REPORT

ON

THE PRIVATISATION OF ZAMBIA CONSOLIDATED COPPER MINES

BY

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A CASE STUDY ON THE PRIVATISATION OF ZCCM

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ABSTRACT

This report is on a case study on the privatization of Zambia Consolidated Copper Mines (ZCCM). The study reviews the historical background information to privatisation. It also looks at the development of the mining industry in Zambia, the formation of ZCCM and reasons that led to privatisation.

The study undertook a needs assessment survey of privatistion of ZCCM, it critically analyses the privatistion process, the long-term sustainability of the local community, the benefits and lack of benefits that the privatization has resulted in. The report concludes by making recommendations on how flow of mineral rents may be translated into meaningful and visible social development.

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1.0 INTRODUCTION

This report discusses the privatization of Zambia Consolidated Copper Mines (ZCCM) and how the mining and minerals sector can best contribute to the transition to sustainable development in Zambia.

Zambia's economy hinges on the copper mining industry and represents the major source of foreign currency revenue. The mining sector contributes about 80 percent to GDP in Zambia [Financial report, 2000] and about US$ 900m to the National economy.

The mining sector in Zambia provides an economic foundation and most Zambians are either dependant on mining and the minerals sector or are affected by the sector's input to downstream activities.

If the mining and minerals sector and its revenue are managed well, the sector can make significant positive contributions to the national economic and social development. The sector can actively encourage downstream opportunities to derive added economic value.

1.1 THE RATIONALE OF THE STUDY

Zambia can be regarded as one of the African countries that has a successful privatisation programme. What has not been quantified however is the impact of this programme in terms of the expected welfare or social gains to specific groups of people and the economy at large.

There are still a lot of pertinent questions that have to be addressed. Such questions as; is the country better of now with the privatisation than it was before? Who has gained or who has lost? This study has attempted to put the picture in perspective. This report has therefore, attempted to answer these questions.

1.2 THE OBJECTIVES OF THE STUDY

The specific objectives of this study are to identify:

a) The benefits resulting from privatization of ZCCM
b) The lack of benefits resulting from privatization of ZCCM
c) How inflow of mineral rents can contribute towards sustainable development in Zambia

Identification of benefits and lack of benefits will assist in assessing the impact of privatization on local community and how the mining and minerals sector in Zambia has contributed towards sustainable development.

2.0 HISTORICAL BACKGROUND INFORMATION TO PRIVATISATION

The history of copper mining in Zambia dates back to 1899 when the first mine was discovered. The “modern” history of copper mining industry in Zambia began when sole prospecting rights over large areas were granted to number of financially strong companies in 1923 [Mining Report, 1975].

The Zambia Consolidated Copper Mines (ZCCM) was formed when two large mining companies; namely Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Mines (RCM) merged in April 1982 [Figure 1]. Before the merger, the Government took over the running of the two companies when it acquired 51 percent shares in both NCCM and RCM companies.

In 1986, there was a noticeable decline in copper production. The problems in ZCCM resulted in closing of many mining units, and implementation of the five-year production and investment plan in copper mining industry. Despite these measures, the production continued to decline affecting the national economy and social development.

MINING INDUSTRY IN ZAMBIA (HISTORICAL BACKGROUND)

Nchanga Consolidated Copper Mines (NCCM

- Nchanga Copper Mine
- Nkana Copper Mine
- Konkola Copper Mine

Roan Consolidated Mines (RCM)

- Roan Antelope Copper Mine (Luanshya)
- Mufulira Copper Mine
- Chambeshi Copper Mine

1969 Government Tookover the Mines: Acquired 51% shares in both NCCM and RCM

April 1982: NCCM + RCM = ZCCM
Operating Mines of Nkana, Mufulira, Nchanga, Konkola, Chibuluma, Roan and Kabwe merged and formed ZCCM and became the largest mining company in the world.

1986: Decline in Copper Production
Implementation of the five-year production and investment Plan in Copper Mining Industry (The plan failed).

1991: Change of Government, MMD Party came into power

1992: Further decline in performance of the Zambian Mining Industry.

1993: Preparation to privatize ZCCM
Privatisation Team was set up

1995: Zambia Privatisation Agency was established

1996: Privatisation Team briefed all ZCCM employees on status quo of ZCCM

1997: The first sale agreement

2000: The remaining ZCCM assets were privatised (March 2000: Mufulira & Nkana were privatised)

Figure 1: Historical Background of Zambian Mining Industry

3.0 RATIONALE TO PRIVATISATION

Prior to privatisation, the Zambian copper mining industry's position within the global copper mining industry had deteriorated to low levels [Figure 2]. This was because of both decline in performance of the Zambian industry itself as well as improved performance by various competing international copper products. Factors influencing world market perception of copper producers include:

a) Reliability of delivery, and
b) Constancy of quality,

The Zambian copper mining industry enjoyed an excellent international reputation as a producer of consistent high quality copper. Its reliability of delivery however was judged negatively because of poor infrastructure and transport system. The overall perception of Zambian copper was quite positive.

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

The operational problems resulted into low production. For example, Nkana Mine, which was capable of producing about 5 million tones of copper ore per annum, was producing about 2 million tonnes per annum [Mining Report; 1990]. Mufulira Mine was capable of producing 2.5 million tonnes of copper ore, was instead only producing about 1.8 million tonnes. The trend was similar with other mines. Despite the low copper production, the overheads remained more or less the same (at about 39.5 cents/lb) resulting in high cost copper production. The overheads were attributed to costs of non-productive ancillaries, for example, the costs of running the Head office, provision of personal vehicles and services to managers.

3.1 ZCCM AS A HIGH COST PRODUCER

As is obvious, higher cost producers are more vulnerable to price downturns than lower cost producers, which are more likely to survive such downturns profitably.

For example, in the 12 months to March 1993, net cash expenditure per pound of finished copper after byproduct credits was 83.1 UScents/lb at ZCCM, compared to Codelco's 73.7 UScents/lb in Chile [Table 1]. However, a general comparison between ZCCM and Codelco is to be treated with caution, given the many differences in geology, mining methods, etc, between the two producers. Nevertheless, a closer examination of the cost structures can provide some valuable insights:

Table 1: Cost Structure Overview - (UScents/lb)

	Codelco 1992	ZCCM 1992/93
Operating costs	64.8	67.9
Overall costs (including depreciation)	86.1	107.4
By-products credits	12.9	24.3
Net cost	73.7	83.1

Source: ZCCM Management Report On Operations, Mining Annual Review 1993

Some may be surprised that ZCCM was not severely uncompetitive with Codelco on direct operating costs (67.9 ¢/lb vs 64.8 ¢/lb) [Table 1]. The disadvantage

ZCCM had was found in the costs, which were additional to direct operating costs (39.5 ¢/lb vs 21.3 ¢/lb – almost double). This may suggest that it was indirect costs at ZCCM which were compromising its international competitiveness.

Table 2: A summary of selected production data for 1993, and the net cost of production average from 1989 to 1993, are provided.

	Copper (tonnes)	**Cobalt (tonnes)**	**Costs (US$/lb)**
Nchanga (total)	213.049	2.666	
Lower Ore Body (LOB)	67.929		68.8
Nchanga Open Pits (NOP)	120.197	2.666	76.8
Reclaimed tailings (TAILS)	24.923		127.3
Konkola (1 and 3 Shafts)	37.687		110.3
Mufulira (MUF)	64.202		99.9
Nkana (total)	56.622	1.245	
Nkana (NKA)	23.803	485	105.7
Mindola (MIN)	19.171	593	97.4
Chibuluma (CHIB)	13.648	167	86.4
Luanshya	20.772		124.6
Baluba	26.507	868	80.6

Source: ZCCM Annual report [1993].

As can be seen [Table 2], approximately 30per cent of ZCCM's copper production and more than half of its cobalt production come from Nchanga Open Pits (NOP), which should be exhausted some time near/after the turn of the century. New developments, especially large ones such as Konkola Deep, will require several years before reaching full production.

3.2 GOVERNMENT MISMANAGEMENT

The Government is not good at managing business. As shown in the historical background of the Zambian mining industry [Figure 1], the decline in copper production started after the Government had acquired 51 per cent shares in mining companies. Since the Government was the major shareholder, it had powers to appoint top managers and make company policies.

The poor performance in the mining sector was evidence in all State Owned Enterprises (SOEs). There are many factors, which attribute to Government failure to run enterprises, these include:

a) Government is responsible for the welfare of its people, and therefore, likely to deviate company's revenue to social sector i.e. to support social services.
b) Since it runs the civil sector, which is a non-profitable sector, some money may be channeled into it.
c) Lack of good governance may result into lack of transparency and accountability. This may lead to inefficiency of running business houses, and worst still into 'looting' of company property and misappropriation of funds by government leaders and top management.
d) Since the Government is in-charge of formulating and implementation of laws, it may be difficult to enforce such laws on its own companies.

3.3 PRIVATISATION AND INCREASED PRODUCTION

The chart below [Figure 2] demonstrates a striking correlation between private activity and the growth of mine copper production between 1987 and 1992 [Figure 2]. The massive increases in production in Chile stem mainly from private sector after a change in government policy [Kienbaum, 1998].

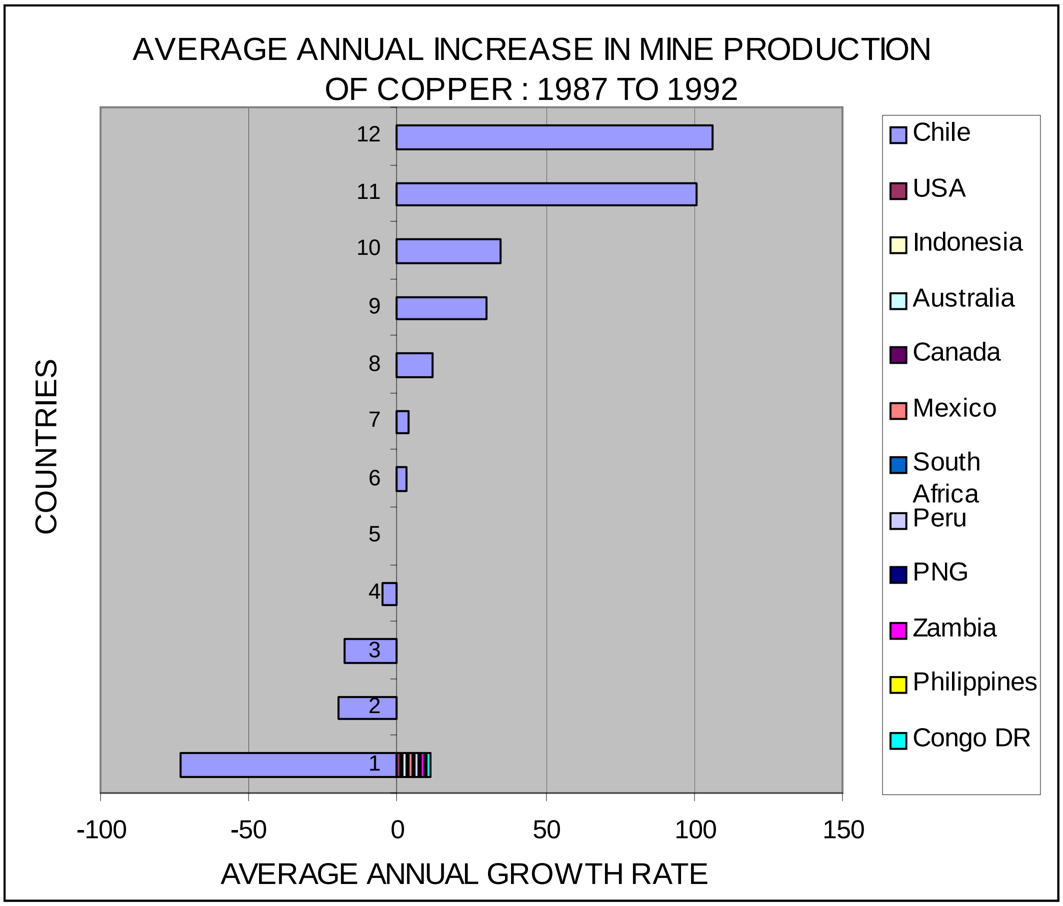

Figure 2: Average Annual Increase in Mine Production of Copper

4.0 PRIVATISATION

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

Privatisation of ZCCM assets was therefore affected as part of an extensive programme of economic reform which began in 1991. The Privatisations Act was enacted in 1992 and the Zambian Privatisation Agency (ZPA) was established in January 1995.

The Government, the International Monetary Fund (IMF) and the World Bank were the architects of Structural Adjustment in Zambia. The architects of economic reform argued that in order for the mining industry in Zambia to compete in global market place and improve in social standards, the mines should be in private hands.

4.1 AIMS AND OBJECTIVES OF PRIVATISATION OF ZCCM

a) To stimulate competition
b) To generate investable funds where companies are sold for cash
c) To encourage wider ownership of shares (empowerment of Zambians)
d) To reduce Government budgetary obligations in cases where subsidies where given to parastatals, and
e) To reduce Government involvement in business i.e., to off load the burden of running State owned enterprises so that the Government can concentrate on developmental issues, good governance, poverty alleviation, etc.

4.2 ZCCM PRIVATISATION TEAM

In 1993, a ZCCM privatisation team was set up. The team had a task of scouting for investors/buyers and to negotiate for conditions of purchase. Apart from scouting for buyers, the team had to consider the impact of the privatisation programme on the people affected. ZCCM Negotiation Team had to:

- minimise redundancies;
- ensure a smooth transition of ZCCM assets to the private sector;

- facilitate new employment opportunities.

In order to prepare itself for these important tasks, the Team requested each unit to answer a questionnaire and to provide information which was useful to be taken into account during the negotiation and sale phases. The team also conducted and participated in various seminars and workshops to inform and educate the public, the unions, the ZCCM employees, the ZCCM managements and the parastatals holding companies of the social aspects of privatisation.

4.3 SELL OFF ZCCM ASSETS

The approach towards bargaining and terms of offer to buy the former ZCCM assets by the investors depended on the background and business interest and Government policy and objectives of privatisation.

The bidders came from international mining companies, business houses, consortiums and groups of former ZCCM employees.

The principle privatisation options included:

a) The sale of ZCCM as a whole with undeveloped resources, financial and environmental liabilities

b) The sale of ZCCM as a whole without undeveloped resources, financial and environmental liabilities

c) The sale of ZCCM in packages with resources, financial and environmental liabilities.

d) The sale of ZCCM in packages without resources, financial and environmental liabilities.

The sale of ZCCM in packages was agreed upon and ZCCM operations were unbundled and sold in units. Financial and environmental liabilities were negotiated for separately for different units and buyers.

In March 1997, the first sale agreement relating to the purchase of Kansanshi Mine by Cyprus Amax Minerals Company of United States of America (USA) was signed, followed by Chibuluma Mine, which was sold to Metorex Consortium [Table 3]. In 2000 the remaining ZCCM assets were privatized. For other ZCCM assets, see Table 3.

Table 3: SALE OF ZCCM ASSETS

Date	Asset	Interest Sold	Buyer	Cash at Close	Deferred Cash	Firm plus conditional commitments
March 1997	Konkola North	Option over 80 – 85%	US$0.5m	-	-	US & 12m
March 1997	Kansanshi Mine	80%	Cyprus Amax	US$3m	US$25m	US$28m
October 1997	Luanshya/Baluba Mines	85%	Binani Group, Daliah Alabaraka Group, Allenby Finance Ltd.	US$35m	-	US$172m
October 1997	Chibuluma Mine	85%	Metorex, Crew Dev. Corp, Maranda Mines, Genbel Securities	US$17.5m	-	US$34m
November 1997	Power Division	80%	Cinergy and National Grid Company	US$50m	-	-
July 1998	Chambishi Mine	85%	China Non-Ferrous Metals	US$20m	-	US$70m
September 1998	Chambishi Cobalt Plant & Naka Slag dumps	90%	Avmin Ltd	US$50m	US$0.35 m	-
Mach 2000	Mufulira Mine, smelter & refinery & Nkana mine & cobalt plant	90%	Glencore International and First Quantum Ltd	US$20m	US$23m	US$502m
March 2000	Konkola, Nchanga & Nampundwe mines plus option over Nkana smelter/refinery	80%	Zambia Copper Investments Ltd, IFC and CDC plc	US$30m	US$60m	US$731m

5.0 LONG-TERM SUSTAINABLE DEVELOPMENT

Since ZCCM has been privatized and set on the path to revitalisation, the Mining and Minerals sector can now contribute to long-term sustainable development in Zambia. Since the economy in Zambia hinges on the Mining industry, the industry can also pay an important role in social development. Social development may be defined as progressive change from lower levels to higher levels or advancement from old to new positions, products, methods and practices. It is the change in the quality and quantity of the people.

Development involves more than just the increase of real income per capita, but has to encompass issues of distributional equity, the well being of the worst off in society, and sustainability. In this regard, the mining and minerals sector can play an important role in realizing development in a nation.

The concept of development, therefore, is operationalised in terms of three basic dimensions, which are the core defining elements. These are:

1. Ensuring survival
2. Improving the material living standards of the people, and
3. Improving the socio-moral quality of life.

There are many precedents in the mining industry world wide for substantial and continued support for a social service function e.g. in Chile where the sector supports local people through contributions towards improvement of infrastructure and social services.

6.0 BENEFITS RESULTING FROM PRIVATISATION OF ZCCM

The impact of privatisation of ZCCM assets on the economy and social development is an important area that continues to attract debate amongst policy makers and researchers.

In the case of the privatisation programme in Zambia, a number of measures have been instituted to address the social dimension of the privatisation of state owned enterprises through the establishment of a National Social Safety Net (NSSN) in 1993. The NSSN is an autonomous body established by the Government and draws its membership from the private sector, unions and employers.

The NSSN has undertaken needs assessment survey of all employees in the state owned enterprises [Chief Programme Officer, NSSN, 2000]. The results of the survey showed that most employees opted for retraining, and it was apparent that NSSN needed to develop a new framework that would comprehensively address capacity building for employees. It is in this context that the concept of employment and social sustainable development was developed.

The concept embraces diversification of the economy to include training of former ZCCM employees in the areas of agriculture, small business enterprises and local business development. These have enabled former ZCCM employees to form small companies, which can bid for jobs and contracts in the Mining and Minerals industries up to date, about 20 such companies have registered with the Mining Companies and are getting contracts. This has resulted in some ZCCM ex-employees benefiting.

Other benefits include:

1. Apart from the companies which have been formed by ex-employees, the mining sector in Zambia has activated other industries, companies and contractors supplying goods and services. This has resulted in job creation for the local people.

2. Privatisation of the mining units has unlocked the potential, which remained dormant due to lack of capital investment and technological innovation. Since the privatisation of ZCCM assets, the mining and minerals sector has been expanding. Some mine workings which were closed have been re-opened. For example, Chambishi, Bwana Mkubwa and Chibuluma Mines have been re-opened by the new investors. The re-opening of the mines has created jobs for the local people and business for local companies.

3. Apart from re-opening of the old mines, new plant and mines have been opened. For example, Chambishi Metals plc (of South Africa) have constructed a new plant at a cost of US$130 million to treat the Nkana slag for the recovery of cobalt and copper. The plant is expected to produce 4,200 tonnes of cobalt and 6,000 tonnes of copper per annum. Metorex Company has opened Chibuluma South Mine. The mine was opened after investing US$11.5 million in the operations. The mine, which has created about 300 new jobs, has a production target of 1,200 tonnes of copper a month.

4. With privatisation, the Zambian mining industry is not only expanding, but also gaining its high standards globally. Prior to privatisation, copper production in Zambia was declining by leaps and bounds. The figures for the year ending 31 March 2000 over the past five years show that annual production fell to below 300,000 metric tonnes. Metal productions were mainly constrained as a result of many years of lack of investment and maintenance. However, production is expected to improve, and in cases the production is likely to double in three years time.

5. The privatisation of ZCCM assets has brought relief on the National Budget. The relief is not because of mineral rents from the mining sector, but because the Government subsidised ZCCM. The Government was spending more than US$100 million per year to sustain the running of ZCCM operations. Apart from the relief on the National Budget by cutting subsidy to ZCCM, the growth of suppliers has contributed to significant improvement of the national economy.

6. Because of the confidence by the private sector in the efficacy of economic liberalisation, the privatisation of ZCCM has attracted international investors who have further invested in other large projects related to mining industry. For example:

a) International investors have resuscitated Scaw, a steel ball manufacturing company. Scaw produces ball-mills, which are used in metallurgical processes.
b) Dyno Company (dealing in blasting agents) and African Explosives Company have been revitalized following capitalization.
c) Mining equipment Companies dealing in drilling equipment, mine transport and associated accessories have been set-up in Zambia
d) Other Companies, which have attracted international investors are Ndola Lime, Chilanga Cement, Mine Plant Installation, Construction, Medical and Health Care Companies.

7. Because of influx of people to the Copperbelt, and the activation of other industries and companies, the trading in the Copperbelt towns has increased. There is more business for local people.

8. Creation of opportunities for local suppliers and contractors.

9. Some mining companies have embarked on Human Resource Development programme through training. Some companies have started conducting in-house-training and sponsoring employees to established Training Institutions.

The transfer of ZCCM assets from the public (State) owned to private ownership is a “seed sown” for a new impetus in Zambia’s economy. This will bring an era of economic resuscitation and investment opportunities.

It is the hope of every Zambian that with this act of privatising ZCCM assets, a new wave of confidence for a brighter future would henceforth permit Zambian ***social*** and ***economic life***. New confidence that would induce others to come to

Zambia and join partnership with the local people. This will mean long-term social sustainable development.

7.0 LACK OF BENEFITS RESULTING FROM PRIVATISATION OF ZCCM

Although the mining industry is on its way to revitalization, and some benefits have started showing up as stated in above [Section 6.0], only few people are benefiting from privatization of ZCCM. So far, the benefits have not yet filtered to the many ordinary Zambians.

ZCCM has been the vehicle through which the Zambian Government has sought to fulfill certain rights especially on the Copperbelt. It operated as a parallel administration in providing all manner of municipal services. It also run schools, hospitals, clinics and other social amenities in mining communities.

ZCCM was considered as a ***"big brother"*** who provided for most social requirements. With privatisation of ZCCM assets, social services, which were extended to the local communities by ZCCM have been substantially cut back. This was reviewed by social scan during the study.

7.1 SOCIAL SCAN

A social scan [Table 4] was carried out to assess the expectations of the local community to privatisation of ZCCM and its impact.

A questionnaire [Appendix 2] was distributed to:

a. Local community leaders
b. Some former ZCCM employees, and

c. Some mine areas residents in Mufulira, Kitwe, Kalulushi, Luanshya and Chingola.

Table 4: Showing the Results Of Social Scan

TOWN	NUMBER OF PEOPLE	EXPECTATIONS			SOCIAL IMPACT			INDIVIDUAL BENEFITS		
		HIGH %	AVERAGE %	LOW %	VERY POSITIVE %	POSITIVE %	NEGATIVE %	MANY %	LITTLE %	NONE %
Mufulira	38	47	36	17	0	19	81	11	26	63
Kitwe	61	51	34	15	1	17	82	21	31	48
Kalulushi	21	49	33	18	0	21	79	17	21	62
Luanshya	33	55	32	13	0	9	91	5	26	69
Chingola	47	61	28	11	5	26	69	12	29	59

The scan showed that people had high expectations of the outcomes of privatisation of ZCCM assets. 53 per cent of the people [Table 4] contacted indicated immediate benefits (less than 3 months after privatisation), while 14 per cent had low expectations.

The scan also suggested that the social benefits have drastically declined and that local people have not benefited much from privatisation of ZCCM assets. The declines mentioned by the interviewees were of basic nature and included:

a) Social services such as medical and health care, which were provided by ZCCM.
b) Education to employees children
c) Subsidies on School fees, electricity, water and telephone bills
d) Collection of garbage and general house maintenance
e) Transport to and from work, which was free under ZCCM
f) Funeral assistance to employees, spouses and employees' biological or registered dependants.
g) Supply of mealie meal (the staple food-flour from maize grains)

The study has shown that there have been little or no tangible benefits to local community. Only two companies have embarked on long-term sustainable social development programmes. In the sale agreement, long-term sustainability of the local community was incorporated, but most mining companies have not come up with policies on social development.

The provision of services is important to enhance the public perception of the privatized mining sector.

The immediate impacts of the privatisation have been adverse. The transition period has brought hardship and decline in economic and social development. The Mine Workers Union of Zambia (MUZ) said the period it has gone through since privatisation of ZCCM has resulted in static salaries for the bulk of its members and reduced Union income [Times of Zambia Newspaper, 2001]. The MUZ President said the period had been rough. He said the production difficulties and retrenchments which had been going on since the privatisation of the ZCCM had impacted negatively on the activities of the Union.

Retrenchments/Redundancies:

A total of 8,329 employees were made redundant as of 31st December 1999. If it is assumed that each employee affected was responsible for the livelihoods of at least five other family members [after Solomon, 1997], this represents a total of 41,645 livelihoods that have been affected. While a miner was in employment, they were entitled, together with their registered dependants to access company provided medical and education services, recreational facilities, sports clubs and essential municipal infrastructure including electricity, water supply and sewerage services. The consequent loss of these social benefits has had a negative impact on the health, education and general well being of the mine communities.

Table 5 indicates that there have been three peak periods in the cycle of ZCCM redundancies. The first peak occurred in the 1994/95 budget year with a high figure of 2,669. This figure was mainly due to closure of Kabwe mine. This was then followed by a figure of 2,182 in the 1995/96 budget year. The redundancies then dropped to a low of 33 during 1996/97. this was an election year and as it was vital for the MMD government to win a second term, the negotiations for the sale of the Nkana/Nchanga package to the Kafue Consortium dragged on with the consequence that no further redundancies could be effected until after the elections. This explains the modest rise in redundancies to 92 in the period immediately following the elections. The all-time high figure of 3,310 at the end of 1999 signaled the completion of sale negotiations for the remaining units.

Table 3: ZCCM Redundancies – 1992 to 1999

Division	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	Total
Nchanga	4	0	0	52	569	0	0	638	1363
Mufulira	0	0	6	183	357	0	28	869	1443
Nkana	0	4	7	600	135	2	0	457	1205
Luanshya	3	8	0	457	228	0	0	0	696
Konkola	0	0	1	133	494	0	0	639	1267
Chibuluma	0	0	0	0	0	0	0	0	0
Kabwe	0	0	0	813	101	31	36	0	981
Nampundwe	0	0	0	0	52	0	0	0	190
NCR	0	0	0	0	0	0	0	180	108
Power	1	1	0	26	0	0	0	0	28
OPC/CSD	0	0	7	142	162	0	2	566	879
CHO	0	1	0	25	84	0	26	33	169
TOTAL	**8**	**14**	**21**	**2669**	**2182**	**33**	**92**	**3310**	**8329**

The Separation Of ZCCM's Commercial And Social Functions

The decision to sale ZCCM assets by unbundling entailed the separation of ZCCM's commercial and social roles. This has had adverse implications for service delivery in the mine townships. At the time of the ZCCM privatisation, water and sewerage services could not be handed over to the local authorities because the councils were in the process of hiving off the utilities from their operations. Additionally, the institutional capacity to cope with current responsibilities was inadequate and it was therefore considered unwise to add on to these responsibilities. The best way forward was to set up a wholly separate operation to oversee the water and sewerage systems in the mine townships. With World Bank assistance, ZCCM set up the Asset Holding Company-Mining Municipal Services (AHC-MMS) with responsibility to oversee the supply of water and removal of solid and liquid waste. The management of storm water drainage was first included in the company's portfolio but this was later passed on to the local authorities who have assumed responsibility for drainage, roads and markets, while ZESCO is responsible for the supply of electricity. It is anticipated that this system of dual utility companies running the water supply and sanitation services will run for four years on the Copperbelt after which a decision will be made concerning a merger of the two services.

The RAID report [2000] states that privatization of ZCCM lacked balanced safeguards. Government incapacity, misguided donor support and private sector exploitation has created the condition in which the majority of Zambians are denied their fundamental human rights. The report continued to say privatisation in Zambia lacked transparency and accountability; the diversion of resources from the sales; and the almost complete lack of regard for the immediate negative impacts on the majority of Zambians living below the poverty line.

Zambia's state of being a heavily indebted poor country was one of the main reasons why the donor community and the World Bank and IMF had such influence over the Government Republic of Zambia (GRZ) in dictating the scale, terms and time-scale of one of the most ambitious privatisation programmes of any developing country. Bretton-Wood Institutions took advantage of the ailing mining sector and Zambia's poor economy to get the best out of privatization of ZCCM.

Development assistance was directly conditional on the rapid disposal of the ailing, state-owned enterprises (SOEs). Donors argued that the sales would bring in the much-needed new investment and revitalise the whole economy. In addition, the sale of the decaying mining company, ZCCM, would, Zambians were assured, help to pay off Zambia's debt. Proceeds from the sales and debt relief under the Heavily Indebted Poor Country Initiate – HIPC, would allow Zambia to start with a clean slate.

Privatisation in Zambia has been regarded by organisations like Transparency International (which monitors corruption worldwide) as **"a looting exercise"**, serious international business journals have reported that public money has been siphoned off into private offshore companies [Transparency International Report, 1999].

Zambia Privatisation Agency (ZPA) noted that management of certain ZCCM units provided themselves extraordinary and excessive benefits in anticipation of privatisation. Public pressure from the donors to sell off ZCCM at a time of falling world demand for copper made it a buyers market. The new investors were able to make demands that GRZ was not able to refuse and the agreements struck are grossly disadvantageous to the majority of Zambians. The needs of the poor were not a high priority in the privatisation process.

Why such hardships and lack of economic and social development after privatisation of ZCCM assets? It is argued that the Government of the Republic of Zambia (GRZ) did not:

a) Include social policies when formulating privatisation objectives
b) Assess properly the impacts of privatisation
c) Attach value to ZCCM assets
d) Plan well the privatisation process
e) Create the necessary legislation for an enabling environment, and
f) Clearly articulate industrial policy

It is also argued that GRZ was pushed **"against the wall"**, leaving no room to reject the offers, especially after significant setbacks in the sale of ZCCM operations in 1998. At this time, ZCCM had reached a point of insolvency.

7.2 SOCIAL REPORTING AND INFORMATION DISSEMINATION

In a privatisation process of this magnitude, it is vital that the process is not only seen to be open and transparent but is so in actuality. The law governing the privatisation of ZCCM required the Agency responsible to report and inform the public concerning its activities:

1. The Agency was required to publish in the Government Gazette:
   - The names of the approved assets to be privatized;
   - The registered consultants, valuers, lawyers, public accountants, and merchant banks dealing with the privatisation process;
   - The bidders and bid process;
   - The price of shares and any other special conditions of the sale of shares; and any other matters deemed appropriate.

2. The Agency was required to submit a six monthly report on the activities to the Minister of Finance who must have tabled the report before Parliament prior to its public release.

3. The Agency must have, at the end of June and December each year submitted reports to the Minister giving details of bids received and reasons for preferring the successful bid, and

4. The Agency must have held press briefings and public discussing at which members of the public and interested persons should have been advised on various matters touching on the privatisation programme.

One of the criticisms leveled at the process has been in connection with the manner in which the independent valuers, consultants and lawyers were chosen. It is argued that looking at the listings of experts in the Gazette or the ZPA progress reports does not give any indication of the extent to which any one firm or individual is being used. There have been suspicions that the lucrative engagements with ZPA have been circulating among a clique privileged by their social positioning.

Further, details of how much a ZCCM asset sold was originally valued at were not published. This made it impossible for the general public to judge whether the enterprise in question was sold at a fair price. There were also delays in revealing the details of certain deals. For example, Sales Agreements for Luanshya and Baluba mines to the Binani Group of India was signed on 30th June 1997; for the sale of Power Division to the Copperbelt Energy Consortium on 6th October 1997; for the sale of Chibuluma Mine to the Metorex Group on 31st July 1997. However, by the end of the award of the sale to any of the companies concerned were not made public.

The architects of privatisation of ZCCM; namely the GRZ, IMF and the World Bank are aware that more than 85 percent of former ZCCM employees are facing problems to feed, clothe, educate their children and care for their families' health. The architects have not taken any action to mitigate the negative impacts of privatising ZCCM.

The question that remains unanswered is why the IMF and the World Bank did not protest at the violation of the provisions of the privatisation act, designed to prevent political interference in the sales, when ZPA replaced the ZCCM Negotiating Team.

8.0 LACK OF INFLOW OF MINERAL RENTS

Mining and minerals sector can contribute towards social sustainable development by means of mineral rents. The mineral rents can be translated into social development, if the Government has a policy of ploughing back the funds raised from the mineral rents into the community.

The study has reviewed that privatisation of ZCCM assets did not adequately address the impact of flow of mineral rents on social development. Poor performance of ZCCM before privatisation affected the inflow of mineral rents and after privatisation, the rents have not improved because of conditions negotiated for by inventors.

Despite some positive results of significance to the poor, the most notable of which is the control of hyper inflation-closing the budget gap has been accomplished, mainly by severe cuts in Government expenditure rather than by raising revenue from mineral rents. Between 1991 and 1997, Government expenditure fell from 40 to 27 per cent of GDP. In real terms, it fell by almost a half from 1,019 billion Zambian Kwacha (ZK) to ZK 586 billion over the same period. It is apparent that the budget cuts have had a devastating impact upon social spending as a component of overall Government expenditure.

The reasons for the reduction in the flow of mineral rents after privatisation of ZCCM assets include:

1. The new owners of ZCCM assets negotiated for taxation individually. In all cases, the Government gave in to low mineral rents because:
    a) The Government of the Republic of Zambia (GRZ) was in a hurry to dispose off ZCCM assets as they were not making any profit and it was draining the state funds through subsidies.

b) The GRZ was pushed to sell at low prices and rents by IMF, World Bank and Donor countries.

2. Although the new owners are paying low loyalty and Value Added Tax (VAT) to Zambia Revenue Authority (ZRA), the import duty has been waived for five (5) years effective from the date of sale.

3. Most mining companies have obtained excessive concessions in terms of taxation, royalty payments, and repatriation of profits and have ensured that any liabilities are shouldered by GRZ.

4. The development agreement between the GRZ and new owners provided mining companies with greater protection by exempting them from liability for fines of penalties or third party claims made in respect of the past activities of ZCCM.

   The Kienbaum Report [1998] concluded that the IMF and World Bank gave Anglo American/ZCI more protected support in acquiring ZCCM assets at low values and tax as compared to that offered by Kafue Consortium. It is argued that how can the Anglo American be both a bidder and a shareholder (a seller)?

   Anglo American has secured a lower level of company income tax in order to improve the internal rate of return from the Konkola Deep Mining Project as it progresses. The tax rate applied is 25 percent in comparison to the normal rate of 35 percent for companies listed outside of Zambia. Based on existing concessions at the time relating to the offset of losses for ten years, it was calculated that any profits would not be taxed until eleventh year of operation. In addition Anglo American has been guaranteed a reduction in the power tariff by almost 20 percent. Finally, mineral royalty has been reduced from an already low 2 percent to 1 percent.

5. Development Agreement with binding legal agreements between the new investors and GRZ were negotiated in secret and they are not public even after the sale.

   ZCCM, like any other state owned Enterprise (SOE) belonged to the Zambian people and have a right to information – there is an absolute necessity for GRZ to provide full information on the prices paid for SOEs and explain what has happened to the sale proceeds.

   It is well known fact from Parliament reports [1998 and 2000] that:

   a) Money has not been paid into Privatisation Revenue Account.
   b) There is extreme disquiet with the way the sale of ZCCM was handled (e.g., the Luanshya Mine deal).
   c) The public has a right to know who has purchased shares in former ZCCM assets.

   It is reported [Parliament Report 1999] that some of the proceeds from the earlier sales of ZCCM assets were used to keep the remaining ZCCM assets afloat cutting drastically the funds for social sector. The cuts affected the many Zambians especially the vulnerable in the community.

9 RECOMMENDATIONS

1. The important lesson to learn from this analogy is that before privatisation took place, competitive environments should have been created. In Zambia's case however, it is interesting to note that the privatisation programme was undertaken within the context of the structural adjustment programme (SAP) which among other things included the liberalisation of the economy. It should be noted that ZCCM was a monopoly or oligopoly, which produced copper and cobalt under very inefficient conditions.

2. Privatisation of ZCCM assets was part of the IMF/World Bank inspired structural Adjustment Programme and therefore left the country without a choice leading to a myriad of objectives. The Government should have clarified the objectives to include the assessment of the socio-economic impact of privatisation.

3. Before privatisation of ZCCM, the GRZ and the investors agreed on some conditions. Both parties agreed to bide by the set conditions. More than 2 years since privatisation of ZCCM, the Government has not put in place mechanism to monitor if the conditions agreed upon are being adhered to by the new mine owners. The Government should set-up a committee of experts to monitor the running of the mining sector and ensure that agreed conditions are abided by.

9.1 THE WAY FORWARD

The GRZ and Mining sector should identify potential methods for an improved contribution towards sustainable social and economic development. Mining and Minerals sector should align its policies towards sustainable development and work out community based projects. Mining companies can carry out some projects as joined ventures.

The mining and minerals sector should initiate a forum to address issues concerning local community. For example the issue of social development can be tackled by the mining and minerals sector as one group. Different mining companies can reinforce and support each other in order to effectively contribute towards sustainable social development. The forum can identify the levels at which actions need to be taken and decide which actions are appropriate.

The GRZ should come up with financing guidelines for the mining and minerals sector to positively contribute to social development.

9.2 Summary of Recommendations for Stakeholder Contribution to Sustainable Development[1]

Issue	Recommendation	Responsible Stakeholder	Time Scale
Low inflow of mineral rents -new owners of ZCCM assets negotiated for low taxation	Formulate policies i.e. make it compulsory for mining companies to invest certain percent of profit into sustainable development projects or funding social sector.	Zambian Government (GRZ) and Mining Sector.	1 to 3 years
Lack of transparency and accountability on the sales of ZCCM assets. Diversion of resources from the sales. Benefits have not fitted to the majority ordinary Zambians	Establish an independent Board to administer resources from mining and minerals sector. To pressurise the Government to be more transparent and accountable	GRZ World Bank, IMF and Zambians.	1 to 3 years
Heavily indebtedness - resources from the mining and minerals sector go to service debts depriving sustainable development in the country	The world bank, IMF and developed countries should consider debt relief for poor countries so that the resources from mining and minerals sector may be channeled into sustainable development.	World Bank and developed countries.	3 to 5 years
High cost production - less revenue resulting in less benefits	The mining sector and stakeholders should support research and development – Need for methods which will reduce production cost.	Mining sector.	1 to 5 years
Privatisation of ZCCM resulted in retrenchments/redundancies affecting standard of living of both former employees and their dependants (multiplier factor of 6)	Former ZCCM employees should be empowered with skills that will contribute positively towards sustainable development - skills in fields like agriculture. Empowerment of Zambians by ownership of shares in the mining business.	Mining sector and former ZCCM employees.	1 to 5 years
Lack of good governance -no enabling environment or potential opportunities for sustainable development - lack of social policies i.e. translating mineral resources into sustainable development - investing into infrastructure etc.	Set-up an independent committee of experts to monitor the activities. The mining Companies should form a forum to address issues concerning local community i.e. social development; identify levels and type of contributions and jointly initiate and invest in community based ventures – different Companies to reinforce and support each other.	GRZ and Mining sector.	2 to 5 years
Lack of local skilled labour – former employees inherited bad working habits from ZCCM.	The mining sector should come up with programmes to train and develop local manpower.	Mining Sector.	1 to 5 years

[1] Based on the set of goals for sustainable development outlined in the working document

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APPENDIX 1: QUESTIONNAIRE

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April 26, 2001

Dear Sir/Madam,

REF: **QUESTIONNAIRE ON MINING, MINERALS AND SUSTAINABLE DEVELOPMENT IN ZAMBIA**.

A CASE STUDY ON THE PRIVATIZATION OF ZAMBIA CONSOLIDATED COPPER MINES (ZCCM)

The Mining, Minerals and Sustainable Development (MMSD) was initiated by the World Business Council for Sustainable Development. The Mining, Mineral and Sustainable Development project is an independent process of participatory analysis aimed at "identifying how the Mining and minerals sector can best contribute to the Southern Africa transition to sustainable development".

The objective of this particular study is to determine whether the privatization of Zambia Consolidated Copper Mines (ZCCM) has benefited the local community, and if it will result in long-term meaningful and visible sustainable social development in Zambia.

In order for us to get a general understanding of privatization of ZCCM and involvement of local community, we would be very grateful if you assisted us by completing the attached questionnaire.

On behalf of MMSD (SOUTHERN AFRICA REGION), I thank you in advance for taking your valuable time on this questionnaire.

Yours faithfully

Sam Kangwa
Researcher

QUESTIONNAIRE

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

1. Privatization means:

   a)
   b)
   c)
   d)

2. The reasons which led to privatization of Zambia Consolidated Copper Mines (ZCCM) are:

   a)
   b)
   c)
   d)

3. The privatization of ZCCM has resulted in the following benefits:

   a)
   b)
   c)
   d)

4. The privatization of ZCCM has resulted in the following lack of benefits:

   a)
   b)
   c)
   d)

5. The mining company (*KCM, Mopani, Chambeshi, Kalulushi, Luanshya, AVIM) has the following long-term sustainability of the local community:
   (delete as appropriate)*

   a)
   b)
   c)
   d)

6. The following are recommendations on how best the flow of mineral rents can be translated into meaningful and visible social development:

a)
b)
c)
d)

7. Any other comments on mining and minerals sector in Zambia as related to sustainable development:

APPENDIX 2: SOCIAL SCAN QUESTIONNAIRE

1. The process of privatization of ZCCM was:
   a) Well understood by the local community
   b) Fairly understood by the local community
   c) Not understood by the local community

2. The concept of privatization of ZCCM was:
   a) Accepted by the local community
   b) Not accepted by the local community
   c) Misunderstood

3. Former ZCCM employees were:
   a) Adequately prepared for privatization of ZCCM
   b) Fairly prepared for privatization of ZCCM
   c) Not prepared for privatization of ZCCM.

4. Former ZCCM employees have
   a) Highly benefited from the sale of ZCCM.
   b) Fairly benefited from the sale of ZCCM.
   c) Not benefited from the sale of ZCCM.

5. Local suppliers of goods and services to mining and minerals sector have.
   a) Benefited from the sale of ZCCM.
   b) Fairly benefited from the sale of ZCCM.
   c) Not benefited from the sale of ZCCM.

6. The mining and minerals sector can:
   a) Highly contribute to social development.
   b) Fairly contribute to social development.
   c) Not contribute to social development.

7. The mining and minerals sector can:
   a) Highly contribute to local economy.
   b) Fairly contribute to local economy.
   c) Not contribute to local economy.

8. Social benefits to local community resulting from privatization of ZCCM are expected to be noticed:
   a) After 3 months of privatization.
   b) Between 3 to 12 months.
   c) Between 12 to 24 months.
   d) After 24 months.

9. Since ZCCM was privatized, there has been:
   a) Tremendous improvement in social development.
   b) Fairly improvement in social development.
   c) No improvement in social development.

10. Mineral rents should be used for:
   a) Local (Mine areas) social development.
   b) National social development.
   c) National economy.
   d) a, b and c above.

APPENDIX 3: DISCUSSION QUESTIONS

SOME QUESTIONS ASKED DURING THE DISCUSSION WITH KONKOLA COPPER MINES LIMITED AND MOPANI COPPER MINES LIMITED

1. What are the main contents on social services contained in the sale agreement of Konkola Copper Mines and Mopani Copper Mines?

2. What are social impacts of privatization of ZCCM?

3. Has the company identified how it can best contribute to sustainable development in Zambia?

   - Has the company got a policy on sustainable development?

4. What community-based projects are being carried out by the Company?

   - How are these projects being implemented?

- How are these projects being funded?

5. What mechanism has been put in place to empower or support ex-miners?

6. What benefits have resulted from privatization of ZCCM?