economy suffered shocks both externally and internally induced and this setback was compounded by reducing copper prices, skyrocketing oil prices, internal mismanagement, unworkable domestic policies and even failure to re-capitalize. The situation was further aggravated by frequently recurring droughts. Surprisingly, the assumption from the Zambian authorities during this difficult period was that such shocks were transitory and therefore resorted to heavy external borrowings. According to the IMF and IDA (2003), the country's external debt stood at over US\$ 6.9 billion by 1990. Between 1985 and 1989, losses incurred by the state owned enterprises were estimated to be at US\$ 455 million per annum. The situation for the country had gone off-track to an extent where the government was failing to meet debt obligations both externally and internally. Besides, it also became too weak to bail out its domestic industries. Bigsten and Kayizzi-Mugerwa (2000) were spot on by asserting that the unworkable national policies and economic misalignment only served to reinforce the adverse effects of the persistent external shocks.

In the wake of virtually two decades of economic misfortune and state participation with unwarranted controls, Zambia finally embarked on wide ranging economic reforms which included liberalization and structural adjustments at the end of 1991. Foreign investor confidence

had eluded the country and private investment had remained very low with external debt hitting a record US\$ 7.2 billion. The country's per capita income had gone down as well. For instance, Aron and Elbadawi (1992) stated that it had declined from US\$ 900 in 1970 to US\$ 380 in 1990. Although it can be stated that state owned enterprises had managed to develop or train its human resources, efficiency levels were still questionable.

2.5.1 Basis for Privatization

Basing on the hardships faced by the country, triggered to a larger extent by failure of state owned enterprises, as has been highlighted above, the government began to see privatization as a sure way to extricate itself from its plight. The programme (privatization) was believed to be the ultimate passage to revamping the economy. Craig (1999), asserted that as much as the Zambian government stood ready to implement the privatization programme on the backdrop of recorded successes in other countries, the international financial lending institutions and donors had a larger part to play in pushing the country to decide to undertake the programme.

As stated in chapter one about the objectives of the privatization programme, it is clear that the overall aim was to improve firm performance with expectations of an overall improvement in the economy. Private investment was expected to create employment opportunities for the Zambian citizens leading to improved standard of living in the country.

Since the inception of the privatization programme in Zambia, close to 80% of the State owned enterprises that the government had nationalized after the Matero Reforms had been transferred into private hands. There was just a small remainder of 42 state owned enterprises recorded as of 2015.

However, studies on privatization in Zambia have not provided findings that are conclusive with respect to the programs impact on firm performance, employment and general improvement in the citizen's welfare. Whereas some firms have been able to improve their performance after privatization, others have actually gone from bad to worse. This implies that privatization has had a mixed impact on firm performance, employment and general economic situation in Zambia. For instance, examining the impact of privatization in Zambia, Cheelo and Munalula (2003) found that the process had resulted in improved firm performance in some firms while conceding that employment levels have been negatively impacted. It is also of paramount importance to note that most of the studies on the impact of privatization on the Zambian economy were carried out during or immediately after the privatization exercise (that is between 1996 and 2002). The findings of these studies do not give a clear reflection of the impact of privatization on the economy because such impact can only be ascertained in the long term.

In this regard, carrying out a study on the impact of privatization over 20 years after the program launch, as this study does, lends more credence on determining the impact of privatization on the firm performance, employment and economic wellbeing of the people. Also, previous studies have focused on the impact of privatization on firm performance and employment without necessarily linking the impact of the two variables on people's standard of living, which is the ultimate goal of any privatization exercise. For instance, in the study by Mwinga (2003), the focus was solely on firm performance while Cheelo and Munalula (2003) focused on firm profitability and impact on employment levels without considering the human economic aspect. It is in this regard that this study tries to link the impact of privatization on firm performance and employment to its effect on people's standard of living. This approach entails that the study will

not only build a comprehensive understanding of the impact of privatization on the key variables but also the overall impact on the people's standard of living which was (and should be) the ultimate goal or justification for the privatization program.

CHAPTER THREE

3.0 Impact of privatisation on the Zambian economy- Findings and Analysis

3.1 Introduction

In order to show the results (i.e. success or failure) of the privatization exercise with respect to the set goals at the start of the programme, this chapter looks at the privatisation process as well as the performance of the Zambia National Commercial Bank (Zanaco) in the banking industry and a number of Mines in the mining industry. The two sectors have been chosen as case studies due to the fact that they provide contrasting results in terms of their performance after the privatization exercise. In the same vein, different policies were employed in the process of privatisation. For instance, Zanaco was sold to a foreign investor but the government retained a 49% stake in the bank while management of the firm was placed in the hands of the new investor. On the other hand, the mines were mostly sold to foreign investors who had full control of the firms. The two sectors were also chosen on the basis that the mining sector provides a significant portion of the privatised SOEs in Zambia while the banking sector represents the privatised firms in the service sector. It is also prudent to note that the privatisation programme in Zambia was robust and wide encompassing which makes it difficult to look at each and every industry.

3.2 The Privatization Process.

As earlier stated, Zambia had adopted a command economy during the period 1968 to 1991 when multi-party democracy was re-introduced followed by economic liberalization. These changes were precipitated by the underperforming economy. With the new market oriented

government coming into office in 1991, economic reforms initiated by the previous government were hastened. The new government was elected on the platform of its desire for privatization of parastatals as a way of reviving the economy and so it was not shocking that in less than a year in government, it was announced that all State owned enterprises would be privatized. The Privatization Act of 1992 paved way for the existence of the Zambia Privatization Agency (ZPA) as an autonomous and sole institution mandated to determine how the enterprises were to be sold and at which price. The role of the Cabinet was confined to approval of the privatization sequencing. The Act gave explicit guidelines with regards to the modes of privatization such as dilution of government holding, Private sale via negotiated and competitive bids, Public offering of shares, re-organization of State-owned enterprises prior to selling them whole or in part, Management/employee buyout, Lease and management contract, Sale of assets and any other method the agency may consider (Fundanga and Mwaba, 1999).

The sale of parastatals was implemented in stages or segments with the first stage catering for small companies before attention could be given to larger companies in latter tranches. In other words, utility companies like the Zambia Electricity Supply Corporation (ZESCO), the Telecommunication Company and the Mining industry were scheduled to be privatized in the final stage. Fundanga and Mwaba (1999) state that the underlying reason for this approach was to enable the Zambia Privatization Agency to gain valuable experience during the first stage(s) involving the sale of smaller companies so that it (Zambia Privatization Agency) would effectively handle bigger and complex sales later. It would be interesting to note that within seven years of the privatization exercise, out of the 280 parastatals, 51 of them had remained while the rest had been sold. Although this was regarded as a great achievement and described as

“a success story for Africa” by the World Bank, many Zambians did not view it that way. Craig (2003) posits that the sale of many firms was shrouded in controversy with respect to their valuation and pricing. This had become so serious especially so after the former state shareholding company (ZIMCO) stated that the country had lost out on the sale of these strategic assets owing to improper valuation and pricing. The government underpinned its position of disposing of the assets by stating that most of the rewards arising out of privatization would not be realized from the sale price but through long term benefits such as new investments and revitalization of underperforming and non -profit making firms, increased output following recapitalization, employment creation and expansion of the tax base for government revenue among others.

Arising from the massive sale of parastatals and bearing in mind the few remaining and for reasons highlighted in the introduction of this chapter, it is imperative to assess the performance of the banking and mining industries in Zambia by way of case studies in order to appreciate the current state of affairs and the impact of privatization on the Zambian economy.

3.3 The mining industry in Zambia

The year 1975 saw a remarkable decline of the country’s economy due to predominantly external factors such as a fall in prices of copper. For instance, per capita GDP fell by 0.8% during the period 1970 to 1975, and 3.1%-7.2% during the period 1976 to 1990. This problem had deteriorated further as years went by thereby triggering the need for privatization of mines. The Zambia Consolidated Copper Mining (ZCCM), as a conglomerate had started experiencing losses and it became highly imperative to arrest the situation before it got out of hand.

Mines privatisation was claimed to hold the key to turning the economy around in the shortest possible time. It was said that taking responsibility of a loss-making industry away from government hands would reduce the burden on the Zambian state. In the same vein, if reinvestment could make the industry profitable again, it was hoped that new taxes would pour into state coffers and that the companies would train the Zambian workforce up to international standards, and new linkages would be made to local firms (Fraser and Lungu, 2007). As earlier stated, the privatisation of the mining industry came in the final tranche of the sale process. Apart from the mainstream public sector, the mining industry was the second largest single employer in the country. The sale of the mines was thus not only going to have a big impact on the employees and their families but also the entire communities in the mining towns whose economy was connected to the mines in one way or the other. The industry was regarded as the crown jewel whose sale had to be done with utmost care. Sharife (2011) states that during the sale of mines, ZPA staff was beefed up by five Wall Street Investment Bankers whose salaries were paid by USAID. The transaction was deemed to be so big that the World Bank hired N. M. Rothschild and Sons investment bank as well as a London law firm Clifford Chance as consultants to help the Zambian government. On the backdrop of unattractive investment climate and the country's desperate position, prospective foreign investors and the international cooperating partners were better placed to dictate matters at the expense of government. In other words, international lending institutions and even donor's influential role prior to the privatization exercise cannot be disregarded in this discourse. They promised to bail out the country economically through provision of aid although this had to be met conditionally by the latter privatizing its mines.

The Zambian government was made to believe that it would make money through collection of taxes if reinvestment into the mining sector was to be done coupled with the development of

local human resources. It is worth noting that success of the mining sector breeds or paves way for new companies to emerge thereby creating forward and backward linkages. It was thus expected that the new companies would help ‘resuscitate’ the copper industry and by extension the Zambian economy. It is worth noting that there were few Zambian entrepreneurs that had the capacity to buy any mines and thus almost all the mines were bought by foreign investors apart from a few that were bought by Zambians through Management Buy Outs (MBOs). Due to the inevitability of such companies making huge profits by reducing the workforce, wages and even stripping of mine assets, the government saw the need to come up with Development Agreements that would diffuse such problems. However, these agreements only favored the new investors due to the government’s weaker negotiating position. Consequently, the mines were placed in foreign hands with a few or no Zambian firms thus making it more possible for profits realised from the mines to leave the country without making a considerable impact on the local economy.

3.4 Impact of privatization on performance of a few sampled mining firms in Zambia

In the wake of privatization, a positive impact was generally recorded in the mining industry. Generally speaking, the privatisation of mines saw a remarkable improvement by individual mining firms with new owners having the capacity to run the mines. For instance, Kansanshi mine which was on the verge of closing in 2000 but now owned by First Quantum Minerals through acquisition of 79.4% shares began large scale production in the year 2005 and expansions have followed that. It would be interesting to note that in 2012, the mine was able to produce about 261,351 metric tonnes and 136,056 ounces of copper and gold respectively and in light of the expansion project the firm was undertaking, it anticipated to bring production to

400,000 metric tonnes of copper. Through its expansion project, Kasanshi mine was building a 300,000 metric tonnes of copper smelter earmarked for processing of sulphide concentrates. In addition, the mine was also able to develop the sentinel mining project situated in North Western Province.

In the case of Konkola Copper mine, another mining firm on the Copperbelt Province owned by Vedanta Resources after having previously been owned by Anglo American through privatization in 2000, invested nearly \$2.6 billion and built a sulphuric acid plant and smelter including developing the Konkola Deep Mining Project which allowed mining down to 1,500 metres with an extension of the mine's lifespan to 30 years. In 2012, the mine was able to produce 138,720 metric tonnes of copper cathodes from its own mines (Nchanga open pit, Nchanga underground, Konkola underground operations and Napundwe pyrite underground mine). The mine was also able to produce a further 61,043 metric tonnes through custom smelting for other firms.

Mopani Copper Mines which had taken over Nkana and Mufulira mines had invested about \$2.3 billion in its mining operations. It had spent \$323 million on a smelter and synclinorium shaft which had prolonged the vitality of Nkana mine's lifespan by close to 30 years. This was expected to grant the mine access to 115 million tonnes of ore. The mine was pumping in over \$100 million annually in a bid to sustain its old infrastructure. Following privatization, the mine has seen a lot of improvement in terms of production. When it was in a run-down state at privatization, its production was about 50,000 metric tonnes but this was turned around with the coming of new owners and production increased to about 120,000 metric tonnes with 117,000 tonnes produced in 2012 alone.

Given the above analysis, it can be concluded that the privatization of mines had induced increased foreign direct investment in the country. The development had seen an injection of over \$4 billion in plant rehabilitation such as rehabilitation of refinery tank houses, expansion and acquisition of new facilities such as new smelters in Chingola and Chambishi including others in selected places. All this happened during the 2000 to 2009 period. A significant increase in FDI was recorded to be at about \$10 billion since privatization.

3.5 Impact of privatization of mines on employment

From all accounts, there must be a viable link between privatization and employment as will be seen in the case of Zanaco. The expectation is that transfer of ownership into private hands breeds high levels of efficiency and effectiveness which can only be attainable through quality of human resources employed in light of expanded facilities on the backdrop of heavy investments by private investors. By all accounts, government is the largest employer in the country but mines do contribute meaningfully to the employment ratio in Zambia.

Before privatization, employment numbers in the mines was merely a small share of the total nationwide employment. Direct employment then had gone down in the mining sector especially in the early 1990's following the economic reforms that were introduced by the new government during which the sector accounted for about 64,000 jobs and this figure was actually lower than during the 1970s of peak production.

From the time of privatization of mines in Zambia, employment levels in the mining industry have risen compared to the pre-privatization era. A look at a few mining firms can attest to this fact. Singling out Kasanshi Copper mines, it would be interesting to learn that, as of 2012, it had

employed a total of 2,124 direct jobs. This is fair enough for a single firm. The indispensability of its presence in the country can be attested through the indirect jobs it created by virtue of contracting out some of its activities to 10,084 contractors. A wealthy record was however scored by Konkola Copper mines as far as employment is concerned. In the same year as above, Konkola Copper mine employed 8,371 direct jobs thereby marking a 74.6% difference with Kasanshi mine. Compared to the 10,084 contractors for Kasanshi mine, Konkola Copper Mine had 15,138 contractors.

For Mopani Copper Mine, its labour force stood at about 18,000. This comprised permanent employees and contractors. It would be interesting to note that the mining industry's labour force had dropped from 56,000 to about 26,000 at privatization during the year 1999 in December. In the year 2012, its workforce was 8,475 which was 1.2% higher than that for Konkola Copper Mine but by 2013, its labour force was almost 50,000 thereby enabling Mopani Copper Mine to account for 35% of the labour force in the mining sector. According to the International Council on Mining and Metals (2014) report, Konkola Copper mines, Mopani copper mines FQM Kansanshi and BarrickLumwana accounted for 1.7% of the labour force. According to the Central Statistical Office national labour force survey, formal employment in the mining sector as of 2012 was over 90,000 (1.7%). This was so as a result of expansion activities as well as acquisition of new facilities as stated above.

3.6 Impact of mine privatization on general economic situation in Zambia

Privatization of mines has played a fundamental role in stabilizing the economy of the country although the degree is minimal and subject to debate. Increased foreign direct investment has led

to a sharp rise in the rate of national investment since the late 1990s. In other words, it would be right to state that foreign direct investment had been dominated by mining investments. Looking at the period between 1970 right through to mid-1990s, total investment in the country's GDP was really low in absolute terms, scoring within the range of 8%-12%, but this was overturned following the privatization process with the country's GDP hitting well over 25% by mid 2000. The underlying cause for this was recapitalization in light of higher mineral prices.

As of 2012, foreign direct investment as far as the mines were concerned stood at 86% with exports averaging 80% and government revenue standing at about 25%. The mines contribution to the GDP was only 12%. Compared to the year 2008, the mining taxes as a share of GDP are shown below;

Table 1

Year	GDP (kw billion)	Total taxes collected (kw billion)	Mining taxes collected (kw billion)	Mining taxes (% GDP)	Mining taxes (% total tax)
2008	54,839	9,670	1,541	2.81%	16%
2012	111,049	20,723	6,619	5.96%	32%

Source: Zambia Revenue Authority (ZRA)

Looking at the above table, it is clear that following privatization, there has been a marked improvement as far as GDP is concerned. The change has been gradual over a four year period and was expected to continue on the rise.

3.7 The banking industry-Zambia National Commercial Bank (ZANACO)

The aforesaid bank was privatized by the Zambian government in 2007 with a Netherlands bank called RaboBank taking up 49% of the shares. However, in 2008 following its listing on the Lusaka Stock Exchange, RaboBank had 46% share with the government having 25%. Zambia National Farmers Union holds 3% and the remaining 26% was taken up by the public.

3.8 Impact of privatization on its performance

Following the Government decision to privatize ZANACO in 2007, RaboBank (a foreign bank from Netherlands) acquired a 49% stake in the bank. In 2008, the bank was listed on the Lusaka Stock exchange, thus concluding one of Zambia's largest privatizations. ZANACO was arguably the largest bank in the country and had a presence in every province and almost every district in Zambia. Before privatization, ZANACO had 1, 100 employees across all its branches and by 2011 after privatisation, the number rose to 1, 300 with more branches being opened. On the financial perspective and prior to privatization, ZANACO's performance was relatively doing fine. The bank had low profit margins and was failing to declare any dividends to government. However, the bank has since seen increased profits demonstrated by the payment of K8 billion dividends to government in 2010 and a cumulative K18.7 billion. In total, ZANACO declared a dividend of K32.340 billion to its shareholders in 2010, with the bank making a profit of K113 billion in the same year. The bank has seen a consistent rise in its profits thus enjoying financial sustainability. ZANACO's strong financial performance was rewarded with an award of "Best Bank in Zambia" in 2011 by the Euro money Award in excellence for both its increased profits and lending capacity since privatization.

ZANACO has posted good results both in terms of firm performance and increased employment levels. These results can be attributed in part to the fact that at privatisation, the firm's balance sheet was relatively better with few liabilities. The government retained some shares in the firm but its management was entirely composed of the private owners who are driven by the profit motive rather than nonprofit motives that government pursues at times.

From all accounts, Zanaco has performed generally well following the privatization process in 2007. The coming in of Rabobank has triggered a number of successes making the bank more prominent not only at national level but internationally as well. There are a lot of concrete reasons that propelled the bank to reach the pinnacle of success. For instance, although focus is on post privatization, history indisputably plays a fundamental role in the attainment of the status quo. The history and timing of the bank could be thought of as one rationale for the bank's success. Zanaco was created in 1969 making it a first mover in the banking industry. "Customer loyalty is guaranteed where an organization becomes the first to introduce a valuable service or product." (Josephine D 2006, P345). It is still a first mover by being the only bank servicing customer base of over 750,000 as of 2013 compared to about 200,000 before privatization with a card base of over 940,000. The introduction of the 'Xapit' feature was a supplementary move to attract more clients. This mobile banking was designed to enable clients to perform their banking transactions outside the branch through the use of any type of mobile phone. The bank has also been able to introduce internet banking where its customers can enjoy the service wherever they are at whatever time. In addition, it introduced debit cards to empower customers to carry out payments via internet. "Customer satisfaction is key to an organization's success. As consumer

tastes change, so is the need for an organization to react positively to meet such tastes.” (Angelo and Brian 2008, p124).

In addition, privatization of the bank led it to its increase of ATMs and branches to 170 and 64 respectively during the year 2012 with about 699 Points of Service. The bank prides its success also on a wide spread presence in 89 of the 102 districts making it the largest in terms of national presence. The bank also embarked on enhancing capacity and efficiency from a business perspective by strengthening its core banking system aimed at, for instance, enhancement of processes of client interface and its (bank) efficiency. The above project has been underpinned through an investment of above US \$ 13million. Furthermore, on a continental level, the bank boasts of having the best data centre

In the same vein, the bank has been able to grow due to the routine works that it has been doing since inception because those involved know and understand such routines thereby making them better able to respond to situations in a familiar and competent manner. With these vast years of experience, these routines have become entrenched giving the bank added value. This can be said to be the rationale behind the bank’s consistent growth in revenues at 21%, profit after tax at 33%, deposits at 18%, total assets at 23% and loans and advances at 31%. Another strategic asset or resource the bank can boast of is organizational processes. This can be conceived in terms of the strategic decision making processes in the bank based on valid information available. The long-term investment in core competencies has provided the bank sustained advantage over time as contemporary competencies become baseline capabilities. This succinctly explains why the bank has been a first mover as shown above.

The bank is also able to attract and thus increase its market base through its corporate responsibility programme. This corporate responsibility can be said to be an obligation of an organization to act in ways that serve both its interests and the society in which it exists. The bank's move to therefore educate citizens through its Financial Fitness programme has paid off. Corporate responsibility can also be deemed to be part of the organizational processes (which can be taken to be a valuable resource) arising from the decision making processes. The bank decides and uses its resources in terms of time, human resources and others to ensure that its clients, regardless of whether they are young or old, are literate financially. Through such an initiative, the bank reached over 3000 Small Medium Enterprises and farmers, 10,000 youths through the school programme, 1000 employees and others through the media. Besides, the bank has also extended its corporate responsibility to the health sector where it has been able to help improve health services through provision of health facilities such as assorted drugs or medicines and others. Through such corporate responsibilities, the bank has been able to grow and maintain the lead because prospective customers who appreciate such initiatives would want to be associated with the bank by opening up an account with them and thus increase the market base. In short, the bank has been strategic in the way it has been able to conduct itself to attain the status quo. It has not substituted its rare, valuable and inimitable resources with anything and that is why it has continued to remain a big, strong and reliable bank. It has been able to effectively organize its financial, human, technological, physical, reputational image and organizational resources to set itself above others in the banking industry. The success of the bank and continued growth can thus be aptly said to be a result of prudent management by the new owners. Even though the government still owns some shares, they have not been in a position to influence the strategic decisions of management.

3.9 Impact of privatization of Zanaco on employment

As stated above, theoretically, there is a correlation between privatization and job creation. It is assumed that when a public enterprise is privatized, in the medium to long term, jobs are supposed to be created. Although this is a rare scenario, Zanaco has been able to score a mark. From all accounts, the pre-privatization period saw the bank with a workforce of about 1,100. However, after privatization, the workforce increased to 1,324 following robust measures taken to increase the bank's presence nationally. Contrary to common expectations that downsizing becomes the main activity after privatization, the management of the bank diffused the expectation by retaining all its key personnel and with time, beefed it up with new skills as stated above.

3.10 Impact of privatization of Zanaco on the economic situation in Zambia.

Following the privatization of the bank in 2007, as has been stated above, the performance has been exceptional. It is expected that for a big bank like Zanaco performing well, there will be a positive spiral effect. This is evidenced by a number of factors such as quality jobs offered to locals through the opening up of branches countrywide. In addition, the dividends paid to government, as seen above, play a critical role in making the country's treasury healthy.

In the Zambian situation, as far as the privatization of Zanaco is concerned, one would rightly argue that the impact has been fair compared to the pre-privatization era. As indicated above, RaboBank has 46% shares with the government, Zambia National Farmers Union and the public sharing 25%, 3% and 26% respectively. This degree of control held by the public, although small, is a form of empowerment and is to a greater extent economically sensible in having spiral

effects whether it is bottom-up or top-down. Although it can be argued that prior to the sale of Zanaco, the bank was doing fine, it is also undoubtedly clear that the pre and post privatization eras indicate disparities in performance and ownership control. It is clear that there has been increased participation of Zambians in the economy and that the exercise can be deemed to have a mitigation effect on debt repayments by the government leading to non-inflationary social expenditures on health and education.

3.11 Reaction of Zambians to the privatization programme after 2001.

It is essential to state that many Zambians had given the government support during the privatization process. This support was driven by the belief that benefits would come afterwards as was strongly pointed out by government and other experts. Towards the year 2000, a number of Zambians began to get sceptical of the process as they felt that privatization had not really met their expectations. This was probably the more reason why support of the privatization programme was withdrawn. For instance, citizens protested in huge numbers against the government's announcement of the proposed sale of Zambia National Commercial bank in 2002 forcing the government to shelve the idea. Even when a similar announcement was made regarding the intended sale of the Zambia Telecommunication company (Zamtel), citizens opposed the idea.

Following the opposition of the sale, a number of citizens took to the streets in protests that degenerated into a political campaign issue for the opposition parties and the leading opposition Patriotic Front (PF) party traded on people's resentment and promised to halt any further privatization of the remaining State owned enterprises once it formed government. In addition, it pledged to reverse the sale of Zamtel if the transaction went ahead. Flying in the face of the

protests, however peaceful, the government went ahead with the planned sale of the firm and a Libyan company called LapGreen was announced as the new owner. This move was one contributing factor that forced the ruling party called Movement for Multiparty Democracy (MMD) out of power. The new government formed by the PF party immediately reversed the sale of Zamtel.

3.12 Reaction of Zambians to the privatization of Zanaco in 2007.

The privatization of Zanaco came with mixed feelings. For example, on one hand, some Zambians considered the sale of the bank to Rabobank as improper and fraudulent. Some locals had openly opposed the idea prior to the partial privatization in 2007. They had demanded for a valuation report of the bank's assets which however was not provided as government kept negotiations with Rabobank under wraps. The public also reacted negatively to the unfavourable treatment accorded to them with regards to the high price per share offered by government compared to how much foreigners paid. Although foreigners and international corporations might advance the argument that privatization was beneficial to the country, the locals had perceived the exercise with suspicion and despair. The opposition political parties at the time and trade unions also fiercely opposed the sale on grounds that the new owner could cut jobs and close branches in rural areas. They also felt that the sale price of \$8.25 million was low for the bank which had an attractive asset value with branches spread across the country including rural areas.

On the other hand, arising from what has been stated above about Zanaco, the fundamental conclusion is that the privatization of the bank yielded a number of positive outcomes that had

not been scored before its privatization. A marked difference between the pre and post privatization eras underpins the above argument in terms of contributions made by the bank with regards to employment creation at national level which has a direct impact on people's standard of living, the impact the privatization exercise has had on the bank's performance and the macroeconomic contribution to the country as a whole.

3.13 Achievements of privatization in Zambia

It is highly imperative to categorically state some of the observable achievements that privatization brought to the country. These are as follows;

3.13.1 Capacity building

The trend for some foreign investors was that they saw it fit to bring into the country their own well versed people to work at the expense of the locals. They probably did so in light of what may be termed to be weak labour laws of the country. A good example can be NFCA, a Chinese firm which had only one manager from Zambia while the rest were basically shift bosses gotten from their own country, China. Even Vedanta mine did the same at first. Following its purchase of Konkola Copper Mines, Vedanta had brought in its management personnel all the way from India to oversee the operations of the mine. Such a move could be considered to be twofold; one perspective could be that the country lacked the required expertise to run the affairs of the mine and ensure maximum productivity was achieved. The other perspective could be that foreign investors basically traded on the weak labour laws of the country to bring in their own people to do jobs that locals could do thereby enriching the former at the expense of the latter.

However, credit can be given to some of the foreign investors such as Konkola Copper Mine because they decided to change this perspective by investing in capacity building of the locals. The firm had identified close to fifty Zambians whom it had subjected to a management training scheme on a fast track basis. It may be worth noting that, in the mining sector, Konkola Copper Mine boasts of being one mine that took a bold step to expose a number of Zambians working for it on an international stage to gain the much needed experience. Furthermore, the mine had recruited nearly 1,200 school leavers nationwide to train them and this had greatly contributed to numbers of expats to drop. As a matter of fact, the mine had no desire to look outside the country for people to work for it

3.13.2 Subsidy relief

Privatization of State Owned Enterprises in Zambia had brought out a number of clear benefits to the government. For instance, the government has been relieved of its burden of providing subsidies to meet operational costs for State Owned Enterprises that were underperforming in order to keep them afloat. The government would, on an annual basis, incur \$100 million to keep ZCCM running. This was a huge cost that would have been diverted to other pressing areas of need such as health sector.

3.13.3 Established linkages between mines and other industries

This usually becomes a self-evident case where new investment has been made. Following the re-capitalization or revitalization of the mines, for instance, it became increasingly indispensable for such mines to buy more goods/services from some Zambian companies. This, in turn, had

created or impacted employment levels positively. Furthermore, it led to the existence of new firms some of which had been formed by ex-employees of the mines thereby creating indirect employment (jobs). Privatization also brought to the fore other companies, contractors and industries supplying goods and services.

3.13.4 Tax collection

Generation of revenue through taxes is fundamental to a country's economy. It should be noted that the privatization of mines, for instance, did not imply that state income would come directly from the sales and profits of the mines. It basically entailed any taxes levied on the companies (like those brought about due to revitalization of the mines) in the form of income tax for employees, Value Added Tax charged on services bought by the mines, border taxes collected through imports and exports, corporate taxes on profits, and mineral royalties collected through copper sales. So, in essence, the government has been able to collect various taxes from the new private owners leading to an improved financial health of the public sector and debt repayments leading to non-inflationary social expenditures by government on health and education.

3.13.5 Contribution to growth of economy

New capital injection by the new owners of the privatized firms has led to the government achieving tolerable levels of stability in some major macroeconomic indicators such as single digit inflation and price stability as well as reasonably lower interest rates compared to the period before privatization. It is indisputable that factors such as capital investment and technological innovation had been a challenge before privatization but after the exercise, expansion of the mining and minerals sector was tied to it (privatization). The development had seen the re-

opening of some mines such as Bwana Mkubwa that had been closed following the arrival of investors and this had an impact on employment creation for locals. Even new plants and mines had been opened. For instance, the construction of a new plant by Chambishi metals cost \$130 million with expected production of cobalt and copper to be 4,200 and 6,000 tonnes respectively per annum.

3.13.6 Enhanced Production and improved Standards

The other benefit of privatization is that it had enabled the country to improve its standards on the international stage. Production of copper before the exercise had been low, falling to below 300,000 metric tons per annum. Lack of investment had stalled metal production. Besides, the development of human resources through appropriate training became a characteristic of privatization as was evidenced in the case of Mopani Copper Mines.

3.14 Failures of privatization in Zambia

Where achievements are scored, the opposite may too happen in terms of failures associated with the exercise of privatization. These are as follows;

3.14.1 Inadequate tax collections

The mine industry has been the backbone of the Zambian economy since independence. However, as stated above, privatization of this industry entails that any income to the state would no longer directly come from the sales and profits from the mines but rather from various taxes

levied on the companies such as mineral royalties on sales of copper, corporate taxes on profits and income tax for employees among other taxes. The new mine owners managed to negotiate a number of concessions (through Development Agreements) and thus they got exemptions from paying most of the above stated taxes. In terms of corporation tax, contributions coming from mines were far less than those from smaller sectors like telecoms and financial services. Sadly also, the government is deprived of all of the value added tax it has to enjoy on paid goods bought by mines locally as the mines have the privilege to claim back such monies. The idea is that since the firm from which these goods are bought would have paid value added tax on the same goods, which tax goes into government coffers and government would then have to pay back that money to the purchaser (mines for instance) when claims for value added tax are made. These pay backs become disguised subsidies from the government to the mines.

3.14.2 Compromised levels of quality of employment

In addition, the wide range of expected positive impacts that were expected from the sale of the mines have not been realised much. Fraser and Lungu (2007) state that although investments have created some new jobs, “there has been a drop in the quality of employment, with around 45% of those working in the firms now unable to access permanent and pensionable contracts. Most companies have shifted workers onto rolling, fixed-term contracts on significantly less beneficial terms and conditions, or the jobs have been “contracted out” to companies that pay in many cases less than half the monthly wage offered to permanent workers for the same work in the same company”.

3.14.3 Repatriation of generated revenue

Privatization is expected to induce a number of benefits to the country. One of such benefits is the generation and retention of revenue to be used in the overall development of the country. This development can be narrowed down to, for instance, improvement of roads and buildings infrastructure, schools, clinics/hospitals and so forth. However, the experience in Zambia is not ideal. Because ownership is in private hands and not government, private owners (usually foreigners) deem it fit to take their profits outside the country to their original countries. This deprives the government of the much needed liquid asset to improve the economy. It stalls overall growth and government's ability to spend on its social obligations such as the provision of affordable health care.

In light of the above, the government should have obviously anticipated such a scenario to occur and put in stringent measures to tame the activity. One can safely conclude that policy makers devised weak and perhaps partial policies that disadvantage the country. This calls for revision of such unwarranted policies and tailoring them towards benefiting the nation at large. For as long as this trend continues, the country will never benefit fully from what its resources can bring out and aid dependency will continue for years to come.

3.15 Analytical review

3.15.1 Tax deprivation

A discreet analysis of some contents found in the Development Agreements can succinctly show that private owners were favored at the expense of the country's development. Attention can be drawn to, for instance, exemptions from paying most taxes. From all accounts, the largest proportion of any country's financial reserves comes from taxes. It is this researcher's opinion that such a deal to forego taxes to a largest extent was highly improper and detrimental to the country's development. A lot of money would have been realized from the mines through tax collections and this money would have been channeled to a number of sectors for development. It would have led to an increase in schools thereby easing accessibility by school going children. Improved health facilities would have been another plus for the country apart from having good road networks and a number of more benefits.

Mines contribute virtually nothing in taxes yet, it is clear that the mining industry is the backbone of the country's economy. The Marginal Effective Tax Rate which gives a good description of how much each industrial sector is taxed shows that the contributions from mines in form of taxes to government were pegged at 0%. It can be said to be the most favoured sector in the country and it would be right to state that government did not do its homework well; that the government put the interests of international investors first over those of local business owners.

3.15.2 Undervaluation of state owned enterprises.

Zambians generally felt that, although privatization seemed to be a good recourse to rescuing the failing economy, the assets of the country were not correctly valued. Boldly speaking, the valuation was not done in the interest of the locals. Even the management of Zambia Consolidated Copper Mines subscribed to the general feeling of the public. Selling highly valued assets cheaply may be as good as disposing them off for free. It should have been a lesson for the government following such undue valuations but it appeared unconcerned with concerns raised by the public. Had it listened, the story would have been different at the time Zambia National Commercial bank was being sold. Instead, it entertained the same mistake it made with regards to mines. Had these assets been correctly valued, the country would have benefited a lot and more of such financial resources would have been channeled to needy areas. The country would have been better off especially if it had not exempted private owners, particularly mines, from paying most taxes. The undervaluation of big national assets was one of the reasons that led to the country's fifth President reversing the sale of Zamtel. The continued undervaluation is likely to trigger some thoughts such as whether the people involved in the sale of such assets on behalf of the country have an interest.

3.15.3 Policy Failure

As much as it is indisputable that privatisation brings about positive change to a country's economy, the policies that are adopted and the capacity of those charged with the responsibility of implementing the program are crucial to its success. In Zambia, it can be argued that the gains achieved through the privatisation programme could have been much more if the right policies

and the right people were put in place for the exercise. It was wrong for a government that was less than a year old in office to carry out a massive privatisation exercise in a wholesale manner with little experience both in governance and in the programme itself. The success of the privatised Zambia National Commercial bank is one example that shows that rather than selling off all the SOEs, the government would have done well to partner with private entrepreneurs by selling off shares and returning at least a 49% stake. This could have allowed the privatised firms to be run by competent and professional management teams as shown in the case of ZANACO. It is thus clear that there was policy failure on the part of government. Infact, the government would have selected firms for privatisation on a case by case basis rather than adopting a wholesale approach. Some SOEs just needed restructuring in order for them to improve their performance. South Korea provides a good benchmark for such reforms. Korea was able to successfully manage these programmes using strong state intervention in the economy and sub-division of the important sectors of their economy to give them an edge in international competition. Zambia could have used a similar approach where the government could have directly intervened in some selected sectors of the economy in order to provide them with a competitive edge.

3.15.4 Unrealistic gains

As much as some benefits have been realized, other problems arose that were not pro privatization per se. For example, Sharife (2009) states that a decade after privatizing the copper mines, Zambia was missed out on the benefits of the commodity boom that saw multinationals cashing in on copper, when price averages broke the commodity ceiling, increasing from US\$2800 per tonne in 2004, to US\$9000 per tonne 2008. In spite of the boom in Copper prices,

Zambia's revenue actually decreased by 50 per cent from 1.4 per cent in 2003 to 0.7 per cent in 2004. In the same vein, the country's copper exports totaled US\$2.78 billion in 2005 but Sharife claims that mining corporations remitted just US\$1.5 million in royalties. In spite of being Africa's second and the world's 8th largest copper producing country, Zambia is now ranked the 49th poorest country in the world according to the latest data released by Global Finance for 2015. Besides the fact that copper provides close to 80 per cent of foreign exchange earnings, the mining industry currently employs just 10 per cent of salaried workers with a paltry 2.2 per cent contribution of revenue to the Zambia Revenue Authority and 9.7 per cent to the country's GDP (Ministry of Finance, 2015).

3.16 Current Status of the privatization Programme.

Most of the State owned enterprises in Zambia have been privatised with only 42 remaining out of the over 280 that existed prior to 1991. It is not surprising that after 2011, there hasn't been any talk about privatizing the remaining State owned enterprises because the current government led by the PF rose to power against the backdrop of a campaign against the continued privatization of the remaining State owned enterprises. The general perception in the country is that privatization has not achieved most of its intended goals. Even if the government saw it fit to privatize underperforming State owned enterprises from the remaining 42, it is obvious that it is something they cannot risk. There are few benefits that ordinary citizens can point at as a result of the exercise. It is in this vein that the privatization programme has stalled.

3.17 Attainment of stated goals/objectives

Given the evidences provided in the erstwhile chapters, the answer to the question of whether the overall goal of the privatization programme has been achieved needs to be answered. The main goal of the government's decision to privatize State owned enterprises was to turn around the economy which was performing poorly at the time. Ideally, this goal has been achieved given that the country has performed relatively better on this score. However, this should not be looked at in isolation because the overall objective of an improved economy is a function of improved standard of living for the people. On this score, privatization has not achieved the government's set goal of turning around the economy and improving people's standard of living

CHAPTER FOUR

4.1 Conclusion and recommendations

4.2 Introduction

This chapter draws conclusions based on the research findings in the erstwhile chapter and provides recommendations on how the government should deal with any future privatization initiatives.

4.3 Answers to the Research Questions

4.3.1 What is the impact of privatization on firm performance in Zambia?

From the findings of the study, it is apparent that some companies that were privatised have registered improvements in their profitability and general performance. For example, Zanaco has not only recorded profits and declared dividends to shareholders from the time it was privatised, but has also expanded its operations by opening up new branches and hiring more staff. In the mining industry, following privatization, mines started performing better than before especially after recapitalization that saw the coming up of new facilities like smelters. Production increased and so were profits.

4.3.2 Has the privatization exercise led to increased levels of employment in Zambia?

As has been observed above, a positive link between privatization and employment creation is actually there. The privatization of Zanaco saw an increase in the bank's total workforce following the opening up of new branches countrywide. Similarly, in the mining sector, mines

such as Konkola Copper mines and Mopani Copper mines among others recorded high numbers of employees in the post privatization era than in the pre privatization era. These were direct jobs apart from indirect jobs given to contractors as was seen. The increase in employment levels arose on account of factors such as opening up of new plants and so forth. The mining sector generally made a contribution of 1.7% of the labour force. It should however be acknowledged that as much as a number of jobs have been created, the quality of these jobs in most cases leaves much to be desired.

4.3.3 Have the people of Zambia benefited directly or indirectly from the privatisation programme with respect to their standard of living?

There is no denying that the privatization program has certainly brought with it some benefits to the people of Zambia both directly and indirectly. In essence, the answer is twofold; one version of the answer is that privatization has contributed to the growth of the economy although the impact was minimal on account of predominantly weak policies of the government. The spiral effect on individual level was not something to nod to. The second version is that privatization had led to increased employment levels in the mining sector. A number of people, not just residents in mine areas, benefited from this positive development. There were also those who had been engaged or re-engaged but on less favorable terms thereby triggering a variance on the degree of impact that employment created on people's standards of living.

4.4 Summary

Privatization is the transfer of productive asset ownership and control from the public to the private sector and this transfer of assets can be total, partial or functionary. The underperforming

parastatals coupled with the ailing economy in the 1970s triggered the need to privatize a number of state owned enterprises such as mines. As this was seen to be the panacea of keeping the economy on track, privatization was implemented following the establishment of the Zambia Privatization Act. This saw over three quarters of the state owned enterprises falling into private hands in order to revitalize the economy. Mines on the Copperbelt Province were sold and this saw a lot of positive developments taking place in terms of plant rehabilitation, new plants being opened up and so forth. Employment levels grew after privatization and production of copper and other minerals such as cobalt, ore and so forth increased to meaningful levels. Even with the privatization of banks such as Zanaco, success was the outcome. It, too, embarked on an expansion programme and introduced a number of facilities as such Xapit features and increased its ATMs countrywide, increased its workforce and paid huge sums in form of dividends to government.

Both the mining and financial sectors had created levels of impact on variables such as firm performance, standard of living and employment. The mining sector alone made a contribution of 1.7% of the total labour force in 2012. In the same year, foreign direct investment as far as the mines were concerned stood at 86% with exports averaging 80% and government revenue standing at about 25%. The mines contribution to the GDP was at 12%. While Zanaco's contribution to GDP during the same period was at 7.3% which was higher than the 6.8% recorded in the erstwhile year. Its customer base increased to 32% from 22% making it the biggest growing bank in the country.

Many citizens found employment especially in the mining sector although not all of the jobs in this sector were permanent and pensionable.

4.5 Recommendations

Based on the findings of the study, the following recommendations have been made:

- Rather than privatizing the remaining SOEs in Zambia, different policies of reforms to turn around underperforming SOEs should be adopted by the Zambian government. Reforms like those implemented by countries like Japan and South Korea have produced good results with minimum negative social effects on the citizens. The methods used by these countries should be examined and if possible adopted and adapted to the Zambian situation. For example, restructuring of SOEs by employing New Public Management strategies where competent management teams are allowed to run the enterprises with no interference from the government should be adopted. Non interference in the professional management of SOEs should be guaranteed by necessary legislation.

- Given that most employees that lost their jobs following the privatisation exercise found it difficult to earn a decent living, it is recommended that for any future privatisation exercise the government should draw up programs aimed at mitigating the negative social effects of privatisation. For example, a law should be passed which requires that employees are given entrepreneurial training before being laid off by the company after the privatisation program. This would prepare them to survive and earn income in the private sector even if they fail to find alternative jobs.

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