Privatisation in Zambia

What it means for the majority

A set of Fact Sheets

This collection of Fact Sheets has been designed and written to inform people in Zambia and elsewhere about privatisation in that country. With the requirements of community-based activists in mind, they present information on all aspects of privatisation: from why privatisation has been undertaken; through who is in charge of the programme and how it has been carried out; to its immediate and longer term impact. The aim is to provide a framework, so that people can better situate their own experience and relate it to the wider picture of what is happening. Two issues are of primary importance:

- Firstly, that people should be given the full facts on privatisation by both those in charge of the process and by the new owners in the private sector. The Fact Sheets, by outlining what information should be available in the public domain and highlighting both secrecy and apparent malpractice, will assist people in asking their own questions on accountability.

- Secondly, that the affect of privatisation on the four-fifths of the Zambian population who live below the poverty line is given the attention that is warrants. Privatisation has had an adverse impact on the enjoyment of basic social and economic rights in Zambia because, in the race to deregulate the economy and sell-off the state owned sector, little or no attention has been given to who shoulders responsibility for social provision.

RAID
Rights & Accountability in Development
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What is the purpose of these fact sheets?

This set of Fact Sheets look at privatisation, the process by which the Government of Zambia is selling off state owned industries and enterprises to new private sector owners - often overseas companies or wealthy Zambians. They ask questions about privatisation and give answers about what it means for millions of Zambians.

This Introduction will:

• Introduce six Zambian citizens so that the real impact of privatisation can be considered through their experiences.

• Tell you what information can be found in the other Fact Sheets.

Six Zambians

Above all else, privatisation is not a distant process of concern only to politicians and businessmen in Lusaka or the Copperbelt. It has a real impact on people's lives throughout Zambia and will affect individuals and families differently depending upon their personal circumstances. There will be winners and losers. That is why it is necessary to introduce six Zambians, all from different walks of life, when considering the rapid pace of privatisation in Zambia today. In the Fact Sheets which follow, the impact of privatisation will be looked at from the point of view of these Zambians and their families.

The citizens described overleaf do not, strictly speaking, exist. However, they are not entirely made up either. There are many people in Zambia today whose lives mirror the stories of these characters. Indeed, the situations described are drawn together from listening and talking to real people.

What information is in the other Fact Sheets?

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Your right to information - 10 urgent questions
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- Questions which need answers

Danny
A child living on the streets in Mufulira
Danny lives in Mufulira. He does not have a home but lives on the streets. Danny is an orphan. Both his parents died of AIDS-related illnesses two years previously. Of the boys he hangs around with during the day, not all of them have lost their parents. Some have dropped out of school because the fees are too high. Others go home at night to their families after begging and doing small jobs throughout the day. Several of the boys, with no homes to go to, visit the offices of a local community development organisation which opens its doors at night so that they can sleep in relative safety.

Mr. Phiri
Ex-miner, now a farmer
Mr Phiri is a peri-urban farmer. He farms land midway between Mutondo and Mufulira. He has a wife and five children aged between four and nineteen years of age. Mr. Phiri used to work as a miner for ZCCM before he was made redundant in 1991.

Mrs Chanda
Wife, mother and street trader in Kitwe
Mrs Chanda works in the informal sector selling cured, dried fish from a stall in Kitwe market. She gets up at 6.00 am and mostly walks the five kilometres from the shanty compound in which she lives into town. Occasionally, when the weather is particularly bad, she catches a minibus part of the way to or from the market. Her husband used to work as a supervisor in the Supa Baking Company. He now looks after their youngest children at home.

Mr. Mwila
Widower and retrenchee from UBZ
Mr Mwila is a retrenchee who has not been able to find alternative employment. He used to work as a foreman for the United Bus Company of Zambia before the company was liquidated and he lost his job. He now lives in his daughter’s house. His wife died last year.

Mr. Banda
Mufulira miner
Mr. Banda is a miner. He has worked underground at Mufulira Division for 12 years and lives in Konkoyo compound. He has a wife and three young children. He sits with his friends on Sunday afternoon, drinking Chipolopolo beer, and contemplating the future.

Mr. Mutale
Young professional
Mr. Mutale is a young, highly qualified professional. He has an MSc in environmental sciences from Manchester University in the UK and now works in the environmental department of ZCCM in the Operations Centre at Kalulushi. He is newly married but, to date, has no children. Mrs. Mutale works for the State Insurance Company in Kitwe.
What is privatisation?

Privatisation refers to the sale or transfer of control of enterprises which were formerly owned and run by the State to companies in the private sector. Under the Second Republic of Kenneth Kaunda, Zambia became one the most heavily nationalised economies in Africa. Hence some 152 state-owned enterprises are in the process of being privatised and sold off as 331 separate companies or units.

Although enterprises are often transferred in their entirety from national ownership to the private sector - as is mostly the case in Zambia - privatisation can take different forms. For example, a government can sell the controlling interest to a private sector company, but still keep a significant shareholding itself. The Zambian Government has kept an interest in some of the larger enterprises which it intends to sell to Zambians at a later date. A state owned enterprise can also be run on a management contract or leased to a private sector company which takes the profits from the operation but never owns it outright. The former Government run tourist lodges and camps have been privatised in this way.

Why is there a need to privatise and sell Zambia's state owned enterprises?

There is a widely held view among economists, especially those in the World Bank and IMF, that nationalised industries cannot compete in today's global market and that the only way to achieve development is to harness the dynamism of the private sector. Development through the private sector in a free economy is seen as the way ahead. The MMD Government in Zambia agrees with this thinking.

The prevailing view is that State owned enterprises operate in an economy which is regulated by government and hence they are shielded from the real world of competition in the market place. If a private business makes a loss, and if this loss is sustained over a number of years, then the business will close. A private business which breaks even or which only makes a small profit may also be in danger of closing down as it will not be able to generate the capital to invest in new machinery or recruit the new talent it needs to stay ahead of its competitors.

State owned enterprises do not face the same commercial pressures. A government can artificially protect the market for their goods by either fixing prices or by excluding foreign goods from the market by imposing tariffs or taxes on imports. A government may subsidise state owned enterprises from its revenue to ensure that companies keep running and that employees keep their jobs. A government can borrow money against the more profitable companies it owns either to support poorly performing companies or else to pay for its own increased expenditure.

The problem is that all these practices are unsustainable. Businesses become run-down because money which should have been used to invest in the firm has already been spent. The State owned sector ceases to make a profit and instead incurs losses.

The only way the government can bail an industry out is to absorb these losses. This inevitably means borrowing money from overseas and increasing the government's burden of debt. Once these debts have been serviced and the interest paid, the government is left with far less money available for public expenditure. If it refuses to pay the money back, then banks and donors will be increasingly wary about lending any more money.

How do you break this cycle and reverse the decline in State owned industries?

It is widely believed that two steps are needed to break this cycle.

The first step is to `liberalise the economy'. This means removing most of the measures which previous Zambian Governments had put in place to artificially protect state industries. Liberalisation is the process by which foreign firms and the private sector are allowed to compete on the same terms with domestic companies and state owned enterprises.

For example, since 1991, the MMD Government has:
- eliminated subsidies and price controls, removed controls on the quantity of imports allowed into the country and reduced customs duties and tariffs;
- brought in legislation to protect privately-owned assets from expropriation. This was necessary to reassure investors in Zambia that the businesses in which they are investing will not be taken over by the Government in the future as has happened in the past under the nationalisation programme.
Set up a Securities and Exchange Commission and the Lusaka Stock Exchange so that shares in those privatised companies which ‘go public’ can be readily bought and sold.

Allowed the market to freely determine interest rates and exchange rates.

Abolished foreign exchange regulations. This means that companies are now free to bring in foreign money for investment but also to take out foreign exchange made by their Zambian operations and send it to their corporate offices or shareholders in other countries.

Allowed foreign shareholders to keep all profits without further deductions after tax.

Reduced individual and corporate taxes, as well as introducing high capital allowances.

It is argued that this first step of liberalisation is needed in order to attract foreign investment into Zambia and also to ensure that businesses in Zambia are competitive. It is only on this basis that they will be able to both supply goods and services at reasonable prices to Zambians and also be competitive in export markets where increased sales will bring foreign exchange into the Zambian economy.

The second step is to privatisate the state owned enterprises themselves so that both Zambian and foreign investors and companies can buy them and run them at a profit. This is expected to happen after they have injected the necessary cash and expertise to make each company competitive again in the free market which has been created by liberalisation.

Many argue that the high price to be paid for liberalising the economy and for unconstrained privatisation is increased uncertainty for many and impoverishment for others. This view will be looked at in a moment. First, let us consider what privatisation can do to benefit Zambia.

A positive view of privatisation

Privatisation is based on the belief that commercial enterprises are better run by business people in private sector companies than by government.

The sale of those state owned enterprises which are viable will attract new investors to Zambia. The sale itself will generate revenue for the Government but, more importantly, it will also bring new money into the country for badly needed investment in equipment, machinery, modern management and in re-skilling the work force.

In order that certain industries regain their competitiveness, there may be some initial rationalisation of the labour force. Uncompetitive industries may go into liquidation. However, the revenue generated from the sale of going concerns ought to help to cushion redundancies and provide resources for retraining and a social safety net to get retrenchees through short term difficulties.

The falling value of savings and terminal benefits

Life gets difficult for retrenchees

When the exchange rate was first allowed to float without Government controls in 1992, the value of the Kwacha fell against the US dollar from an average of $1.00 = K51 in 1991 to $1.00 = K359 at the end of 1992. Its value as of December 1996 was about $1 = 1280. At the same time inflation and the cost of living rose dramatically. The cost of living was 165% higher in 1992 than it had been in the previous year. Since then, the value of the Kwacha has largely stabilised and inflation has gradually fallen.

The problem for people like ex-miner Mr. Phiri and former UBZ accountant Mr. Mwila is that they received their modest retrenchment packages before the value of the Kwacha fell and inflation and the cost of living rose. They do not have any savings left.

The real boost to the economy is brought about as soon as the new investment begins to increase productivity and generate profits, a significant proportion of which will come from export sales in markets in which the new companies have considerable knowledge and expertise. Local suppliers of goods and services will benefit from
supply contracts. The government will gain money for public expenditure directly through moderate corporate taxes and indirectly through income tax as employment expands.

Increased employment opportunities will create a demand for labour which will ensure that employees are paid a market wage in the formal sector. Many employees and council tenants will have bought their houses at advantageous prices and will have the security of an asset which will increase in value in a vibrant economy. Home ownership will provide the local council with an income through domestic rates, to top up their grant from central government, enabling them to invest in improved local services and amenities. Furthermore, as workers spend their pay packets in the local economy, traders and producers in the informal sector will also benefit.

A negative view

There is another bleaker side to liberalisation and privatisation, one with which many ordinary Zambians will identify. This is because there are costs as well as benefits.

Liberalisation will lead to redundancies. Inefficient companies will close as the economy opens up to competition. Many loss making State owned enterprises will be liquidated and closed prior to privatisation.

Privatisation itself will lead to further job losses as the new owners will want to increase efficiency and productivity by reducing overmanning in the labour force. Retrenchments will swell the informal sector, which already accounts for eighty per cent of economic activity within Zambia, and increase the incidence of poverty.

At the same time, economic reform has meant a squeeze on government expenditure. Hence user fees are already charged for access to health care and education. This has happened precisely at a time when those in need can least afford to meet these costs. Social provision which was provided by the former parastatals is now uncertain as the new owners may wish to shed these responsibilities. The burden of providing these services will therefore shift to central government, private firms or local councils. Town councils have already seen the amount of money they get from central Government significantly reduced. They have been compelled to sell their council housing stock. This has drastically reduced their rental income. The overall result is that town councils will find it very difficult to make sure people - and especially the poor - get safe water and sanitation. Private water companies are not ready to take on provision and are, in any case, geared towards consumers with an ability to pay. Similarly, central government, with depleted resources for public expenditure, cannot meet the need for decent hospitals, clinics and schools.

Many individuals have bought or are buying houses, in many cases using money from their terminal benefits to do so. On the loss of their jobs they are then left with little or no money for their immediate needs. For the first time they are faced with rates and maintenance costs for their homes which they never had to pay in the past when the houses were council or company owned.

Some will be left with little choice but to either sell or rent their homes, moving themselves and their families to live in squatter settlements with all their attendant insecurities. Was not privatisation meant to attract foreign investment, increase employment and generate Government revenue to provide for better social services available to all?
Which of these views of privatisation is more accurate?

The only way to decide who stands to gain more and who stands to lose more under liberalisation and privatisation in Zambia is to look at:

- How the process is being managed in Zambia. This is examined in Fact Sheet 2:

  **Who is in charge of privatisation in Zambia?**

- The benefits and costs in more detail. This is done in Fact Sheets 3 to 5.

  **Will privatisation help make Zambia wealthy? - Money & Investment**

  **Will privatisation make Zambians wealthy? - The new owners**

  **Job creation or job losses?**

  **Has privatisation been conducted in the best interests of employees?**

  **What assistance is there for retrenchees?**

  **Have people’s social needs been forgotten? - The economy & poverty**

  **Have people’s social needs been forgotten? - Poverty in Zambia today**

  **Have people’s social needs been forgotten? - Policies to combat poverty**

  **Have people’s social needs been forgotten? - Privatisation & social services**
Who is responsible for privatisation in Zambia?

On paper, in the written laws of Zambia, it is a body called the Zambia Privatisation Agency (ZPA) which is responsible for privatisation. It was established by legislation known as the Privatisation Act (1992). Its purpose is to plan, manage, implement, and control the privatisation of State owned enterprises by selling them to those with the expertise and capital to run them on a commercial basis.

Is the ZPA open and free from Government interference?

This question can only be answered by examining the facts.

On the one hand, positive claims are made for the ZPA:

✓ Although the ZPA is a government agency, it maintains that it is both transparent and as independent or as free from political manipulation as possible.

✓ Decisions on privatisation are taken by the Members of the ZPA, in effect a board of directors. Of the twelve designated positions, only three are reserved for government. These are the Permanent Secretary of the Ministry of Finance; the Permanent Secretary of the Ministry of Commerce, Trade and Industry; and the Attorney General.

✓ The remaining nine positions fall to representatives of civil society and the private sector. This includes provision for the business community, the unions and the churches.

✓ At the head of the Members of the ZPA board is a Chairman and Vice-Chairman, both of whom are elected by the other members. The two government Permanent Secretaries are ineligible for these two positions.

On the other hand, there are opportunities for political influence built into the Privatisation Act:

✗ Although the Privatisation Act determines which organisations are Members of the ZPA, each individual representative is appointed by the President, having first received the approval of a Select Committee of the National Assembly.

✗ Some of the positions on the ZPA board are empty. As of 31 December 1997, the Law Association of Zambia, the Bankers Association of Zambia, and the Churches of Zambia were not represented. This situation was criticised by the Parliamentary Committee on Public Investments tasked with preparing a special report on privatisation which it put before the House in December 1997.

If the ZPA board is so important, why are these positions vacant?

Each organisation will have its own reasons as to why it has not sent a representative. However, it is true to say that the Members of the ZPA board do not have as much control over privatisation as might first be imagined.

Who has the final say over privatisation and who runs the ZPA on a day to day basis?

Under the Privatisation Act, it is the Cabinet which:

✓ decides and issues policy guidelines on how the privatisation programme is to be implemented;

✓ and which approves the divestiture sequence plan. This is the list of which State owned enterprises are to be privatised and the order in which they are to be sold.

It is then left to the ZPA to advise on the mode of sale in each case, although again it is the Cabinet which has final approval over the mode chosen.

It is specified in the Privatisation Act that the Members of the ZPA need only meet once every two months. It is therefore the ZPA management which takes decisions on the day to day running of the privatisation programme and makes recommendations to the Members. ZPA management comprises the Chief Executives Office, headed by Mr. Valentine Chitalu, and senior staff in the technical directorate. The latter is responsible for the operational side of ZPA, to include responsibility for all professional functions. Support services are supplied by an administrative directorate.
How is the sale of each State owned enterprise carried out?

The most common way in which large State owned enterprises are sold is through the private sale of shares through negotiated or competitive bids. This means that private sector companies or even individuals can make bids based on how much they believe a business is worth. When a company is to be sold in this way by tender, each bidder must first pre-qualify by demonstrating that they have the necessary financial resources, management capacity, and business experience to buy and run the enterprise in question. A ZPA investigating team may also examine the company profile of prospective bidders, seeking information from industry sources, accountants, even foreign embassies. The idea is to prevent Zambia's industry from falling under the control of investors with a dubious background or a poor track record.

A Confidential Information Memorandum (CIM) on the enterprise in question is prepared by one of ZPA's teams of business analysts as part of a 'tender package'. This gives prospective buyers all the information they need in order to assess the worth of an enterprise through what are called due diligence studies. These involve a careful examination of the company information which is supplied and site visits if these are arranged in advance through ZPA.

Each bidder has four to twelve weeks to carry out this assessment and then make a bid. Bids are placed in sealed envelopes and deposited in padlocked metal tender boxes at the ZPA offices. All bids are then opened in public.

What are the other ways in which a State owned enterprise can be sold?

Other ways of selling a business can be recommended by the ZPA for Cabinet approval. These include:

- the public offering of shares;
- the offer of additional shares in a State owned enterprise to an existing shareholder to reduce the Government’s holding;
- the sale of the assets and business of a State owned enterprise, which will thereby cease to exist in its own right;
- management or employee buyouts;
- lease and management contracts whereby a private sector company runs a State owned enterprise for a specified period.

How can the ZPA make sure a good price is secured for Zambia's national companies?

Many buyers will offer a low price while the ZPA is required to ensure each enterprise is sold for its market value. To assist in achieving this, each enterprise must be valued by independent assessors.

For State owned enterprises which are going concerns, this value is based upon what they are likely to earn in the future. This is the theory. In practice, the ZPA concedes that, ultimately, the market value of an enterprise is determined by the price someone is willing to pay for it and the price which the seller is willing to accept. By this definition, the 'market value' realised may be significantly below the independent valuation. Furthermore, as only the bids and eventual sale price are published, the public is none the wiser as to the real value put on the enterprise by the independent assessors.

For businesses which are not going concerns, the valuation is based upon how much all of its assets - such as buildings, land, machinery, vehicles and furniture - are worth. Again, the valuation is carried out by independent assessors but, once more, details of the valuation are seldom published so it is difficult to gauge whether the eventual money paid for the assets is a fair one.

Who is responsible for selecting the best bids?

Once the bids have been opened in public, an evaluation team within ZPA assesses each of them in turn. The evaluation team is made up of two or three ZPA staff and a consultant.

In evaluating each bid, consideration is given not only to the price offered, but also to the commitment of potential buyers to develop the enterprise and to their ability to do so as shown by their track record.

The team then meets with the ZPA management before presenting its Bid Evaluation Report and recommendations to the Members of the ZPA board. The Members approve a short list of bidders and invites those selected to further negotiations.

“Some of the valuations for state enterprises have attracted dispute, and suspicion of undervaluing.”
[Times of Zambia, 3 December 1997]
Who is responsible for negotiating each sale?

For each sale, ZPA management is assisted by an independent negotiating team whose appointment is approved by the Members of the ZPA board. This always comprises an independent chairman, a lawyer, at least two technical consultants from ZPA staff, and specialist consultants/advisers, as required.

The negotiating team liaises and bargains with each selected bidder and eventually hammers out a deal with the selected buyer. Overall, the team is responsible for securing the best possible deal and for ensuring that agreement is reached on all issues of concern to the Government of Zambia. These include making sure that the new owners honour existing conditions of work and pledge to make agreed investments in the business.

Is the use of independent negotiating teams ensured in each and every sale?

The use of independent negotiating teams is a good way to avoid political interference in the sales and, by and large, negotiating teams have been appointed in accordance with the Privatisation Act.

The ZCCM privatisation - by far the most important of Zambia's parastatals - is one notable exception. Negotiations over the sale were being led by the international merchant bank, N.M. Rothschild until, at the end of March 1997, Mr. Francis Kaunda was appointed by the President, rather than by the ZPA board, to head the ZCCM Privatisation Negotiating Team. This directly contravened the Privatisation Act which was drawn up to ensure the process remains free from undue political influence.

Who finally approves the sale after the negotiating team has reached agreement with a prospective buyer?

Once each individual agreement has been finalised by the negotiating team, it does not come back to the Members of the ZPA board for approval, although both the board and the Attorney General may review the agreement reached. Rather, the Privatisation Act specifies that the Minister of Finance shall sign the final Sales Agreement to transfer shares to the selected bidder.

However, the process specified in the Privatisation Act is not followed in each and every case. The sale of ZCCM is again a case in point. In effect, a special Cabinet subcommittee (also known as the Committee of Ministers) decides whether each sale should go ahead in line with the terms which are being agreed by the negotiating team. This subcommittee is chaired by the Minister of Finance.

Are there other ways in which the ZCCM sale has not been handled in accordance with the Privatisation Act?

ZCCM management and the Government itself, not the ZPA, are handling negotiations over the sale of ZCCM. For example, the chief executives of the four major partners in the Kafue Consortium -at the time bidding for the Nkana/Nchanga mines - visited Lusaka. They met with President Chiluba, Francis Kaunda, Luke Mwananshiku, and Edward Shamutete on 15 August 1997 to press for a speedy resolution of negotiations.

A question was asked in Parliament by Lusaka Central Independent MP Mr. Dipak Patel as to why the Government is heading the ZCCM negotiations, and not the ZPA, as stipulated in the Act. The Deputy Minister of Mines and Mineral Development, Mr. Lembalemba, failed to answer the question or address the issues it raised.

First Quantum, a company which was unsuccessful in its bid for the Luanshya/Baluba mine has sued the ZPA, ZCCM, the Binani Group as the new owner, and the government as a fourth defendant. It alleges that its bid was superior and that the decision to award the contract to the Binani Group was not considered by the ZPA Members or the sale handled by the ZPA. The company wanted a declaration to the effect that no other body except the ZPA is entitled to offer for sale any State owned enterprise under the Privatisation Act. The implication is that the decision to sell to Binani was taken by the Government and ZCCM.
The chief executive of ZPA, Valentine Chitalu, is a Director of ZCCM. Mr. Willa Mung'omba, a member of the ZCCM Privatisation Negotiating Team, is also a Director of ZCCM. The Privatisation Act purposefully specifies that the ZPA, and therefore not the company board and directors of a parastatal, is to handle all sales. In the case of ZCCM, this distinction is blurred. Similarly, Francis Kaunda, the chairman of the ZCCM negotiating team who was appointed over the heads of the ZPA Members, is a former chairman and chief executive of ZCCM. It may make sense for someone with a thorough knowledge of ZCCM to head up the team, but the manner of Mr. Kaunda's appointment sent a clear message that the ZPA was no longer in charge of the process.

Is privatisation transparent so that those in privileged positions do not benefit unfairly from the sales?

✓ Any member of the ZPA, or consultant to the ZPA, and their immediate families and professional partners are required to disclose any conflict of interest.

✗ However, this disclosure is not made publicly but to the Director of the ZPA who has total discretion in deciding what action (if any) is appropriate in each case.

✓ Those responsible for the implementation of the Privatisation Programme may not participate in the programme except through public share offerings.

✓ Political leaders and public officers are required to publicly disclose their intention to bid for shares in a State owned enterprise, except in the case of public flotation.

✓ Any potential investor must disclose his bid in a State owned enterprise, or his direct or indirect interest whether this is in the form of a share holding or held through a nominee.

✓ Finally, a parliamentary select committee on parastatals monitors the operations of ZPA.

What is the public entitled to know under the Privatisation Act about the sales?

✓ The names of State owned enterprises to be privatised.

✓ The names of registered consultants, valuers, lawyers, public accountants and merchant banks dealing with the privatisation process.

✗ However, you will not know by looking at the listings in either the Gazette nor in the ZPA's progress reports who is in each independent negotiating team or the extent to which any one firm or individual is being used.

Each progress report must also list:

✓ The names of bidders and how much they are bidding.

✓ The successful bidders and the reason they have been selected.

✓ The price of shares and any other special conditions of sale of shares.

✓ Any other matters thought to be appropriate.

✗ However, details of how much the enterprise was valued at originally are not published as a matter of course. This makes it impossible for the general public to judge whether the enterprise in question was sold at a fair price.

✗ Furthermore, there is often a delay in revealing the details of certain deals. For example, Sales Agreements for Luanshya and Baluba mines to the Binani Group were signed on 30 June 1997; for the sale of Power Division to the Copperbelt Energy Consortium on 6 October 1997; for the sale of Chibuluma mine to the Metorex consortium on 31 July 1997. However, by the end of the year no full details of the value of the bids received or the reason for the award of the sale to any of the companies concerned had been made public.

The ZPA must also submit an annual report and accounts to the Minister of Finance who presents these to the National Assembly. This report is published for sale to the public.

What neither the ZPA's annual report and accounts nor the six monthly progress reports omit to tell you is of equal importance.
They no longer indicate how much money from the sales has been deposited in the privatisation revenue account - the place where all the proceeds should end up.

Neither do they tell you how much money has gone out of the privatisation revenue account, let alone where it has gone to. This means that it is impossible to calculate the balance in the account.

The ZPA acknowledges that the privatisation revenue account is controlled by the Ministry of Finance and hence the ZPA itself cannot reveal details about the amount of money it contains.

All employees of the ZPA, consultants and members of the ZPA board must take an oath of secrecy. There are stiff penalties under the Act for the unauthorised disclosure of information, including heavy fines and even imprisonment for up to five years.
The impact of privatisation

The next two Fact Sheets 3a & 3b will look further at how the sell-off has been handled, at what has happened to the sale proceeds, and will consider whether privatisation has succeeded in attracting investment of the type which will allow Zambia and its people to prosper.

Taken together, the remaining Fact Sheets consider what privatisation means for people in three important areas of their lives - wealth, employment and social provision.

- Will privatisation help make Zambia wealthy? - Money & Investment
- Will privatisation make Zambians wealthy? - The new owners
- Job creation or job losses?
- Has privatisation been conducted in the best interests of employees?

- What assistance is there for retrenchees?
- Have people's social needs been forgotten? - The economy & poverty
- Have people's social needs been forgotten? - Poverty in Zambia today
- Have people's social needs been forgotten? - Policies to combat poverty
- Have people's social needs been forgotten? - Privatisation & social services
- Have people's social needs been forgotten? - The economy & poverty
Investment in the Zambian economy

There are definitely economic benefits to be gained from privatisation:

✔ **New investment** - Foreign companies have the money to invest in the former state-run enterprises which have been starved of cash. This applies in particular to larger enterprises and is typified by the mines. For example, ZCCM did not have the money to develop new prospects at the Kansanshi mine whereas the new buyers, Cyprus Amax of the USA, are set to spend large sums on exploration. The Madhvani Group of Uganda, the new owners of Northern Breweries plc, have committed to invest at least $8 million in the company to bring it up to international standards. The Commonwealth Development Corporation have pledged to invest $15 million on the development of Munkumpu/Nchanga Farms over the next three to four years.

✔ According to Zambia Investment Centre (ZIC) Executive Director, Bwalya Ng’andu, direct investment in Zambia had reached only $72 million by December 1997. Investment pledges made in 1997 did, however, increase to $231 million and ZIC estimates that over $500 million of investment will be channelled into the mining sector over the next two years. This calculation was made before the recent collapse of negotiations with the Kafue Consortium to buy Nkana and Nchanga mines.

✔ **A return to profits** - The bottom-line of business is to make money. Most of the new owners who are serious about business will have done their sums and will aim to make a profit from the companies they have bought as soon as possible. This should be good for the economy at the national and local levels, generating employment and development.

✖ **But** rapid expansion of the economy and increased income for the government of Zambia are by no means guaranteed. Some of the businesses will fail and, out of the others which succeed, significant profits may end up going overseas.

This Fact Sheet 3a will consider how much money is being realised now from the privatisation of Zambia’s State owned enterprises, who is responsible for managing the revenue generated, and where the money is actually going. A central concern will be the extent to which the Zambian public is kept informed about what is happening to this income which, after all, comes from the sale of their national assets. It will also consider the argument that significant government revenue - for example, through taxes and duties - is likely to be generated in the future as a result of privatisation.

This Fact Sheet should be read in conjunction with Fact Sheet 3b which will go on to consider another important aspect of wealth creation, the question of who now owns most of Zambia’s industry and businesses.

**How much cash will the sales bring in?**

The sale of former state enterprises might be expected to generate money for the Government of Zambia, although this will not be anywhere near as much as might be assumed.

The reason the sale will not generate much money for the benefit of the Zambian people is because many of the enterprises are currently running at a loss and will continue to do so until the new owners invest in them. For example, over the period 1985-1989, parastatals cost the Government $455 million in hidden subsidies against dividends paid to the Government of just $22 million. ZCCM has recently been running at a loss of $25 million
The promise of future investment

Kansanshi mine at Solwezi in North Western province was the first significant ZCCM package to be sold. The sale, to Cyprus Amax of the USA, was completed on 14 March 1997. Large scale mining at the site had ceased in 1986, although approximately 1,000 tonnes of copper per annum have been produced by small-scale operators granted permission to continue their activities by ZCCM. The deal is a complex one. While Cyprus Amax has agreed to purchase the majority 80% interest in the project, ZCCM/Government of Zambia will retain a 20% holding. The sales agreement specifies that Cyprus Amax will buy the mine in three stages:

- In Stage I, to be completed within two years, Cyprus Amax will pay $3 million in cash and will spend at least $5 million more on exploration drilling and preliminary feasibility studies. At the end of Stage I, if it considers that prospects are not good, the company has the option to pull out.
- If it decides to go on to Stage II, Cyprus Amax will pay $10 million more in cash and spend a further $15 million on exploration and a bankable feasibility study. The latter is a detailed, costed survey which will establish whether it will be economic to develop full-scale mining operations. This will determine whether banks and financiers will back the project. Again, Cyprus Amax has the opportunity to pull out at the end of Stage II.
- In the third and final Stage III, if the feasibility study shows that the project is viable and Cyprus Amax decides to press ahead, then the company will make a final cash payment of $15 million and secure all the necessary finance to bring the project into production.

Overall, therefore, the cash price for sale is $28 million of which only $3 million will be paid up front. However, if Cyprus Amax decides to not continue beyond either Stage I or Stage II, ZCCM/Government of Zambia will get to keep the cash already paid and the mine and deposits will be returned to them.

Are there any drawbacks to the deal and what has been its overall effect on employment in the area?

- The development of Kansanshi is not absolutely guaranteed as Cyprus Amax has options to withdraw. However, this degree of uncertainty is to be expected when commercial decisions are still to be made.
- It is, therefore, impossible to say whether a large-scale working mine will open at Kansanshi. Cyprus Amax has indicated that, should it decide to proceed, the main feasibility study will take two and a half years or so to complete and no definite time-frame has been given for the move to Stage III, although a decision may be made as early as 2001. Local people and businesses therefore do not know when or even if the sale of Kansanshi will bring with it widespread benefits of employment and contracts with local firms.
- Figures released by the company in February 1998, show over 150 local residents are employed in the exploration phase either directly by Cyprus Amax or by through its subcontractors.
- Unfortunately, some local people have already experienced negative impacts arising directly from the sale. 100 Copper Mining Trust Limited employees, 55 ZCCM employees, and 58 contracted youths and casuals, a total of 213 workers, all lost their jobs when the existing small-scale copper production at Kansanshi was closed in January 1998, less than one year after the sale was completed. Cyprus Amax had agreed to allow these operations to continue in the short term under ZCCM supervision. The decision to close was made by ZCCM management. At the same time, stipulations under the sale agreements did allow Cyprus Amax to request closure should the operations become incompatible with its work programme, after prior notice to the Government of Zambia. The official reasons given by ZCCM for the closure of the workings ranged from unprofitability to the imminent privatisation of Nchanga Division, whereupon its management responsibility for small-scale mining at Kansanshi would cease.
- Allegations have been made that the sale and company action has resulted in some local residents suffering social losses. At the same time, Cyprus Amax has made donations to assist local people. This subject is examined further in Fact Sheet 5d.

A proportion of the money generated from the sale of sound companies has been used to pay off the debts and liabilities of other state-run enterprises. Some of this money will therefore go, for example, to suppliers who have not been paid for goods or services. Other amounts will be used to pay off debts to both domestic and overseas banks. At a conservative estimate, perhaps K5 billion has gone to State owned enterprises, including shops in the trade sector, in an attempt to maintain their viability. Examples of companies supported by the ZPA are given in the box overleaf.

However, rather than ZPA covering the costs of company liabilities out of the money made from privatisation, often the price paid for an enterprise is adjusted in order to take into consideration existing debts. This means that the amount of money actually received - the cash consideration - is often much less than the value of the sale as a whole. Consider the examples of Munkumpu/Nchanga Farms, National Milling Company, and Cleanwell Dry Cleaners in the box overleaf.

Even if the market dictates that the prices realised are low, it might still be expected that the sheer size of the sale - involving some very large parastatal companies, as well as hundreds of small and medium sized enterprises - would generate a significant amount of capital for the Government of Zambia which could then be used to increase public expenditure, for example, on retraining or social provision. As will become clear, this has not happened for a number of reasons.

Who looks after the money made from the sell-off?

Under the Privatisation Act, proceeds from the sale are to be deposited in the privatisation revenue account (PRA) at the Bank of Zambia which is controlled by the Minister for Finance.

How much money is in the Privatisation revenue Account?

This is a good question, as figures for the amount of money in the privatisation revenue account are not made public. Initially, the progress reports did list how much money from each sale went into the PRA, but this practice ceased altogether after Progress Report No. 7 which covered privatisations in the six months to the end of 1995, before the bulk of the sales went through. Even when deposits into the PRA were listed, no figures were published by the ZPA or the Ministry of Finance detailing out goings from the account or how the money generated every month. Hence privatisation is less to do with raising money than with saving money and attracting new investment.
Companies supported by ZPA

Kapiri Glass Products Limited had been a loss making concern for ten years. In the three years prior to its privatisation, it had lost $42 million. The company’s accounts for the financial years in 1994 and 1995 showed the company to be insolvent with liabilities of $0.8 million. Hence K256 million from the privatisation revenue account was pumped into the company to keep it afloat until it could be privatised. The Government of Zambia’s shareholding was sold in October 1995 to a German company, Floco GmbH, which already had a small stake in the company. The price of $1.4 million paid by Floco was in line with the independent valuation and the new owners agreed to take over the existing liabilities. Unfortunately, despite the sale, the company still went into receivership. By December 1997, workers entered their seventh month without pay.

Nkwazi Manufacturing Company Limited manufactures and distributes nets and ropes. It used to employ 181 persons. The company’s losses before tax at the end of the 1995 financial year were K156 million. By August 1995, production had ceased and most of the remaining 133 strong workforce were placed on forced, unpaid leave. The ZPA kept the company going until it could be sold:

“The ZPA has had to manage the employee redundancy liabilities and large creditors making this a liquidation avoidance privatisation rather than one aimed at getting some resources into the privatisation revenue account. This was done in recognition of Nkwazi’s potential to turn into a growing and profitable company contributing efficiently to the national economy.” [ZPA, Progress Report No.7]

Under privatisation, the company was first offered for sale to the existing minority shareholders, including Anglo American Corporation who declined to buy it. An offer from the smallest existing shareholder, Mr. Patel, and a bid made by a management buy-out team were both rejected by ZPA. Mr. Patel submitted a revised bid for K100 million which was accepted. Since taking over, the new management has endeavoured to turn the company around. This has necessitated cutting the work force from 133 to 35 employees.

Kafue Textiles of Zambia Limited is the largest producer of textiles in Zambia. Offers for the company were received from the existing minority shareholders - including Maurer Textiles SA, the Commonwealth Development Corporation, and Barclay’s Pension Fund - and, after negotiations, the sale agreement was signed in 1995. However, before the sale could be completed, the buyers re-opened negotiations because of the deterioration in the financial operations of the company. Over the period 1995 to 1997, payments in the region of K900 million have been made from the Privatisation Revenue Account to shore-up the company while a deal is hammered out. As of 31 December 1997, negotiations were still ongoing.

Breakdown of the total purchase price (net package value)

National Milling Co. Ltd. mills maize and wheat, as well as manufacturing stock feeds. It was sold to Erabus BV of the Netherlands, a wholly owned subsidiary of Anglo American, and Namib Mills Pty SA. The total purchase price was $11 million but of this amount only $400,000 was in hard cash. The rest - the equivalent of a massive $10.6 million - came from the new owners taking over existing liabilities.

Munkumpu/Nchanga Farms comprises two farms, one a sheep and cattle ranch, the other a crop farm growing winter wheat, maize, and soya beans. CDC’s total purchase price of $7.2 million includes $2.5 million to settle existing liabilities. This leaves $4.7 million which represents the actual cash made from the sale. In addition, the CDC plans to spend $15 million on investments in the farms over the next 3-4 years, although the commitment they have made is not legally binding.

Cleanwell Dry Cleaners Ltd. provides dry-cleaning services to contract and retail customers. After an award of the company to Swan Dry Cleaners for K75 million cash, the losing management buy out team sued ZPA. After a High Court case and adjournments, the MBO team withdrew the case. Meanwhile, the company had amassed record debts of K89 million. This build up of money owed by the company meant that Swan’s bid was reduced to just K100 cash, although it also agreed to take over of the liabilities.
was being spent. The balance of money in the PRA is not officially stated and is therefore the subject of speculation. There is a certain amount of information which can be pieced together:

- By adding up the cash realised from each and every sale, the total amount of money generated up until the end of June 1997 is in the region of K143 billion.
- Some of this amount is on deferred payment terms, but, by the same date, at the very least K100 billion should have gone into the privatisation revenue account.
- Unofficial estimates put the actual amount which has gone into the account at less than half this figure.
- At the end of 1997, the balance in the account was believed to be approximately K30 billion.

**Can this money be spent in any way the Government sees fit?**

The Privatisation Act is very clear in spelling out how the proceeds from the sale of state assets may be used by the Government. With the prior approval of the Minister for Finance, the money generated may be used for:

- funding the cost of privatisation and the Privatisation Trust Fund;
- initial funding of mutual funds;
- expanding existing productive capacities;
- financing credit creation by the Government for Zambian investors;
- rehabilitating existing plants; supporting new capital investments;
- funding the restructuring of State owned enterprises to be privatised;
- supporting redundancy payment schemes in consultation with the Ministry responsible for labour;
- supporting alternative income generating projects;
- or funding of any social project that will be in the public interest.

**Is the money being spent in the ways specified under the Act?**

Assuming the figures on revenue and the current balance in the PRA are broadly correct, then anywhere between K70 billion and K110 billion of the money generated from the privatisation programme so far has already been spent or moved to other accounts.

It is by no means clear that this money is being put to those uses specified under the Act. A vital issue for the people of Zambia is what has this revenue, the inheritance of the people of Zambia, been spent on? Urgent questions need to be asked about where this money has gone and how the funds which remain will be used to benefit the people of Zambia.

Despite the lack of official information, it is apparent that the income generated has been spent disproportionately on a narrow range of uses as specified under the Privatisation Act.

A great deal of the money from the sales has gone into paying for the running of the Zambian Privatisation Agency. At least K20 billion since the beginning of 1995 until the end of 1997 has been used to fund the ZPA itself. A report in the press maintains that the then Finance Minister, Ronald Penza, confirmed in a meeting with businessmen in Livingstone that most of the money generated from the sales had been ploughed back into ZPA.

Other areas which should, according to the Act, be receiving funds are being badly neglected, although no-one can say for certain to what extent. The fact that no official figures are available from the Ministry of Finance or the ZPA on how the money in the Privatisation Revenue Account is being spent is unacceptable. The Zambian people have a right to know how this money - which, after all, represents the proceeds from the sale of nationally owned assets - is being spent. However, it is possible to look at the other side of the equation and to consider the Government’s poor record of achievement in certain areas earmarked for funding under the Act.

**Support for redundancy payment schemes** - The ZPA has allocated perhaps K3.5 billion directly from the privatisation revenue account to propping up State owned enterprises. Only a small proportion of this sum has been used to ensure that terminal benefits can be paid. At the same time, as companies are privatised, workers in some State owned enterprises have almost no option but to accept payment in kind against their terminal benefits.

Other workers, caught in a situation when either an existing or newly privatised business goes into liquidation, are last in line to receive the benefits due to them after banks, creditors and suppliers have been paid out of what little money remains. They are entitled only to a small, statutory minimum. The number of recently privatised companies currently facing closure or undergoing liquidation, less than half a dozen in all, is comparatively small. However, this is of no comfort to the employees of Zambia Engineering and Contracting Company, General Pharmaceuticals Limited, Kapiri Glass Products, Eagle Travel, and National Drum and Can Company. Nor is it a comfort to those workers in State owned companies which have closed in the run up to privatisation. They may receive little or nothing in the
way of compensation. Why is it not possible to allocate a fair and equitable amount of money to assist people who find themselves in this position as a direct result of privatisation?

Support for income generating projects or social projects - To reduce the impact of retrenchments caused by privatisation, the Government set up a National Social Safety Net in 1993. This program is run under the Ministry of Labour and Social Security and is tasked with producing a policy framework within which redundancies can be managed on an equitable basis as this relates to compensation, training and retraining programmes, entrepreneurship promotion, and support for resettlement schemes for retrenches.

To date, the National Social Safety Net Co-ordinating Committee has received funding worth $500,000 from the World Bank and the United Nations Development Programme. Its first four years - and virtually this entire budget - were taken up by capacity building and internal staff training. This means that almost no money at all was spent where it matters, on new social projects.

So far, only 234 retrenches have received retraining. This is a drop in the ocean when set against projected redundancies running into the 100,000s as a result of privatisation, economic restructuring and the public sector reform program. The Government funds only the operational costs of the Safety Net to the tune of K200 m. Hence there is a desperate need to fund actual social rehabilitation and retraining. The Privatisation Act specifically allows for proceeds from the PRA to be spent on social projects and income generation projects: why is this not happening?

Has all the money from each and every sale gone into the Privatisation Revenue Account?

Before ZPA stopped publishing any details about the PRA, it was apparent that deposits into the account were not always for the full amount realised in the sale and no explanation was given as to where this money went. At other times, although very large sums of cash were generated from the sale of valuable medium-sized operations or from the sell-off of the largest companies of all, no money was listed as going into the PRA. Nor was it revealed where this money went. The list of unaccounted for revenue includes:

- Zambia Sugar Company - $14.8 million
- Munkumpu/Nchanga Farms - $7.2 million
- Mpongwe Development - $507,000
- All ZCCM sales so far - Chibuluma, Kansanshi, Luanshya/Baluba - a cash consideration to date of $105.5 million.

The list is unquestionably much longer and is almost certain to include other significant sales such as Metal Fabricators of Zambia, Zambia Horticultural Products, BP Zambia and Zamlube, Zambia Oxygen, and many others. This diversion of funds was revealed by the Committee on Public Investment in December 1997. In the case of ZCCM sales, the proceeds went into a ZCCM account, apparently to be put towards meeting the company's obligations. Why have the proceeds of these sales not been deposited in the Privatisation Revenue Account, as required by law?

A further serious omission in public accounting concerns the public flotation of the Government of Zambia's remaining shares in a company. These sales can generate significant sums of money but the amount realised is not recorded in the ZPA's published records nor is it clear whether the money generated is deposited in the PRA or whether it goes elsewhere. There is simply no way of telling from information published under the Privatisation Act.

Wealth in the longer term?

It is argued by political leaders and the privatisation gurus that although the sale of national assets has not itself directly generated huge sums of money for Zambia, this is less important than the investment and revenue which Zambia will gain as these enterprises return to profit. The cash component of the sales is not, in reality, inconsiderable: the conservative estimate of K143 billion to mid-1997, which excludes the sell-off of the bulk of ZCCM, represents almost 4% of gross domestic product. However, putting aside this issue of money already in the bank, how much ordinary Zambians will benefit from longer term investment and increased Government revenue depends upon:

- how much of the profits generated stay within Zambia or whether the bulk of the money made is exported abroad.

It is only when money is collected from the new companies by central and local government as taxes and rates that Zambia stands to gain from increased funds for public expenditure.
If significant revenue is to be generated from new investment, then the copper industry should be a prime candidate for the generation of wealth. Copper mining is Zambia's biggest industry, accounting for 75% of the country's export earnings and almost 10% of gross domestic product. Despite steadily falling production to half former levels, Zambia was still the tenth largest producer of copper in 1996 and ZCCM the fourth largest single copper mining operation in the world. ZCCM has lacked the capital to invest in upgrading the mines and little new exploration has been carried out for 25 years. The industry is ripe for much needed new investment.

How much money will the Government get from the new private sector mining companies? The first mine to be sold was the Kansanshi Mine to Cyprus Amax, a company from the USA. When asked this question about Kansanshi, the official response was:

The Government of Zambia can expect to receive substantial additional revenues as a result of the project in the form of:
- royalty payments on copper sales
- import duties on goods used in the mine's construction and operation
- tax revenues/foreign exchange from its profitable operation.

[ZPA, The ZCCM Kansanshi Mine Sale: Questions & Answers]

- It is true that money will come from royalty payments on copper sales.
- However, it could be some years before the new companies begin to see a profit from their investment. Companies can write-off all capital expenditure against tax. The 1998 Budget allows them not only to offset 100% of losses against profits, but also allows them to carry forward losses for up to ten years.
- For example, if a new company starts to make a profit in its fourth year of operation, it does not necessarily pay the Government any tax. This is because it can deduct its losses over the first three years from the profit it has just made. When the mines are sold, development agreements are signed which guarantee that the Government will not increase or adversely change the tax, royalty or duty rates paid by the mining company. This means it could be some years before a mining company will have to pay significant tax on its profits.
- It was estimated in December 1997 that the Government could gain K100 billion in mining-related revenue over three years, providing investment levels reach $1 to $1.4 billion. The actual revenue will now be much smaller for two reasons.
- Firstly, the level of investment now appears to be threatened. In April 1998, one of the biggest potential investors, the Kafue Consortium, has pulled out of negotiations for the Nkana/Nchanga package. In addition to the purchase price, they would have bought investment pledges worth $760 million. Falconbridge, a large Canadian mining company, has likewise announced that it has pulled out of a deal with Anglo American to develop the Konkola Deep mine. Anglo American must therefore find a new partner or find the resources to develop the reserves itself.
- Secondly, the tax and other concessions announced in the 1998 budget will result in a revenue loss of K18 billion for the Government of Zambia. This is the loss for just one year. The total cost to the Government will increase year upon year while the concessions remain in place. It will only be reversed when the companies not only begin to make a profit, but begin to make a profit which is eligible for tax.
- Incentives to foreign companies which upgrade the efficiency of former State owned enterprises, promote exports and global links, or which bring in capital investment or new technology, are an integral part of Zambian legislation. They are written in to the Investment Act, reaffirmed in the Privatisation Act itself, and guaranteed for years to come in development agreements.

But in the budget for 1998 the Government reduced the Mineral Royalty Tax rate from 3% to 2%.

The claim about duty is misleading. No duty needs to be paid when machinery or equipment for use in the agriculture and mining sectors is imported into Zambia. The duty used to be 20%. This concession encourages investment in new equipment, but results in a loss of revenue for the Government.

Furthermore, the Import Declaration Fee, which was 5% by value of all imported goods, will be abolished with effect from 1st July, 1998. An overall revenue loss of K20 billion is expected from this measure, although only a proportion of this loss will be attributable to the mining sector. On the other hand, the abolition of this fee will encourage investment in new equipment bought from overseas.

It is true that company profits are taxed at 35%. As the new investors begin to make a profit from the privatised industries, then this will generate revenue.
In order to assess whether the majority of Zambians stand to gain directly from the creation of wealth which is meant to go hand in hand with privatisation, the focus must shift to how the spoils of privatisation are distributed, both within Zambia and overseas.

Who are the new owners? Are they a new class of Zambian entrepreneurs or are they large foreign companies who will take profits out of the country?

Do ordinary Zambians have a chance to share in any success through employees or existing managers buying and running their own businesses? And what of popular share ownership - is this meaningful for the vast majority of Zambians? All these questions will be addressed in the next Fact Sheet.

Will privatisation make Zambians wealthy? - The new owners

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Luanshya and Baluba

The future is bright if Ramco Zambia can deliver on its promises

The Luanshya and Baluba mining and metallurgical complex was handed over to the new owners, the Binani Group of India, on 15 October 1997. It now operates under the name Ramco Zambia Plc. Consulting engineer, Satyendra Bhatnagar, predicts that annual production of finished copper at the mines will reach 100,000 tonnes by 2003-4 compared with the 48,000 tonnes which is currently produced. $69 million will be spent over the next five years on existing operations. It will be used to refurbish and improve mining, milling operations, the smelter at Luanshya and the concentrator at Baluba. The smelter is 67 years old, the concentrator was built in 1973. ZCCM lacked the funds to buy spare parts to keep either running efficiently.

$20 million has already been committed to replace and refurbish machinery at Luanshya and Baluba. New machines and techniques should result in an increase in output to 65,000 tonnes per annum within three years. On top of the $69 million earmarked for existing operations, a further $103.5 million has been set aside over the next five years for new copper mining projects at Luanshya and repair of the smelter.

Extensive audits and feasibility studies are being undertaken by a British based mining consultant Kilborn SNC Lavalin. Their preliminary studies have indicated that there are reserves of 44 million tonnes at Muliashi (North). If a full feasibility study turns out to be favourable, a new open pit mine will be opened at the site. Investment in a solvent extraction plant and associated sulphuric acid plant, producing 25,000 tonnes of finished copper, will enable the company to process the additional mined output. Kilborn SNC Lavalin will complete their studies on the prospects for these developments by November 1998. If all goes well, the projects should be completed by 2000. Technical audits of mining and milling operations by the same consultants will consider the extension of existing mining at Luanshya and Baluba by developing new reserves at Lufubu North and South, as well as tapping the existing Mashiba deposit.

The future for Luanshya and Baluba appears very bright. However, there are two further considerations which need to be taken into account:

Firstly, how much of the promised investment is assured?

Out of the $69 million capital earmarked for investment in existing operations over the next five years, only $20 million has been committed. Of this amount, much less has actually been spent.

The additional $103.5 million earmarked for new copper mining projects at Luanshya and repair of the smelter is promissory. There are no legally binding investment guarantees. Plans to develop Muliashi, Lufubu North and South, and Mashiba are all in their early stages. In all cases, what are known as bankable feasibility studies remain to be completed. It is only on the basis of these - and then only if the results are favourable - that finance to proceed will be forthcoming from the banks.

Even refurbishment of the Luanshya smelter and the sulphuric acid plant will not take place for some time. By April 1998, Ramco was on the verge of awarding a contract to a company to carry out the first step of a feasibility study. This must be successfully completed before the level and time-frame for the refurbishment can be fully determined.

At the national level, Ramco Zambia has calculated that it currently contributes $1.17 million each year in licence fees, royalties and taxes and that this will rise to $4.93 million if and when all projects reach fruition. It is unclear whether these calculations take into consideration the significant tax concession to the mining industry announced by the Government in its 1998 budget. If they do not, then revenues will be significantly reduced.

Secondly, what impact will the development of Luanshya and Baluba have upon employment levels and job security?

It is estimated that the opening of Muliashi and other projects by Ramco Zambia will add ten years to the existing life span of Luanshya, giving a total of 18 or so years of feasible mining in the area. Prior to privatisation, the mine had been geared to close in five years time. Assuming that development proceeds as planned, the 6,194 miners have the promise of a secure future. Currently, the management of Ramco Zambia has assured the existing work force that there are no plans to lay off any staff.

At the local level, investment projects already underway will improve the prospects of the construction industry in Ndola, Luanshya and Kitwe.

However, the medium to long term job security of the current work force will be dependent on the Muliashi project going ahead as planned. Similarly, local suppliers and construction firms will only benefit from local multiplier effects if the capital which has been pledged can be delivered on the back of positive feasibility studies.
Wealth and development for the people of Zambia

There are four possible ways in which Zambians can, in theory, prosper from privatisation.

Firstly, although the revenue generated through central government taxation might be at a relatively low level for a number of years until tax concessions have worked their way through, any extra funds will eventually benefit ordinary Zambians if the money is spent on things of importance to them in their daily lives: health care, water and sanitation, education, or ensuring terminal benefits are paid.

Secondly, if significant new employment is generated as companies invest, and if employees are paid a fair wage, then money will begin to circulate in the economy as those in formal employment spend their money on goods and services in towns and communities. Expanded formal sector employment will also increase the revenue the Government receives from income tax. Is it realistic to assume that new jobs will be created in significant numbers? Will growth be limited to no more than a few places, for example towns near to new mines? Will wage levels rise while there is a pool of labour in the informal sector?

Thirdly, if a significant number of the best firms are sold to Zambians, then some believe there is an increased chance that a greater proportion of the money which is generated in profits will remain within Zambia. While it would be naive to assume that this wealth would automatically filter down to the poor or less well off, it is assumed that a new core of Zambian entrepreneurs would at least be more likely to commit to investing in the country and its people on a long term basis. Privatisation has also created the chance for employees and managers to buy and run the businesses in which they work.

Finally, much has been made of the opportunity for ordinary Zambians to share in the generation of wealth through the buying of shares in those privatised firms which are to be publicly floated on the Lusaka stock exchange. How well does this claim of broad public participation stand up to closer scrutiny?

These last two issues - of Zambians buying companies and popular share ownership - will be examined in this Fact Sheet. The issues of social service provision and employment will be looked at in Fact Sheets 4a - 4c and Fact Sheet 5 respectively.
The answers given by ZPA serve only to raise more questions. If a total of 215 state owned enterprises have been privatised, 40 of which have been sold to foreigners and 100 to Zambians, what has been the fate of the remaining 65 enterprises? The numbers given by the ZPA, which are based on figures for January 1998, differ from those given by Enoch Kavindele, Minister of Commerce. He stated in Parliament on 2 February 1998 that 128 companies had been sold to Zambians and 70 to foreigners.

Either way, it would at least seem that the majority of enterprises have been sold to Zambians. This is true but misleading if it is then assumed that the bulk of the Zambia's newly privatised industries and businesses by value are now owned by Zambians. This is because the companies sold to foreigners tend to be the largest companies or those medium sized operations with the potential to make good profits. Using figures published by ZPA for the total sale values of State owned enterprises sold up to the end of June 1997, those sold to foreigners are worth eight times as much as those sold to Zambians. Once the continuing sale of ZCCM is complete, this will massively alter the balance still further towards foreign ownership.

Turning to the Trading Sector, of the fifteen shops which were not sold to Zambians, the ZPA states that 14 have been sold to Shoprite/Pep Stores and one to CDC. In comparison to the 175 shops sold to Zambians, this number appears to be relatively insignificant. Again, nothing could be further from the truth. The majority of shops sold to foreign interests were sold as going concerns and are by far the most profitable stores. Two packages, totalling nine shops, bought by Pep stores in major towns and cities, including Lusaka, Ndola, and Kitwe, fetched $2,026,000 in comparison to the small amount made from the sale of assets from all the rest. Shoprite/Pep Stores increasingly dominates the Zambian market and its share is growing, driving local traders out of business with its vigourous low-price approach to trading.

One might also begin to wonder which Zambians have bought businesses and who the shops in the trading sector now belong to? It is a truism to say that the businesses will have been sold to the well-off: they are the only Zambians able to secure the necessary finance. A significant number of politicians and those close to political power have figured prominently. The ZPA can be praised for publishing lists which show who the new owners are. The lists only serve to reinforce the popular perception that privatisation is a gravy train for the wealthy and a political elite.

**Does it matter whether the new owners are Zambian or not?**

The answer to this question must not be based on blind prejudice. Any new, committed owner who has a genuine interest in expanding a business by investing in Zambia should be welcomed, whether this is a foreign-owned multinational or a Zambian company. The important question is the type of investment and management which new ownership brings. If the interest is in long-term, sustainable profits, a fitting proportion of which are reinvested in the company; if working conditions are improved; if wages are fair; if employees and local communities are consulted as part of a company's plans, then the nationality of the owners is irrelevant.

The ZPA, in its questions and answers, emphatically denies that foreign firms will take money out of Zambia. However, at the same time it is conceded that foreigners may 'externalise profits'. What is critical for Zambia's economic future is the level at which profits are taken out of the country in comparison to the amount of capital which is reinvested.

The bottom line of any business - whether domestically owned or a subsidiary of a multinational - is to make sure that its shareholders get a return for their investment. This applies to the private sector in all countries, so you might think that Zambia is no worse off. Most individuals and institutions who own shares in business are in the developed world. Therefore profits, wherever they are generated, ultimately flow back to these parts of the world.

In line with many other countries, Zambia removed restrictions on how much hard currency could be brought in and out of the country by abolishing the Exchange Control Act in 1994. On the one hand, this means that an investor can now repatriate all amounts of capital introduced into Zambia, and can send out of Zambia all dividends, interest earned, and after tax profits without restriction. All earnings by expatriates can also be externalised without difficulty. On the other hand, this removal of restrictions is precisely what is attractive to overseas companies in the first place. Investment can flow in at the same time as profits flow out.

However, there are reasons why countries like Zambia are at a disadvantage when it comes to the free movement of foreign exchange. In common with many countries in the developing world, Zambia is already short of hard currency which it needed to:

> This country and the Bank of Zambia will be starved of foreign exchange and it will not be possible to sustain the imports that are coming through.”

Pay off Zambia’s foreign debts. Private banks and the multilateral banks will not accept payment in Kwacha.

Build up reserves to be used by the Government in the event of unforeseen crises such as drought, a drastic fall in copper prices, or interruptions in foreign exchange coming in from international donors.

Pay for the equipment and machinery which business requires from overseas, to meet expatriate wages, and to pay off loans to foreign banks.

At the moment, most of the foreign exchange in Zambia comes from ZCCM which then sells it on to the Bank of Zambia and the commercial banks. The decline in ZCCM’s revenue from copper and cobalt has already resulted in shortages of foreign exchange. When ZCCM is privatised, the new owners will not be required to supply foreign exchange. Hence the warning of Mr. Sichinga and others that the Bank of Zambia, the Government and business will be starved of foreign exchange. This longer term shortage will be offset only at the outset by the initial round of foreign exchange brought into Zambia for immediate investment.

**Do ordinary Zambians have a stake in the newly privatised firms?**

When Zambia’s business enterprises were all State owned, the theory was that all Zambians would benefit from secure employment and the profits would be used wisely by the Government. This did not happen. However, under privatisation there are two main ways in which Zambians can share in the promised new prosperity by taking a stake in the new companies directly. The first way is through employees and managers actually getting together to buy the firms in which they work when these come up for sale. The second way is through popular share ownership schemes.

**Q. Do you envisage that the flotation of shares in some privatised companies will in the long run encourage a wider participation by Zambians or is there very few Zambians who are interested in investing in this way?**

**A. YES. A wider number of Zambians will participate particularly as the economy further recovers.**

[ZPA, *How far have Zambians participated in the privatisation programme?*, January 1998]

Much has been made of these schemes by political leaders and the ZPA but, as will become apparent, most people in Zambia are simply too poor to take part. People are too preoccupied with making ends meet on a day to day basis to even give such schemes consideration.

**How do employees or existing managers buy a company?**

The Privatisation Act makes it clear that one way in which the ZPA can privatise State owned enterprises is by selling them to existing employees or managers who decide to pool their resources and make a bid. These are known as Employee Buy Outs (EBOs) or Management Buy Outs (MBOs). When the company is offered for public sale by the ZPA, MBO or EBO teams make their bid alongside other interested buyers. However, in 1994, the Government earmarked a number of companies where employees and management were given the first opportunity to bid for their company. Only if their bid was considered inadequate or if negotiations failed was the sale opened up to other interested buyers.

Although, MBOs and EBOs represent an opportunity for Zambians to gain a stake in their company when it is privatised, in reality there are barriers to be overcome. People need the necessary expertise to draw up and agree upon a business plan and the funds to make a competitive bid. It is not surprising, therefore, that most buyouts have been launched by management. Indeed, only four buy outs have been initiated with any direct employee involvement.

There are incentives for both employee and management buy outs. As with all successful bids by individual Zambians, and unlike foreign buyers, all MBOs and EBOs may defer payment for a company, allowing them the time to raise the finance they need. Although tensions can sometimes build between employees and managers when the latter launch a bid without informing their employees, in every case there is a requirement that a 25% share in the company must be put in trust for all employees when a MBO or EBO is successful. This means if the company does well, all employees will share in the success.

There are certain other circumstances in which Zambians can benefit directly from privatisation. These include the formation of co-operatives. For example, this happened in the case of the Dairy Produce Boards in Kabwe and Ndola, when local dairy farmers joined together to buy the businesses which they had previously been supplying. In the case of the National Tobacco Company, the business was sold to the tobacco growers themselves through the Tobacco Association of Zambia in partnership with a German firm, Contraf-Nicotex. There are a handful of similar examples, but all are the exception rather than the norm.
**How many businesses have been successfully bought in MBOs/EBOs?**

In reality, the number of successful buy outs by managers has been small. Of the 59 management buy out teams who have initiated bids, 18 have been successful. This should be set against a total of 188 privatisations by June 1997. NIEC Overseas has been the only successful buyout involving employees, excluding the farming co-operatives already mentioned. Furthermore, with the exception of MIL Construction Ltd., all the other companies bought by management or employees have been officially classified as small companies by the ZPA or else are individual hotels or mills. The approximate value of the firms bought in this way by June of last year is K4.5 billion out of a total sale value in the region of K143 billion from all privatisations.

**What about popular share ownership - how does this work?**

Apart from management and employee buy outs, the other main way for Zambians to participate directly in privatisation is through popular share ownership schemes.

Buying shares in a company means that you come to own a small part of that company. You literally buy a part or share in the business. When you buy shares in a company, you will get a certificate confirming how many shares you own. For example, if a thousand shares are for sale in a company and you buy one hundred of them, then you will own a tenth of the company.

While a State owned enterprise is in the hands of the Government, it owns most, if not all, of the shares in that company. Sometimes, in the case of a 'parastatal' the government will either not have owned all of the company from the outset or else will already have sold part of its holding. However, in both circumstances it will still be the majority shareholder.

Public flotation is the process by which people are given the chance to buy into a former state owned company for the first time. In principle, anyone - members of the public, management, employees, foreign investors - can participate in this. When remaining Government shares are to be sold, adverts are placed in newspapers and on TV which tell people about the share offer and advise people on how to go about purchasing shares.

**What is the Privatisation Trust Fund?**

The Privatisation Trust Fund was set up to hold shares which the Government owns in some of the newly privatised companies. It is managed by the Ministry of Finance and five trustees. Remaining Government shares in the newly privatised companies will then be released in a controlled way from the Privatisation Trust Fund to be sold on the Lusaka Stock Exchange. Zambian citizens who purchase a small amount of shares will be able to do so at a discount. All Zambians - the public, employees and management - will also be able to pay for these shares in instalments. The proceeds from the sale of shares should be transferred to the Privatisation Revenue Account, although there is reason to believe that this has not always happened in flotations to date.

**What are Government owned `golden shares'?**

The Privatisation Act allows the Minister of Finance, on the advice of the National Assembly, to retain a 'golden share' in key privatised companies. This gives the Government the right to nominate a director on the board of the new company. The idea is to ensure that the Government retains some influence in the decision making process in important industries. However, unlike regular shares, the golden share does not allow the Government to receive dividends or other financial benefits. To date, 'golden shares' have been retained in the sell-off of ZCCM packages and in Maamba Collieries.

**Are some shares in all of the newly privatised companies going to be publicly floated?**

The ZPA has decided that out of more than one hundred and fifty companies which are being privatised, only about thirty or so are suitable for public floatation. These companies are generally those which are large, have been well managed and have a strong likelihood of making good profits in the near future. This makes these companies a good investment and the risk involved in buying shares is relatively small. Examples of companies which have seen some of their shares publicly floated are:

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What is to be gained from owning shares in a company?

If you own shares in a company and it makes a profit, then you are entitled as a shareholder to receive some of this profit. This is known as a dividend and the amount you will receive will depend upon the number of shares you own. Furthermore, when a company is doing well and making a good profit, the amount of money it is worth rises. This means that the value of your shares also increase in value.

If a company makes a loss instead of a profit, then no dividend will be paid. You do not have to pay the company any more money to make up for this loss and you keep your shares.

It seems too good to be true that a shareholder can make money from owning shares in a company when it is doing well yet he or she does not have to bail the company out when it is doing badly. There is, of course, a catch. When a company does not perform well, the amount of money it is worth falls. This means that the value of your shares in that company also falls. For example, if you bought one hundred shares in a company and they cost you K2000 each, then the company does not perform well, the value of each share will fall. If the value of each share dropped by K1000, then you would have lost K10,000 on your initial investment.

Do ordinary Zambians stand to benefit from share ownership?

This is a key question. The answer is an emphatic no in a country riven by poverty. The facts speak for themselves and expose the two faced nature of some of the political rhetoric.

The only Zambians who have participated in the process are either those who were already rich in both government and the opposition, and those in government able to borrow from banks because of their positions.”

[George Zulu, spokesman for UNIP vice-president Chief Inyambo Yeta, Times of Zambia, 3 December 1997]

The facts speak for themselves and expose the two faced nature of some of the political rhetoric.

70 percent of all Zambians are living in poverty with 55 percent of the population lacking sufficient income to meet basic nutritional needs.

[Extract from Penza's Budget Speech 1998]

What relevance do public floatations have for these people when their main concern is simply surviving from day to day on what little they have?
But surely privatisation will raise everyone's standard of living?

Although the distribution of the direct wealth in terms of share ownership will not benefit poor Zambians and will instead further concentrate wealth in the hands of the rich, gauging the effect of privatisation on the livelihoods and standard of living of a wider set of Zambians depends upon three factors:

首先, will the newly privatised firms be taking on new employees? This issue is of the greatest importance to many Zambians.

第二, the protection of workers' interests during and after privatisation is vital, as is support for those retrenched. These matters will be the subject of Fact Sheets 4b and 4c.

Has privatisation been conducted in the best interests of employees?

What assistance is there for retrenched?

Finally, there is the matter of a social safety net for those who will certainly suffer as a result of privatisation. Have their social needs - health care, education for their children, decent housing and services - been forgotten or has provision been made to support people through the hard times ahead?

Have people's social needs been forgotten?

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Dannysits in a Hi-Lux with three strangers. A local community development group, in whose offices he often sleeps, has arranged for Danny to show some visitors around Mufulira. He knows the town inside out, which is not surprising seeing as he spends most days on its streets. He may only be twelve years of age, but he is very knowledgeable about the mine. He points out each piece of dilapidated plant around the pithead. The rusting conveyor belt with its broken ore coming up from underground. The ruptured slurry pipes spitting discoloured water. One block of buildings is much newer and apparently in a good state of repair. White smoke spirals out of the chimneys. This, Danny says, is the smelter and refinery which have attracted the attention of Anglo American.

Driving past the small tin-roofed prefabs in Konkoyo, the dust rises around the Toyota. There is little vegetation and almost nothing growing in the small gardens. The area downwind of the metallurgical plants is polluted by sulphur dioxide emissions. Danny tells with a certain relish a story about the crocs which come out of the tough, high grass by a bridge on the outskirts of Konkoyo at night. The Hi-Lux stops between two lines of shops, bars, and trade outlets which stand apart on the outskirts of Konkoyo compound. Three of the buildings are shells. The roofs have collapsed but the old shop signs remain fixed to the facades. About half of the street is shut down. Danny and his friends sit in the back of the Hi-Lux in the sun. There is no need to lock it with them on board.

Yet, despite Danny's obvious intelligence and enthusiasm - and this in the face of the hardships he must endure living on the streets each day - it is difficult to see how privatisation will in any way help him to a better life. Danny does not go to school. He is small for his age, as the result of a poor diet. He does not have access to clean drinking water or adequate food. His health is therefore at risk. He has nowhere to live. His clothes are in tatters. As he sits in the Hi-Lux, one of his friends cracks a joke. Danny laughs.

Popular ownership, participation in the fruits of privatisation, democracy through a stake in Zambian industry, all of these slogans have absolutely no meaning for Danny. In 1993, one fifth of the population earned and consumed four-fifths of Zambia's wealth. The early indication is that privatisation and public share flotations will further concentrate wealth. After all, the poor will not buy shares.

After Danny and his friends have climbed out of the Hi-Lux in the main street of Mufulira, a man approaches the visitors. He tells them not to give money to kids like Danny because they will spend it on drugs. This time, Danny goes off to buy a currant bun in Shoprite.
Job creation or job losses?

Job losses, job creation or saving some existing jobs?

On the face of it, privatisation will either create jobs through investment or else will result in further job losses as inefficient businesses and overmanned former State owned enterprises either close or undergo cuts in their work force. There is a third way to view privatisation. Some would argue that, given the state of Zambian industry, privatisation should not be viewed in terms of how many jobs will be lost, nor how many jobs will be created, but rather in terms of how many jobs will be saved.

This Fact Sheet 4a will examine the scale of job losses and the prospects for job creation. It will also look at the privatisation of several important former State owned enterprises and the impact upon employment in the areas in which they are located. The next Fact Sheet 4b is still concerned with employment. It will look at what people are being told about employment plans, at how redundancies are being handled, and the likely effect of privatisation on employment conditions. A final Fact Sheet 4c on employment will then assess what social support is available to the unemployed and those who have recently lost their jobs. It will also consider work prospects in the informal sector, given that this is where many of those who are retrenched must earn their living in the future.

What is the extent of job losses?

As a result of the UNIP initiated Fourth National Development Plan, formal sector employment stood at a record high in 1992. Government policy on employment changed dramatically under the MMD. It maintained that high levels of employment, especially in parastatals and the civil service, were being effectively supported and subsidised by money which the Government did not have. In the past, the solution had been to borrow the necessary cash, but the resulting debts could not be repaid. As a result, no new loans were on offer. Hence the MMD has embarked on the restructuring of the economy, backed by the World Bank, which requires it to balance the books. In order to do this, it has sought to stem the drain on its resources by selling off the parastatals and it has put in place the Public Sector Reform Programme in order to cut government expenditure on administration, primarily by reducing overmanning in the civil service. The outcome of these policies is inevitable and large-scale job losses.

From the high of 545,900 formal sector employees in 1992, preliminary figures from the Ministry of Finance and Economic Development put the number at 472,300 in 1997. This means that 73,600 jobs have been lost within five years as a direct result of liberalisation, privatisation and reform of the public sector.

Of these job losses, many have been in the parastatal sector. From September 1993 to June 1995, employment in State owned enterprises fell by 40,900 as a result of liquidations and preparations for privatisation. Although some of this fall can be accounted for by increases in private sector employment as companies are privatised and change ownership, there is still a significant shortfall. Over the same period of September 1993 to June 1995, private sector employment went up by 11,400. This means that 29,500 jobs were lost in this transition period. The only conclusion that can be drawn from this is that most of these people must now look for employment in the informal sector if they are to survive. Latest figures for 1996 and 1997 show that there were a further 6,184 redundancies across both State and privately owned industry. There is no indication that redundancies are at an end.

Local and central government employees have also suffered directly as a result of the MMD Government implementing its Public Sector Reform Programme on the strong recommendation of the World Bank. The intention

What has been the immediate effect of liberalisation and privatisation on employment?

In the short term at least, liberalisation and privatisation have been the cause of significant job losses. The harsh economic logic of opening the economy up to a private sector which must be competitive if it is to make profits, has seen many former uncompetitive state owned enterprises go into liquidation or has seen the shedding of excess labour to make them more efficient and attractive to new buyers. The State has, in effect, already undertaken much of the difficult task of retrenching a sizeable proportion of the work force in the run up to privatisation proper. However, it is unlikely redundancies will end with privatisation as many of the new owners will want to cut their work force in order to increase productivity.
is that no fewer than 57,000 people or a staggering 40% of the public sector work force will lose their jobs by 1999. The plan was to lay off 7000 employees by December last year, to be followed by a further 8000 redundancies by April 1998. However, as the Government has a limit of K20 billion under the 1998 budget allocation to cover retrenchment packages for some 3410 civil servants, it has had to scale down its plans while it awaits the approval and release of the shortfall of K96 billion from donors and the World Bank.

**How many former State owned enterprises have closed?**

The ZPA lists eleven companies as having being liquidated from 1994 - 1997 under the privatisation programme. It is unclear whether this figure includes the closure of significant operations such as the United Bus Company of Zambia and Zambia Airways which were liquidated before they could be privatised under the divestiture sequence plan. In those companies closed before their successful privatisation could be concluded, 5,801 jobs have been lost.

In addition, as of December 1997, 28 companies are listed by the ZPA as either under liquidation or in the process of being wound up after the sale of their assets. Of course, those in the latter group include enterprises such as the National Dairy Board, National Home Stores Limited, the National Hotels Development Corporation, Consumer Buying Corporation of Zambia, Zambia Agricultural Development Limited, Zambia Cold Storage Corporation, Zambia Steel & Building Supplies, and others which were broken up into asset units before being privatised. Large and medium scale liquidations currently underway include the Memaco group of companies, Mpelembe Properties, and Premium Oil Industries. A further six enterprises are in receivership.

To date, according to the ZPA, four businesses which have been sold have subsequently gone into receivership or liquidation. These are General Pharmaceuticals Limited, Kapiri Glass Products, Eagle Travel, and National Drum and Can Company. Zambia Engineering and Contracting Company must also be added to this list. There is newspaper speculation that a vast array of others are dead everywhere else except on paper. This is hard to refute when the ZPA admits that almost nothing has been done to track the performance of companies after privatisation.

**What are the prospects for job creation as a result of privatisation?**

Against this scale of past, current and future job losses in the formal sector, the balance will only be addressed if two conditions are fulfilled. Firstly, if new jobs are created in the private sector, especially in those former State owned enterprises which are newly privatised on the promise of investment. The economically active population grew from 2.7 million to 3.5 million from 1986 to 1993, equivalent to a rate of 4.1% each year. If this is a continuing trend, then not only will those jobs lost to date need to be replaced, but new jobs over and above previous levels will need to be created.

Secondly, and failing a rapid expansion of jobs in the formal private sector, prospects will only improve if secure, well-paid and long term employment opportunities can be carved out by those joining the ranks of the informal sector. The prospects of this happening are considered in the next Fact Sheet 4b.

Many statements are made about the economic boom and the expansion in the number of jobs which privatisation is meant to bring about. However, in contrast, very little concrete information is released about...
exactly how many jobs will be created and where these will be. Nor is much said about future job losses which are already planned by the new owners of certain companies. Even assuming that investment pledges do result in hard cash which is invested in Zambian businesses, by and large within the next five years, then the total number of jobs created is still small in comparison to the number of jobs which have been lost. For example, the total of 6,209 jobs which are predicted to result from investment pledges in 1997, will generate, on average, 1,242 jobs a year over the next five years. Assuming the number of jobs created is proportional to the amount of investment, then investment pledges in 1995 and 1996 should also create, on average, an additional 880 and 1,285 jobs per year respectively. Hence employment to total approximately 3,400 jobs per year will be generated by these levels of investment. This degree of job creation is simply inadequate if it is to balance the number of jobs losses, let alone the numbers of young people entering the job market. Over the last five years, on average, 14,720 jobs have been lost in each year. Of course, the level of job losses may fall in the near future and the number of new jobs created through investment may rise more rapidly. It is by no means certain that this will happen.

Is it not true that, without privatisation, the situation could be even worse?

This is a key question at the heart of the purpose of privatisation.

Privatisation is resulting in job losses, but given the state of Zambian industry, most commentators would argue that these losses are unavoidable and that the new private sector owners are taking the hard, commercial decisions which should have been taken under parastatal management but which were avoided for political reasons.

Privatisation is not creating jobs. Many would argue that, again, this is inevitable, at least in the foreseeable future, as former State owned enterprises have been overstaffed. In order to offer goods and services at competitive price while making a profit,

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General figures have been released by the Zambian Investment Centre which attempt to forecast how many jobs will be created as a result of investment pledges in different sectors of the economy.

<table>
<thead>
<tr>
<th>Investment pledges $US</th>
<th>Employment to be generated as a result of pledges in 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>1996</td>
</tr>
<tr>
<td>192,920.00</td>
<td>281,200,000</td>
</tr>
</tbody>
</table>

There are, however, a number of problems with these figures:

- There can be no certainty that companies will actually invest the amount of money they have promised. This is because the ZIC figures show investment pledges, which companies can go back on, and not legally binding or actual commitments. Of course, it is perfectly legitimate for business and commercial interests to alter their investment plans as they see fit. For example, investment pledges from 1994 to 1996 amounted to some $610 million but the actual investment made in Zambia over the same period was $117 million. This assumes that all the money promised in one year will be delivered very soon afterwards, at least within two years. This is seldom the case.

- Investment pledges may be spread out over many years. Some capital may arrive almost immediately, while the bulk may be invested in two years time with the balance being delivered over five or even ten years. This needs to be taken into consideration when interpreting the prospects for new jobs given by ZIC. In reality, it may be one, five, or even ten years before the jobs which match the pledges are delivered.
there is a need to increase output while reducing production costs. Shedding excess labour is the first step to achieving this. Under the MMD Government, State owned enterprises have themselves been laying workers off in an effort to avoid closure and this trend is simply gathering pace under private sector ownership.

Privatisation is not, therefore, about avoiding redundancies; it is not about job creation; rather, privatisation is all about stemming huge losses and saving the remaining number of jobs which would otherwise have been lost if more parastatals had simply closed.

This conclusion is a bleak one as it has little to do with development. However, accepting that privatisation and unemployment are a reality in Zambia today does not mean accepting the way in which their adverse consequences have been handled. The next Fact Sheet 4b will turn from the question of overall job losses and job creation to consider whether people are being told the whole truth about employment prospects; the manner in which redundancies have been managed; and the implications of privatisation for working conditions.

Has privatisation been carried out in the best interests of employees?

A final Fact Sheet 4c on employment will look at social support for retrenchees and employment in the informal sector.

What help awaits retrenchees in their new life?

The future of Mufulira mine

Mr. Banda fears for his job

Mr. Banda and his fellow miners are only too aware that the future of mining at Mufulira is uncertain. They read the newspapers like everyone else and the MUZ has passed on certain information about the mine’s future, although not as much as its rank and file members feel they are entitled to know. Originally, the Mufulira mine, its associated concentrator and hi-tech smelter/refinery were bundled together in the same sale package as the Konkola Mine which has its own concentrator. However, as a result of pressure from the Anglo American Corporation, who has entered into an understanding with the Government to develop the valuable Konkola Deep reserve, the Konkola mine and concentrator, together with the highly desirable Mufulira smelter/refinery, have been hived off from the overall sale package. This leaves the Mufulira mine and concentrator as remnants which appear to be unviable in their own right.

Overall, the impact of this decision to split the original sale package could have very serious consequences. Mr. Banda’s job, like that of so many of his colleagues, may be on the line. Future employment in the whole Mufulira area could be hit. As a result, the proposed unbundling has been heavily criticised by the Parliamentary Committee on Public Investment.

Already, the work force at Mufulira has declined from 6,992 in 1995 to 6,447 in May 1997. Mr. Banda had a neighbour who lost his job, and who has now sunk his retrenchment package into small-scale farming. Mr. Banda is acutely aware that, despite the recent spate of job losses, the mine operations are still over-employed by some 215 workers when set against authorised staff levels of December 1996. With copper production at Mufulira running at historically low levels, with current mining technically no longer suited to extraction from the remaining ore body, with high production costs and a poor safety record, it is inevitable that any new owner will seek to rationalise the work force.

This assumes that a buyer can be found. The bleakest scenario is that the Mufulira mine and concentrator will become unprofitable and will close with the eventual loss of 5,000 mining jobs as a direct result of the decision to separate the smelter/refinery, which employs the balance of the work force, from the underground operations. Even within one year, the effect of this unbundling is likely to cause 1,500 redundancies. Mr. Banda does not wish to dwell on this scenario.

There has been much talk amongst the miners about possible employment at Konkola. They have mixed feelings when discussing the Konkola Deep Mining Project as its huge potential will be developed by Anglo American, the very company which used its clout to bargain for the Mufulira smelter and concentrator. The Konkola Deep Mining Project is expected to increase production levels over the former Konkola Division from 2.2 million tonnes to 9 million tonnes per year.

However, the news on job prospects is not necessarily good. Mechanisation and the use of new technology both underground and in surface plants are expected to actually reduce manpower levels. In January 1996, about 5,500 were employed at Konkola. This is expected to fall to 4,500 as the Konkola Deep Mining Project proceeds. Furthermore, the work force is currently drawn from four ZCCM townships - Chililabombwe, Konkola, Lucengele, and Kamenza - and not from Mufulira. Hence the prospect of Mufulira miners finding alternative employment in Konkola will be very limited.
Has privatisation been conducted in the best interests of employees?

If job losses are seen as inevitable, does this mean abandoning the unemployed to their fate?

Those who advocate privatisation see themselves as realists. If Zambian industry and business is, first and foremost, to be saved - let alone recover or expand - then privatisation is the only solution.

In any situation where no other choices are on offer, there is the inherent danger that the end will justify the means, come what may. The argument of those advocating free market economics is well rehearsed. Zambian industry and the Zambian economy were already in a poor state prior to liberalisation and privatisation. It is therefore a misconception to believe that these two processes have caused Zambia's economic problems. The belated application of free market principles in Zambia may stop the rot but cannot save Zambians from the hardships which have already been set in train by prior mismanagement of the economy.

This argument can be used to absolve the architects of liberalisation and privatisation from responsibility for the inevitable suffering. They did not cause the crisis. The medicine they offer is bitter, yet it is the only medicine available. Ordinary Zambians must suffer the build-up of consequences without the expectation of assistance.

This thinking must be rejected. It is precisely when people are at their most vulnerable that both the Zambian Government, international donors, and private sector buyers have a responsibility to ensure that they are not exploited and that minimum standards are upheld. This requires:

- **Honesty** - coming clean about the continuing hardships that Zambians will face after privatisation is very different to holding up Zambia as a model privatisation.
- **Information** - people have a right to know what plans for employment or further redundancies are in store.
- **Monitoring** - a close eye needs to be kept on newly privatised firms to make sure that the new owners comply with their promises to uphold employment conditions, invest in the business, and take on any social responsibilities to which they have agreed.

- **Compensation** - those who do lose their jobs must be treated fairly in accordance with their conditions of service so that they receive fair warning of redundancy and so that their retrenchment benefits are paid promptly and in full.

- **Social support** - the Government and international donors, the advocates of privatisation in Zambia, have a responsibility to ensure that those who suffer from the consequences of the programme have at least minimal support for themselves and their families. Without retraining, land or credit facilities to enable them to start up a new business, it will be very difficult for people to succeed. Support is not the same as handouts.

Each of these principles will be borne in mind when answering the questions posed in the following Fact Sheets. This Fact Sheet 4b deals with the issues of information, monitoring and compensation. The next Fact Sheet 4c will examine what social support is available to retrenches as well as considering the pros and cons of employment in the informal sector.

Are more accurate figures available for each of the newly privatised companies which show likely job gains and losses?

Of the greatest importance to Zambians are the concrete plans which employers in the areas in which they themselves live and work have for contraction or possibly even expansion. Employees and local people want to know whether the newly privatised companies will be taking more people on or, as is more likely, laying people off.

For those directly employed in a firm, this information is essential if they are to assess how secure their jobs are. For those who work in the informal sector, perhaps as street vendors or minibus drivers, knowing about employment levels in formal sector factories and businesses will help them determine whether trade is likely to improve or get worse. For some, there may even be the possibility of getting work in a local company which is set to expand.

What information is therefore available to them? The answer is very little. This is not because plans for expansion or contraction of the labour force do not exist, but rather because these plans are not made available to the public.
Do the ZPA and the new owners have information about employment prospects which they are reluctant to reveal?

The ZPA admits that it is lacking when it comes to hard information about the probable impact of privatisation. It also tends to conceal what it already knows. Many new owners or prospective buyers claim that they too cannot predict the effect of privatisation, for example, on the employment levels of a company. Despite this, they are frequently quoted in the press denying rumours of redundancies.

Evasive replies or outright denials by companies concerning the negative impact on employment of their plans for a newly privatised business hide the fact that the new owners will already have a good idea of who will lose their jobs. On the other hand, companies which intend to expand will also have predicted whether they will need to recruit new employees as a result of new investment.

The ZPA has publicly acknowledged that, during negotiations, buyers will normally give details of which employees they will keep and which staff they will let go in accordance with their plans to make a business profitable.

Indeed, the criteria used when selecting a buyer include the extent to which a proposal offers job protection or the retrenchment of employees. The preliminary business plan which is required from all bidders is also assessed in terms of its potential for job creation.

Under the Privatisation Act, everyone, whether employees of a company or members of the general public, are entitled to know details of all bids and, in the case of sales by public tender, the reason why the winning bid was preferred over all others. Given that future plans for the size and nature of the work force are supposedly taken into consideration when assessing and ranking a bid, there are strong grounds for arguing that this information should be reproduced by the ZPA in its progress reports on the sales to date. At present, it does not do so.

When a business is sold, no guarantees about employment levels are specified in the sales agreements. The bottom line is that the new owners have the authority to set the optimal size and composition of their labour force.

There are, indeed, no guarantees. Projections about the number of people employed in a business may change for the better or for the worse, but is not the Zambian public entitled to know what redundancies and new employment opportunities are already on the cards? This information is available. At least people could then draw some informed conclusions for themselves about the likely impact of privatisation on their own employment prospects.

How have retrenchments been handled?

Given that many people have been laid off already and given that further widespread redundancies are likely to follow, it is vital to examine what measures have been put in place to ensure that retrenched are treated fairly and receive the terminal benefits which they are entitled to. Their future depends upon this.

The Redundancy Act (1989) recognises that an employee is made redundant - and is therefore entitled to terminal benefits - when a business either closes or the work which an employee is contracted to carry out either ceases altogether or is reduced to the point when there is not enough work to go around.

A worker is not automatically recognised as being made redundant when a business is sold and his or her contract is transferred to or taken on by the buyer of the business. This has important implications for employees in firms which are privatised and sold off. It means that they are not entitled to their terminal benefits when an enterprise is sold because workers contracts are transferred to the new owners. Workers cannot therefore claim their terminal benefits from a State owned enterprise earmarked for closure then expect to be re-employed by the new owner of the business on a new contract.

It is the responsibility of the ZPA, and in particular its Social Impact Department, to ensure that workers in State owned enterprises are fully informed about how the sale of their company will affect them. ZPA itself concedes that employees were unprepared for changes to their contracts after the first privatisations and that many parastatal sector employees viewed the intended private sector owners `with suspicion and mistrust'.

“After the sales agreements were signed for Auto Care and Eagle Travel, it became apparent that the employees had the mistaken impression that they would receive redundancy pay when the new owners took over the SOEs. The workers had not been adequately informed about the effects of the change of ownership on their employment contracts.”

[ZPA, Progress Report 2]
**How are retrenchment packages decided?**

In its National Policy on Retrenchments, the Government sets out three basic principles by which workers retrenched as a result of restructuring in the civil service and privatisation of a State owned enterprise are to be awarded their retrenchment packages:

1. If valid collective agreements governing the award of compensation exist between the employer and employee representatives, then this will determine what each worker will receive.
2. If a company is being liquidated, then workers will be paid their terminal benefits in accordance with the bankruptcy law. This means...
3. If neither of these two circumstances apply, then the Government, through its Special Retrenchment Division, will pay a minimum package as contained in the Minimum Wages and Conditions of Employment Act. This is two weeks salary for each completed year of service.

It is clear from the above guidelines that responsibility for redundancies prior to privatisation rests with the parastatals themselves, while the new owners are responsible for payments after privatisation. In the case of State owned enterprises prior to privatisation, the ZPA acknowledges that, although the cost of terminal benefits and redundancy payments have usually been calculated for each company, these have not often been matched by existing funds. This is why State owned enterprises are often sold at a substantial discount because new buyers agree to take on the liability for paying retrenchment packages to any employees who are later made redundant. If people are to be laid off while a company is being restructured in preparation for privatisation or if workers lose their jobs while protracted sale negotiations are under way, then finding the resources to pay employees their entitlements is often very difficult. However, the Privatisation Act does allow proceeds from the sales to be used to support redundancy payment schemes, although release of funds must be approved by the Ministry of Finance and the actual distribution of these schemes is handled through the Ministry of Labour. Few claims have been met in this way.

Under the Government’s National Policy on Retrenchments, employees are entitled to six weeks notice if they are to lose their job. Each employer must register details of those to be retrenched with the local labour office and copy this information to the Government’s Special Retrenchment Division. On registration, full information on the compensation package to be paid to retrenched workers should be provided. Payment of compensation is to be made before the last day of duty of each employee, otherwise the employer is responsible for paying salaries and other benefits until the redundancy package is paid. These stipulations apply to both the public and private sectors. Again, they are seldom adhered to.

**Why have people not been adequately compensated for the loss of their jobs?**

The Government admits that there are two critical problems when it comes to the payment of retrenchment packages which employees are entitled to.

**“The Employment Act and the Local Conditions and Pensions Act are main pieces of legislation that provide guidelines for effecting retrenchments. However with the increased pace of [the] current adjustment programme, the issues of retrenchment/severance packages have attained high proportions and have generally become contentious, mainly due to the absence of clear and updated policy guidelines that are responsive to the changed economic circumstances. The other major obstacle affecting the smooth implementation of the ongoing reforms both in the civil service and the parastatal sector has been the inability of both government and the parastatal companies to meet the cost of retrenchment packages for the retrenched workers and the lack of clear policy guidelines on the subject. This has resulted in the following:-

- either delays in paying out benefits or,
- the non payment of terminal benefits to retrenched workers.”**

[National Policy on Retrenchments, Government of Zambia, July 1995]

The list of companies whose employees have received late or reduced payments, or no payment at all and who are still fighting their claims, is a long one. It includes employees of Zambia Engineering and Contracting Company, General Pharmaceuticals Limited, Kapiri Glass Products, Eagle Travel, the National Drum and Can Company, the United Bus Company of Zambia, the Memaco Group, Zambia Airways and many others besides.

Furthermore, there is a lottery in which some receive compensation while others, equally deserving, lose out. This has frequently happened when employees are given the opportunity to purchase houses as sitting tenants at seemingly attractive prices in return for the cash which would have been paid to them from their terminal benefits.
The ZPA confirms that the payment of terminal benefits can be immediate, deferred, cash or kind or any combination developed by the parties involved. In other words, these arrangements are often put in place because a State employer, or ultimately the Government, does not have the money to meet the cost of retrenchment packages.

What will be the effect of privatisation on conditions of service?

A number of issues create a great deal of uncertainty in the minds of employees in former State owned enterprises as the new owners take over. These relate to the payment of their terminal benefits, to their status after privatisation, to the possible loss of fringe benefits and to the overall nature of the relationship between employees and the new owners.

The ZPA’s policy during negotiations over the sale of an enterprise is to ensure that retained workers will enjoy the same or better employment conditions under the new owners. It is responsible for ensuring that certain conditions with regard to the rights and protection of employees are built into initial pledges (known as memorandums of understanding) and the final sale agreements themselves. The ZPA makes it clear that employees are employees of the SOE not of the businesses’ owners or shareholders and, consequently, existing contractual arrangements, like conditions of service and collective agreements, are legally binding and are transferred unchanged unless renegotiated by the parties. These contracts of employment cover terminal benefits like redundancy payments, pensions, long service gratuities etc. [ZPA, Progress Report 2].

There are, however, three potential problems with these arrangements:

Firstly, it is believed that the strong negotiating position of some new investors has resulted in development agreements which relax Government regulations for an agreed period. It is understood these include indemnities against prosecution for past damage to worker's health in hazardous industries, including mining. The danger arises that new and continuing damage to a worker's health will be classed as past damage with a consequent loss in compensation. The belief is that certain development agreements will allow new investors a window of time before they have to comply with existing pollution requirements and environmental legislation.

Secondly, existing collective agreements are often superseded by new agreements. Many of the new buyers will have a strong hand in negotiations over the future of such agreements and contracts when the real threat of redundancies hangs over the work force.

Finally, over and above the role played by unions, it is unclear whether the ZPA or a new Government body will be set up to monitor newly privatised businesses and ensure that stipulations in the sale agreements continue to be adhered to.
Can employees rely on the ZPA to make sure that the new owners meet their promises?

The issue of monitoring is vital in an economy when unemployment is high. Employers are in a strong position when it comes to setting working conditions and pay levels for the simple reason that there is a readily available pool of labour in the informal sector should existing employees fail to tow the line.

The ZPA is charged under the Privatisation Act with monitoring the progress of the privatisation process in Zambia. It must be noted that this provision does not mention monitoring what happens after privatisation. Indeed, the whole emphasis in the Act is upon the rapid sell-off of state owned enterprises, not on examining the impact of their privatisation. However, under section 49 (h), there is limited provision for the development of monitoring guidelines to be implemented once a sale is finalised. The ZPA itself lays out what it is required to do.

A number of unresolved issues follow from the answers which the ZPA gives.

× It is not altogether clear who is responsible for ensuring that the new buyers meet their obligations towards employees. On the one hand, the ZPA states...
that it has the responsibility for ensuring that an investor lives up to all the commitments and agreements it has made. On the other hand, it claims that once a company has been privatised, it no longer has a responsibility to protect workers’ rights. This situation is contradictory and is in urgent need of clarification. Otherwise, what is to stop unprincipled employers exploiting the work force and going back on their promises?

× In an early interview about the ZPA, its chief executive Valentine Chitalu, said ‘I aim to work myself out of a job in a few years.’ That was in 1995. Recent estimates judge the remaining portfolio of companies will take the ZPA eighteen months to privatise. What long term role in monitoring the impact of privatisation can the ZPA possibly have, given that it was envisaged as a short-lived operation at the outset? Given this responsibility to monitor the sales, and given the ZPA’s inevitable winding-up, two pressing questions arise:

What has the ZPA actually done to ensure privatised companies are monitored?

× In answer to this question, a recent article in the Times of Zambia has described this omission to monitor the effects of the sell-off as ‘the greatest weakness in the privatisation process thus far and ZPA technical director Sturat Cruickshank has been quoted as admitting the ZPA is ‘only depending on hearsay’.

✓ A performance study of companies sold, to include study of their staff levels and working conditions, is being planned for this year, backed by World Bank funding. It is of the utmost importance that the results of this study are made public and the Government of Zambia should promise now that this will be the case.

Has the Government actually made plans for a permanent, independent, post-privatisation mechanism to monitor whether the privatisation has in fact been good for Zambians?

× In answer to this second question, not only are the current levels of monitoring by the ZPA totally inadequate, at present plans for a permanent monitoring have not been developed. In the absence of such a mechanism, it will be impossible to judge the success or failure of privatisation. Furthermore, it will be very difficult to monitor and alert the relevant authorities of failures of the new owners to live up to their commitments. Once the ZPA ceases to exist, no single organisation in Zambia will have an overall, direct responsibility for monitoring the agreements reached with the new owners. In the absence of such scrutiny, how will malpractice come to light and what will prevent unscrupulous employers from quietly going back on agreements? A heavy burden will be placed on a disunited trade union movement.

✓ If there is to be any wider protection of employees after privatisation, the ZPA accepts that it is essential for workers to be educated, among other things, about the terms of the privatisation sales agreements.

× But this is, in reality, impossible as these agreements are classed as ‘commercially sensitive’ by the companies involved and are not released in the public domain. Nor is the Ministry of Finance, whose Minister signs the agreements as the representative of the Government of Zambia, willing to disclose the sales agreements, including their associated development agreements.

Is there enough concern over the plight of retrenchees?

The failure to monitor the impact of privatisation by the Government and the failure of international donors to insist on this flies in the face of their claims that Zambia is a model of development through privatisation.

“Whenever the Zambia Privatisation Agency (ZPA) reels off its statistics, there are loud cheers abroad, contentment in Government circles but much bewilderment among ordinary Zambians about the programme’s benefits...The ZPA has no had no scheme for post-sale monitoring. To critics this has embodied Government insensitivity to the plight of those who depend on the good performance of these enterprises for their very survival...As it is nobody knows whether the process is bringing the intended benefit of improved performance by companies sold.”

[Times of Zambia, 3 December 1997].

Privatisation in Zambia has little to do with meaningful development for the vast majority of Zambians. Evidence of the failure to meet the needs of retrenchees for adequate social protection and retraining will be examined in the next Fact Sheet.

What help awaits retrenchees in their new life?

“A recent report on the progress of privatization in Sub-Saharan Africa concludes that the response to and the results of privatization have been mixed. But the report shows there is a success story. Zambia has been the most successful privatization program to date and the experience there offers many examples of best practice.”

[World Bank, The Progress of Privatization in Africa]
What assistance is there for retrenchedees?

What has been done to assist those made redundant?

The measures put in place to cushion the vulnerable from the full force of economic restructuring in Zambia can be divided, firstly, into general welfare and development programmes; and, secondly, into those measures aimed at combating the particular problems caused by privatisation and widespread retrenchments. This Fact Sheet 4b will examine the latter, while initiatives to promote wider social development will be examined in Fact Sheet 5.

A number of agencies and Government ministries have responsibilities for tackling the social problems caused by redundancies. Overall, it is the task of the Ministry of Labour and Social Security to give ‘a new vision to relations between employers and employees as well as building future social security for workers who are out of formal employment’

It was therefore within the Ministry of Labour and Social Security that a National Social Safety Net was set up in 1993, although it is managed by a Co-ordinating Committee which allows all the relevant bodies to work together. The Co-ordinating Committee was given the task of producing a policy framework - known as the National Retrenchment Policy - within which redundancies could be managed on an equitable basis as this relates to counselling, retraining, entrepreneurship promotion, redeployment and support for resettlement schemes for retrenchedees. Details of the schemes, run by the relevant Ministry or agency, but co-ordinated under the National Social Safety Net, are as follows:

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Run by</th>
<th>Purpose</th>
</tr>
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<tbody>
<tr>
<td>Land Resettlement Programme</td>
<td>Department of Resettlement in the Office of the Vice President</td>
<td>Provides plots in resettlement schemes for small scale agriculture.</td>
</tr>
<tr>
<td>Public Welfare Assistance Programme</td>
<td>Ministry of Community Development and Social Services</td>
<td>Basic assistance with food, shelter, healthcare and education for the poorest.</td>
</tr>
<tr>
<td>Social Impact</td>
<td>Zambian Privatisation Agency, Social Impact Department</td>
<td>Informs employees, managers and the public about the likely social impact of privatisation.</td>
</tr>
<tr>
<td>Future Search</td>
<td>Public Service Management Division</td>
<td>Seeks to equip graduates with business skills for the future.</td>
</tr>
<tr>
<td>Small Business Development Programme</td>
<td>Ministry of Commerce, Trade and Industry</td>
<td>Assesses projects and provides funds for selected small business initiatives.</td>
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</table>

How effective is the National Social Safety Net?

There would appear to be an array of initiatives to assist the unemployed. This impression is misleading because, in reality, the impact of each scheme has been limited for a number of reasons.

- The National Social Safety Net Co-ordinating Committee has itself been heavily criticised for its complete lack of urgency, for spending most of its funds on its own facilities and staff, and for an almost total absence of concrete results. Despite being set up back in 1993, it took four years before it even produced a policy framework in 1997. Funding from the United Nations Development Programme agreed in 1995 was spent on capacity building, staff and operational costs. This source of funding is expected to end in 1998. The World Bank too committed $292,000 in 1996, bringing the total level of committed funds to $0.5 million. This money too was spent largely on staff training and equipment.

- Given this background, it is not surprising - although, nonetheless shocking - to discover that only 234 retrenchedees have received retraining. Given that the Government funds only the operational costs of the Safety Net to the tune of K200 million, that current donor commitments are at an end, and the legacy of mismanagement and inaction, it is difficult to see how the National Social Safety Net can have any impact on solving the social problems caused by retrenchment.

“The National Social Safety Net Committee is itself a disgrace, and if we had any shame, in the face of the tens of thousands who must unavoidably lose their jobs, it would be a national embarrassment.”

[Profit Magazine, March 1994]
What is the role of the ZPA in helping retrenchees?

Despite its claims, the ZPA has, in reality, only a limited role to play in addressing the impact of privatisation. It concerns itself almost exclusively with the run-up to privatisation of a State owned enterprise and does not offer guidance to retrenches or employees after a firm has been sold.

The Privatisation Act allows proceeds from the sales to be used to support alternative income generating projects or social projects in the public interest.

The ZPA's Social Impact Department is charged with ensuring that existing State sector employees are adequately informed about how the privatisation process affects them. The main way in which this is to be achieved is through seminars and workshops to educate the public, unions, employees, managers, and parastatal holding companies about the social aspects of privatisation.

However, very little information about the work of the Social Impact Department is published by ZPA. The last time was in Progress Report 3, covering a run down of the Department's activities over the period July to December 1993. By that time, seminars had been held with personnel in the first and second waves of companies to be privatised, but it is unclear whether participation extended to all employees or to management alone. The Social Impact Department had also undertaken an employment and labour survey of State owned enterprises. This was used in negotiations to establish the position of potential buyers on existing employment issues and was also used as input to the National Social Safety Net. These sporadic information initiatives do not constitute measures of direct and immediate benefit to those facing retrenchment.

How have resettlement schemes helped retrenchees?

Resettlement to rural areas to begin farming is one option for retrenchees. The Office of the Vice President is responsible for all resettlement, although the National Social Safety Net limits its concern to the resettlement of retrenches. Overall, the number of demarcated plots for resettlement has risen under the overall resettlement programme from 1,434 in 1991 to 5,457 in 1996. There are currently fifty-two resettlement schemes and the total number of people resettled is up from 8,604 in 1991 to about 32,742 in 1996. However, the official monitoring of resettlement is inadequate. Indeed, accurate figures are not available either on the number of retrenches who have been resettled nor on the numbers who may have drifted back to the towns and cities.

The Government provides degazzetted land and meets the cost of demarcation. The average size of plot is 60 acres. It puts in basic services, typically wells, bore holes and access roads.

Resettlements are in rural areas. A sociological report by Mr. L. B. K Shoesmith, University of Natal stated:

“True to the spirit of self reliance and industriousness the government had insisted that those settling in these schemes should find their own way there and through their own means clear the land on which they wished to grow food.”

[Office of the Vice President, Ministry statement]

“How have resettlement schemes helped retrenchees?

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The Government provides degazzetted land and meets the cost of demarcation. The average size of plot is 60 acres. It puts in basic services, typically wells, bore holes and access roads.

However, the Government no longer supplies hoes, axes, seeds, fertilisers, or funds for clearing one hectare of land in the first year. It has also stopped offering mealie meal and relish which people used to feed themselves during the first year.

The problems that urban retrenches face when moved to a rural resettlement scheme include:

Lack of agricultural experience.

Lack of resources. Not only has Government assistance ceased, but often retrenchment packages either have not been paid at all or have been paid late, and then often not in full.

There is not enough land to go around and there is a waiting list for resettlement.

The Government has not been able to meet its responsibility to provide infrastructure and services to all sites.

Credit facilities are almost non-existent. The National Social Safety Net has carried out a study on setting up revolving funds of credit, but it is only now in the process of drawing up a plan in order to seek donor support.
Overall, liberalisation of the agricultural sector has made it difficult for small producers to compete, to find buyers for their produce, or even to transport it to market.

While many retrenchees will be impoverished, many of them will not be destitute and will not therefore qualify for assistance.

The reality of resettlement

The wisdom of Mr. Phiri

It is February and Mr. Phiri, his wife, their extended family and other community members are tending to the groundnuts they have planted, pulling weeds to allow the new crop to grow. Mr. Phiri is just about getting by and, providing the crop is good, the field of groundnuts will produce twenty or so bags to be sold at maybe K120,000 each. After a middle man has arranged transport for the crop to be taken to market, the family’s profits will be reduced but there is no alternative since the Government marketing boards were scrapped.

Mr. Phiri considers himself lucky that he had the option of turning his hand to farming after he was retrenched from Mufulira mine. Originally, he had been brought up on a small-scale farm before he was lured to the Copperbelt to take up a job at Mufulira in the 1960s. His wife was born in Mutondo and grew up in a family whose life was subsistence agriculture. It remains a struggle to make ends meet and the household is still poor. Their 92 acre farm has no services, and there is no decent access road but at least they have title to the land they farm. They cannot afford the fertiliser to grow maize this year, but they do grow cassava, sorghum, and millet.

Mr. Phiri knows that failure to find a buyer for Mufulira will result in many more miners being faced with the hard choice of accepting resettlement to begin farming from scratch. They may have few other options. Outside of ZCCM operations, there is not a strong commercial or industrial base in Mufulira. Indeed, there are only a handful of businesses of note. The attraction of significant foreign investment to Mufulira has been limited to Konkoyo Breweries and ICT Explosives.

Agricultural resettlement schemes have long been a feature of the Mufulira area. ZCCM itself ran such schemes, for example, at Mulungushi and Lufwanyama, to assist retirees and retrenches in the past. However, for a new programme of resettlement to successfully lessen the impact of projected redundancies from the mines at Mufulira and even Konkola itself, a number of issue will need to be resolved. Firstly, suitable land must be identified. In Mufulira, the Department of Agriculture has set aside areas in Minambe, Mubutu and parts of Mulungu for miners who may be retrenched. Plans exist to gazette the Niji Forest Reserve and to increase the number of plots in the Kalindini Block. In Chililabombwe, there are nine Ministry of Agriculture schemes totalling 800 or so plots. Two further schemes beyond Kawama and Chmmunshi are also planned.

However, for any of these schemes to succeed, Mr. Phiri knows only too well that each will require significant funds for surveying and the demarcation of plots before anyone can move in. Then there is the necessity of constructing new roads. Again, Mr. Phiri knows only too well how difficult it is to transport produce to market. At a time when existing plots are not served by basic services, it seems unlikely that the necessary resources will be found to service the new plots.

In the past, the Government used to provide first year assistance with resettlement but this is no longer available to help people with the cost of the basic inputs they need to commence farming. Furthermore, any advantages which local small-scale farmers in the area may have because of the relative absence of large-scale local competition, may be wiped out if a number of factors combine in the future. Firstly, the closure of Mufulira mine would be catastrophic, effectively removing the sizeable market for produce at Mufulira and at the same time leaving 5,000 former miners, many of them with houses in the area, little option but to turn to agriculture. It is impossible to see how such large numbers could be absorbed into agricultural resettlement schemes, even if they had the necessary will, resources and know how to compete successfully in the sector. Secondly, small-scale farmers are liable to face increased competition as a result of retail outlets, such as Shoprite, sourcing their produce cheaply from outside of the country and also from large-scale commercial operators in the wider area, such as the UK-based Commonwealth Development Corporation, who are the new owners of the recently privatised Nchanga and Munkumpu Farms.

What welfare support is aimed at those who are made redundant?

The Public Welfare Assistance Scheme, run by the Ministry of Community Development and Social Services, covers the whole population of vulnerable persons and concentrates resources on orphans, the disabled, the elderly and the unsupported. In 1997, three quarters of programme expenditure was spent on food, shelter, medical fees and to meet educational needs.

Expenditure is not high. Compare its scale against the K18 billion tax concessions in the 1998 budget which will benefit mining conglomerates. Furthermore, expenditure on the scheme fell by a massive forty per cent in 1997 over the amount spent in the previous year.

<table>
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<tr>
<th>Funding</th>
<th>As % mining tax concessions</th>
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<tr>
<td>K683 m</td>
<td>3.8%</td>
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The Peri-Urban Self Help programme offers temporary employment to participants, many of them women. In 1997, almost four-fifths of the funding was
used to finance the construction of feeder roads and improve drainage systems in selected peri-urban areas.

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<th>Funding</th>
<th>As % mining tax concessions</th>
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<tr>
<td>K738 m</td>
<td>4.1%</td>
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During 1997, informal sector skills training programmes in agriculture, carpentry, and home economics were offered at a number of Provincial and District Community Development Centres which were rehabilitated for the purpose. This initiative is not aimed exclusively at retrenched workers but rather at uneducated informal sector workers in general. Again, its scale is very limited.

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<tr>
<th>Funding</th>
<th>As % mining tax concessions</th>
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<tr>
<td>K131 m</td>
<td>0.7%</td>
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Three other general initiatives, all run under the Ministry of Community Development and Social Services, may offer assistance to a small number of retrenched workers, again without being specifically geared towards their needs. They are the Micro Bankers Trust, aimed at empowering the poor through credit delivery, savings mobilisation, and training; the National Fund for the Disabled which provides loans for income generation but which was suspended in 1997 because loans were not being repaid; and Women Development Programmes to encourage income generating activities such as tailoring, poultry rearing, small scale trading and hammer milling.

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<tr>
<th>Programme</th>
<th>Funding</th>
<th>As % mining tax concessions</th>
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<tr>
<td>Micro Bankers Trust</td>
<td>K34.3 m</td>
<td>0.2%</td>
</tr>
<tr>
<td>Women Devl. Programme</td>
<td>K338</td>
<td>1.9%</td>
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What support is there for those who would like to start up their own business?

Training in entrepreneurial skills and backing to help small business start up is vital but, by and large, the initiatives presently underway are marginal.

The Ministry of Science, Technology and Vocational Training in 1997 opened eight new trade training institutions teaching mixed farming, leather-work, home management, weaving and other basic skills. This brings the total of such institutions to twenty-one with an enrolment 6,473 trainees. In addition, a vocational training centre for carpentry, bricklaying and basic motor mechanics was opened in Lusaka and a second such centre is under preparation in Kitwe.

Overall, however, the Government concedes in its 1997 Economic Report that ‘the resources going to these activities were inadequate and, in some cases, severely constrained the execution of these activities’. Legislation has recently been passed to create a National Training Authority and Management Boards, to be funded in part by a training levy, but the initiative is still in its early stages and full financing has not been agreed.

The Future Search programme has delivered business training, but only to a small number of graduates who then cannot secure funds to launch their business plans. The Small Enterprise Development Board, from January to June 1997, financed just five projects to a total value of K26 million and Board officers visited 150 projects to assess performance and offer business counselling. During 1997, the Board trained 205 entrepreneurs in business skills.

<table>
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<tr>
<th>Funding</th>
<th>As % mining tax concessions</th>
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<tr>
<td>K26 m</td>
<td>0.1%</td>
</tr>
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</table>

Taken together, these limited initiatives are no measure of subsequent business success and must, in any case, be set against massive formal sector redundancies over the past five years.

“The effects of these job losses may manifest in the increased numbers of people working in the informal sector. Without a corresponding increase in the funding of supporting institutions such as the Small Enterprise Development Board (SEDB) there is likely to arise especially on the Copperbelt, restlessness, homelessness, increased malnutrition and other dehumanizing conditions which can easily lead to civil strife.”

[Extract from a socio-economic impact assessment for the Institute of Natural Resources, University of Natal]

The Government has recently established Zambia Enterprise Financing Limited, backed by the World Bank, in an attempt to tackle the lack of access to long-term foreign financing for exports in the private sector. Funds from bilateral and multilateral financial institutions will be made available through the domestic banking system to Zambian enterprises. Similarly, another arm of the World Bank, the International Finance Corporation, has agreed to provide initial funds for Finance Bank Zambia Limited to be made available to businesses in the private sector.

However, both initiatives will be all but irrelevant for most small scale entrepreneurs, especially those in the informal sector, as money will only be lent on a commercial basis to those who can demonstrate their
ability to pay the money back. The initiative may, however, help medium and large Zambian firms expand and take on new employees.

What role has the informal sector to play in Zambia's development?

Given the scale of public and private formal sector redundancies envisaged in the short and medium term, the economic future of many Zambians will be increasingly dependent on employment in the informal sector. The MMD Government has recognised the role to be played by the informal sector in containing unemployment and has set up a Vendors Desk at State House in recognition of its importance.

The broad definition of the informal sector includes subsistence farmers as well as those either self-employed or working for wages in unlicensed and unregistered businesses.

In this Fact Sheet, the focus will be upon the informal sector in urban areas.

A closer examination of employment conditions and opportunities in the informal sector is essential in order to judge whether it offers a viable means through which the majority of Zambians can survive and hopefully realise improvements in their standards of living.

What is the size of the informal sector?

Informal sector employment was estimated at 2.3 million in 1993, comprising 1,800,000 people working in agriculture and 500,000 more earning their living in non-agricultural activities, mainly small-scale trading. In 1993, the economically active population stood at 3.5 million. Hence, at that time, the share of informal sector employment was two-thirds of this total.

Since 1993, the size of the informal sector has increased even further. The latest figures for 1997 show that the number in formal sector employment was 472,300. Even on the conservative assumption that the economically active population has remained static since 1993, then in the region of 3 million or a massive 80% of Zambians now earn their living or supplement their income by working in the informal sector. A recent survey of informal trading in Kitwe in the Copperbelt estimated that the rate of entry into informal sector trading increased by 400% between 1991 and 1995.

Who works in the informal sector?

Few of those earning a living in the informal sector do so out of choice. In a survey of traders, of those who gave a reason for starting up a small business, less then two in every ten said that they had done so because they actually preferred to work in the informal sector.

Broadly speaking, four categories of people make up the informal sector.

Firstly, there are those with traditional skills - for example, those making reed baskets and mats, or producing charcoal - who meet a need which cannot be met by the formal sector.

Secondly, there are those who used to be employed in the formal sector. In the Lusaka survey, this group made up one quarter of the total. The majority of these people had lost their jobs due to retrenchments bought about by privatisation, liquidations or the poor economic performance of businesses.

A third group, one out of every ten, had formal sector jobs but were looking to the informal sector to supplement their income.

It is most revealing, however, that by far the largest group is to be found in the final category, those who have never had formal sector employment. This was the situation of 65% of those surveyed in Lusaka.

Most informal traders come from shanty settlements and live in high density housing. However, a quarter come from medium density areas. This shows the increasing impact of retrenchments on the urban middle classes and former semi-professionals. In 1986, only one in ten of those in the informal urban sector had secondary education. By 1996, this had risen to four people in every ten.

The majority of informal traders are women and a disproportionate number of female divorcees and widows appear in the surveys. Hence a sizeable proportion of female headed households make a living in this way.
What do the majority of people working in the urban informal sector do?

In a survey of informal sector businesses in Lusaka in 1995, three quarters of them were involved in trading, and about a fifth in small-scale manufacturing or services. Of those working in the trade sector, nine out of ten were in the retail trade - street vendors, market stall holders, those selling small items and newspapers to car drivers at the traffic lights.

How do informal sector businesses get the money they need to start up and then keep going?

- The vast majority of people, almost nine out of ten, starting out in the informal sector, got their initial money to start the business up either from their own savings or from friends and relatives.
- Less than one percent got loans from banks or financial institutions, showing the total lack of support from either Government or private funds.
- Six out of ten businesses were started with capital of less than K25,000, and eight out of ten on less than K75,000.

How fierce is competition?

A significant majority of informal sector businesses in Lusaka, over seven out of every ten, are less than four years old. Almost half are less than one year old, indicating either the recent nature of the switch to the informal sector or the short life span of most businesses in a notoriously insecure and unstable operating environment.

While competition is fierce, selling goods at a time when people have little money is very difficult.

How do earnings between the formal and informal sectors compare?

It is necessary to distinguish between a minority of entrepreneurs who make a good living in the informal sector and who are increasingly taking on employees and the vast majority who either work for low wages or barely make a living selling food, a few clothes, or small trinkets.

For those paid a wage, the average formal sector monthly pay packet in 1995 was K94,503. This compares with a wage of K63,786 in the informal sector in Lusaka. Entrepreneurs in the informal sector are increasingly taking on employees. For example, half of those working in the trade sector were paid employees.

For non-wage earners - those who own their own businesses and are self-employed - average net profits in the informal sector are higher than the average formal sector wage by some K45,000 per month. Yet this average hides the true distribution of these profits which favour a minority of entrepreneurs doing well compared with the majority who are doing badly. In fact, almost two thirds of informal sector businesses in Lusaka were recording a profit of less than K75,000 per month, only a little over three quarters of the formal sector wage. Furthermore, the poorest third, mainly traders, were making less than K25,000 a month. It must also be noted that profits do not necessarily equate to earnings as money must be reinvested in a business to keep it viable.

The argument has been made that many work in the informal sector in order to top up their overall income. While it must be acknowledged that the boundary between formal and informal sector work is a fluid one, nine out of ten operators in the Lusaka survey rely on the informal sector as their sole source of income.

Do people earn enough to live on?

When comparing wage levels between the informal and formal sectors, it is easy to lose sight of the overall fact that the majority of Zambians are poor and getting poorer still.

The World Bank estimated that about 60 percent Zambians were living in poverty in 1974 as compared with 68 percent in 1991.

Figures for 1993 suggest that 85% of Zambians were living on less than one US dollar a day.
The apparent increase in formal sector monthly earnings from K15,480 in 1992 to K97,005 in 1995 masks that, in reality, this is equivalent to an increase of just K915 when the falling value of the Kwacha is taken into consideration.

Add to this the five fold increase in the cost of living in real terms;

add to this the fact that most Zambians work in the informal sector where wages are lower;

and add to this job insecurity.

When these factors are set against estimates from the Catholic Commission for Justice and Peace, which has worked out the cost of basic monthly requirements for a family of six in Lusaka, then it is not surprising that levels of urban poverty are on the increase:

Is there any evidence of a fall in wages in firms which have already been privatised?

Little hard information is available on this question because of the failure of the ZPA to monitor the impact of privatisation. However, the early indication is that the free market, rather than driving wage levels up, will result in lower wages for employees.

With a massive pool of informal sector labour, and with overall formal sector employment continuing to fall at a time when the economically active population continues to grow, this is no great surprise. Shoprite, for example, has recently been the subject of complaints from workers to the Human Rights Commission which is investigating claims of 'slave wages' paid to the company's employees.

Who is to blame for this situation of increasing poverty in both the formal and informal sectors?

The MMD Government's period in office has seen an increase of wealth in the hands of elite groups and privatisation is likely to see the repatriation of profits by multinationals.

Governments and financial institutions in the developed North have continued to cripple the Zambian economy by demanding the repayment of debts owed to them, although certain debt relief measures are being introduced.

To the list of those with responsibilities to make sure that people who are adversely affected are supported in the difficult times ahead must be added the World Bank and the IMF. The argument is a simple one. They have pushed for rapid privatisation in Zambia. This has happened so fast that the Government, Zambian institutions and the Zambian people have had little time to readjust. The consequence of this is that not enough support is in place in the form of retraining, compensation, or an adequate social safety net to prevent those made redundant or indirectly affected from being impoverished as a direct result of liberalisation and privatisation.

When the mandate of the World Bank is to alleviate poverty, yet the immediate result of the programme of liberalisation and privatisation in Zambia has been to cause poverty, it is not good enough to argue that such reform is unavoidable without first having paid equal attention to cushioning its impact on the Zambian people.

This whole question of the adverse social impact of economic restructuring and privatisation - including who has a responsibility to protect the basic rights of the majority of Zambians - will be the subject of the next four Fact Sheets.

Have people's social needs been forgotten?

"formal sector earnings have been static despite the 491.2 percent rise in the cost of living."
[Study Fund, Informal Sector Business Activities in Lusaka Urban District under the Structural Adjustment Programme, 1997].

[Study Fund, Informal Sector Business Activities in Lusaka Urban District under the Structural Adjustment Programme, 1997].

[Study Fund, Informal Sector Business Activities in Lusaka Urban District under the Structural Adjustment Programme, 1997].
Has economic reform delivered pro-poor growth?

When the economic reform programme was embarked upon back in 1991, the message given out by the MMD Government and its international backers - principally the IMF and World Bank - was that free market policies would undo the damage caused by the misguided policies of UNIP and once again make Zambia competitive in world markets. The reforms would deliver growth, employment and a higher standard of living for all. The economic recovery programme was therefore linked directly to development for all Zambians, including the majority of poor citizens.

However, behind the positive public presentation of economic reform was the realisation that economic stabilisation, necessary to get the national finances into shape, and liberalisation and privatisation, necessary to ensure an efficient business base in Zambia, were strong medicine to halt the decline. The expectation was that reform would bring with it hardship but that this would be short lived as growth followed hard on its heels. The reform programme was swift and far-reaching on the grounds that the shorter and sharper the shock, the quicker Zambia would be set on the road to recovery. The reality is that sustained growth has not been delivered, many Zambians have been impoverished, and the reform programme has therefore gone beyond austerity to take on a harsh aspect.

Hardliners in the MMD Government and among its international backers insist the situation would have been worse still without economic reform: more business closures and greater unemployment. They argue that there has been no other option. But this bleak conclusion is a far cry from the promise of development which, after all, is what the whole process of structural adjustment, liberalisation and privatisation is meant to be all about.

It is equally unrealistic to suppose that there is any alternative to free market reform. The more measured approach is to accept the reform process but to plan for its adverse impact on the poor, a view belatedly adopted by the World Bank: 🤐

In order to assess the impact of economic reform on poverty in Zambia, it is necessary to:

- examine whether economic reform is beginning to tackle poverty through growth or whether certain reform policies are actually causing poverty;
- consider, in some detail, what it is to be poor in Zambia today and establish the extent and severity of poverty as the reforms have taken hold;
- look at what the World Bank, international donors and the MMD Government have done to redress this problem of poverty.

The major issues addressed in this Fact Sheet 5a are whether economic growth is being delivered, whether this growth benefits the poor, or whether there is, in fact, evidence that certain aspects of economic reform and structural adjustment are actually causing poverty.

Fact Sheet 5b will go on to summarise the extent of poverty in Zambia today. It will aim to paint a picture of how the poor in Zambia fare in terms of education, health, housing and the supply of basic services. The picture which emerges is, by and large, one of increasing poverty and worsening social support.

Given this situation, Fact Sheet 5c asks what it is that the Government, World Bank and donors are doing to combat poverty? Have they succeeded in balancing the strong medicine of economic reform with support for the poor through improved social services and, for those who are facing particular hardship, the provision of social safety nets to see them through to better times?

Finally, the impact of the privatisation programme itself upon social provision will be examined further in Fact Sheet 5d because of the important role which the parastatals have played in the upkeep of the social fabric of many towns. A particular concern will be whether social responsibilities have been agreed between central
government, local authorities and the new private sector owners.

What was the immediate background to economic reform in Zambia?

The Zambian economy was, of course, in serious trouble in the 1980s. After the slump in copper prices in 1975, the UNIP Government borrowed heavily in the expectation that export earnings from copper would rise to their former levels. This failed to happen. Borrowing cushioned the impact of the slump in the short term by subsidising domestic prices, supporting the value of the Kwacha and maintaining levels of public expenditure.

However, as the revenue from exports failed to increase, in an attempt to promote economic recovery, the UNIP Government signed up to a series of reform programmes backed by the World Bank and IMF in the 1980s. The hardship which followed weakened the Government’s political will to see these programmes through to their conclusion. The World Bank and IMF suspended their lending because of the refusal of the UNIP government to meet repayments on the money it had borrowed. External debts built up to unprecedented levels. In 1989, the UNIP Government agreed to a more extensive reform programme but, less than two years later, it again defaulted on loan repayments.

Pressure grew for democratic elections and the Movement for Multiparty Democracy (MMD) was elected in November 1991 on the platform of committed free market reform. With assistance from the international community, it cleared the arrears which had built up with the World Bank and negotiated a course of action - known as a Rights Accumulation Programme - to clear Zambia’s existing debts with the IMF. The next step was to agree a new way forward with the World Bank and IMF. Hence the Government produced a Policy Framework Paper outlining how it intended to turn the economy around. The World Bank and IMF strongly influenced what policies the MMD Government proposed in this plan. It was only on this basis that they agreed to provide new money and resources to help finance economic recovery in Zambia.

How is economic reform meant to work?

The MMD Government embarked on what has been described as ‘one of the most ambitious economic reform programs on the African continent.’ It can be split into two phases. In a first phase, from 1991 to 1995, the MMD Government, with the backing and approval of the World Bank and IMF, implemented two major types of programmes concerned with structural adjustment and macroeconomic stabilisation. In a second phase, from 1995 to the present, while the fundamental reforms which are already under way have continued, there is a new emphasis on supporting key economic sectors earmarked for growth, investing in infrastructure, and explicitly addressing the problem of poverty.

The structural adjustment programme, which commenced in the first phase of economic reform, is a set of policies aimed at changing the basis upon which the economy in Zambia works. The generation of wealth has, the early years of independence, been dependent on the performance of State owned enterprises, in particular the copper mines, and upon the output from domestic agriculture which has been produced and consumed within Zambia. However, the poor performance of the parastatals, especially in overseas markets, means that the economy has not been performing well. The result has been increasing poverty and lack of employment. Structural adjustment is designed to remedy this decline by seeking to:

- expand agricultural production;
- liberalise trade and industry;
- privatise the loss making parastatal sector;
- reform the public sector.

While the first three elements of structural adjustment are directly concerned with changing the economy, reform of the public sector is designed to change the way in which day to day government is carried out. In Zambia, public sector reform seeks to:

- restructure central and provincial Government;
- improve human resources management;
- decentralise and strengthen local government.

The stabilisation programme, again embarked on in the first phase of reform, is a set of policies designed to bring the Government’s finances under control. In Zambia, stabilisation seeks to:

- reduce inflation;
- balance the Government’s accounts, to include the control of public expenditure;
- rationalise and consolidate the financial sector.

In practice, both the stabilisation programme and the structural adjustment programme are inter-linked. For example, public sector reform, by seeking to make the delivery of Government services more efficient, helps control public expenditure. Similarly, decentralising power to local government also links in with one of the objectives of privatisation which is to increase the role of commercial companies in the running of health facilities and even schools.

In order to tackle the problems which occurred after the first phase of economic reform, and in order to push for the growth which has eluded the economy, the MMD government and its international backers have started a second phase of reform.
On the one hand, it was agreed that there should be policy continuity. Structural adjustment and macroeconomic stabilisation should be deepened rather than moderated. The belief is that the fundamentals are in place but need adding to through new policies. This shift in emphasis has three objectives:

- The first objective is to actively promote certain sectors of the economy - agriculture, tourism, light manufacturing - in order to increase the supply of produce and goods to diversify away from a dependence on the copper industry. However, copper will remain of the utmost importance to Zambia. Hence, in the mining sector, by far the most important goal is to achieve the complete privatisation of ZCCM to prevent both a drain on Government resources necessary to keep the parastatal afloat and also to attract investment to increase copper production and help restore the basis for copper revenue.

- The second objective is to provide infrastructure - transport, energy and a managed natural environment - to help industry grow.

- The third objective is to deepen public sector reform to contain wages but increase service provision. At the same time, improvements are being sought in the way in which Zambia is governed in order to increase democracy, raise accountability and further transparency.

On the other hand, and because of the hardship caused by economic reform itself, there is now recognition that direct measures need to be taken to explicitly tackle the issue of poverty. This promise to deliver social support alongside economic reform will be looked at in detail in Fact Sheet 5c.

How successful have the structural adjustment and stabilisation programmes been in promoting growth?

While this second phase of economic reform is ongoing and sets priorities until the end of 1998, it is meaningful to bring the picture of growth in Zambia up to date. The box overleaf summarises a number of key economic indicators.

- There has not been the expected growth in Zambia’s gross domestic product.
- Imports are outstripping exports and copper revenues continue to fall.
- There are signs that non-traditional exports are on the increase, but it is too early to tell if the economy is moving away from its dependence on copper.
- The economy is massively reliant on foreign support.

Zambia will continue to have huge debts with overseas banks and the World Bank and IMF themselves. There is a certain irony in that current credits and loans from Zambia’s bilateral backers are used to pay the servicing on Zambia’s existing debts with the World Bank and the IMF. Furthermore, continued funding is conditional on the Government meeting repayments and interest on these earlier debts.

Inflation has been significantly reduced.

The Government’s domestic budget balances, but this has been achieved by massive cuts in public spending, including social spending, and by informal borrowing.

Despite the decidedly mixed performance of the Zambian economy, many commentators, at least up until the middle of 1997, believed that the conditions for growth were in place. Yet development is much more to do with equitable growth - that is, an improvement in living standards for all - than it is to do with overall economic growth per se. In order, therefore, to consider the consequence of changes in the Zambian economy for the majority of poor Zambians, it is necessary to look much more closely at the major elements of economic reform and their impact on people’s livelihoods.

What has been the overall impact of agricultural reform?

A priority of the structural adjustment programme is to capitalise on Zambia’s agricultural potential. The country has both a large rural population of farmers and is rich in untapped agricultural resources. Out of nine million hectares suited to agriculture (although this figure includes forested land as well as cleared land), it has been calculated that only 16% of this land is under cultivation. By adopting a strategy to place agriculture as ‘an engine for growth’ at the centre of the Zambian economy, the plan is to create wealth from domestic and overseas sales. It is through agricultural exports that foreign exchange will be brought into the Zambian economy. The policy aims are to improve production by smallholders and emerging commercial farmers, promote farm exports, diversify the crop base, open up a market in land, improve food security and support the food processing industry within Zambia. The first step was to shift production away from maize.

Prior to reform, maize had become the predominant cash crop grown in Zambia. This was because farmers were
Gross domestic product (GDP) measures the overall performance of an economy. Over the last eight years in Zambia, there have been three years of growth and five years of stagnation or decline. This means that, on average, the Zambian economy has been growing by just 0.2% each year since 1990.

However, when you take into account that the population of Zambia is also rising by about 3% each year, then this rate of economic growth will not even enable the majority of Zambians to maintain, let alone improve, their standard of living. Of course, it is argued that it takes time for the results of economic reform and structural adjustment to be reflected in the GDP figures. Growth for the next few years is expected to be around 5%, although in the current climate of economic uncertainty, this projection appears over-optimistic.

Since 1991, the MMD Government has significantly reduced its domestic budget deficit until, in the last year, it actually collected in more money than it spent. The graph (right) shows how this has been achieved. The top line reveals how the amount of Government revenue over the period has remained broadly the same when measured as a share of GDP. The bottom line shows expenditure. This has fallen sharply when measured against GDP and it is through these savings that the Government has been able to balance the books. However, there is both a positive and a negative side to this:

- Some of the cuts in expenditure represent real savings and improved efficiency.
- Yet drastic cuts in Government spending has also reduced the amount of money available for social spending to help the poor.

While the domestic budget has been brought into balance, Zambia’s external account is heavily in deficit. This means more foreign exchange is going out of the economy in paying for imports and debt servicing than it is exporting. The trade balance was at its worst in 1992/1993 but which has since fallen dramatically. At the end of 1997 inflation was just under 19% but has since risen to between 25-30%.

Significant progress has been made in lowering the rate of inflation which peaked at almost 200% in 1992/1993 but which has since fallen dramatically. At the end of 1997 inflation was just under 19% but has since risen to between 25-30%.

Low inflation is obviously good for Zambians when it comes to buying food and other goods as the cost of living is kept down. Overall, however, inflation has taken its toll on the standard of living of the poor:

- The value of any savings which people might have had - for example, from redundancy payments - was hard hit by high inflation in 1992/1993.
- Even with reduced inflation at a level of around 30%, increases in the cost of living are still outstripping increases in people’s income.
- Inflation continues to weaken the whole business sector.

In four out of the last six years, Zambia has been importing more goods by value from overseas than it is exporting. The trade balance was at its worst in 1992 because of the need to import food supplies after the drought. In their own right, the value of goods sold overseas has not increased, despite the fact that the drive to push up exports remains a key aim of economic reform. The main reason for this is Zambia’s continued and extensive reliance on copper exports. Both production by ZCCM and the price of copper has declined.

Overall export revenue would have fallen if it were not for the fact that the sale of non-traditional exports - textiles, processed foods, flowers, engineering products - has increased three fold over the period. This is encouraging and is a positive, if as yet modest, result of the policy to restructure the economy.
given subsidies and guaranteed a pan-territorial purchase price for their grain through Government marketing boards. Clearly, farmers benefited from these arrangements. At the same time, Government control over milling and the setting of an affordable price for mealie meal allowed urban consumers to buy sufficient supplies. Indeed, the whole purpose of the marketing system was to keep the urban workforce in the parastatal and public sectors - mining, manufacturing and administration - supplied with cheap food. To an extent, it therefore appeared that everyone gained from this fixed market for maize, both producers and consumers alike. However, the arguments behind the need for reform were based on a number of intractable problems with this system:

Fixed and guaranteed prices removed the necessity to diversify into other crops or to innovate and increase productivity as even inefficient producers or producers in areas too distant for economic transportation could still break even. Little pressure was exerted on farmers to repay Government loans to buy seeds and fertiliser. Without the necessity to find repayments, nor a free market offering attractive prices for alternative crops, the growth in agricultural output averaged just above 2% per year throughout the 1970s and 1980s. Thus is failed to even keep pace with the growth in Zambia’s population.

Rural farmers, reliant on the Government maize market, did not improve their standard of living, although neither did levels of rural poverty increase significantly. The IMF and World Bank were persuaded by the argument that it was a relatively well-off core of urban consumers who gained most by not paying market prices for their food.

The whole subsidy system was no longer perceived to be affordable. While proceeds from copper sales had been used to support the maize marketing system, falls in copper output and the price of copper meant that maize subsidies were increasingly met by Government borrowing. Furthermore, subsidies did not meet with the approval of the donors whose policies were driven by free market ideology.

The MMD Government, with full IMF and World Bank backing, therefore implemented a policy to remove subsidies and abolish fixed pricing. When combined with the removal of trade controls, this had the effect of opening the agricultural market up to competition. The reforms were designed to allow efficient farmers to receive good market prices for their produce; to reward those who acted on demand for other crops and moved away from growing only maize; and to encourage exports of lucrative cash crops. Urban consumers, likewise, would benefit from increased choice and lower prices brought about by increased competition.

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**The agricultural sector**

Assessing the impact of reform in terms of an overall increase or decrease in agricultural output is complicated by other exceptional factors. Three of the four years between 1991 and 1994 were characterised by scarce rainfall. The 1992 drought was the most severe for a century. The World Bank calculates that annual year on year growth in agricultural production declined in three out of the five years between 1990 and 1994. The latest Government figures show an increase in agricultural activity in 1995 but then two years of decline in 1996 and 1997. Furthermore, and even though manufacturing output has itself declined, agricultural output has not increased its relative share or contribution towards GDP.

The overall figures on agricultural production mask a very significant rise in the cropping and export of high value cash crops such as sugar, cotton, tobacco, coffee, cut flowers and soya beans. Exports of these primary agricultural products increased by 32% in 1996 and an even more impressive 126% in 1997. With a value of $88 million, such cash crops made up almost one third of all non-traditional exports by value and just under 8% of Zambia’s total exports. Large multinational companies such as Lonrho in the cotton sector, Tate and Lyle in sugar, and the Commonwealth Development Corporation in sugar, cotton and horticulture have taken advantage of market deregulation, the end of parastatal monopolies and privatisation to organise large-scale agriculture, outgrower schemes and agro-processing. However, in the first quarter of 1998, there has been a marked drop in the export of agricultural commodities, cut flowers, and horticultural products.

Given the increasing contribution towards total agricultural output of these export crops while overall output remains broadly static, the assumption must be that production has fallen off in other sub-sectors. Indeed, the total planted area decreased by about fifteen percent in 1994-95 when compared with the area under cultivation in the mid to late 1980s. Certainly, the share of land upon which maize is grown has fallen from 68 percent to 56% over the same period. In Southern and Western provinces, farmers are now increasingly growing drought tolerant sorghum, millet and groundnuts. In Eastern, Luapula and Northern provinces, the cropping of higher value groundnuts has also increased. All of these crops require less inputs, such as fertiliser and chemicals, than maize.
What has been the impact of agricultural reform on the poor?

There is no doubt that agricultural reform policies have actually caused increased hardship for Zambia’s poor. The World Bank, as backers of the MMD Government’s policies, assumed that subsidies benefited those who were better off when, in fact, fixing the price of maize helped both poor producers and poor consumers. The poor, both in the cities and the countryside, immediately suffered from the reform of the maize market:

- It hit the urban poor who could no longer afford to buy mealie meal as the price increased once Government controls were abolished. The World Bank and Government of Zambia initially failed to take into account that the ‘elite’ of employees in the urban formal sector was being replaced by an urban poor of retrenches and informal sector employees.

- It hit the rural poor for two reasons.
  - Firstly, the poorest farmers in isolated areas used to benefit from an effective transport subsidy and were able to sell their maize at a profit to the Government marketing boards. With the abolition of this marketing system, private marketers either failed to serve these outlying areas or else offered only a low price for the crop due to the real cost of transporting it to market.
  - Secondly, the removal of subsidies on fertiliser in order to create a level playing field for imports meant that the cost of farm inputs increased. At the same time, the end of favourable Government loans to buy seed coincided with a sharp decline in access to commercial credit as interest rates soared in the 1990s. Hence farmers, already suffering from the impact of successive droughts, were unable to purchase seed, fertiliser and other inputs necessary to plant out new crops.

The response of the MMD Government to these difficulties was, initially, to announce floor prices for maize and appoint ‘primary buying agents’. In the World Bank’s view, this delayed the move to a fully fledged free market in maize until 1994/5 and set back the emergence of private traders and diversification. In 1997, the Government continued to play a role in the marketing of inputs such as fertiliser through its Agricultural Credit Management Programme, although it admits that problems in its delivery to farmers has suppressed the output of maize.

For its part, the World Bank concedes that the reforms have created hardship for the poor in the short term but argues that producers will become more efficient and realise good profits from increased productivity or by diversifying away from maize into other lucrative crops. There is evidence that this is increasingly the case for farmers supplying the newly privatised cotton industry. Large-scale commercial operations in sugar, horticulture, soya beans, coffee and tobacco have been revitalised under new ownership following privatisation. While large transnationals have been behind much if this resurgence, there can be benefits for small farmers when they are sourced as outgrowers.

However, it is difficult to see how poor farmers away from the line of rail will be able to make the leap to growing high value export crops without massive improvements in the road and transport system or without better access to markets. Among the majority of small farmers, the end of the State milling monopoly has seen an increased use of local hammer-mills for processing maize and there has been a decline in the amount of maize which actually goes to market. There is some evidence of diversification, although the move away from maize has increased food insecurity. For example, by December 1997, Zambia had an overall food deficit of maize, rice, and wheat when measured against food requirements. Hence the importation of these staples was inevitable.

What has been the overall impact of trade and industrial reform?

Structural adjustment in the areas of trade and industry has been, and remains, a central element of the reform programme. The World Bank argues that manufacturing industry in Zambia has traditionally been capital intensive. This means it concentrated on making goods using machinery and plant bought from abroad rather than by making fully use of available labour in Zambia. This situation arose because:

- import tariffs on such machinery were low;
- the Government provided subsidies and allowances for investment in manufacturing plant and machinery;
- the interest rate for borrowing money to finance this expenditure was kept artificially low;
- and because the value of the Kwacha was kept artificially high by the former Government which controlled the exchange rate, guaranteeing a set number of dollars for each Kwacha. In reality, the Kwacha was worth less than the official exchange rate and Government support for the currency was a hidden subsidy when it came to buying machinery from...
abroad. While each Kwacha purchased more than it should, the cost to the Zambian Government was high.

The employment capacity of the industrial sector in Zambia has, the World Bank argues, always been marginal because of this reliance on imported machinery and the aim of reform is to move to a labour intensive system. Furthermore, by supporting city-based, loss-making parastatals in this way, a relatively privileged class of workers with high formal sector wages has been created at the expense of the rest of the population.

As part of its industrial reform and market liberalisation programme, the MMD Government therefore removed subsidies, abolished fixed exchange rates, and allowed interest rates to be determined by commercial banks. In addition, with strong IMF and World Bank insistence, it embarked on its far reaching privatisation programme.

What has been the impact of trade and industrial reforms on the poor?

Again, the thinking of the World Bank seems confused when viewed in relation to the impact of trade liberalisation and industrial reform on development and the poor. It is one thing for the World Bank to argue that the Zambian Government could simply no longer afford to support the inefficient industrial sector, but quite another to assume that the reforms would allow for a redistribution of wealth and create labour intensive industry associated with high levels of employment.

The reality is not a high waged urban aristocracy employed in the formal sector with access to good quality services. This characterisation may have reflected the situation in the early 1980s, but stagnation and decline meant that, even by 1989, real earnings in manufacturing were only a third of the level of 1983. Liberalisation and privatisation in the 1990s, coupled with periods of very high inflation brought about by market reforms, have resulted in widespread unemployment and a further severe decline in real wages. The World Bank admits that incomes no longer cover basic needs and that the reform of industry and trade has resulted in increased urban poverty. Indeed, the overriding cause of urban poverty is lack of employment.

It is an inescapable fact that reform to encourage free market competition and a more open trade regime has driven some companies out of business or seen them shed labour. This drive to efficiency may be inevitable if Zambian industry is to become viable, but the equally inevitable impact of redundancies in creating urban poverty cannot be underplayed.

By far the biggest factor determining whether people living in towns or cities are poor is whether or not they have access to regular employment. Fact Sheets 4a - 4c examine the current wave of formal sector redundancies, the insecurity of the informal sector, and the lack of assistance for the unemployed. This analysis will not be repeated here. It is sufficient to note that:

- Economic reform, liberalisation and privatisation have precipitated a massive increase in redundancies and therefore an increase in urban poverty.
- The reforms have not, as yet, generated significant new growth or translated this growth into jobs.
- For the majority, informal sector employment, far from being a road out of poverty, is at best a means of surviving the hardship.

The industrial sector

The performance of the industrial sector, to include the extractive industries and copper mining, has been disappointing in relation to its share of GDP. Between 1994 and 1996, the manufacturing sub-sector failed to increase its contribution towards GDP while mining contributed 5% less to total output.

The lack of initial response of the industrial sector to reform has been attributed to low levels of investment in new plant because of both a squeeze on credit and an increase in the cost of imports as the Kwacha has fallen to its market value. High domestic interest rates have also caused cash flow problems and privatisation has itself caused uncertainty. Even so, there has been positive growth in the real value of manufacturing output of over 3% in the last two years and investment by the new private sector owners has undoubtedly contributed towards this rise.

The fall in output of 15% in the first quarter of 1998 is a cause for concern, but it is too early to say whether this marks a downturn.
Yet, despite its own evidence to the contrary, the World Bank maintains that rising unemployment and the fall in living standards of urban residents is from a continuing position of relative privilege. By this criterion, development has little to do with improvement in people’s well-being and livelihoods but instead appears to lower everyone down to the same level of impoverishment. It is not ordinary urban workers who are privileged, only a small section of the ruling and industrial elites.

The advocates of trade liberalisation and adjustment in the industrial sector claim that reform has:

✓ benefited consumers by lowering prices for goods made by efficient firms within Zambia or imported from abroad now that import quotas, tariffs and duties have largely been abolished;

✗ yet, for much of the 1990s, Zambia has been characterised by high inflation and significant rises in the consumer price index;

✓ set the stage for industrial growth;

✗ yet the reformers admit they do not know when this takeoff will happen;

✓ prepared the ground for labour intensive growth;

✗ yet policy makers admit that employment continues to contract.

Furthermore, this claim for labour intensive growth is puzzling when the whole basis of privatisation is to encourage foreign, capital intensive investment.

The MMD Government and its backers champion the informal sector and call for increased deregulation of small business;

✗ yet the World Bank concludes on the basis of its own Poverty Assessment that informal sector employment is insecure, amounts to little more than petty trading for the majority, and is most often a means to survival rather than self-improvement.

✗ The reformers finally resort to a negative argument, that the reform policies are at least better than the old system in which an inefficient, protected and subsidised industrial sector did not contribute to poverty reduction.

What has been the overall impact of policies designed to balance the books?

Turning from structural adjustment to the stabilisation programme - that part of overall economic reform which is designed to bring the Government’s finances under control - the World Bank and IMF has supported policies by which the MMD Government has sought to balance the books. These include:

☞ the careful control of public spending;

☞ the introduction of cash budgeting to ensure the Government does not release funds it does not have;

☞ placing limits on the amount of money the Government borrows for public expenditure, known as the public sector borrowing requirement;

☞ maintaining the amount of revenue the Government receives through taxation.

When the MMD came to power, it inherited a domestic budget which was in the red, certainly because of high public expenditure, but especially because of the channelling of financial support to many loss making parastatals. The latter expenditure was not planned or budgeted for. It was therefore necessary for the Government to borrow large amounts of money from domestic banks to pay for the resulting budget deficit. Indeed, the Bank of Zambia could hardly keep pace with Government demand for cash and, eventually, the amount needed was actually greater than the amount of money the Bank could afford to lend.

This budget deficit was the main underlying cause of inflation in Zambia. Put simply, while the Government continued to borrow to meet its high expenditure, more money was going out into the economy than the Government was taking back out in revenue. This resulted in ‘monetary expansion’ - too many Kwacha in the economy. With so much money in circulation, the real value of the Kwacha fell and more notes were needed to pay for goods and services. Put another way, prices went up rapidly and what cost you K100 one month could cost K200 the next. A situation of high inflation prevailed.

The MMD Government took action to cut its budget deficit by first of all drastically reducing its public expenditure and hence the overall amount of money it was introducing into the economy. For example, its recurrent expenditure on the day to day running of Government departments and services was slashed by a third from 1991 to 1992. Such measures may, under normal circumstances, have gone a long way towards cutting the deficit, reducing money supply and hence lowering inflation. Indeed, the Government’s tight fiscal control reduced inflation from a peak of 400% to 50% in the first half of 1992.

However, at the same time as the Government was trying to stabilise the economy by balancing its books, it was also pressing ahead with structural adjustment to change
Zambia into a free market. In October 1992 the Government allowed the Kwacha to float on the free market for foreign exchange and went on to open up financial markets in Zambia. This liberalisation itself caused inflation because there was a sudden fall in the real value of the Kwacha against other currencies. This one-off depreciation as the Kwacha found its true level meant that, for a while, people did not want Kwacha as its real purchasing power - for example, against the US dollar - was much less than it had been before. If people were going to be paid in Kwacha, they wanted more of them to compensate for the fact that the currency was now worth less. Again, this caused prices and salaries to rise and fuelled inflation to a massive - if short-lived - peak of 500%.

These circumstances threatened ‘hyper-inflation’. This is caused when the expectation of inflation prompts suppliers to demand more and more for the goods they are selling and people to demand ever higher salary increases to meet the expected increase in cost. The MMD Government introduced a package of stabilisation measures in 1993 in an attempt to prevent this situation from developing.

What further stabilisation measures were introduced to tackle inflation?

Overall, the stabilisation measures which were introduced were designed to reduce domestic money supply, that is, the amount of cash in circulation. The result of having less money in the system is to maintain the value of the Kwacha and thereby reduce inflation.

- **Cash budgeting was implemented.** This strict accounting measure means that a Government will only release funds - for example, to cover the day to day running of Government services and ministries or to meet civil service wages - when there is money in the coffers to cover the amount to be disbursed. In Zambia, cash budgeting had the effect of wiping out the expectation that more and more money would be forthcoming from the Government. Of course, it also resulted in further severe cuts in public expenditure and in the failure to pay for goods and services which the Government had bought on credit.

- **Treasury bonds were issued.** Such bonds are sold to investors by a Government which then pays out interest on the money which it has borrowed from them. This direct borrowing helped the MMD Government reduce the budget deficit. Cash belonging to the general public and private investors which would otherwise have circulated in the economy was tied up in the bonds.

- **Action was also taken to raise the reserve ratio.** This means the Government increased the amount of money it held in savings relative to the amount it spent. Again, the result was less money in circulation.

- **Finally, both the strict control of expenditure by Government owned parastatals and the release of official currency prevented foreign exchange shortages with the result that the real value of the Kwacha increased.**

All of these measures combined, resulted in a fall in inflation from 200% in the first half of 1993 to 20% by the year end. However, the period of chronic inflation had caused further problems. The real value of the Government’s revenue had itself been hit hard. For example, the revenue it collected in, mainly from taxes, collapsed by over a quarter in real terms between 1992 and 1993. The fact that less money was coming in itself contributed to the budget deficit. The Government responded by further drastic cuts in expenditure - excluding drought relief; it again fell by almost a third in 1992/93 - and by setting up the Zambian Revenue Authority in 1994 to improve the efficiency of tax collection and reduce corruption thereby increasing the amount of money it drew back in taxes. The backers of free market policies praised the MMD Government for moving away from a tax system based on international trade to one based on VAT. In the meantime, the Government remained heavily dependent on grants from the World Bank and donor governments to keep its budget deficit in check, although the level of support progressively decreased.

How successful has economic stabilisation proved?

Even with these stabilisation measures in place, it has taken the Government a while to balance its domestic accounts. In the first three years of reform, the public sector wage bill received a disproportionate amount of Government funds at the same time as strict cash budgeting was introduced. As a result, capital investment in infrastructure, buildings, and equipment fell sharply and money was not available to meet the day to day running of Government departments and services. Donor disquiet over political developments in Zambia caused interruptions in the flow of aid money, causing the MMD Government to purchase foreign exchange to meet its obligation to service its external debt. At the same time, it had to find additional money to pay high levels of interest on the debts it had built up with domestic banks. In 1994 and 1995, there was overspending on defence as a result of powerful pressure from the Ministry of Defence. The Government’s finances were also upset by its unwise and unsuccessful attempt to bail one of the largest commercial banks in Zambia, Meridien BIAO Ltd.

In retrospect, many commentators believe the decision to allow the Kwacha to float on the foreign exchange markets should have been delayed until economic stabilisation and tight fiscal control had brought inflation down. As it was, the devaluation in the Kwacha fuelled further inflation. Likewise, the decision to eliminate controls on Zambian commercial banks should, perhaps, have been delayed. For the first time, they were allowed to set their own interest rates on loans rather than keeping them artificially low. This meant that interest rates soared alongside inflation and
well off Zambians who have felt the worst affects of harsh budgetary measures. Closing the budget gap has been
accomplished mainly by a severe cut in Government expenditure rather than by raising revenue. Between 1991
and 1993, public expenditure halved as a share of GDP.

High interest rates also helped fight hyper-inflation by tying up money in savings, although this was
counteracted to an extent by the fact that the interest paid on savings was itself inflationary.

The most negative aspect of the high interest rate, however, was that it made it prohibitively expensive for businesses to borrow money to invest.

Until very recently, there is evidence that the MMD Government has been broadly successful in controlling its domestic finances. It has not spent too much beyond its means and has stayed within a predetermined cash budget since 1994. Increased efficiencies in the way in which money is disbursed - for example, by making payments direct to District Health Boards and Provincial Education officers - has been a positive development. Acceleration of the Public Sector Reform Programme has reduced the size of the civil service, capped pay increases and cut wage bills. Indeed, by 1997, the domestic budget deficit had been turned into a slight surplus, albeit with support in the form of grant aid. However, the first half of 1998 may have seen a reversal of this progress.

What impact has balancing the books had on the poor?

There has been a high price to pay for achieving a balanced domestic account and, ironically, it is the majority of less well off Zambians who have felt the worst affects of harsh budgetary measures. Closing the budget gap has been accomplished mainly by a severe cut in Government expenditure rather than by raising revenue. Between 1991 and 1993, public expenditure halved as a share of GDP. Since then, up to and including 1997, it has fallen by another third.

The social sectors have suffered disproportionately in the drive to slash public expenditure. These cuts have, of course, hit the poorest members of Zambian society.

While the amount the Government earmarks for the social sector - for example, in spending on education and health - is often protected in each budget, when it comes to the actual money received, these areas lose out. Cash budgeting has made this problem worse as more powerful ministries muscle in on the reduced allocation of available ‘hard cash’.

There has been an almost complete failure to allocate funds for social safety nets to help the most vulnerable and prevent people from joining the ranks of the poorest.

Large savings have also been made by the withdrawal of direct subsidies, for example to maize farmers, and indirect subsidies on mealie meal to urban consumers. Again, the impact of this on poor farmers in remote areas and upon poor urban residents is well documented.

The pressure from Zambia’s international backers has seen a deepening of the Public Sector Reform Programme in recent years. This has cut the public sector wage bill, but the human cost has been widespread redundancies. The retrenchment programme has only just begun and 57,000 public servants are expected to lose their jobs by 1999. So far, the World Bank and international donors have met the costs of retrenchment and have pledged $80 million to fund the next round of redundancies, although there are conditions attached to the release of these funds. However, as people move out of formal sector employment there is a significant risk that they will find themselves joining the ranks of Zambia’s poor.

The introduction of VAT has adverse consequences for the less well off as, unlike income tax or corporation tax, it is equally applicable to the poor as well as the rich. Although the Zambian Revenue Authority only began to collect domestic VAT in 1995, by 1997 it accounted for 17% of the Government’s total tax revenue. Whereas in 1991 taxes on international trade contributed 33% of revenue, by 1997 this had been reduced to 28%. In the 1998 budget, tax concessions to mining companies worth K18 billion in their first year, the scrapping of the import declaration fee, an increase in the personal allowance, and a tax amnesty called for by the business community were all announced. All of these measures are of little or no direct benefit to the poor.

On the positive side, lowering inflation is of obvious relevance to the poor as it stabilises the price of food and other essential goods and services. Clearly poor people are less able to protect themselves against rising costs than the better off who are likely to have savings. The measures taken did bring inflation under control and this averted the catastrophe of a spiral of escalating prices. However, the annual rate of inflation between 1991 and 1996 never fell below 35% and it was only last year that the rate fell to 19%. Even at this level, the cost of living is outripping any increase in household income for the poor.

“Government has not been able to keep its promises to protect spending in social sectors and to increase their share of total spending.”

[World Bank, Zambia: Poverty Assessment, 1994]
The high interest rate and the resulting lack of credit has not only affected bigger businesses, it has also had an impact on private traders. Especially hard hit have been those agents which the Government hoped would move in to market maize because they had no money with which to purchase produce from farmers. Likewise, poor farmers could not afford the credit necessary to buy expensive inputs for planting out next year's crop. Some commercial farms were even pushed to the edge of bankruptcy. For example, by late 1993 real interest rates were excessive at over 200%, kept high by the returns paid on treasury bonds which, for a period, hit almost 600%. The current bank lending rate is in the region of 30%.

Are Zambia’s external accounts in balance?

Although the amount the Government spends and collects domestically within Zambia has been brought broadly into line, albeit at a high social cost, the overall amount of money going out of the country to pay for imports and debt is increasingly in danger of outstripping the amount of money brought into the country by exports.

In 1997, the overall deficit was $139 million. In order to cover this shortfall, donor governments and the World Bank transferred $120 million back to the Government of Zambia. This overall ‘balance of payments’ problem is increasingly in danger of outstripping the amount of money brought into the country by exports.

Firstly, at a time when copper still accounts for four-fifths of export earnings and brings the Government much of its foreign exchange revenue, output of the metal is likely to remain flat for years to come and copper prices are predicted to stagnate.

Secondly, Zambia is required to meet interest and repayments on the debt it owes to overseas banks. In 1997, external debt servicing cost the Government $216 million. With massive external debts totalling over $7 billion, this debt servicing requires a large part of the foreign exchange the Government has put aside. Indeed, the Government is dependent on donor assistance to repay its debts and, increasingly, it will not be able to find enough money to do so.

By the end of 1997, eight members of the Paris Club of major international donors had either written-off or rescheduled the repayment of debt owed to them by Zambia under terms previously agreed in Naples. However, it has been calculated that, even making moderately optimistic assumptions about economic growth, and even after debt rescheduling, external financing in the region of $1 billion will be needed from 2001-2004, falling to $600 million by 2010.

It is therefore of great importance that Zambia qualifies for the Highly Indebted Poor Counties (HIPC) initiative launched in 1996 by the World Bank and IMF. HIPC is aimed at those countries, like Zambia, who are currently receiving concessional assistance from the World Bank but who are faced with an unsustainable debt situation even after the full application of current debt relief mechanisms. Surpluses generated by the World Bank and IMF will be used to write-off existing debt but, in order to be accepted onto the scheme, a country must show a commitment to economic reform programmes as well as to structural and social reform, including improving basic health care and education. Zambia must meet a number of benchmarks set by the World Bank and IMF, to include meeting its existing debt repayments, if it is to qualify for HIPIC.

As it is, the ‘gap’ in the Government’s finances caused by Zambia’s burden of debt makes the country very dependent on donor assistance, places limits on Government expenditure, and creates uncertainty in the minds of potential investors, many of whom are not convinced that the MMD Government will be able to avoid defaulting on its loans.

How have recent events in Zambia threatened any prospect of economic recovery?

The economic stabilisation programme, in the light of the drastic cuts in public expenditure and because of a failure to protect social spending in hard times, has been criticised for its adverse impact on the poor. Yet, towards the end of 1997, the financial mainstays of the Zambia economy appeared to be in place. Growth, even if it was not orientated towards the poor, was on the horizon. By mid-1998, less than seven months later, many are pointing to a startling reversal in Zambia’s economic position.

Commentators have identified two principle factors which have precipitated the crisis.

The first of these surrounds the issue of governance: an absence of due democratic process within Zambia and the failure to uphold civil and political rights.

The second factor is the failure of the MMD Government to complete the privatisation of ZCCM. Donor support has always been implicitly linked to the sale of the mines while ZCCM’s losses have dragged the economy down.

“The statistics show a trend in which the economic gains experienced throughout 1997 are now in reverse gear, and they reveal a plea for something drastic to be done to avoid virtual collapse of the economy.”

[Comment on Barclays’ Bank Quarterly Report, Times of Zambia, 25 May 1998]
Both pledges and the actual delivery of donor funds have fallen sharply throughout the period since the MMD Government came to power because of concerns over human rights and political freedoms within Zambia. After an initial honeymoon period, the major donors, at their Consultative Group meeting in December 1995, expressed their disquiet over clauses in the redrafted Constitution. In 1996, the national elections were criticised for irregularities in monitoring and voter registration. During 1997, police roundups of alleged agitators, including UNIP officials, were condemned as political persecution. Then, in October 1997, the abortive coup attempt prompted the MMD Government to impose a state of emergency. In November 1997, Kenneth Kaunda, Zambia’s former president, was arrested. The manner of Kaunda’s arrest; his initial detention without charge; the subsequent trial on the basis of flimsy evidence; the torture of the perpetrators of the coup; and wider concern over the MMD’s involvement in attempts to use the police to intimidate and smear its political opponents, all of these matters prompted the donor community to stop assistance to the Zambian Government. The Consultative Group meeting of donors scheduled for December 1997 was postponed and only took place in May 1998 after the state of emergency was lifted.

While the MMD Government was successful in securing donor assistance of $530 million at the May 1998 Consultative Group meeting, it is important to note that the earmarked funds constitute pledges and final payment is conditional on the Zambian Government meeting a number of stipulations. The money will only be disbursed if Zambia abides by its commitments in respect of good governance. These include reform of the police force, swift action to redress torture, and wide participation in local elections. Zambia must also continue to meet economic benchmarks set by the IMF. Continued support is explicitly linked to progress towards the complete privatisation of ZCCM as the donor community is opposed to the use of external assistance to prop up the loss making conglomerate.

The consequences of both the Government’s poor record on governance and the failure to conclude the sell-off of ZCCM have been painfully apparent:

- Events over the last year, in particular the collapse of negotiations to sell the core Nkana/Nchanga mines, have made the privatisation of ZCCM a distant prospect. ZCCM is in danger of defaulting on its debts with domestic and foreign banks and emergency support from the World Bank to keep the company afloat can only stave off collapse. A memo from ZCCM’s director of human resources confirmed that, beginning on 1 May 1998, a number of miners would be recessed on indefinite paid leave until either a minority accepted compulsory redeployment or until money could be found to finance retrenchment packages for the majority. As a result of the 1998 Consultative Group meeting, the World Bank has agreed to provide $40 million towards the cost of redundancies within ZCCM on condition that privatisation advances. There is little immediate prospect of this happening.

- The donor aid freeze and the suspension of balance of payments support caused an almost complete lack of foreign exchange. By May 1998, the Government had been forced to release $80 million of its reserve in a futile attempt to make up for the shortage of foreign exchange in the economy. Lack of foreign exchange meant that each dollar was worth almost 20% more at the end of the first quarter of 1998 than it had been at the beginning of the year. As a result, there is an upward trend in inflation, although interest rates have remained low for Zambia. Given that current pledges finally agreed in May 1998 are conditional on good governance and progress towards the completion of the privatisation of ZCCM, support is by no means guaranteed and the crisis is not over.

- Payments are not being made to suppliers who are incurring their own debts with other creditors and the banks themselves. Their workers are not being paid. Bankruptcy must be a real prospect for many firms.
When compared with the same period in the previous year, manufacturing sector output has fallen by 15%, non-traditional exports have remained static, the export of agricultural commodities has dropped by almost a quarter, and overseas sales of both fresh flowers and horticultural products have declined by 10% and 19% respectively. One positive statistic is the significant growth of non-copper mining exports such as silver, gold and cobalt slag.

In the absence of this flow of foreign exchange, and bearing in mind the markedly reduced foreign earnings from exports, the Government is running out of money with which to pay its external debts. In the first quarter of 1998, half of the money it was obliged to take out of its foreign reserves went to meet debt servicing. The successful implementation of the 1998 budget is heavily dependent for over one third of its revenue on donor funding and it must be noted that the assistance agreed at the Consultative Group meeting in May 1998 is $100 million less than was sought by the MMD Government to balance its accounts.

Should it miss the benchmarks set by the IMF in respect of how the economy is managed, the country may not receive the next tranche of balance of payments support. A medium term threat is the exclusion of Zambia from the Highly Indebted Poor Countries initiative which will deprive the country of significant debt relief.

Is there an end in sight to the hardship created by economic reform?

The first phase of economic reform promised recovery, the development rationale being that poverty in Zambia would be reduced on the back of economic growth. The expected economic turnaround did not happen. The second phase of economic reform recognised that direct action would have to be taken to stimulate certain sectors of the economy but it also recognised, somewhat belatedly, the need for social support as it became apparent that the link between economic reform and the reduction of poverty was far from assured.
The key question

As seven years have elapsed since the MMD Government introduced its World Bank and IMF backed economic reform programme in Zambia, it is high time to ask the key question:

Q. What is the extent and severity of poverty in Zambia today?

Each and every Zambian or commentator who is minded to ask this question is fully entitled to do so. This is because the World Bank justifies its very existence on the basis of its mandate which is to alleviate poverty.

The World Bank stands or falls in relation to its record of success or failure in bringing this about. The MMD Government came to power on the basis of promises it made to the electorate. It too must be judged by its record in office.

This Fact Sheet 5b will seek to outline:

- what it is to be poor in Zambia today;
- the extent and severity of this poverty;
- and how far levels of health care, education and basic services have deteriorated over recent years.

This picture is necessary in order to determine in the next Fact Sheet 5c whether the World Bank and MMD Government have taken action, as promised, to combat poverty and improve social support in the face of the criticisms of the economic reform programme which have been made. It is also necessary in order to judge whether or not the social situation in Zambia is beginning to improve as a result of this action.

Is widespread poverty new to Zambia?

Widespread and severe poverty is not new in Zambia, although the number of people who feel its affects is on the increase. From a position of relative prosperity in the late 1960s and through the 1970s, when the country was one of the most prosperous in sub-Saharan Africa, over the 1980s to the present day, Zambia now ranks as one of the poorer countries in Africa. Hence it would be inaccurate to say that structural adjustment, liberalisation and privatisation, as recommended by the World Bank and IMF and implemented under the MMD Government, are responsible for poverty in Zambia. In reality, poverty and social provision were already deteriorating. However, what cannot be denied is that certain free market economic reform policies have directly resulted in deteriorating standards of living, declining services and increased hardship.

How is poverty defined?

The World Bank defines poverty in two ways. In the first approach, people themselves are asked how they would characterise being poor. Poverty means not having enough money to buy food or clothes. It means not being able to visit a health centre or hospital or being able to buy medicine. It means keeping your children out of school to do odd jobs and help with household income or because you cannot afford school fees and the cost of uniforms. Poverty means having nothing in reserve, almost no assets and no savings to get you and your family through those times when things get even harder.

The second way is to calculate how much it costs to provide a person with food for a month based on the requirements of an average adult. In late 1991, the World Bank worked this out to be K962, although it would cost much more than this at today's prices. If someone can find this amount and can then afford to spend at least 30 per cent more on other goods and services - bringing their household expenditure per adult to K1380 - then they are not considered to be poor. If, on the other hand, household expenditure per adult is less than this ‘poverty line’ of K1380, then a person can afford the cost of food but has not enough to spend on other essential items. Someone in this position is considered to be poor. If expenditure cannot even meet the cost of this basic ‘food basket’, then a person does not even have enough to eat and is characterised as ‘core poor’.

“Sustainable poverty reduction is the overarching objective of the World Bank. It is the benchmark by which our performance as a development institution will be measured.”

[Lewis Preston, former President of the World Bank, quoted in Implementing the World Bank's Strategy to Reduce Poverty: Progress and Challenges, 1993]
By this measure of poverty, a total of 68% of Zambians fell below the poverty line in 1991. Furthermore, four-fifths of those living in poverty were very poor indeed and could be described as ‘core poor’.

In recent years, evidence suggests that more and more Zambians are becoming poor. In 1993, an increased total of 86% of the population fell below the national poverty line. By international standards, roughly the same percentage of the population was living on less than the equivalent of $1 each day. However, the Government of Zambia’s own statistics for 1996 maintain that the percentage of Zambians living below the poverty line remains at about 69%.

Are people poorer in rural areas than in the cities?

Poverty in rural Zambia is more widespread than in urban Zambia. The 1991 figures show that a massive 88 per cent of people living below the poverty line in the countryside compared to 46 per cent in the towns and cities.

The needs of both the rural and urban poor are equally important, but it is because many people in Zambia live in a small number of cities that large scale urban poverty is now a major problem in Zambia. Figures for 1995 suggest that 4.1 million Zambians, or 45% of the total population, live in urban areas. Although urban growth rates have slowed in the 1990s, there is little evidence that people are leaving the cities. Instead, the urban poor are staying on in the informal sector.

The number of poor people is growing at a faster rate in the cities than in the countryside. In 1990's only four out of every one hundred people living in urban centres were poor. In the 1990s, every other person living in a Zambian city is living in poverty. The Government of Zambia’s 1996 Living Conditions Monitoring Survey also confirms that, although poverty in rural areas remains deeper and more severe, the gap is closing as urban residents become poorer.

The Copperbelt, characterised by its towns and cities which have grown up around mining, has been particularly hard hit in recent times as copper production has fallen and employment in ZCCM and associated industries has declined. Nearly one fifth of Zambia’s total population lives in the Copperbelt and the vast majority of these people - more than eight people in every ten - live in urban areas. Almost half the entire ‘core poor’ urban population of Zambia live in the Copperbelt. Furthermore, of the very poorest urban dwellers - those whose expenditure is less than a quarter of what is needed to meet their need for food and known as the ultra poor - eighty per cent are concentrated in the Copperbelt.

What characterises urban poverty?

Poor people in cities are a diverse group as the personal circumstances of each and everyone varies a great deal. However, although people themselves are different, they often share a number of characteristics because of the poverty which they are experiencing:

- The most important expenditure for poor urban households is food which accounts for over two-thirds of the monthly budget. A further fifth of household expenditure goes on housing.

- This means that the remaining budget for other essentials is very small indeed. It is therefore necessary for people to set priorities. Top of the list is budgeting for cooking fuel, followed by meeting essential transport costs, then covering the cost of water and sanitation, and finally paying out for schooling.

- In hard times, people reduce the amount they eat at each meal or perhaps eat only one meal a day. It may be considered necessary to pull children out of school to cut down on school fees and uniform costs. Children can be set to work to raise the income of a poor household.

- In the early 1990s, about half of the poorest people in cities owned their house and about half rented accommodation. In fact, home ownership is higher amongst the urban poor than it is amongst urban dwellers who are better off. This is because the poor mainly live in squatter compounds where they have built their own homes. However, because these dwellings are often classed as illegal by the authorities, people always live under the threat of eviction and the local council is not required to provide them with basic services. The housing situation is changing rapidly in many cities as a result of the MMD Government's sale of council houses to sitting tenants and the right of employees to buy their houses as State owned enterprises are privatised. The impact of this is discussed further in Fact Sheet 5d.
Urban poverty is often linked by people themselves to petty crime, violence and prostitution.

Urban poverty is characterised by inadequate access to a number of basic goods and services - housing, education, health care, transport, water supply and sanitation - which are necessary to meet people's social needs.

What coping strategies do people adopt to help themselves?

It would, however, be a mistake to think that the majority of those who are poor simply accept their fate. Most people are resourceful and enterprising. They adopt a whole host of strategies to help themselves cope with their situation:

Informal sector trading, selling everything from vegetables to clothes, from dried fish to salt, from papers to haircuts and shoeshines, is the most common way for people to get by.

Of course, people cultivate small garden plots and grow what they can to help feed the household or provide produce which can be traded. A study by the development agency CARE showed that, amongst the poor residents of George Compound, Ndola, about half of them cultivated gardens and small plots. Food is not only grown for home consumption; selling crops such as sweet potatoes was one of the most profitable activities. The biggest problem the residents face, however, is that because they have no legal tenure, their gardens are viewed as illegal by the City Council. Gardens on public land may be destroyed, yet land is reallocated to commercial farmers for political gain.

Indeed, those who are dependent on others or those well and truly ground down by inadequate food and lack of resources are perceived as the poorest by those who continue to struggle and think up new ways to make ends meet.

Is it realistic to expect that people can escape poverty on their own?

In answering this question, it is appropriate to introduce three quotes from the World Bank:

Often people engaged in some form of petty trading whether selling cigarettes outside their homes or selling a few tomatoes and buns. However, this range of activities seemed to be geared more towards survival than being an indication of any kind of dynamic thrust in the per-urban economy.

[World Bank, Zambia: Poverty Assessment]

Human resource development must be a key element of any poverty reduction strategy. Greater access to quality social services is important for the productivity of the poor’s most important asset: their labour....Lessons from other countries confirm that the poor will not be able to benefit from the improved macroeconomic policy framework if they are illiterate, malnourished, or in poor health.

[World Bank, Zambia: Poverty Assessment]

The ability of poor Zambians to help themselves is constrained by grossly inadequate services in health, education, transport and in the provision of water and sanitation.

[World Bank, Zambia: Country Assistance Strategy]
These statements tell us that:

- whatever poor people do on their own, however resourceful they are, the majority may survive, but will not escape from poverty;
- it is essential social services and education, designed to meet the needs of the poor, which will make the difference;
- and that it is precisely this level of quality social support which has been missing in Zambia in recent years.

The remainder of this Fact Sheet will attempt to summarise the state of this essential social provision.

Exactly what has been done to deliver improvements in these areas will be the subject of the next Fact Sheet 5c.

Have people’s social needs been forgotten? - Policies to combat poverty

It will examine whether the World Bank, international donors and the MMD Government have lived up to their promise to deliver this investment in ‘human capital’ - education, health care, and training. In its absence, it will be impossible for the majority of Zambians to escape from poverty, no matter how extensive the economic reforms.

Overall access to services

It has often been assumed, given the “urban bias” in Zambia’s development, that urban populations have been better served by health and education services. Declining revenues and increasing population pressures during the 1980s mean that if this was once the case it is certainly not the current situation...the urban poor are either under-served or, in illegal settlements, not served at all.

[World Bank, Zambia: Poverty Assessment, 1994]

- The study shows a significant level of deprivation in all Zambia’s provinces. The Copperbelt fared slightly better because of the paternal attitude of ZCCM which supported services and welfare measures in the past. With privatisation, this situation is likely to change for the worse.
- ZCCM has traditionally serviced not only its own compounds, but has also entered into informal arrangements with town councils to provide basic amenities to other residents. There is strong evidence that the new private sector owners will not take on these responsibilities with the result that service provision in the Copperbelt towns will inevitably get even worse for the urban poor. This whole issue of who is responsible for social provision under privatisation is examined further in Fact Sheet 5d.
- The data on overall access to essential goods and services is misleading. It hides the fact that many urban residents are no longer employed in the copper industry and do not live in company compounds. Most of the urban poor in the Copperbelt are found in unplanned “squatter” settlements on the periphery of urban centres where they lack legal status and therefore any service provision.
- Too many different actors - central government ministries, local council departments, parastatals and the private sector - are involved in supplying urban services with the result that nobody is sure who is responsible for which areas of provision. This creates ideal conditions for a ‘two tier’ system in which the poor lose out.
- Overall, simply too few resources and too little money is devoted out of Government spending to providing services for the poor.

These failings will be examined in further detail in Fact Sheet 5c, along with an assessment of how effective the action which the MMD Government and World Bank are taking to tackle these problems is proving to be.
While better than in the countryside, overall access to water supplies and sanitation in urban areas has deteriorated over the last twenty years.

- In the early 1970s, 86% city dwellers had access to safe water.
- The World Bank recorded that access had fallen to 66% in 1990, although Government estimates for recent years put the figure at around 75%.
- In rural areas, between 30 to 40% of the population have access to safe drinking water.
- Latest Government figures for 1997 indicate that 12% of urban residents, 30% of those living in peri-urban areas and 88% of those in rural areas do not have access to adequate, safe, convenient sanitation.

Water and sewerage infrastructure in many Copperbelt towns was installed up to three decades or more ago to serve a small urban elite. It cannot meet the needs of the large numbers of poor people in the cities of today and is falling into disrepair. This lowers its capacity still further. The proportion of households who now depend on unprotected wells and boreholes in Copperbelt towns has more than doubled since the 1970s and around a fifth of people now draw their water from these unprotected sources.

The contrast is not only between urban areas and rural areas: there is also significant variation in the quality of water supply depending upon where you live within a town or city. The neighbourhoods in which more affluent residents live are the best served. The number of properties with piped water and flush toilets in these areas makes the overall statistics on urban water supply and sanitation appear more respectable. In contrast, low income urban areas are officially served by standpipes serving up to 25 households, but the World Bank confirms that field visits show many of these to be out of operation. Indeed, real levels of access to safe water and sanitation to the urban poor are largely unknown, especially when considering provision in the shanty compounds. It is people living in these settlements, classed by the authorities as illegal, who suffer the worst deprivation. As a consequence, there is no obligation on the local authorities to provide services as a matter of course.

- In an area like Chawama - a poor but legal residential area of Lusaka - 80% of residents are dependent on public taps and 95% use latrines or buckets.

- In George Compound, Ndola, where the City Council deems most settlement to be illegal, a study by the development agency CARE in 1995 revealed that four households share each well and five households share each pit latrine. People are well aware of the risks associated with makeshift provision.

This situation of inadequate water supply and sanitation has a severe impact on the poor:

- An increase in the incidence of water borne diseases in Zambia has been described as one of the ‘most glaring outcomes of the decay in urban infrastructure’. Lack of access to, and the quality of, water supply and sanitation has led to an outbreak of cholera in George Compound in 1991 and there have been other serious outbreaks of cholera in recent years, notably in Kitwe.

- Women are frequently responsible for providing the household with water, so they suffer the most when it comes to ensuring a decent supply. Even if, for the majority of urban dwellers, water sources are less than one kilometre away, queuing for water and carrying it back home still takes up valuable time. The frustration and demands on women are compounded by the fact that supplies are often erratic or even out of order.

- While official service charges set by the local council have, in the past, been nominal, recent trends suggest that:
  - Prices are on the increase. In Kalingalinga compound, water charges increased from K10 per household to K300 per month in 1991. Charges on non-communal taps, at K3000 per month, were ten times the standard price.
  - Private landlords charged unofficial and inflated prices for access to water and other services.
  - As the system deteriorates, and because local councils do not have the resources for repairs, people are paying more for failing service. In the case of Kitwe Council, in 1994 it officially supplied just over 18,000 low cost houses. Numerically, these units made up two-thirds of its revenue base for water charges, although rates for high cost housing and commercial properties are higher. Some residents are now refusing to pay while others are too poor to pay. Hence the base from which local councils get their revenue is falling and in the following year they have even less to spend on basic services. The cycle of decline begins again.

In Chipulukusu, people attributed the outbreaks of diseases such as cholera and dysentery to the dirty water from the wells, which they understood were infused with the dirt from the latrines close by.

[World Bank, Zambia: Poverty Assessment, comment on Chipulukusu compound, one of

The department is not getting any returns on its water services extended to squatter compounds. This goes also with low cost housing areas.

[Report of the Acting Director of Water and Sewerage Services, Kitwe, 1994]
Health care

On the face of it, urban populations in Zambia appear to be relatively well served by health facilities. Nine out of ten people living in cities and towns live within 5 km of the nearest clinic or hospital. In rural areas, about five people in every ten are within the same distance or a one hour walk from a health centre. In the mid 1980s, there were approximately 7,300 people to every doctor and a ratio of about 750 people per nurse. In the early 1990s, the ratios were 11,400 to one and 610 to one respectively. These figures remain above average for the Southern Africa region. Yet the fact remains that 80% of doctors are concentrated in four provinces along line rail. In contrast, many rural health centres do not have a single health worker.

However, even in urban areas, these indicators mask a severe decline in access to health care, rising prices and a fall in the quality of the service which is on offer. As poverty has increased, the health of many Zambians has deteriorated and the figures are quite shocking:

- Life expectancy was just over 43 years in 1963, then 50 years in 1990, but has since fallen back to 45 years in 1995.
- The number of children dying before their first birthday has increased dramatically. Infant mortality is now far worse in the Zambia of today than it was twenty years ago.
- The number of children who die between birth and their fifth birthday - known as under five mortality - has also increased to such an extent that the trend was described back in 1994 as ‘highly alarming’. Since then, official reports suggest that under five mortality in 1996 is higher still. Government statistics confirm that the under five death rate reached its highest in Luapula province at over 250 deaths per thousand during the last ten years.
- Until recently, there have been improvements in vaccinating young children against tuberculosis,
  polio, measles, diphtheria, pertussis, and tetanus. In 1992, 67% of children had been vaccinated by their second birthday whereas figures for 1996 record that 78% were similarly covered. However, during 1997, immunisation coverage for the three main vaccinations against these diseases has fallen to an average of just above 50%.
- The poor are finding it more difficult to get good food and achieve a balanced diet. At a time when trends in nutritional status have been improving on a world-wide basis, they have remained static or have even deteriorated over the last twenty years in Zambia. Four out of every ten Zambian children in the early 1990s were stunted.
- Access to safe water and sanitation has declined. Whereas there were 2000 cholera cases back in 1978, a sudden flare-up of the disease in 1991 resulted in 12,000 cases. Although prompt action reduced the number of cases to 1,000 in 1993, the underlying poor state of water provision and insanitary conditions in poor urban areas means that there is always a threat of renewed outbreaks. The rainy season exacerbates the incidence of cholera, dysentery, coughs and diarrhoea in urban areas. In the Copperbelt, for example, seven out of ten children and between five and six out of every ten adults suffer respiratory diseases, diarrhoea, malaria, malnutrition and other illnesses.
  The overall level of chronic malnutrition (stunting or low height-for-age) in Zambia is higher than the average for Sub-Saharan Africa and 15 times as high as levels in developed market economies. [World Bank, Zambia: Poverty Assessment, 1994]
- The AIDS epidemic will have serious repercussions on poverty in Zambia, as elsewhere. HIV/AIDS threatens to eliminate some of the most productive members of society, clog the health care system, and saddle individual families with increased responsibilities caring for the ill and for larger numbers of dependants. [World Bank, Zambia: Poverty Assessment, 1994]

Although there have been some advances in the way in which health services are being delivered - as discussed in the next Fact Sheet 5c - the MMD Government's decision to impose an uncoordinated system of user fees prior to visible improvements in the quality of health has had a catastrophic impact on ability of the poor to receive adequate treatment. People are dying as a direct result of this. Children under five are supposedly exempt from fees but their parents are charged for many treatments and drugs. Young children, older children, the vast majority of adults, anyone who is poor, cannot afford consultation fees nor over-inflated prices for inadequate drugs. What use is an aspirin or Panadol in fighting serious illness?

User fees in the formal health care system appeared to be putting the mainstream health facilities out of reach of the poor. High medical fees alone in many cases were simply unaffordable and accounted for the claim of a sharp decline in the number of visits to clinics and hospitals. In Chipulukusu, people expressed anguish at the fees they were expected to pay, especially when coupled with the mediocre treatment they received. [World Bank, Zambia: Poverty Assessment, 1994]

Poor people now have little option but to try and treat themselves in the first instance. Increasing numbers are turning to traditional healers - even when suffering from serious illnesses like cerebral malaria - as fees are lower and payment can often be made on credit. However, treatment is often ineffective.
On the face of it, and despite recent falls, school attendance rates remain higher in urban areas than in rural areas.

- In the countryside, figures for 1996 suggest that only six out of ten children of the appropriate age were attending primary school in comparison to eight out of ten of their urban counterparts.

However, better attendance in many towns and cities masks other worrying trends.

- Almost a quarter of children from urban households living below the poverty line do not attend primary school.
- Three quarters of those who do attend may not be in the appropriate grade for their age.
- The impact of these failings is apparent in the urbanised Copperbelt where, in 1993, one fifth of youths aged between ten and nineteen were unable to read or write.

There is a chronic shortage of school places. Forty percent of parents questioned cited this lack of capacity as the reason for not sending their children to school. Schools were already full in the 1980s. Hence, by 1990, only one in every four primary students could go on to secondary education. The Copperbelt had the highest rate of student failure in the country. In Kitwe, only one student in five was progressing to secondary school. By 1996, the progression rate at the national level had improved to just over one in three, but the total number of pupils sitting the exam at Grade 7 had fallen.

Moving up the educational ladder, fewer children from poor backgrounds go on to secondary school and fewer still make it to university. Despite the fact that only about one quarter of the general population in Zambia was not poor in 1991, children from better off backgrounds took up almost half of secondary school places and almost nine out of every ten places at university.

It is the cost of schooling which is pricing education out of the reach of the poor. School fees, the cost of uniforms and text books are a significant barrier to access.

- PTAs set levies in many schools to supplement dwindling government funding. In the past, parents took care of indirect costs such as uniforms and transport, but, in the 1990s, they have taken over the direct costs of many consumables. In 1985, parents were meeting, on average, 15% of the cost of learning materials, exercise books, examination fees and other recurrent expenses at primary school. On the same basis, in 1990 parents were meeting 83% of these costs.

[The poor face the necessity to balance the cost of education and its perceived long-term benefits against the immediate needs for labour and income generating capacity to produce food and other essentials for life.  
World Bank, Zambia: Poverty Assessment, 1994]

- The bulk of school fees and costs correspond with the months from November to February when the budgets of poor households are already under their greatest pressure.
- Buying school uniforms is the largest single cost for poor families. Uniforms are mostly compulsory; dress codes - down to the wearing of black leather shoes - are often strictly enforced, and prices charged by official outlets are at a premium. In 1994 it cost K5,200 to kit out six children. This represented more than a month’s income for more than three quarters of all households in Zambia. The poorest are hard hit by this expense.

- The quality of teaching in schools in poor areas is often inferior. High pupil teacher ratios, double and triple shifts because of a lack of places, lack of individual contact between a teacher and each pupil, all of these factors undermine the actual and perceived value of education.
Most urban compounds in which the poor live are without transport services altogether. Bus and taxi firms avoid certain areas because the roads are unsurfaced and peppered with potholes and because the customer base is small. This is not because poor city dwellers do not need transport - on the contrary, their access to central markets, jobs and services would be greatly improved - but because they cannot afford high fares. Where services do exist, on top of the expense, they are often irregular and overcrowded.

- Six out of every ten residents indicated that cost was the biggest constraint on their use of urban transport.
- The result is that nine out of ten people living in the compounds and shanties walk to fetch water, to local markets, to the clinic, to school or into the town centre itself.
- The situation is so bad that even arranging transport for funerals is very difficult.
- The poor state of transport, together with restrictive land use zoning, makes it difficult for local people to develop a business in the compounds.

Inadequate roads and lack of transport is a problem not only within Zambia’s cities, but it also a problem which exists both between cities themselves and between towns and the surrounding countryside.

- It makes it difficult for farmers to get their produce into the markets. Removal of transport subsidies and Government marketing services has made the problem worse. Once middle men have shipped produce to market and taken their cut, farmers get less and the urban poor pay more for their food.
- It severely restricts the mobility of labour. For example, the privatisation of ZCCM may create pockets of expansion - although this is by no means guaranteed - but even then it is difficult to see how people will be able to commute from nearby towns to take advantage of any new opportunities. Their only option will be to uproot and many may not be able to afford to do so, especially since significant numbers of people will have sunk their money into buying a home.

In real terms, urban transport costs have risen out of all proportion to incomes. For those using transport, costs consume an average of 17 percent of non-food expenditure. In Chawama, 71 percent of the very poor cannot afford to use transport services at all. [World Bank, Zambia: Poverty Assessment, 1994]