

PRIVATIZATION SUPPORT PROJECT

ZAMBIA

PROJECT PAPER

(611-0230)

SEPTEMBER 1992

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete
Amendment Number: _____ DOCUMENT CODE: 3

COUNTRY/ENTITY: ZAMBIA

3. PROJECT NUMBER: 611-0230

4. BUREAU/OFFICE: AFRICA 06

5. PROJECT TITLE (maximum 40 characters): PRIVATIZATION SUPPORT PROJECT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 019 | 3 | 09 | 7

7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4)
A. Initial FY 912 B. Quarter 4 C. Final FY 917

8. COSTS (\$000 OR EQUIVALENT \$) =

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total	1,925	675	2,600	13,320	4,680	18,000
(Grant)	1,925	675	2,600	13,320	4,680	18,000
(Loan)						
Other U.S. 1. _____ 2. _____						
Host Country _____						
Other Donor(s) _____						
TOTALS	1,925	675	2,600	13,320	4,680	18,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	E. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DFA	700	900				2,600		18,000	
(2)									
(3)									
(4)									
TOTALS						2,600		18,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 980

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code: BR, BL, BU, TNG B. Amount: _____

13. PROJECT PURPOSE (maximum 480 characters):
To support the GRZ's initiative to plan and implement the privatization of state-owned enterprises.

14. SCHEDULED EVALUATIONS: Interim MM YY 013 | 9 | 3 | Final MM YY 013 | 9 | 4

15. SOURCE/ORIGIN OF GOODS AND SERVICES: 000 941 Local Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

17. APPROVED BY: Signature: *Fred E. Winch* Title: FRED E. WINCH DIRECTOR Date Signed: MM DD YY 019 | 2 | 8 | 9 | 2

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY 011 | 11 | 9 | 13

PROJECT AUTHORIZATION

Country: Zambia
Project Title: Privatization Support Project
Project Number: 611-0230

1. Pursuant to Delegation of Authority 551 (revised), I hereby authorize the Privatization Support Project involving planned obligations of not to exceed Eighteen Million United States Dollars (\$18,000,000) in grant funds ("Grant") over a five year period from the date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is five years from the date of initial obligation.

2. The Project will assist the Government of the Republic of Zambia (the "GRZ") to support the GRZ initiative to plan and implement the privatization of state-owned enterprises. The Project will do so by financing long and short-term technical assistance, training, research studies, and assorted office and related equipment for the Zambia Privatization Agency.

3. The Project Agreement shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Commodities, Nationality of Suppliers of Services

Except as A.I.D. may otherwise agree in writing:

Commodities financed by A.I.D. under the Project shall have their source and origin in countries included in A.I.D. Geographic Code 935. Except for ocean shipping, the suppliers of commodities or services shall have countries included in A.I.D. Geographic Code 935 as their place of nationality. Ocean shipping financed by A.I.D. under the Project shall be financed only on flag vessels of countries included in A.I.D. Geographic Code 935, subject to the requirements of Section C.6(c) of the Project Grant Standard Provisions Annex of the Project Agreement with respect to cargo preference. Air travel and transport to and from the U.S. shall be upon certified U.S. flag carriers to the extent possible.

b. Condition Precedent

Prior to first disbursement under the Project, or to the issuance by A.I.D. of documentation pursuant to

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which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., the name and title of the individual with the Zambia Privatization Agency who has been appointed as an authorized representative for the Project.

c. Covenants

The Government of the Republic of Zambia shall covenant that, unless A.I.D. otherwise agrees in writing, it will:

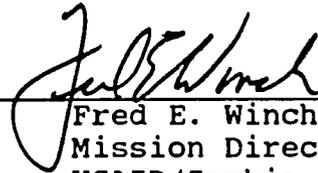
- (1) provide appropriate office space, equipment, supplies and support personnel required for the effective operation of the Zambia Privatization Agency;
- (2) pay in a timely manner to Zambian counterparts a salary, in Zambian kwacha, commensurate with the duties and responsibilities of the senior level positions they will occupy;
- (3) will employ full time qualified Zambian counterpart personnel for each of the long term technical personnel to be provided by this project;
- (4) remain in substantial compliance with the Structural Adjustment Program (SAP) of the World Bank and International Monetary Fund (IMF);
- (5) ensure that firms which continue to be owned by Government will be financially independent and will not be permitted to receive long-term Government financing or subsidies, aside from extraordinary cases;
- (6) reform the Trade Act to allow foreign participation in local retail operations;
- (7) revise the Foreign Investment Act to make Zambia more competitive in attracting private investment;
- (8) promulgate a new stock exchange mechanism which shall allow share trading that offers the average Zambian citizen the opportunity to purchase shares of publicly traded enterprises;
- (9) offer for sale the Government's minority holdings in the hotel, manufacturing, and retail sectors once a stock exchange mechanism is established and functioning and sufficient credit is made available to the market for Zambian private sector participation;
- (10) ensure that the sale of parastatals is a) transparent (open and follows clear guidelines) and

honest; b) promotes open markets and avoids, to the extent possible, the creation of monopolies in specific markets; and c) promotes, to the extent possible, an economy that is not "owned" by only a minority of wealthy Zambians and/or foreign investors; and

(11) not use Project resources for physical, organizational, or financial restructuring or other improvements of a parastatal if the purpose is to increase the price of the parastatal when privatized or to increase the efficiency of the parastatal devoid of any plan for eventual privatization.

d) Waivers

The Assistant Administrator for Africa waived the requirement under Section 110 of the Foreign Assistance Act of 1961, as amended, pertaining to a host country contribution of at least twenty-five percent of project costs.



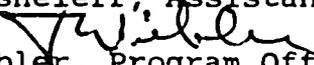
Fred E. Winch
Mission Director
USAID/Zambia

Date: 28 Sept '92

Drafted: PDO: DStraley JWS
Clearance: CONT: MGweshe draft 09/28/92_
GDO: VMahan draft 09/28/92
RLA: TFillinger draft 09/28/92
PRO: JWiebler draft 09/28/92
A/DIR: BKosheleff draft 09/28/92

ACTION MEMORANDUM FOR THE DIRECTOR

September 28, 1992

THROUGH: Bruno Kosheleff, Assistant Director 
FROM: John Wiebler, Program Officer 
SUBJECT: Privatization Support Project (611-0230)
Request for Approval of the Privatization Support
Project Paper

Problem: Your approval is requested for a grant of \$18,000,000 to the Government of the Republic of Zambia for the Privatization Support Project (the "Project"). It is planned that a total of \$2,600,000 will be obligated in FY 1992.

Background: Because of the dominance of parastatals in Zambia, the Zambian economy is an inefficient maze of non-paying suppliers and vendors, "invisible" workers, corruption, nonperforming service firms and economic losses. The guiding management principle, maintenance of wages over the promotion of productivity, has resulted in a system of byzantine managers who have been able to maintain a strong standard of living regardless of their operation's economic performance. Restrictive trade practices, an overvalued kwacha, Government allocation of public funds and foreign exchange, import quotas, and tariffs were installed to protect the fragile parastatal structure.

Privatization of parastatals is essential to increasing productivity. Zambia's manufacturing parastatals have not kept up with product or technological developments elsewhere. Competition and initiative have been stifled. With only a handful of exceptions, the parastatals have been inward looking, content to rely on the small Zambian market; they have generally failed to diversify the economy or to develop Zambia's natural advantages. Their dependency on imported inputs has placed increasing demands on scarce foreign exchange. Starved for capital and technological investment, productivity in all Zambian productive enterprises has collapsed.

President Chiluba campaigned on a platform known as the Movement for Multi-Party Democracy Manifesto of 1991, setting the basic strategic direction for the new government. While campaigning to end the monopolistic, one-party rule of Kenneth Kaunda's United National Independence Party, the Manifesto included: "privatization of public corporations and a redefinition of government's role of creating an 'enabling environment' for a market economy."

Since coming to office, the new administration has developed and approved a five year divestiture plan to sell off 134 state-owned

enterprises, and enacted The Privatization Act, 1992, which created the Zambia Privatization Agency (ZPA) to manage the divestiture program. The ZPA has initiated the privatization process concentrating on ten small firms as a way of developing its capability. It is using A.I.D. and other donor funding for consultants to assist in preparing the first 10 parastatals for sale. The A.I.D.-funded advisors for this task are short-term volunteers from the International Executive Service Corps and a consultant provided by a centrally-funded project.

A shortage of personnel with skills and experience in investment banking is the single biggest constraint to privatization in Zambia. The GRZ recognizes this and has requested A.I.D. and other donor assistance to address this constraint. The Mission has responded by working with the GRZ to design this Project.

Discussion:

1. Program Design: The purpose of the Project is to support the GRZ initiative to plan and implement the privatization of state-owned enterprises. It will do so by providing technical assistance, training, and commodities to the ZPA, a newly-created, independent entity for the sole purpose of controlling, managing, and implementing the privatization of state-owned enterprises.

By the end of the Project: 60 percent of the firms on the ZPA privatization list will be successfully transferred to the private sector or liquidated as a result of ZPA initiatives; the ZPA will have reduced its staff by 20 percent; the GRZ will have reduced its subsidies to parastatals by 95 percent; the ratio of parastatal employment to private sector employment will have decreased by 80 percent; the ratio of parastatal credit to total private credit will decrease by 75 percent.

Issues raised at the AID/Washington review were resolved in the drafting of the Project Paper. Revisions required by the Review Committee at the Mission review of the Project Paper included the following:

- (1) stress with certainty the conviction of the Mission to terminate the Project if the GRZ loses the political will to carryout its privatization plan;
- (2) highlight the Mission's intention to monitor the formation of monopolies and approach the GRZ with requests for legislative or other appropriate actions if necessary;
- (3) describe a streamlined process for Regional Legal Advisor review of offering advertisements and communicate requirements of the securities laws regarding offering advertisements to the GRZ through an exchange of Project Implementation Letters;

- (4) delete a covenant that may have restricted the ZPA from addressing social issues brought about by privatization because of its literal interpretation (that the ZPA address only the mechanics of privatization);
- (5) strengthen the covenant that precludes the use of A.I.D. resources to restructure or improve parastatals; and
- (6) add restrictions in the institutional contract that preclude the advisors from being involved in any restructuring or improvement of parastatals which may increase their selling price.

With the above revisions and clarifications made to the Project Paper, Mission review has determined that the proposed Project is feasible on economic, social, administrative, and environmental grounds.

2. Beneficiaries: The Project supports Zambia's initiative to plan and implement the privatization of state-owned enterprises. The beneficiaries of this Project are all Zambians, as the privatization of parastatals will improve the productive capacity of the economy as a whole and result in greater opportunities for all Zambians.

3. Waivers: The Assistant Administrator for Africa waived the requirement under Section 110 of the Foreign Assistance Act of 1961, as amended, calling for a host country contribution of 25 percent of Project costs.

4. Congressional Notification and Availability of Funds: A Congressional Notification for the Project was sent to Congress, and expired after the statutory waiting period on June 14, 1992.

5. Authorities: Per Delegation of Authority No. 551, you have the authority to authorize the Grant for \$18,000,000.

Recommendations: That you approve the Privatization Support Project by signing this Action Memorandum, the Project Authorization, and the attached Project Paper Face Sheet, thereby authorizing the preparation and negotiation of the Grant Agreement.

Approve:



Disapprove:

Date:

28 Sept '92

ACTION MEMORANDUM FOR THE DIRECTOR

September 28, 1992

Attachments: Project Authorization
Project Paper

Drafted: DStraley/VMahan draft (M)

Clearance: A/CONT:MGweshe draft 09/28/92
RLA/REDSO:TFillinger draft 09/28/92

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Bulk Annex

Assessment of Privatization in Zambia (April, 1992)

Acronyms

AID/W	Agency for International Development/Washington, D.C.
BOZ	Bank of Zambia
CIDA	Canadian International Development Agency
GDP	Gross Domestic Product
GNP	Gross National Product
GRZ	Government of Zambia
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit GmbH
IMF	International Monetary Fund
INDECO	Industrial Development Corporation
KCC	Kitwe Chamber of Commerce
MMD	Movement for Multiparty Democracy
NIEC	National Import and Export Corporation
NORAD	Norwegian
ODA	Office of Development Assistance (U.K.)
PP	Project Paper
SAP	Social Action Plan
SIDO	Small Industries Development Organization
SOE	State-Owned Enterprises
SSIAZ	Small Scale Industries Association of Zambia
UNDP	United Nations Development Project
UNIP	United National Independence Party
USAID	United States A.I.D. Mission to Zambia
VIS	Village Industries Services
WEIBZ	Women Entrepreneurs in Industry and Business in Zambia
ZACCI	Zambian Association of Chambers of Commerce and Industry
ZAFFICO	Zambia Forestry and Forest Industries
ZAM	Zambian Association of Manufacturers
ZCCM	Zambian Consolidated Copper Mines
ZCI	The Zambian Confederation of Industries
ZCTU	Zambian Confederation of Trade Unions
ZICA	Zambia Institute of Charter Accountants
ZIMCO	Zambia Industrial and Mining Corporation Ltd.
ZNCB	Zambia National Commercial Bank
ZPA	Zambia Privatization Agency

I. SUMMARY AND RECOMMENDATIONS

A. Program Summary

USAID/Lusaka proposes to grant \$18,000,000 in project assistance to the Government of the Republic of Zambia (GRZ) for the Privatization¹ Support Project (PSP). PSP will have a five year life. The GRZ has received a Section 110 waiver of the 25 percent counterpart contribution. A.I.D. will obligate \$2,350,000 in Fiscal Year 1992.

The purpose of PSP is to support the GRZ initiative to plan and implement the privatization of state-owned enterprises. It will do so by providing technical assistance, training, and commodities to the Zambia Privatization Agency (ZPA), a new, independent entity created solely for the purpose of controlling, managing, and implementing the privatization of state-owned enterprises.

By the end of the Project: 60 percent of the firms on the ZPA privatization list will be successfully transferred to the private sector or liquidated as a result of ZPA initiatives; the ZPA will have begun to disband and will have reduced its staff by 20 percent; the GRZ will have reduced its subsidies to parastatals by 95 percent; the ratio of parastatal employment to private sector employment will have decreased by 80 percent; the ratio of parastatal credit to total private credit will decrease by 75 percent.

B. Program Issues

AID/Washington reviewed a Project Identification Document on September 1, 1992. Several issues were raised at this review which have been addressed in this Project Paper (PP). A summary of the issues and their resolution is:

1. Scope - AID/W felt the original number of divestitures proposed as a Project Output by the End of Project (EOP) was too ambitious.

Response: The Mission, after consulting with the GRZ, has changed the primary output indicator from firms sold to

¹ The term "privatization" indicates the divestiture of state-owned enterprises to the private sector either through direct sale, tender-offering, share-offering, management buy-out or asset transfer. Privatization may be partial or full. Transfer of some shares to private, minority partners that provide them with majority ownership and control is an act of privatization. The state may maintain control of outstanding shares and divest them when a market exists for their sale. In addition, closure of public sector enterprises that lack sufficient value for sale is also a process in privatization.

parastatals² prepared for sale, transfer or liquidation by the Project Assistance Completion Date (PACD). This complies with the AID/W recommendation to refocus the Outputs. Nevertheless, because the majority of all the firms in Zambia are parastatals, many of them are small retail outlets or have a single minority shareholders. The GRZ expects to sell retail outlets and transfer majority ownership to minority shareholders fairly easily. Unlike AID experience in other countries, divestiture in Zambia is not confined to large-scale enterprises requiring protracted negotiations and political debate.

2. Relationship to USAID/Lusaka strategy - AID/W requested that the PP include a discussion of how the Privatization program will fit in the overall Mission strategy and how it will relate to the planned private sector project.

Response: The PP explains the consistency of the Privatization Program with the Mission's, Africa Bureau's, and A.I.D.'s strategies (see USAID Program Strategy II.D.2).

3. Public Offerings - AID/W requested that all advertisements financed with Project funds be cleared by the Regional Legal Advisor prior to its issuance.

Response: The Mission has consulted with the Regional Legal Advisor concerning the depth and extent of this requirement. The Mission has informed the GRZ that the details of what will be reviewed and when, will be elaborated in a Project Implementation Letter.

4. Complementary Legislation - AID/W recommended that the PP discuss the need for complementary legislation such as the Trade and Foreign Investment Act and the Securities Act and whether this complementary legislation is a necessary condition to achieving the Project's Purpose.

Response: The Mission incorporated the complementary legislation as covenants to the Grant Agreement and discusses the relationship of the complementary legislation to the Project Purpose (see Annex I - Technical Analysis).

6. Sustainability: AID/W proposed that the PP should be careful in discussing future needs for technical assistance at the ZPA after the PACD. AID/W did not want the Mission to preclude additional assistance or follow-on support.

Response: While the Mission has been careful not to make definitive statements about the external assistance needs after the PACD, the Mission has stressed in this Project

² This Paper uses parastatal and state-owned enterprise interchangeably.

Paper (PP) that divestiture is expected to be a one time activity and the ZPA is expected to be a temporary entity.

C. Recommendations

The proposed Project fully supports the Mission's objective of broadening economic pluralism. Privatization will result in lower prices to consumers, greater availability of goods and services, more open and transparent access to markets for producers, and increased public revenue available for legitimate public services, especially those for the poor.

The Project has been designed so that it is technically, financially, socially, and economically sound. Therefore, it is recommended that the USAID/Lusaka Mission Director authorize the Project Paper.

II. BACKGROUND AND PROJECT RATIONALE

A. Economic Performance and Problems

The Zambian economy has essentially been in a downward spiral since the mid 1970's. The economy's fundamental problem is rooted in its heavy dependence on a single commodity (copper) and the economic policies of the past. The prior government under United National Independence Party (UNIP) implemented import substitution policies, maintained an overvalued exchange rate, kept interest rates artificially low, and embarked on a program of nationalization of firms to the point that the GRZ controlled almost all sectors of the economy.

Rising copper prices at first concealed the distortions and allowed the economy to grow at an annual rate of four percent per annum during the first decade after independence. When copper prices began to fall, however, Zambia experienced a general deterioration in terms of trade, coupled with a failure to develop a dynamic, diversified economy. Attempts to support continued consumption through foreign and domestic borrowing failed and created an exceptionally severe debt problem. In the last years of the 1980s, the Government's response to a failing economy was to increase expenditures and borrow from the domestic banking system. This led, in turn, to monetary expansion and inflationary pressures.

The consequences of the past policies has been a per capita GDP which is now one-third of what it was in 1978, an inflation rate which peaked in 1989 at 113 percent, and a foreign debt level of about \$900 percapita (\$7 billion) which is among the highest in the world.

In early 1992, the GRZ agreed to sweeping and dramatic Policy Framework Papers (PFP) with the IMF and the World Bank, installing effective stabilization and Structural Adjustment Programs (SAP). The PFP commits the GRZ to macroeconomic stabilization and establishment of the conditions necessary for a vital private sector. Under the program, the GRZ aims to create an environment in which initiative and entrepreneurship can thrive. Entrepreneurs will be encouraged to participate freely in economic activity and Government will not pre-empt or inhibit business opportunities. Privatization of almost all parastatals is a key part of the GRZ's economic strategy.

A successful privatization program will not only result in significant fiscal savings and contribute to stabilize the economy, but will also contribute to private sector capital formation, productivity, and increasing employment over the long-term. Economic growth can only come from new investment and structural adjustment. However, the state is virtually bankrupt,

suffering from domestic and foreign debt crises and with money-losing state companies. The problem is worsened by the relatively poor prospects for copper prices in the intermediate term and a forecast of a possible sharp decline in copper output around the end of the century. A reduction in state power over the economy and the privatization of non-essential state-run firms is therefore a primary requirement for growth in Zambia.

B. Privatization

1. Parastatals and the Private Sector

The dominance of the public sector has led to large economic distortions: competition and initiative have been stifled; direct state subsidies to support parastatals have limited macroeconomic performance; and wage and price controls have either maintained artificially high prices for parastatal goods or low prices that do not cover the cost of production. Funds diverted to their operation have deprived Government as a whole of resources to maintain and improve infrastructure or for social purposes. A substantial portion of the large Government external and internal debt is due to funds wasted supporting this parastatal structure. It is estimated that the largest group of parastatals under the Zambia Investment and Mining Company (ZIMCO - a holding company for some 120 parastatals) received hidden subsidies between 1985 and 1989 of \$455 million.

Because of the parastatals, the Zambian economy is an inefficient maze of non-paying suppliers and vendors, "invisible" workers, corruption, nonperforming service firms and economic losses. The guiding management principle, maintenance of wages over the promotion of productivity, has resulted in a system of byzantine managers who have been able to maintain a strong standard of living regardless of their operation's economic performance. Restrictive trade practices, an overvalued kwacha, Government allocation of public funds and foreign exchange, import quotas, and tariffs were installed to protect the fragile parastatal structure.

Privatization of parastatals is essential to increasing productivity. Zambia's manufacturing parastatals have not kept up with product or technological developments elsewhere. Competition and initiative have been stifled. With only a handful of exceptions, the parastatals have been inward looking, content to rely on the small Zambian market; they have generally failed to diversify the economy or to develop Zambia's natural advantages. Their dependency on imported inputs has placed increasing demands on scarce foreign exchange. Starved for capital and technological investment, productivity in all Zambian productive enterprises has collapsed. Many of the state owned firms exist in name only.

The enabling environment for private initiative is weak. Legislation and regulation, enforced bureaucratic controls, and red-tape have restrained most private sector initiative. Zoning and land restrictions have made transferring property extremely time-consuming and expensive. There is minimal protection for intellectual property. Credit markets scarcely exist for private business. Erratic government regulation, monetary policies, and exchange controls increase the risk for any investment to dangerous levels. Foreign and domestic public debt and current account deficits have decapitalized the nation, rendering the GRZ incapable of supporting basic social services and infrastructure.

Statist policies have also increased the potential for social problems. The state employs more than 80 percent of the workforce. Agricultural workers were attracted to Government and parastatal jobs in towns and cities during the period of nationalization and high copper prices. With the depressed economy and the prospects of privatization reducing the workforce in parastatals, the possibilities of returning former rural residents to agriculture are limited. Furthermore, a relatively high urban population (55%) now compels the Government to maintain low food prices, creating a disincentive for food production.

2. Constraints to Privatization

There are three potentially serious and diverse constraints to privatization in Zambia: the will of the Government to carry out a program; a weak potential investor base available to purchase enterprises, and the lack of trained personnel to implement the massive divestiture program.

a. Political Will/Commitment

Privatization, particularly divestiture, is essentially a political process. Implementing decisions, from the initial judgement to go forward with a program, to the delineation of specific privatization actions, will ultimately be political, emanating in many cases from the highest levels of the GRZ. Political implications in the process are three-fold: (1) the ideological question of what the role of Government should be in the economy - specifically the role it should play in promoting investment and as guardian of "national interests"; (2) the willingness of public officials to concede losses, i.e., sell a company or assets for less than what has been invested by Government; and (3) political decisions regarding who benefits and who loses from privatization actions.

Ideological opposition to privatization does not appear to be particularly strong in Zambia. There are public and private sector individuals who envision a lead role for the state in the economy. For the most part, however, ideological

opposition to privatization in Zambia is directed at privatization of key sectors of the economy or voiced by minority groups. Practically no one has claimed that privatization of Zambia Industrial and Mining Corporation's (ZIMCO) assets and enterprises is contrary to national interests. Passage of The Privatization Act, 1992, despite full debate and modest opposition is testimony to this fact.

Resistance to selling enterprises at less than book value is likely to be a constraint in implementing the program. It is a constraint of divestiture programs everywhere, including the United States. Nonetheless, this resistance can be overcome with a sound technical valuation program and a well-managed public information campaign. The World Bank has also conditioned two tranches of assistance from its \$200 million Privatization and Industrial Reform Adjustment Credit on progress in selling firms. The perceived loss in selling firms at less than book value may be overcome with the benefits of having access to foreign exchange for economic growth.

Finally, the political opposition to privatization in Zambia may manifest itself in perceptions of how the process is implemented and who benefits and does not benefit, who has access and who does not, to privatization decisions. Powerful private and public sector and other important political groups have benefitted from ZIMCO and may see privatization as a threat to present arrangements. For example, divestiture of some firms may require liquidation. Undoubtedly, the implementation of the privatization program will test the commitment of the present Government to carry out the program effectively.

b. Limited Investment Base

Capital is required to purchase state-owned enterprises. Yet given the past history of capital flight, the political uncertainty during the current evolution to democracy, the scarcity of term financing in Zambia, and other variables, the lack of capital may be a serious constraint to privatization. Moreover, capital in Zambia is concentrated in a few small investment groups, notably multinational corporations, some of which have vested interests in ZIMCO. A privatization program in Zambia cannot exclude these groups. The GRZ will have to market enterprises adroitly and tap available domestic and international capital resources to deal with this constraint.

c. Paucity of Experience/Analytical Skills

Privatization is a sensitive and difficult process requiring considerable political will and analytical skills. The GRZ has created the ZPA to manage the divestiture process. ZPA, however, does not have the managerial and analytical skills (e.g., financial, marketing, legal) to implement such a wide-

ranging privatization program. ZPA is clearly not equipped with the requisite skills to lead this effort.

C. GRZ Strategy

The GRZ commitment to privatize and to address the constraints to divestiture is solid. President Chiluba campaigned on a platform known as the Movement for Multi-Party Democracy Manifesto of 1991, setting the basic strategic direction for the new government. While campaigning to end the monopolistic, one-party rule of Kenneth Kaunda's United National Independence Party, the Manifesto included: "privatization of public corporations and a redefinition of government's role of creating an 'enabling environment' for a market economy."

In the October 1991 elections, Zambians went to the polls to defeat the incumbent, statist Government that had ruled since independence in 1965 and installed a new regime committed to implement free market policies. The opposition Movement for Multiparty Democracy (MMD) was given a strong mandate for reform that included moving to a full market economy, and significantly reducing the role of Government. MMD presidential candidate Frederick Chiluba took 81 percent of the vote while the MMD won 125 of the 150 legislative seats.

Since coming to office, the GRZ has developed and approved a five year divestiture plan (see Annexes M and O) to sell off 134 state-owned enterprises, and enacted The Privatization Act, 1992, which created the ZPA under the direction of the Ministry of Commerce, Trade and Industry to manage the divestiture program. The ZPA has initiated the privatization concentrating on ten small firms as a way of developing its capability.

These first privatizations are being supported with short-term technical and training assistance from USAID, Germany and Great Britain. The firms must be divested by December 1992, in accordance with World Bank conditionality for the Privatization and Industrial Reform Adjustment Credit. The GRZ will divest through share-offerings to minority shareholders of parastatals, joint-venture partners, and/or to the public through tender.

Privatization of larger and more complex firms will begin in earnest in 1993. The GRZ will concentrate on the easier divestitures at first to gain experience with the process and allow the capital markets to form and grow with the increased level of parastatal sales. Most of the early privatizations will be of small retail outlets and of corporations where minority shareholders are eager to purchase a controlling number of shares. The more complex divestitures will occur later when the ZPA has the required technical expertise in place, and the stock

exchange and credit markets are available to support public offerings.

The GRZ election and legislation to date indicate that it has overcome the political will constraint. The legislation to create a securities act, scheduled for debate and vote in Parliament this month, and the demonstrated GRZ willingness to attract foreign capital is expected to resolve much of the capital market constraints. A supply of personnel with skills and experience in investment banking, however, is not available. The GRZ recognizes this and has requested A.I.D. and other donor assistance to address this constraint.

D. USAID Strategy

1. Project Strategy

The USAID project strategy is to address the capability constraint as requested. It is the priority constraint to the privatization process and the only known constraint to the rapid sale of a series of small and medium sized parastatals. USAID funded the preparation of the Assessment of Privatization Potential in Zambia which advocated this strategy and urged "strong support to assist Zambian officials in [its] efforts to privatize state-owned enterprises and rationalize the economy." The assessment recommended specific technical assistance, proposed for funding under the Project, which is essential for the GRZ to implement its planned privatization program.

The GRZ strategy and actions to date have been consistent with the assessment's suggestions that the GRZ enact effective privatization legislation and create an institution to administer a divestiture program. The assessment also confirmed the appropriateness of the strategy to initiate the privatization program by tendering smaller companies to Zambian citizens, by promoting management buy-outs, and opening negotiations with minority shareholders of large parastatals in the hotel, manufacturing and retail sectors to determine value and sale price of shares enabling majority control by private, foreign owners. It suggested that the GRZ could retain substantial non-voting minority holdings and sell these shares once a stock exchange and financial market are functioning sufficiently well enough for public offerings. A similar process could begin to return some companies to their original (foreign) owners once valuations and the company's public-sector incurred debts are negotiated or liquidated.

The assessment also recommended other corollary measures which are being taken by the GRZ as part of PSP and/or with support from other donors. Some of the smaller, public sector holding companies will be eliminated, their holdings

merged into one large holding company. The Trade Act will be reformed to allow foreign participation in local retail operations. The Foreign Investment Act will be modified and a new Stock Exchange Act promulgated. Negotiations with previous owners, whose holdings were nationalized in the 1986, will be initiated to reach agreement on past obligations and debts. Barriers to debt-swaps will be reduced.

Other issues will be addressed as privatization moves forward and the enabling environment for private investment improves. Credit facilities for Zambian participation in privatization efforts and, after purchase, for working capital, must become more readily available. Redundancy must be addressed, especially for larger firms.

2. USAID Program Strategy

The Mission's rationale for assistance to this sector is the same as the GRZ's; that is, it is essential for long-term equitable and sustainable economic growth and development of the country. Assistance with privatization also conforms with Agency and Bureau private sector guidance.

Privatization of state-owned enterprises is one of A.I.D.'s most important tools for achieving the Agency's private sector goals, especially the overriding goal of stimulating economic efficiency and to reduce the role of government in the market place to a more appropriate one of regulator. This project design builds on past A.I.D. privatization experience and conforms fully to Policy Determination 14: Implementing A.I.D. Privatization Objectives. The Project is consistent with PD-14 directive for divestiture rather than assistance for parastatal restructuring.

The project directly addresses Strategic Objective One of the Action Plan for FY 89-91 of The Development Fund for Africa (DFA), which calls for "improving the management of African economies by redefining and reducing the role of the public sector and increasing its efficiency." It also responds to Target 1-2 : Reduced government involvement in production and marketing of goods and services. The Project's Output level indicators include three of the benchmarks of performance established for the DFA: level of subsidies being paid to parastatals; ratio of parastatal employment to private formal sector employment; and ratio of parastatal credit to total non-government credit.

United States bilateral relations with Zambia are good. U.S. objectives encourage Zambian stability, democratic governance, self-reliance and growth so that the country can pursue economic development despite the political and military turmoil in the region. Given its strategic position in southern

Africa, a secure and prosperous Zambia will help foster stability and democracy in the region as a whole, and enable the country to continue the active pursuit of initiatives seeking peaceful solutions to the conflicts in the area. As a leading member of the region's front line states, Zambia plays an important role in efforts to resolve conflicts in Mozambique and Angola and to promote democratic institutions in Malawi and Zimbabwe.

Support of Zambia's privatization program will help achieve the Mission's strategic objective of broadening economic and political pluralism, one of the three objectives of the Mission's program goal to encourage market-oriented, sustainable, broad-based economic growth in Zambia. The proposed Project is one of the Mission's principal vehicles for achieving this. The FY 94 Annual Budget Submission ranks the PSP as the highest priority for funding both in FY 93 and FY 94.

USAID is developing complementary projects to assist in governance reform (1992) and the promotion of an effective enabling environment for private sector development (1993). As part of the latter, USAID is planning to assist in developing Zambian financial markets.

Because of the urgency and deadlines involved in privatization, this Project will begin implementation rapidly to take advantage of the broad political acceptance of privatization that exists in Zambia today. The program has to exhibit a clear ability to produce results rapidly to maintain general political support for the Government's overall liberalization policies and to maintain a political base for developing an enabling environment favorable to individual initiative and entrepreneurship.

E. Other Donors

The World Bank, IMF and other donor agencies are providing financial support for debt, currency and structural adjustments; the World Bank and United Nations Development Program (UNDP) are supporting changes in the basic legal framework; NORAD is supporting changes in credit facilities; the European Community is supporting the social costs of privatization and economic liberalization and the UNDP and Ireland are providing assistance in trade and foreign investment reform and promotion.

Multilateral and bilateral donors, led by the IMF and the World Bank, have responded generously to the GRZ stabilization and economic liberalization program by pledging some \$2 billion since 1991.

The German technical assistance program is providing short-term advisors to arrange for the privatization of individual,

large complicated parastatals. The World Bank has provided a line of credit for additional advisors if necessary, for complex sales.

III. PROJECT DESCRIPTION

A. Project Goal and Purpose

The Goal of this Project is market-oriented, sustainable, broad-based economic growth. A successful privatization project will not only result in significant fiscal savings and contribute to stabilize the economy, but will also contribute to enhancement of private sector capital formation, higher levels of productivity and employment over the long-term. The USAID/Lusaka strategy is to promote goal achievement through programs and projects, such as this one, which help open up the economy leading to greater opportunities for investors and workers.

The Subgoal is to increase private sector investment and productivity. The transfer of parastatals to the private sector is but one component of the GRZ's program of improving the environment for private sector activity. Passage of a Trade and Investment Act, a Securities Act, and supporting projects will all contribute to attracting investment and improving productivity.

The Purpose of the Project is to support GRZ initiative to plan and implement the privatization of state-owned enterprises. Implementation of the Project will achieve the Purpose by providing the GRZ with technical assistance and commodities necessary to train ZPA staff and assist with the divestiture of parastatals. Project conditions will also ensure a policy environment conducive to the divestiture process.

By the end of the Project: 60 percent of the firms on the ZPA privatization list will be successfully transferred to the private sector or liquidated as a result of ZPA initiatives; the ZPA will have reduced its staff by 20 percent; the GRZ will have reduced its subsidies to parastatals by 95 percent; the ratio of parastatal employment to private sector employment will have decreased by 80 percent; the ratio of parastatal credit to total private credit will decrease by 75 percent.

The ZPA plans to accomplish more than the end of Project status indicators call for. The ZPA plans on selling the 134 parastatals in Annex M and O by 1994. Based on AID/W guidance and principles of conservatism, the Mission and GRZ have selected end of Project status indicators which allow for unforeseen difficulties and yet are still reasonable.

B. Project Outputs/Inputs

The Project has two expected Outputs: State-owned enterprises prepared for sale, transfer, or liquidation; and ZPA professionals trained in privatization techniques.

1. State-owned Enterprises

The movement to privatize started with the prior GRZ administration. The GRZ identified 21 companies in December 1990 as suitable for sale, based primarily on the ability of the GRZ to sell them within a year. In July 1991, the GRZ tendered 10 companies for sale to comply with conditions of a prior World Bank Structural Adjustment Program. The GRZ offered seven of the companies to the public for sale, and privately offered three companies to minority shareholders with preemptive rights. The deadline for acceptance of offers conflicted with the general elections of 1992, so the initial sale was delayed.

In spite of the false start, the seven companies for sale received 85 requests of interest and 42 applications to register for the tender. While the prior GRZ was unable to complete the sale, it did provide evidence that the private sector is extremely interested in the purchase of parastatal companies.

While the process of selling a parastatal varies somewhat depending upon the firm, the overall approach for the majority of small to medium firms is fairly standard. The ZPA initiates the sale of a tranche of companies by analyzing and valuing companies for appropriateness of a sale. It then obtains approval from its board and the GRZ Cabinet of the selected companies it wants to put on the market. After receiving approval, it: develops prequalification criteria; establishes its position on the requirement for performance bonds for each selected company; estimates the potential for Zambian participation in the bidding; develops the tender evaluation criteria; drafts the advertisement for the offering; searches for claims against the companies; issues the tender packages; develops a negotiation strategy with special sale conditions, awards the sale; and prepares the sales agreement.

It is expected that about 70 of the companies will be sold "as is" (as going concerns), 15 will be sold as going concerns after breaking them up into operational units, (including some that will be restructured managerially), 10 will be sold as going concerns after managerial restructuring (not involving breaking up into units) and 10 will be liquidated and the assets sold. To do this, the ZPA has organized itself around the functions required to privatize and the work load. The ZPA plans to sell 100 companies using in-house staff and technical advisors. In analyzing its needs, the ZPA and the Mission identified the need for approximately eight advisors with the following disciplines:

Privatization Specialist
Financial Analyst/Merchant Banker
Business Analyst
Valuation and Pricing Specialist
Public Flotation (Offering) Specialist
Investment Relations Advisor
Negotiation Advisor
Promotion and Public Education Specialist

With this Project-funded technical assistance, the ZPA conservatively estimates that it will be able to prepare at least 65 companies for privatization by the PACD. While the best professional estimates have identified these skills as the ones necessary for the GRZ's privatization needs, the ZPA and Mission will allow firms proposing to supply the technical assistance the latitude to propose different combinations. The estimated cost of eight long-term advisors in country between three and four years is approximately \$11.0 million.

Because there is a lag between obligation and arrival of consultants to work under an institutional contract, the Project will fund two short-term advisors who will work at ZPA for up to six months each. They will assist with the privatization of the first and second tranche of companies. The Mission has already begun assisting the ZPA with the first 10 companies by utilizing one short-term advisor from a centrally-funded contract and four volunteers from the International Executive Service Corps. The two short-term advisors will bridge the gap between the departure of the current consultant and volunteers and the arrival of the institutional consultants. The cost of the 12 person-months of short-term technical assistance is approximately \$500,000.

While the ZPA expects most of the divestitures to be rather straightforward, it does expect difficulties with about 25 parastatals because of their size. Excluding Zambia Consolidated Copper Mines (ZCCM), there are 10 companies on the divestiture list having more than \$20 million in their capital account. Four are in the finance sector, one in oil marketing, one in fertilizer, two in agro-industries and two in transportation. Four could present some difficulty, and three have been scheduled for late in the divestiture process to give time to restructure as necessary.

For the more complicated divestitures, ZPA intends to employ short-term advisors. A typical team will include a team leader, an investment/merchant banker, a marketing analyst, a management specialist, and a financial/accounting specialist. Based on experience to date, they will need approximately 13 person months to complete an engagement for one large parastatal. The typical scope of work will require them to analyze market, operational, and financial performance of the parastatal;

recommend the appropriate procedures for the sale or liquidation of the parastatal; and either assist with the marketing or liquidation of the parastatal.

The Project will provide an estimated \$1.1 million for approximately two engagements (26 person months) of short-term, parastatal-specific technical assistance to the ZPA. The ZPA expects German technical assistance (GTZ) to provide for about 15 engagements, and World Bank loan funds to provide for the remaining short-term divestiture needs.

Even though the first test of demand for parastatals indicated sufficient interest on the part of bidders, the GRZ does expect demand problems with firms which are encumbered with social and environmental problems. ZPA anticipates social problems with six firms where labor relations and redundancy are particularly acute. It also recognizes the implications to the privatization process as a whole if issues such as redundancies, pension rights, and training programs are not considered. Consequently, the ZPA has established a separate Social Impact department, and has arranged for the EC and GTZ to provide social scientists to help in resolving social problems.

ZPA also expects at least 13 parastatals to have potential environmental liabilities which need to be addressed prior to sale by the GRZ, or after the sale by the purchaser. Since there may be more such firms, the Project will fund environmental advisors to conduct a preliminary environmental evaluation of all the parastatals to be privatized. The evaluation, expected to take two person-months, will provide the ZPA with an indication of the severity of pollution problems for each enterprise. Project-funded advisors will follow-up the preliminary survey with detailed analyses of particular industries or companies as needed, estimated to require 13 person months.

The Project will also provide an environmental law expert for one-person month to assist ZPA to develop strategies for distributing costs of environmental remediation, and to assess the environmental impact of the rapidly changing legal and regulatory environment. Finally, the Project will fund two person-months of technical assistance to help the GRZ prepare industry-specific, environmental monitoring, evaluation and mitigation plans. The Mission has allocated approximately \$800,000 for technical assistance for environmental technical assistance.

2. Training

Even though ZPA expects to sell most of the parastatals within the next three years, some parastatals will remain to be sold. The remaining parastatals will most likely be

the more difficult companies to sell. It is also possible that the GRZ may sell some of the parastatals on the negative list (companies deemed too important to privatize) four or five years from now after the Project advisors have left. For this reason, training of ZPA officials is deemed important. On-the-job training with the long and short-term advisors will improve the ZPA's capacity to manage and direct the short-term advisors assigned to specific sales.

The Project will provide sufficient support for 14 in-country seminars, 16 third-country study tours and 10 U.S. tours. A Project-funded local hire Training Assistant will coordinate training activities for 36 months.

Three types of training, all of it non-degree, will be provided for the staff of the Zambia Privatization Agency and, in a few instances, for managers of state-owned enterprises interested in management buy-outs. This short term training will improve the technical and promotional skills of the ZPA staff while also creating an environment in Zambia favorable to successful divestiture.

All proposals for seminars and workshops funded under the Project will be reviewed and approved by the ZPA Project Manager, the Chief of Party of the technical assistance group and the A.I.D. Project Manager and General Development Officer. The Project will provide approximately \$700,000 for training.

a. In-Country Seminars and Workshops

Funding is provided for 14 months of in-country training sessions on privatization in general, valuation techniques, industry specific issues, and others. For managers of state-owned enterprises to be privatized, seminars will be offered on specialized topics such as management buy-outs and debt-equity swaps. The latter will involve private Zambian business associations in the coordination of the training to avoid the appearance that the ZPA favors one means of privatization over others.

Most of these workshops, which will last from one to six days, will be presented by outside instructors with assistance from the long term technical experts. A.I.D. funds will cover the costs of instructors, training equipment and materials and, in some instances, the per diem expenses of participants.

b. Third-Country Study and Promotional Tours

Funding is provided for 16 months of short term study and promotional tours for the technical staff and senior

managers of the ZPA and the Ministry of Commerce, Trade and Industry. This training, which may last from one to four weeks, will include participation in the annual Adam Smith Conference on Privatization in London, consultations with the Commonwealth Development Corporation and other creditors to parastatals, marketing calls on potential purchasers, and related training.

c. U.S. Tours and Conferences

The Project will also finance 10 months of short term visits to the United States, usually lasting one week or so, to attend privatization related seminars and conferences, and to promote Zambia's privatization program at industry conferences and with potential investors. Participants will include representatives from the ZPA, the Ministry of Commerce, Trade and Industry and, occasionally, technical ministries.

3. Project Management and Support

Although not an output, the Project will provide: commodities to support the ZPA; consultants and training activities; Project Manager and administrative assistant; and an audit and two external evaluations.

USAID will procure reproduction and binding equipment and supplies, household furnishings, and vehicles with Project funds. The contractor will procure items needed for the privatization education campaigns in Zambia and investment promotion activities in Africa and in international markets, especially America to comply with the recent Buy America legislation. Using Project funds, ZPA will have pamphlets published, videos produced and advertisements developed which will be disseminated through the print media as well as television and radio. ZPA will undertake efforts to publicize privatization in Zambia through news programs and interviews with Zambian officials.

Project funding will also be provided for advertisements in trade journals and periodicals like The Economist and The Wall Street Journal and with television networks in other markets. ZPA will attempt to convince potential investors that Zambia's economy is changing and that the enterprises being privatized are indeed sound investments. Privatization experience elsewhere has shown that major factors that will affect the outcome of privatization in Zambia are market-friendly macroeconomic policies, effective regulatory and supervisory institutions and a competitive or potentially competitive market. The ZPA promotional campaign will aim to deliver this message. The cost of Project commodities is estimated at almost \$560,000.

To assist A.I.D. in project management, funds will be provided for a long term A.I.D. Project Manager and Administrative Assistant/Secretary. This A.I.D. project management team, which will be based in the A.I.D. Mission, will work collaboratively with the ZPA and the technical assistance group. The estimated cost of the Project Manager with assistant for three years is approximately \$970,000.

Finally, the Project will provide \$175,000 for a baseline survey, two external evaluations, and a Project audit. Audit and evaluations will require four person months of technical assistance.

IV. PROJECT MANAGEMENT AND IMPLEMENTATION ARRANGEMENTS

A. Financial Plan

The Project will have a total budget of \$18.0 million. A.I.D. will contribute the entire amount, subject to the availability of funds and progress in meeting the Project's purpose and in complying with the Project's covenants. The Mission has received a Section 110 waiver of the host country counterpart. Zambia qualified for a waiver as it is a "relatively least developed country" on the U.N. General Assembly list and a low-income country on the Development Assistance Committee (DAC) list of the OECD.

The country is characterized by poverty, limited infrastructure, and limited administrative capacity to implement basic human needs growth strategies. Financial constraints inhibit the Government from meeting the requirement for a 25 percent contribution, particularly at a time when the country is facing the effects of the worst drought in living memory.

The standard tables to the financial plan indicate the overall allocation of financial responsibilities and the sources from which each individual project elements will be financed. Detailed costing of the Project appears as Annex F. An inflation and contingency factor of approximately 15 percent was applied to the total Project cost.

Sustainability is not an issue for this Project. The sale of parastatal will be a one time event. The GRZ is expected to reduce staff as the workload diminishes. A Project covenant limits the GRZ to utilizing the ZPA for privatizations, precluding the development of another bloated bureaucracy or shadow ministry. Sustainability is an issue, however, for the privatized companies. Their success is important to keeping the GRZ from attempting to re-nationalize or create new parastatals. Complementary legislation, the SAP, and further donor effort will improve the enabling environment and economic climate for privatized enterprises to succeed.

SUMMARY COST ESTIMATE AND FINANCIAL PLAN

SOURCE	LIFE OF PROJECT		TOTAL
	AID	GRZ	

USE			
TECHNICAL ASSISTANCE	\$14,222,500		\$14,222,500
TRAINING	706,000		706,000
COMMODITIES	558,000		558,000
AUDIT/EVALUATION	175,000		175,000
CONTINGENCY AND INFLATION	2,338,500		2,338,500

TOTAL	\$18,000,000	\$0	\$18,000,000
=====			

PROJECTION OF EXPENDITURES BY FISCAL YEAR

FISCAL YEAR	AID	GRZ	TOTAL
FY 93	4,379,000		4,379,000
FY 94	5,746,000		5,746,000
FY 95	4,538,000		4,538,000
FY 96	2,757,000		2,757,000
FY 97	580,000		580,000

	18,000,000	0	18,000,000

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PRIVATIZATION SUPPORT PROJECT
 ZAMBIA
 PROJECT NO: 611-0230

COSTING OF PROJECT OUTPUTS/INPUTS

PROJECT OUTPUTS

PROJECT INPUTS	PRVTZTN	TRAINING	PROJECT MGMT & SUPPORT	INFL/CONT	TOTAL
AID APPROPRIATED					
TECHNICAL ASSISTANCE	13,250,500		972,000		14,222,500
TRAINING		706,000			706,000
COMMODITIES	558,000				558,000
AUDIT/EVALUATION			175,000		175,000
INFLATION & CONTINGENCY				2,338,500	2,338,500
TOTAL AID	13,808,500	706,000	1,147,000	2,338,500	18,000,000
					0
GRZ					
TECHNICAL ASSISTANCE					0
INFLATION AND CONTINGENCY					0
TOTAL GRZ CONTRIBUTION	0	0	0	0	0
					0
TOTAL PROJECT	13,808,500	706,000	1,147,000	2,338,500	18,000,000

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B. Implementation and Mission Management Plan

1. Implementation Plan

An implementation schedule of major events appears below and an implementation bar graph appears as Exhibit 1. Based on recent experience, the GRZ will rapidly comply with the standard Conditions Precedent to this Project. Because of the high priority accorded to privatization activities by the GRZ and the associated conditionality related to World Bank credits, USAID has begun drafting the scopes of work for the technical assistance so that it is in place as soon as possible.

As mentioned above, USAID has arranged for volunteer executives to assist the ZPA through a Mission grant to IESC and a privatization program manager through an A.I.D. Africa Bureau-managed contract. This same regional contract has developed a list of candidates for the PSC Project Manager position, and initial contacts and selection will proceed during finalization of the Project authorization and the Project agreement. (RLA has confirmed that competition and advertizement requirements have been satisfied by the contractor).

2. Implementation Schedule

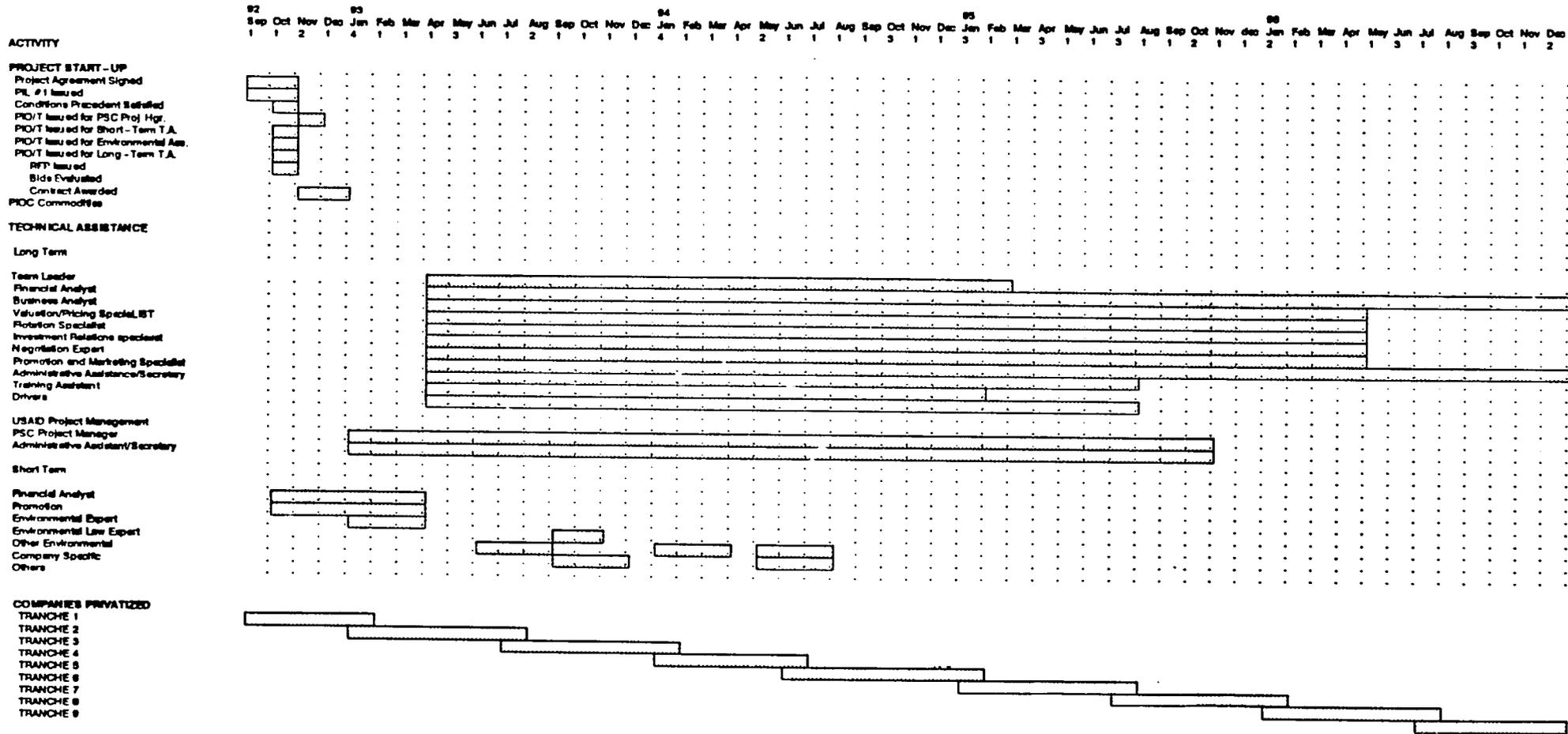
Activity	Action	Date
Project negotiated with GRZ	GDO/PDO	9/92
Pro Ag drafted	PDO	9/92
Pro Ag signed	GRZ/DIR	9/92
PIO/T Environmental Assessment	GDO	9/92
PIO/T inst. contractor completed	GDO	9/92
PIO/T PSC completed	GDO	9/92
PIO/T S-T consultants completed	GDO	9/92
CBD notice and RFP inst. contractor drafted	GDO/RCO	9/92
PO Baseline Survey	PSC	11/92
PIO/T admin assist. completed	PSC	11/92
PIO/Ts environmental IQCs	PSC	1993-95
PIO/T mid-term evaluation	PSC/PDO	3/94
PIO/T audit	PSC/CONT	7/95
PIO/T final evaluation	PSC/PDO	3/97

3. 'Mission Management Plan

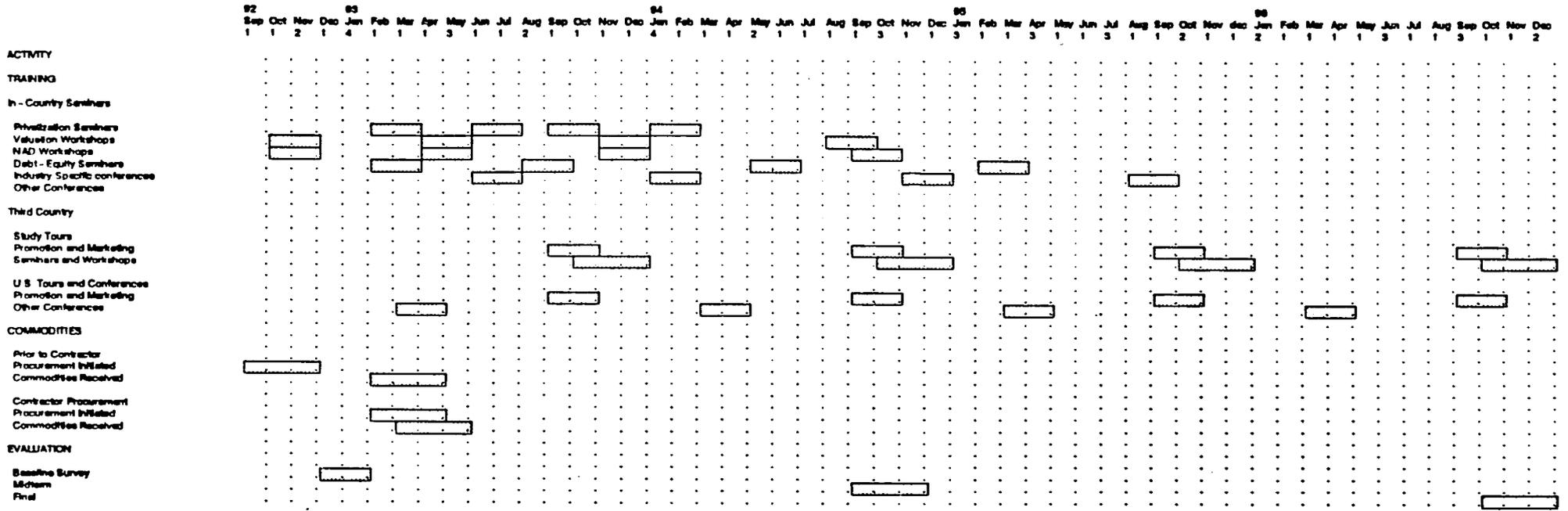
Management responsibility for this project will reside in the General Development Office. The GDO will be the Project Officer. First echelon implementation responsibility for the entire project will reside with a PSC Project Manager, assisted by a locally recruited administrative assistant/secretary. The Project Manager will serve iter alia to integrate the

EXHIBIT 1

Zambia Privatization 811-0230



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implementation of the Privatization Support Project into other private sector initiatives of the Mission.

USAID will undertake direct contracting through indefinite quantity contracts for environmental consultancies. The USAID Training Office will also handle training arrangements for U.S. and Third Country Training and Study Tours.

This Project will utilize an institutional contract for the greatest portion of the technical assistance to be provided under this project. It will be awarded on the basis of full competition and will require that bidders reserve at least 10 percent of contract costs for subcontracts with women and minority-owned firms. The RFP for this award will require that bidders recommend the size and composition of the team, thus providing a further check of the technical assistance mix set out in this PP. The institutional contractor will support its consultants with housing, travel arrangements, and the procurement of most commodities.

With a personal service contracted Project Manager and an institutional contractor for most of the technical assistance, the Mission management burden will be sustainable.

C. Monitoring and Evaluation Plan

The first step in Project evaluation will be to conduct a baseline survey. Based on findings in the Social Analysis, the baseline survey will gather social data of particular interest to the GRZ, which is not being gathered under the EC-funded social analysis of redundancy and the parastatals. In particular, a local Project-funded contractor will gather data on public and private perceptions and attitudes about the potential for owners of divested parastatals to be primarily from a few ethnic groups, and potential adverse impacts unique to women from the divestiture of parastatals.

The baseline survey will also gather information on the Project's end of Project status indicators. It will establish the beginning level of subsidies, ratio of parastatal to private sector employment, and ratio of parastatal credit to total private sector credit. The baseline evaluator will provide a sufficient degree of confidence as to the reliability of the beginning indicators and will confirm the means of verification for each purpose level indicator. The evaluator will also confirm the GRZ levels of parastatal workforce and private sector employment by gender.

A consulting firm will carry out one interim evaluation within 18 months from the start of the Project. The consultant will collect data on the Programs verifiable indicators using the approach adopted for the baseline survey and

compare the results to see if the Program is on target. A second Project evaluation will assess achievement of the Project Purpose, identify other related accomplishments, and determine lessons learned. An end of Project completion report at the end of year five will be sufficient to record Project achievements.

The emphasis of the evaluations will be on performance indicators as mandated in Development Fund for Africa guidance. Rather than emphasizing the evaluation of the provision of inputs and funding obligations, the evaluations will measure impacts.

D. Procurement Plan

Procurement of technical assistance, training and commodities will be initiated immediately following the signing of the Project Agreement. The Regional Office of Procurement, REDSO/ESA will assist in initiating Project procurement. Procurement rules and regulations concerning competition, shipping, insurance and marking will be observed in conformance with A.I.D. handbooks.

Technical assistance will be provided by a contractor selected through competitive bidding. The Project Implementation Order for Technical Assistance (PIO/T) with the specifications for this assistance will be prepared by USAID/Zambia, processed by the Regional Economic Development Services Office (REDSO/ESA) in Nairobi. Technical evaluations of proposals will be conducted in Zambia by a joint committee comprised of representatives of USAID/Zambia and the ZPA. The contract will be between USAID/Zambia and the U.S. firm selected.

The technical assistance contractor will procure certain commodities, particularly computers, television and advertising time, training equipment and supplies, publications, subscriptions and documents. Approximately \$265,000 will be set aside in the contractor's budget for Project procurement. The contractor will also have approximately \$530,000 in-country training, and international promotion tours and conferences.

USAID/Zambia will procure approximately \$293,000 of commodities, arrange for third country study tours and seminars, and contract for several types of short-term technical assistance (see Annex H).

Procurement from U.S. sources will be maximized. As shown in the detailed Procurement Plan (see Annex H), the total budget for commodities is \$558,000, including purchasing services, handling and transportation. It is anticipated that approximately \$220,000 of this amount will be procured from U.S. source/origin (Code 000).

USAID/Zambia will hire a Project Manager. The USAID/Zambia Executive Officer will execute a contract with the selected individual. USAID already has a pool of prospective candidates furnished from a centrally funded Project. USAID/Zambia will evaluate candidates and prepare a priority ranked short-list of candidates for contracting by the Executive Officer.

The Mission has taken the Gray Amendment into consideration in the design of the Project. To date, most of the short-term technical assistance to assess privatization and to develop the initial draft project paper has been contracted through a minority firm. As mentioned in III. B. 3, the contractor selected for the primary supply of technical assistance will be required to subcontract at least 10 percent of the contract amount with Gray Amendment firms. USAID will also use Gray Amendment firms for the short-term environmental technical assistance needs. The Project is expected to procure approximately \$2.0 million in goods and services from Gray Amendment firms.

VI. PROJECT ANALYSES

A. Social Soundness Analysis

One of the most important aspects of privatization is that of its social impact, especially the consequences for employment (see Annex K - Social Soundness Analysis). Privatization raises a number of issues which must be addressed, including potential redundancies, pension rights for employees who may be retrenched, training and training programs and income generation schemes. These issues have potentially far-reaching implications not only for the individual Zambian, but also for the privatization process itself and the Government's ability to attract buyers.

Well aware of the social implications of privatization, the GRZ established a separate Social Impact department in the ZPA. It has also enacted legislation allowing the use of proceeds of the sale of enterprises to be used for redundancy payments and to support alternative income generating projects. World Bank conditions for credit reinforce social concerns by requiring the GRZ to undertake measures to minimize unemployment resulting from privatization.

With European Community support, the GRZ is estimating the percentage of excess manpower in parastatals. If privatization results in 10 percent of the parastatal workforce being redundant, unemployment from privatization will be about 15,000. While substantial, these losses will occur over the next five years when the SAP is expected to restore equilibrium, promote investment, and generate new jobs.

Another social concern is the role of the extended family in buying and managing parastatals. Certain tribal groups have more capital and influence than others. In addition, the Asian community is in a far better position to bid on companies than most other Zambian groups. During the first sales of the parastatals, the GRZ will monitor the impact of concentrated ownership by certain ethnic groups and assess the need diversified ownership.

Finally, although a great amount is known about how far Zambian women lag behind men in social indicators, little is known about special problems women might encounter as a result of the privatization process. Women in Zambia constitute slightly more than 50 percent of the population, with the majority living in rural areas. Whereas a few women have attained some elements of success in various business and professional fields, the majority continues to lag behind men generally in all fields of development.

Zambian women are a tremendously disadvantaged segment of society. Some of the barriers to full integration include social attitudes. Women account for 7.3 percent of the wage labor force, 65 percent of the illiterate population, 30 percent of secondary school leavers and less than 20 percent of university and technical college graduates. Women have inadequate access to credit and extension services and have the highest levels of food insecurity and malnutrition in rural Zambia. Lack of employment opportunities in the formal sector have led women to turn to the informal sector, where they are vulnerable and often exploited. These are but a few of the ramifications of the historical socio-economic traditions and practices.

The baseline survey will identify any potential adverse impacts from privatization unique to women. With the baseline data and Project monitoring, USAID and the GRZ will be able to monitor and appropriately address special women's issues. The researchers responsible for the baseline survey will describe any constraints to and opportunities for women's participation in privatization activities.

B. Environmental Analysis

As described in the Initial Environmental Examination (IEE) in Annex B and the Project Description, the Project has received a Negative Determination because it will establish a system for assessing, monitoring, and mitigating harmful environmental impacts associated with the sale and operation of parastatals.

C. Administrative Analysis

A detailed Administrative Analysis appears as Annex J. In summary, the ZPA does not have an adequate number of trained staff to manage the GRZ's privatization program. Because of the insufficient quantity and quality of personnel, ZPA must rely on donor support for experienced consultants and advisors.

In addition to USAID, technical assistance is being provided through an Overseas Development Administration (ODA) technical assistance grant. The World Bank is also providing complementary assistance to study public sector reform. Since the ZPA has been organized with experienced advisors, and all parastatal sales will draw on experienced consultants, the ZPA is deemed administratively capable of carrying out Project activities.

D. Technical Analysis

A detailed technical analysis (see Annex I) examines the state of reforms necessary to complement privatization, the technical suitability and appropriateness of the project strategy in relation to the purpose, and the appropriateness of the proposed technical assistance.

A successful privatization program requires other parallel efforts by the GRZ to establish a suitable enabling environment to allow the private sector to flourish. These efforts are developing alongside the privatization program. They include reforming the Land Law, the Trade Act, the Securities Act, banking legislation, anti-trust legislation, and foreign investment regulations. The Technical Analysis concludes that the GRZ is active in making the reforms and in reaching sound monetary and fiscal targets which are necessary conditions to successful privatization.

The strategy for privatization follows a process which was pioneered in Latin America and Eastern Europe. The procedures for privatizing parastatals are well established, and with the donor-funded technical assistance can be followed.

The proposed levels of technical assistance were determined by the GRZ and several experienced advisors. The ZPA identified the technical skills it needed by analyzing the procedures for selling a parastatal. USAID and ZPA have agreed to request proposals from firms wishing to supply technical assistance as a final confirmation on the number and types of advisors to be used.

Because of the number and types of parastatals for sale, the ZPA decided a core group of long-term advisors were preferable to a succession of short-term advisors. The grouping of the parastatals easy to sell in bundles made a full-time staff of advisors more appropriate. A full-time staff allows

continuity in repeating what will eventually be a turn-key operation. It also allows for flexibility in moving up or postponing a sale; that is, the sale of a particular firm in a tranche will not be mandated by the departure date of a short-term advisor. The ZPA decided that short-term advisors were more appropriate for the larger, more difficult sales of individual parastatals where variations in the procedures and different sets of problems are more likely.

E. Economic Analysis

A discussion of the economic environment and Project benefits appears as Annex L. Inefficiency in resource allocation within the Zambian economy, due to a parastatal dominated economy has artificially inflated the cost of labor, utilities and transport, and has protected favored industries. This has caused the Zambian economy to decline for almost the last two decades. Observers of the Zambian economy project that, in the absence of privatization and structural adjustment reforms, real growth in Zambia will stagnate or continue to decline. If all the reforms are implemented, the annual growth potential is in the range of 6-8 percent based on World Bank SAPs in similar countries. This gives an idea of the magnitude of good that economic policy reform can engender in Zambia.

The benefits and costs of a Project of this nature are difficult to quantify because of the unreliable nature of economic baseline information, and the inability to separate privatization from the complementary reforms currently being implemented. Nevertheless, the net direct result of a successful privatization program will likely be:

- (1) Privatized state-owned enterprises will be more productive and efficient;
- (2) Development of an active private sector and diminution of public sector participation in the productive sector;
- (3) Increased foreign and domestic investment;
- (4) Increased competition and individual initiative;
- (5) Improved market access as private sector initiative moves into areas that had been poorly served by monopolistic parastatals;
- (6) Improved Government budgetary performance with a reduction in subsidies and increased tax revenues;

The net indirect result of a successful privatization program will be:

- (1) Improved economic performance, including increased GNP and productivity;
- (2) Market-linked prices, due to competition;
- (3) Increase in capital for entrepreneurs as capital markets improve to meet demand;
- (4) Improved services and company management as competition encourages initiative;
- (5) Reduced pressure on currency markets because of new inflows of currency for investment and capital improvements; and
- (6) Increased transfer of technology, due to new investment.

While the traditional benefit-cost analysis is not a utilized for the PSP, it is safe to conclude that the project Purpose, implementation of a privatization program, will produce clear, tangible, economic benefits. The magnitude of these benefits, along with complementary reforms, will be large when one considers the potential increases in real GDP growth over the rest of the decade and the experiences with reform of this nature elsewhere.

VII. NEGOTIATING STATUS, CONDITIONS, AND COVENANTS

A. Negotiating Status

The Mission and the GRZ carried out extensive discussions on the privatization of state-owned enterprises during the last two years. This dialogue has been carried out at the highest levels (President, Ambassador, Mission Director, key Ministers) as well as at working levels geared to drafting a comprehensive privatization program. GRZ and ZPA staff at all levels have participated in intensive review, including the draft Project Agreement. The Mission expects that the Project will be obligated shortly after it is authorized. Furthermore, close GRZ/A.I.D. dialogue and consultations will continue during implementation as well as the regular evaluations described above.

B. Conditions and Covenants

Prior to any disbursement, or to the issuance of any commitment documents under the Project Agreement, the Government of Zambia shall furnish, in form and substance satisfactory to A.I.D.:

1. a statement of the name of the person holding or acting in the office of the grantee specified in Section 8.2., and of any additional representatives, together with a specimen signature of each person specified in such statement;
2. an opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms.

Covenants

The Government of Zambia shall covenant that, except as A.I.D. may otherwise agree in writing it will:

1. provide appropriate office space, equipment, supplies and support personnel required for the effective operation of the Zambia Privatization Agency;
2. pay in a timely manner to Zambian counterparts a salary, in Zambian kwacha, commensurate with the duties and responsibilities of the senior level positions they will occupy;
3. will employ full time qualified Zambian counterpart personnel for each of the long term technical personnel to be provided by this project;
4. remain in substantial compliance with the Structural Adjustment Program (SAP) of the World Bank and International Monetary Fund (IMF);
5. ensure that firms which continue to be owned by Government will be financially independent and will not be permitted to receive long-term Government financing or subsidies, aside from extraordinary cases;
6. reform the Trade Act to allow foreign participation in local retail operations;
7. revise the Foreign Investment Act to make Zambia more competitive in attracting private investment;

8. promulgate a new Stock Exchange mechanism which shall allow share trading that offers the average Zambian citizen the opportunity to purchase shares of publicly traded enterprises;
9. offer for sale the Government's minority holdings in the hotel, manufacturing, and retail sectors once a stock exchange is established and functioning and sufficient credit is made available to the market for Zambian private sector participation;
10. ensure that the sale of parastatals is a) transparent (open and follows clear guidelines) and honest; b) promotes open markets and avoids, to the extent possible, the creation of monopolies in specific markets; and c) promotes, to the extent possible, an economy that is not "owned" by only a minority of wealthy Zambians and/or foreign investors;
11. not use Project resources for physical, organizational, or financial restructuring or other improvements of a parastatal if the purpose is to increase the price of the parastatal when privatized or to increase the efficiency of the parastatal devoid of any plan for eventual privatization;

Annex A

Project Logical Framework

Privatization Support
611-0230

Narrative	Indicators	Means of Verification	Assumptions
<p>Goal:</p> <p>Market-oriented, sustainable, broad-based economic growth</p>	<p>Improved GNP</p> <p>Increased tax revenues</p> <p>Improved balance of trade and current account</p> <p>Interest payments to service debt decreased</p>	<p>Central Bank reports</p> <p>IBRD/IMF country reports</p> <p>Project monitoring</p> <p>GRZ reports</p>	<p>Political and social stability maintained</p> <p>Global copper prices decline moderately (10%–15%)</p> <p>Legal and regulatory reforms implemented</p>
<p>Subgoal:</p> <p>To increase private sector investment and productivity</p>	<p>Private shareholders own 51% of all parastatals</p> <p>Increase in productive efficiency of firms by 30%</p> <p>10 firms traded on a public stock exchange</p> <p>Private placements increase</p>	<p>Project evaluation</p> <p>Project evaluation</p> <p>Registrar of companies</p> <p>Registrar of companies</p>	<p>Redundant workers absorbed into work force with minimal disturbance</p> <p>Formal credit markets functioning</p> <p>Foreign investment and other ownership patterns do not prove problematical</p>

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Annex A

Project Logical Framework

 Privatization Support
 611-0230
 Assumptions

Narrative	Indicators	Means of Verification	Assumptions																																								
Purpose: Support GRZ initiative to plan and implement the privatization of state-owned enterprises	End of Project Status: 80% of firms on privatization list successfully transferred to private sector or liquidated as a result of ZPA initiatives Reduction in staff of ZPA by 20% GRZ subsidies to parastatals reduced by 75% Ratio of parastatal employment to private sector employment decreases by 60% Ratio of parastatal credit to total private sector credit decreases by 75%	ZPA records and reports Project monitoring USAID project records Consultant reports Project evaluations	IBRD/IMF program implemented																																								
Outputs: State-owned enterprises prepared for sale, transfer, or liquidation Zambia professionals trained in privatization techniques	Magnitude of Outputs: 50-75 20	Project monitoring USAID project records GRZ records Periodic contractor reports																																									
Inputs: 1. Technical assistance Long-term Short-term 2. Training 3. Commodities 4. Evaluation & Audits 5. Inflation & Contingency Total	<table border="1"> <thead> <tr> <th></th> <th>AID</th> <th>GRZ</th> <th>TOTAL</th> </tr> <tr> <th></th> <th colspan="2">(\$US000)</th> <th></th> </tr> </thead> <tbody> <tr> <td>1. Technical assistance</td> <td></td> <td></td> <td></td> </tr> <tr> <td> Long-term</td> <td>11,800</td> <td></td> <td>11,800</td> </tr> <tr> <td> Short-term</td> <td>2,423</td> <td>0</td> <td>2,423</td> </tr> <tr> <td>2. Training</td> <td>706</td> <td></td> <td>706</td> </tr> <tr> <td>3. Commodities</td> <td>558</td> <td></td> <td>558</td> </tr> <tr> <td>4. Evaluation & Audits</td> <td>175</td> <td></td> <td>175</td> </tr> <tr> <td>5. Inflation & Contingency</td> <td>2,338</td> <td>0</td> <td>2,338</td> </tr> <tr> <td>Total</td> <td>18,000</td> <td>0</td> <td>18,000</td> </tr> </tbody> </table>		AID	GRZ	TOTAL		(\$US000)			1. Technical assistance				Long-term	11,800		11,800	Short-term	2,423	0	2,423	2. Training	706		706	3. Commodities	558		558	4. Evaluation & Audits	175		175	5. Inflation & Contingency	2,338	0	2,338	Total	18,000	0	18,000	Contractor quarterly reports A.I.D. Disbursement Records A.I.D. Audit Reports	Commodities and TA arrive in timely fashion.
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**INITIAL ENVIRONMENTAL EXAMINATION
OR
CATEGORICAL EXCLUSION**

Zambia

PROJECT COUNTRY:

PROJECT TITLE AND NO.:

Zambia Privatization Support Project
(611-0230)

FUNDING:

FY(s) 92-97 US\$15,000,000

IEE PREPARED BY:

Richard Harber, AFR/SA

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Determination	_____
Negative Determination	_____ X _____
Categorical Exclusion	_____
Deferral	_____

SUMMARY OF FINDINGS:

Summary of Findings:

Since the project consists of technical assistance, training, commodity procurement and studies (no project activities are contemplated) the project would normally qualify for a Categorical Exclusion as per Section 216.3(c)(1)(i). However, in this case the project cannot help but have policy reform implications, above and beyond the initial steps involved with privatization.

Consequently, in order to mitigate any long-term adverse impacts due to policy reform in this area, the project will carry out a series of evaluations and will assist the GOZ in devising strategies and monitoring plans to mitigate long-term adverse impacts, as outlined below.

On this basis, the project is recommended for a negative determination.

CONCURRENCE:

J. J. Gaudet
Bureau Environmental Officer:
John J. Gaudet, AFR/ARTS/FARA

APPROVED:
DISAPPROVED: _____
DATE: 9/3/92

CLEARANCE:

GC/AFR: M.A. Kleuman

DATE: 9/4/92

Project Description:

While industrial pollution has not yet become a country-wide problem in Zambia, it has become serious in those areas where mining activities or industrialization are taking place. The Copperbelt, in particular, is prone to pollution. The mining companies have, by most accounts, taken the responsibility for keeping pollution to a minimum. Zambia has recently enacted legislation and created an independent monitoring body for controlling pollution. No reliable, recent data exists on pollution in the industrial and commercial sectors in Zambia, despite the fact that many industries are known polluters, and others may become polluters when output increases as it is expected to do under the new political and economic regime.

Problem/Impacts:

One essential element of the privatization process is the valuation of liabilities, which include existing or potential damage to the environment caused by the operation and management of state-owned enterprises. Many of these enterprises have significant potential environmental liabilities that need to be addressed prior to sale, or be undertaken by the purchaser as a condition of sale.

Mitigation:

As part of the support to the Zambia Privatization Agency, the project design will include a preliminary environmental evaluation of the 134 companies selected for sale. This evaluation would provide an indication of those industries that are either known or likely to be polluting, and would provide the Zambia Privatization Agency with an indication of the severity of pollution problems for each enterprise. It would also anticipate the kinds of questions that astute investors would ask about environmental liability, and would demonstrate the commitment of the Zambia Privatization Agency to carry out a program of the highest technical and professional quality regarding environmental issues.

Short term technical assistance would conduct the preliminary environmental evaluation, and would also establish a rough ranking of industries from dirty to clean. The objective of this exercise would be to "flag" industries where an environmental problem does or may exist and will impact on the sale of the industry. Short-term assistance will then work with GOZ personnel from the responsible environmental agency to carry out a detailed environmental evaluation of particular industries or plants.

In addition to the preliminary evaluation (and any detailed evaluations that may be identified as a result of the preliminary evaluation), an environmental law expert will assist the Zambia Privatization Agency to develop strategies for distributing the

cost of environmental remediation, and to assess the environmental impact of the rapidly changing legal and regulatory environment in Zambia, and the consequent impact upon the environment. In addition, this short-term technical assistance will assist the GOZ by providing some guidance in preparing industry-specific, environmental monitoring, evaluation and mitigation plans.

All three of these activities (preliminary and detailed evaluations; legal assistance; and outlining mitigation plans) will be carried out in coordination with the GOZ agencies responsible for the initiation and implementation of the National Environmental Action Plan.

Summary of Findings:

Since the project consists exclusively of technical assistance, training, commodity procurement and studies (no project activities are contemplated) the project would normally qualify for a Categorical Exclusion as per Section 216.3(c)(1)(i). However, in this case the project will have policy reform implications, above and beyond the initial steps involved with privatization. Consequently, in order to mitigate any long-term adverse impacts due to policy reform in this area, the project will carry out a series of evaluations and will assist the GOZ in devising strategies and monitoring plans to mitigate long-term adverse impacts, as outlined above.

On this basis, the project is recommended for a negative determination.

Communications should be addressed to the Permanent Secretary

Telephone: LUSAKA 211991, 211348, 211589, 211747, 250497

Telegrams:

Telex: ZA 40430



NCDP/101/7/68

In reply please quote:

No.....

REPUBLIC OF ZAMBIA

OFFICE OF THE PRESIDENT

AUG 28 1992

ACTION FEW	DUE DATE 9/4
TRANSFER PRM	INFO VM
ACTION TAKEN Privatisation	
DATE 8/28/92	INITIALS [Signature]

ECONOMIC AFFAIRS DIVISION
NATIONALIST/MBITA ROAD
P.O. BOX 50268
LUSAKA

PP 26th August, 1992

Dr. F. Winch
Director
USAID
Katunjila Road
LUSAKA

PRIVATISATION PROGRAMME IN ZAMBIA

As you are aware, the Government of Zambia is embarking on a Privatisation Programme to divest completely of its parastatal sector and to commercialise and possibly privatise some Government departments.

It is in this regard, that we are seeking assistance from the United States Agency for International Development (USAID).

The areas for assistance include long term technical experts in the field of finance, business analysis, valuations and pricing, public flotations, investment relations, negotiations and international promotion and public education. There is also a need for formal training for the Zambian counterparts for these technical assistance personnel. In support of the Privatisation Programme, we also wish to request some assistance for capital equipment. My colleague at the Ministry of Commerce, Trade and Industry will be too happy to supply you with additional details you may require.

I wish to take this opportunity to thank USAID for their support to the Privatisation Programme in Zambia and we look forward to close cooperation in the future.

Yours sincerely


M. M. LISWANISO
PERMANENT SECRETARY
(DEVELOPMENT COOPERATION)
OFFICE OF THE PRESIDENT

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Annex D

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH CHECKLIST UP TO DATE?

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage developments and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

(a) Yes, through greater private sector activity in more open markets. (b) Yes, the Project will support divestiture of parastatals. (c) N/A
(d) Yes, through greater involvement of private sector and elimination of state protection of market for parastatals. (e) Yes, privatization will increase economic efficiency. (f) Labor has a representative on the privatization board.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. consulting firms and advisors will implement the Project. As much procurement as possible will come from the U.S.

Annex D

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

A Congressional Notification was sent to Congress as required. It expired without objection on July 14, 1992.

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided with a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575 (b) (3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000 will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonable firm estimate of the cost to the U.S. of the assistance?

a) Yes

b) Yes

5. Legislative Action (FAA Sec. 611(a) (2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

The GRZ does not require legislative approval of the obligation.

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6. Water Resources (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575 (b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A

8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

(a) Yes, through greater private sector activity in more open markets. (b) Yes, the Project will support divestiture of parastatals. (c) N/A (d) Yes, through greater involvement of private sector and elimination of state protection of market for parastatals. (e) Yes, privatization will increase economic efficiency. (f) Labor has a representative on the privatization board.

10. U.S. Private Trade (FAA Sec. 501(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. consulting firms and advisors will implement the Project. As much procurement as possible will come from the U.S.

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Annex D

11. Local Currencies

a. Recipient Contributions (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

N/A, Zambia has received a Section 110 waiver.

b. U.S.-Owned Currency (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

c. Separate Account FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

N/A

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

Annex D

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

N/A

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act. Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and in such assistance likely to cause substantial injury to U.S. procedures of the same, similar or competing commodity?

N/A

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

The Project will privatize parastatals, some of which may be in the textile industry. The Project will change the ownership of firms, it will not procure feasibility studies, or assist to establish facilities of any kind.

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c) (3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

(a) No
(b) No

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Annex D

14. **Sahel Accounting** (FAA Sec. 121(d)): If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A

15. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. **Funding sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

16. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Mission will comply when date of signing is confirmed.

17. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the

No. Most procurement will be for computers, office equipment, and vehicles.

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extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

18. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Yes. Project will conduct research into adverse impacts of privatization unique to women.

No.

19. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

N/A

20. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

N/A

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

b. Will any funds be used to lobby for abortion?

N/A

21. Cooperatives (FAA Sec. 111): Will assistance help develop cooperative, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

N/A

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22. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

U.S. does not have excess holdings of kwacha.

b. Release of currencies (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

The U.S. does not own excess Zambian currency.

23. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

Small businesses are expected to supply commodities and technical services.

b. U.S. procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

Yes.

c. Marine insurance (FAA Sec. 604(d)): If the cooperating country discriminated against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A

d. Non-U.S. agricultural procurement (FAA Sec. 604 (e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. Construction or engineering services (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those

N/A



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countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. Cargo preference shipping (FAA Sec. 603): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No.

g. Technical assistance (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes.
Yes.

h. U.S. air carriers (International Air Transportation Fair Competitive practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

Yes, standard clauses.

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j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? **Yes.**

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? **N/A**

Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? **N/A**

l. Competitive Selection Procedures (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? **Yes.**

24. Construction **N/A**

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? **N/A**

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c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional presentation), or does assistance have the express approval of Congress?

N/A

25. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N/A

26. Communist Assistance (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Yes.

27. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops eradicated?

Yes.

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

Yes.

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28. **Expropriation and Land Reform (FAA Sec. 620(g)):** Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? **Yes.**
29. **Police and Prisons (FAA Sec. 660):** Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? **Yes.**
30. **CIA Activities (FAA Sec. 662):** Will assistance preclude use of financing for CIA activities? **Yes.**
31. **Motor Vehicles (FAA Sec. 636(i)):** Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? **Yes. DFA procurement rules apply.**
32. **Military Personnel (FY 1991 Appropriations Act. Sec. 503):** Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? **Yes.**
33. **Payment of U.N. Assessments (FY 1991 Appropriations Act. Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? **Yes.**
34. **Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506):** Will assistance preclude use of financing to carry out provisions of FAA section 209(d) transfer of FAA funds to multilateral organizations for lending)? **Yes.**
35. **Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510):** Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? **Yes.**

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36. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human rights? **Yes.**

37. **Publicity or Propaganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? **No.**

38. **Marine Insurance** (FY 1991 Appropriations Act Sec. 5633): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? **Yes.**

39. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (included any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? **No.**

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B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1991 Appropriations Act Sec. 521(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

N/A

2. **Tied Aid Credits** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

N/A

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes, after privatization, entrepreneurs will use more appropriate technologies to produce for the markets they serve.

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The Project was designed in collaboration with the GRZ. The GRZ identified the technical assistance needs.

Yes.

5. Economic Development (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

6. Special Development Emphases (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

- a) Privatization of parastatals will improve the productive capacity of the economy as a whole and result in greater opportunities for poor entrepreneurs and laborers.
- b) N/A
- c) N/A
- d) Program will monitor and mitigate any adverse impacts unique to women.
- e) N/A

7. Recipient Country Contribution (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

No. This Project qualified for a Section 110 waiver.

8. Benefit to Poor Majority (FAA Sec. 128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Program includes an monitoring and evaluation activity to assure beneficiary impact.

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9. Abortions (FAA Sec. 104(f); FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 535):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? N/A

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? N/A

c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? N/A

d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? N/A

e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A

f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? N/A

g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization? N/A

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10. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

11. **Disadvantaged Enterprises** (FY 1991 Appropriations Act Sec. 567): What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

Projected to be approximately 13%.

12. **Biological Diversity** (FAA Sec. 119(g)): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

N/A

13. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c)-(e) & (g)):

a. **A.I.D. Regulation 16**: Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes.

b. **Conservation**: Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent

N/A.

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N/A

feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watershed and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss or degradation; (9) conserve biological diversity in foresty areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. Government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

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c. Forest degradation: Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

N/A

d. Sustainable forestry: If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry?

N/A

e. Environmental impact statements: Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

The Project received a negative determination because it will provide for environmental reviews and programs for parastatals with environmental liabilities.

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14. **Energy** (FY 1991 Appropriations Act Sec. 533(c)): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-cost energy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

N/A

15. **Sub-Saharan Africa Assistance** (FY 1991 Appropriations Act Sec. 562, adding a new FAA chapter 10 (FAA Sec. 496)): If assistance will come from the Sub-Saharan Africa DA account, is it: (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) to be used to promote sustained economic growth, encourage private sector development, promote individual initiatives, and help to reduce the role of central governments in areas more appropriate for the private sector; (c) being provided in accordance with the policies contained in FAA section 102; (d) being provided inclose consultation with African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (e) being used to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (f) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks,

a) Yes

b) Yes

c) Yes

d) Yes

e) Yes

f) N/A

to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

16. Debt-for-Nature Exchange (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

17. Deobligation/Reobligation (FY 1991 Appropriations Act Sec. 515): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

18. Loans

a. Repayment capacity (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

N/A

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b. Long-range plans (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

Yes.

c. Interest rate (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter?

N/A.

d. Exports to United States (FAA Sec. 629(d)): If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

Assistance is to GRZ to sell parastatals to the private sector. Assistance is not for any enterprise.

19. Development Objectives (FAA Secs. 102(a), 111, 113, 281(a)): extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

1) N/A

2) N/A

3) N/A

4) Project will measure and monitor impact of Project activities on women.

5) N/A



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20. Agriculture, Rural Development and Nutrition, and Agricultural research (FAA Secs. 103 and 103A):

a. Rural poor and small farmers: If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor, or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.

N/A

b. Nutrition: Describe extent which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.

N/A

c. Food security: Describe extent to which activity increases national security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

21. Population and Health (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of

N/A

mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

22. Education and Human Resources Development (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

23. Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collected and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources, energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

N/A

b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

N/A

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c. research into, and evaluation of, economic development processes and techniques; N/A

d. reconstruction after natural or manmade disaster and programs of disaster preparedness; N/A

e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance; N/A

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. N/A

24. Sahel Development (FAA Secs. 120-21): If assistance is being made available for the Sahelian region, describe: (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) whether a determination has been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom). N/A



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AIDAC, NAIROBI FOR REDSO/ESA/RLA

E.O. 12356: N/A

TAGS:

SUBJECT: ZAMBIA PRIVATIZATION SUPPORT PROJECT (611-0230)
 FID REVIEW

ACTION VM	DUE DATE 9/10
TRANSFER DS	INFO
ACTION TAKEN Incorporated into PP	
DATE 9/10/92	INITIALS [Signature]

1. A PROJECT COMMITTEE MEETING WAS HELD ON SEPTEMBER 1, 1992, TO REVIEW THE REVISED PROJECT IDENTIFICATION DOCUMENT (PID) FOR THE PRIVATIZATION SUPPORT PROJECT (611-0230). PARTICIPANTS IN THE MEETING INCLUDED REPRESENTATIVES OF AFR/SA, AFR/DF, AFR/DNI, EC/AFR, AND AFR/ARTS. WHILE SOME CONCERNS WERE RAISED AND ARE DISCUSSED BELOW, NO MAJOR ISSUES WERE IDENTIFIED. THUS, THE PID IS HEREBY APPROVED. AFTER TAKING INTO ACCOUNT THE CONCERNS AND GUIDANCE PRESENTED BELOW, THE MISSION DIRECTOR OF USAID/ZAMBIA MAY AUTHORIZE THE PROJECT PAPER (PP) PURSUANT TO HIS AUTHORITIES UNDER AND IN ACCORDANCE WITH ALL THE TERMS AND CONDITIONS OF DOA 551.

2. THE ISSUES/CONCERNS IDENTIFIED FOR MISSION CONSIDERATION IN DEVELOPMENT OF THE PROPOSED PROGRAM ARE DETAILED BELOW.

A. IS THE PROPOSED PROJECT CONSISTENT WITH THE MISSION'S COUNTRY STRATEGY? SINCE USAID/ZAMBIA DOES NOT HAVE AN APPROVED STRATEGY AT THIS TIME, NO DEFINITE CONCLUSION CAN BE REACHED ON THIS QUESTION. THE PROPOSED PROJECT IS, BE NOTED, HOWEVER, THAT AID/W CONCURRENCE IN THE PROPOSED PROJECT DOES NOT/NOT CONSTITUTE AGREEMENT ON THE MISSION'S PRELIMINARY COUNTRY STRATEGY, OR SUGGEST ANY COMMITMENT OF OE RESOURCES ABOVE AND BEYOND WHAT HAS BEEN AGREED TO IN THE FY 94 ABS REVIEWS. (THIS MAY HAVE IMPLICATIONS AS TO WHETHER THE PROPOSED ACTIVITY IS A TARGET UNDER A STRATEGIC OBJECTIVE, OR IS PROPOSED BY THE MISSION AS A TARGET OF OPPORTUNITY WHEN IT SUBMITS ITS CPSP.)

B. IS THE ASSUMPTION THAT POTENTIAL INVESTORS EXIST, WHICH UNDERLIES THE EXPECTED PROJECT OUTPUT OF 52 FIRMS PRIVATIZED, TOO STRONG? THE STATEMENT OF PROJECT OUTPUTS ASSUMES THAT INVESTORS WILL COME FORWARD TO PURCHASE 52 OF ZAMBIA'S PARASTATAL FIRMS. WHILE A FID IS NOT REQUIRED TO JUSTIFY SUCH ASSUMPTIONS, THE PROJECT COMMITTEE IS CONCERNED THAT THE CURRENT STATEMENT OF PROJECT OUTPUTS RESTS ON WHAT COULD BE A TENUOUS ASSUMPTION. THIS

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SITUATION COULD PLACE THE MISSION AT RISK WHEN THE PROJECT IS EVALUATED FOR ACTUAL IMPACT. THE PROJECT COMMITTEE SUGGESTS THAT THE PP SHOULD EITHER PROVIDE A STRONG JUSTIFICATION/ANALYSIS SUPPORTING THIS KEY ASSUMPTION, OR REPHRASE THE STATEMENT OF EXPECTED PROJECT OUTPUTS TO REFLECT OUTPUTS WHICH ARE WITHIN THE MISSION'S MANAGEABLE INTERESTS. FOR EXAMPLE, RATHER THAN THE PRIVATIZATION OF 10 FIRMS, THE EXPECTED OUTPUTS COULD BE THE PREPARATION OF 50 FIRMS FOR PRIVATIZATION.

C. IN CONJUNCTION WITH THE POSSIBILITY OF THE PROJECT FINANCING THE ADVERTISEMENT OF SPECIFIC PRIVATIZATION ACTIONS DISCUSSED IN THE PID, GC/APR CAUTIONS THE MISSION THAT IT SHOULD CONSULT WITH THE RIA PRIOR TO EACH SUCH CASE TO INSURE THAT U.S. SECURITIES LAWS ARE NOT BEING VIOLATED. THE PP SHOULD INCLUDE A RECOGNITION OF THIS POTENTIAL PROBLEM AND A STATEMENT THAT THE RIA WILL BE CONSULTED IN CONJUNCTION WITH SUCH ADVERTISEMENTS TO AVOID LEGAL PROBLEMS.

D. THE PID INDICATES THAT THE PASSAGE OF THE PRIVATIZATION ACT IN JUNE, 1992, ELIMINATED THE KEY LEGISLATIVE CONSTRAINT FOR ACHIEVING THE PROJECT PURPOSE. AT THE SAME TIME, HOWEVER, THE PID DISCUSSES THE SHORTCOMINGS ASSOCIATED WITH THE TRADE ACT AND THE FOREIGN INVESTMENT ACT, AS WELL AS THE NEED FOR A STOCK EXCHANGE ACT. IT IS THE PROJECT COMMITTEE'S UNDERSTANDING THAT THE OTHER LEGISLATIVE CHANGES DISCUSSED IN THE PID ARE NOT NECESSARY FOR ACHIEVING THE PROJECT PURPOSE, BUT WOULD FACILITATE SUCH ACHIEVEMENT. THE PP SHOULD FULLY DISCUSS THESE ISSUES IN THE CONTEXT OF FAA 611(A)(2) CONSIDERATIONS WHICH CONCERN THE NECESSITY OF LEGISLATIVE

ACTIONS, AS OPPOSED TO EXECUTIVE ACTIONS, FOR PROJECT SUCCESS.

E. THE PID'S DISCUSSION OF SUSTAINABILITY SEEMS TO INDICATE THAT THE ZPA WILL NOT REQUIRE ANY EXTERNAL TECHNICAL ASSISTANCE AFTER THIS PROJECT TERMINATES. THE PROJECT COMMITTEE CAUTIONS THAT SUCH BROAD STATEMENTS MAY BE EXCESSIVELY DEFINITIVE. THE PP SHOULD BE CAREFUL IN ITS PHRASING OF THIS DISCUSSION TO AVOID SUCH ABSOLUTE STATEMENTS.

F. A DRAFT IEE HAS BEEN APPROVED BY THE BED, BUT IS STILL AWAITING CLEARANCE BY GC/APR. ONCE THE IEE HAS BEEN CLEARED BY GC/APR, THE MISSION WILL BE ADVISED VIA SEPTTEL. A COPY OF THE IEE WILL ALSO BE FORWARDED TO THE MISSION.

4. THE WAIVER OF THE 25 PERCENT HOST COUNTRY CONTRIBUTION WILL HAVE TO BE APPROVED BY THE DAA/AFR OR RA/AFR. AFR/SA HAS PREPARED THE REQUIRED ACTION MEMORANDUM IN CONSULTATION WITH THE MISSION AND WILL ADVISE WHEN THE WAIVER HAS BEEN APPROVED.

5. THE CN FOR THIS PROJECT EXPIRED WITHOUT OBJECTION ON JULY 14, 1992. THE BUDGET ALLOWANCE FOR THE PROJECT HAS BEEN RECEIVED BY THE MISSION. EAGLEBURGER

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Annex F

PRIVATIZATION SUPPORT PROJECT
 PROJECT BUDGET DETAIL AND NOTES
 PROJECT NO: 611-0230

	AID	GRZ	TOTAL
L-T TECHNICAL ADVISORS (NOTE 1)	\$11,800,000		\$11,800,000
S-T TECHNICAL ASSISTANCE (NOTE 2)	2,422,500		2,422,500
TRAINING (NOTE 3)	706,000		706,000
COMMODITIES (NOTE 4)	558,000		558,000
EVALUATION AND AUDIT (NOTE 5)	175,000		175,000
CONTINGENCIES & INFLATION	2,338,500		2,338,500
TOTAL PROJECT COST	\$18,000,000	\$0	\$18,000,000

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Annex F

PRIVATIZATION SUPPORT PROJECT
PROJECT BUDGET DETAIL AND NOTES
PROJECT NO: 611-0230

NOTE 1
LONG TERM TA
ILLUSTRATIVE BUDGET:

			TOTAL	FY93	FY94	FY95	FY96	FY97	CHECK
PRIVATIZATION SPECIALIST/TEAM LEADER	24 MOS AT *	\$24,000 PER MO	576,000	144,000	288,000	144,000			0
FINANCIAL ANALYST	48 MOS AT	\$24,000 PER MO	1,152,000	144,000	288,000	288,000	288,000	144,000	0
BUSINESS ANALYST	36 MOS AT	\$24,000 PER MO	864,000	144,000	288,000	288,000	144,000		0
VALUATION AND PRICING SPECIALIST	36 MOS AT	\$24,000 PER MO	864,000	144,000	288,000	288,000	144,000		0
OFFERING SPECIALIST	36 MOS AT	\$24,000 PER MO	864,000	144,000	288,000	288,000	144,000		0
INVESTMENT RELATIONS	36 MOS AT	\$24,000 PER MO	864,000	144,000	288,000	288,000	144,000		0
NEGOTIATION SPECIALIST	36 MOS AT	\$24,000 PER MO	864,000	144,000	288,000	288,000	144,000		0
EDUCATION AND PROMOTION SPECIALIST	36 MOS AT	\$24,000 PER MO	864,000	144,000	288,000	288,000	144,000		0
ADMINISTRATIVE ASSISTANT	48 MOS AT	\$1,500 PER MO	72,000	9,000	18,000	18,000	18,000	9,000	0
TRAINING ASSISTANT	48 MOS AT	\$1,500 PER MO	72,000	9,000	18,000	18,000	18,000	9,000	0
INSTITUTIONAL MULTIPLIER ON SALARIES ONLY	1.78	58,500 PER MO	3,772,138	625,482	1,250,964	1,173,982	635,105	88,605	(0)
SALARIES ARE 30% OF TOTAL ESTIMATED COST									
INSTITUTIONAL CONTRACT			10,828,138	1,795,482	3,560,964	3,369,982	1,823,105	248,605	
A.I.D. PROJECT MANAGER	36 MOS AT	\$24,000 PER MO	864,000	144,000	288,000	288,000	144,000		0
ADMIN ASSISTANT/SECTY	48 MOS AT	\$2,250 PER MO	108,000	13,500	27,000	27,000	27,000	13,500	0
SUBTOTAL			972,000	\$157,500	\$315,000	\$315,000	\$171,000	\$13,500	
TOTAL LONG-TERM CONSULTING COSTS			11,500,138	1,952,982	3,905,964	3,684,982	1,904,105	262,105	

* SEE NOTE 6 FOR CALCULATION OF MONTHLY COST FOR L-T TECHNICAL ASSISTANCE

Annex F

PRIVATIZATION SUPPORT PROJECT
PROJECT BUDGET DETAIL AND NOTES
PROJECT NO: 811-0230

NOTE 2
SHORT TERM TA
ILLUSTRATIVE BUDGET:

1. SHORT-TERM TA TO PTA UNTIL INSTITUTIONAL CONSULTANTS ARRIVE

FINANCIAL ANALYST/INVESTMENT BANKER (1 PERSON)	6	MOS AT *	42,500	255,000
INVESTMENT RELATIONS/EDUCATION AND PROMOTION SPECIALIST (1 PERSON)	6	MOS AT	42,500	255,000
TOTAL S-T TA FOR START-UP	12			510,000

2. SHORT-TERM TA FOR PRIVATIZATION OF A LARGE COMPANIES

	TOTAL	TEAM LEADER	INVESTMENT BANKER	MARKETING	MANAGEMENT	FINANCIAL & ACCOUNTING				
ANALYSIS OF COMPANY										
ASSESSMENT OF MARKET PERFORMANCE OF COMPANY	375	55		160	160					
ASSESSMENT OF OPERATIONAL PERFORMANCE	55	55								
ASSESSMENT OF FINANCIAL PERFORMANCE	210	50				160				
RECOMMENDATION OF PRE-PRIVATIZATION STEPS AND PROCEDURES FOR SALE/PRIVATIZATION/LIQUIDATION	320	160	160							
MARKETING OF COMPANY										
COMPANY VALUATION	480	100	160			160				
PREQUALIFICATION OF BUYERS	160	60	60							
PREPARATION OF MEMORANDUM OF SALE	240	80	80			60				
PREQUALIFICATION OF BIDDERS	80	40	40							
REQUEST FOR TENDERS	80	40	40							
EVALUATION OF OFFERS	32	16	16							
AWARD	0									
TOTAL HOURS FOR ENGAGEMENT	2,052									
PERSON DAYS	254									
PERSON MONTHS PER ENGAGEMENT	13	x	42,500	PER MO =	552,500					
NUMBER OF ENGAGEMENTS IBRD/GRZ FUNDED	23	x	552,500		12,707,500	2,541,500	5,063,000	5,063,000		0
NUMBER OF ENGAGEMENTS USAID FUNDED	2	x	552,500		1,105,000	552,500	552,500	0		0

3. SHORT-TERM TA FOR ENVIRONMENTAL ANALYSES

ESTIMATED NUMBER OF PRIVATIZATIONS W/ ENV ASSISTANCE	19	x	42,500	PER MO =	807,500	255,000	170,000	42,500	255,000	85,000	0
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SUMMARY SHORT TERM TA NEEDS

	AID TOTAL
1. SHORT-TERM TA TO PTA UNTIL INSTITUTIONAL CONSULTANTS ARRIVE	510,000
2. SHORT-TERM TA FOR PRIVATIZATION OF A LARGE COMPANIES	1,105,000
3. SHORT-TERM TA FOR ENVIRONMENTAL ANALYSES	807,500
TOTAL SHORT-TERM TA NEEDS	2,422,500

SEE NOTE 6 FOR CALCULATION OF MONTHLY COST FOR S-T TECHNICAL ASSISTANCE

Annex F

PRIVATIZATION SUPPORT PROJECT
ZAMBIA
PROJECT NO: 611-0230

NOTE 3
TRAINING
ILLUSTRATIVE BUDGET OF TRAINING ACTIVITIES:

TRAINING	QTY	UNIT COST	TOTAL COST	FY93	FY94	FY95	FY96	FY97	CHECK
In-Country Seminars									
Privatization Seminars	2	35,000	70,000	35,000	35,000				0
Valuation Workshops	1	40,000	40,000		40,000				0
MBO Workshops	1	40,000	40,000		40,000				0
Debt-Equity Seminars	1	40,000	40,000		20,000	20,000			0
Industry Specific	3	40,000	120,000			60,000	30,000	30,000	0
Other Conferences	2	35,000	70,000				35,000	35,000	0
Sub-total			380,000	35,000	135,000	80,000	65,000	65,000	
Third Country									
Study Tours	6	12,000	72,000			36,000	36,000		0
Promotion and Marketing Seminars and Workshops	4	8,000	32,000	36,000	36,000	16,000			0
Sub-total			178,000	36,000	52,000	52,000	36,000	0	
U.S. Tours and Conferences									
Promotion and Marketing	5	15,000	75,000	30,000	45,000				0
Other Conferences	5	15,000	75,000	30,000	45,000				0
Sub-total			150,000	60,000	90,000	0	0	0	
TOTAL TRAINING			708,000	131,000	277,000	132,000	101,000	65,000	

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Annex F

PRIVATIZATION SUPPORT PROJECT
ZAMBIA
PROJECT NO: 611-0230

NOTE 4
COMMODITIES
ILLUSTRATIVE BUDGET OF TRAINING ACTIVITIES:

COMMODITIES	QTY	UNIT COST	TOTAL COST	FY93	FY94	FY95	FY96	FY97	CHECK
Transportation									
Vehicles	5	20,000	100,000	100,000					0
Spares (15%)	5	5,000	25,000		7,500	7,500	7,500	2,500	0
Operation	20	1,500	30,000	6,000	6,000	6,000	6,000	6,000	0
Maintenance	5	1,400	7,000	1,400	1,400	1,400	1,400	1,400	0
Shipment/Insurance (25%)	5	3,000	15,000	11,000	1,000	1,000	1,000	1,000	0
Household furniture	9	10,000	90,000	90,000					0
Sub-total			267,000	208,400	15,900	15,900	15,900	10,900	
Office Equipment									0
Computers									0
Desktop	5	2,000	10,000	10,000					0
Laptops	5	1,000	5,000	5,000					0
Laser Printers	5	1,200	6,000	6,000					0
Software	10	1,750	17,500	17,500					0
U.P.S.	5	1,725	8,625	8,625					0
Supplies	5	500	2,500	2,500					0
Shipping (15%)	10	225	2,250	2,250					0
Maintenance	5	100	500	500					0
Office Furniture									
Desks	12	250	3,000	3,000					
Chairs	10	235	2,350	2,350					
Typist chairs	2	140	280	280					
Visitor chairs	20	95	1,900	1,900					
Filing cabinets	12	290	3,480	3,480					
Typist extensions	2	110	220	220					
Telephone compactums	12	105	1,260	1,260					
System storage cupboards	12	325	3,900	3,900					
Drawer pedestals	12	255	3,060	3,060					
Packing, insurance, transportation			2,150	2,150					
PBX System	1	25,000	25,000	25,000					0
Typewriter	1	1,000	1,000	1,000					0
Facsimile	1	750	750	750					0
Sub-total			100,725	100,725	0	0	0	0	

Annex F

PRIVATIZATION SUPPORT PROJECT
ZAMBIA
PROJECT NO: 311-0230

NOTE 4 (CONTINUED)

Training Equipment									
Overhead Projector	2	750	1,500	1,500					0
Slide Projector	1	500	500	500					0
Projection Screen	3	1,000	2,000	3,000					0
Flip Chart Boards	3	300	900	900					0
Supplies (annual)	5	100	500	500					0
Sub-total			6,400	6,400	0	0	0	0	
Reproduction & Binding									
Photocopier	1	20,000	20,000	20,000					0
Maintenance	5	1,500	7,500	1,500	1,500	1,500	1,500	1,500	0
Supplies	5	1,000	5,000	1,000	1,000	1,000	1,000	1,000	0
Paper	5	500	2,500	500	500	500	500	500	0
GBC Binding Systems									
Spiral	1	1,000	1,000	200	200	200	200	200	0
Pins	1	500	500	100	100	100	100	100	0
Heat	1	500	500	100	100	100	100	100	0
Supplies	5	100	500	100	100	100	100	100	0
Maintenance	5	50	250	50	50	50	50	50	0
Sub-total			37,750	23,550	3,550	3,550	3,550	3,550	
Periodicals									
Economist/Business Wk.	10	500	5,000	1,000	1,000	1,000	1,000	1,000	0
Fin. Times/Wall St. Journal	10	500	5,000	1,000	1,000	1,000	1,000	1,000	0
Sub-total			10,000	2,000	2,000	2,000	2,000	2,000	
Promotional Activities									
Pamphlets	20	5,000	100,000	20,000	20,000	20,000	20,000	20,000	0
Video Purchases	4	250	1,000	200	200	200	200	200	0
Video Production	1	35,000	35,000	7,000	7,000	7,000	7,000	7,000	0
Advertising Space	N/A	50,000							
Tv Advertising time	N/A	120,000							
Sub-total			136,000	27,200	27,200	27,200	27,200	27,200	
TOTAL COMMODITIES			557,875	368,275	48,650	48,650	48,650	43,650	

Annex F

PRIVATIZATION SUPPORT PROJECT
 ZAMBIA
 PROJECT NO: 611-0230

NOTE 5
 EVALUATIONS & AUDITS

	TOTAL	FY93	FY94	FY95	FY96	FY97	CHECK
BASELINE SURVEY	\$40,000	40,000					
FIRST EVALUATION	45,000		45,000				
EVALUATE PRIVATIZATIONS AND CONTRACTOR PERFORMANCE							
END OF PROJECT EVALUATION	50,000					50,000	
OVERALL IMPACT							
PROJECT AUDIT	40,000			40,000			
	\$175,000	\$40,000	\$45,000	\$40,000	\$0	\$50,000	

Handwritten initials or mark.

Annex G

Because these companies come from diverse industrial and service sector, a broad-based background in planning would be preferable.

This position will be for three years.

Economist and Privatization Expert

An economist with broad experience in privatization efforts is required to assist the ZPA assess general issues of the emerging privatization program and make substantive recommendations on both process and goals. The candidate will be required to maintain an ongoing assessment of the privatization process, provide information to the Director of the ZPA and suggest substantive alterations in procedure, when needed. He will develop and maintain communication with all donor groups to provide a coordination role as well as to be able to provide technical assistance in the other areas detailed in this description of long-term technical requirements.

The candidate should hold a post-graduate degree in economics, business or accountancy and should have strong experience with the privatization process in developing countries. Because of the broad nature of this assignment, the candidate must exhibit initiative as well as flexibility in past privatization activities.

This position will be for three years.

Valuations and Pricing Specialist

An expert is required to perform and arrange company and asset valuations as well as to oversee the consistency of valuation methods. Because outside valuations will be required to obtain a certificate of valuation, this expert will assign, supervise and review all valuation tenders and subsequent reports. This individual ensures that valuers are provided with all information required to undertake the valuation. In addition, this expert will assist the Zambian Privatization Agency with developing valuation and pricing standards. In some cases, this professional will conduct valuations with the assistance of Zambian professionals. He will play a critical role in adjusting sale strategy in the case where valuation and price vary widely.

The suitable candidate will have a graduate degree in accountancy or finance and extensive experience working in the public sector and in privatization and rationalization.

This position will be for three years.



PRIVATIZATION SUPPORT PROJECT
 ZAMBIA
 PROJECT NO: 611-0230

NOTE 6 (CONTINUED)

B. SHORT-TERM TECHNICAL ASSISTANCE COSTS

The estimated average short-term technical assistance cost for one person month is approximately \$42,500.00

Budget Item/Descriptions

1.	Salary (30 days @ \$320/day)		\$9,600.00
	Fringe Benefit (20% of salary)		1,920
	Overhead (172% of salary & fringe benefit)		19,872
	Airfare travel - US - Lusaka rt		4,000
2.	Per Diem @ \$165 * 30 days		\$4,950.00
3.	Defense Base Insurance (3.3% of salary)		\$316.80
4.	Travel		
	b. In-country transportation		\$700.00
	c. Miscellaneous		362
	Visa	100	
	Communications	700	800

	Total estimated cost for one person month		\$42,520.32

Annex G

The term of this expert is three years.

International Promotion and Public Education Specialist

There is a need for an expert in investment promotion to develop an international publicity and marketing campaign for the sale of parastatal companies as well as assisting in developing a public education program, in conjunction with short-term technical assistance, to direct an effort to inform domestic audiences of the privatization process. The specialist will develop a domestic publicity campaign, identifying target groups such as the parliament, parastatal management and employees, the private sector, the Zambian public in general, including the rural sector, the donor community and the academic community.

The expert will have long-term experience developing investment promotion programs for Governments and knowledge of privatization efforts. He/she will have extensive journalist and business contacts in Europe, America and Asia and will have proven success in directing investment missions, writing publicity and developing markets for campaigns. He/she will have an excellent understanding of business issues and an ability to translate them to the public. The incumbent will have exhibited success in earlier efforts.

The term of this expert is at least three years.

Annex G

setting and to deal effectively with high ranking decision-makers in both public and private sectors. Experience with A.I.D. management and documentation systems is highly desirable.

ILLUSTRATIVE TECHNICAL ASSISTANCE TEAM - INSTITUTIONAL CONTRACT

Financial Analyst/Merchant Banker

A financial analyst is needed to assist in financial restructuring of State-Owned Enterprises and in making recommendations on appropriate financial arrangements and strategies for the sale of SOEs, such as debt/equity swaps, equity/equity swaps, dilution of GRZ shareholding by new investment, and flotations. An understanding of standard debt-forgiveness programs in privatization is required. Financial analysis and restructuring will play a critical role in establishing the marketability of companies. Bookkeeping procedures in most Zambian parastatal firms have been weak, not reflecting current realities. Inflation and subsidies have distorted past performance. The candidate should therefore have extensive experience in all aspects of privatization programs in developing countries.

He or she will hold a graduate degree in either finance or accounting and will have served either as a merchant banker or long-term consultant on privatization or rationalization. The candidate should have a good understanding of international capital markets, financial instruments and in emerging trends in privatization financing.

The level of effort will be for four years.

Business Analyst

A manager experienced in business issues is required to manage the collection and analysis of information for the companies to be privatized. The candidate will be required to work closely with a large team of Zambian professionals to direct and monitor their work. The candidate will have an understanding of issues related to planning and corporate finance. He will assess the strategy for divestiture of specific businesses as well as potential sale value. He or she will have a good understanding of corporate finance and debt, stock flotation and management buyouts, as well as labor issues.

The incumbent should hold a post-graduate degree in finance, accountancy or business and should have some understanding of the issues related to public sector reform or rationalization.

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arriving in Zambia approximately 3 months after FA/OP receives the PIO/Ts.

- One for the personal services contractor, project manager. This PIO/T will authorize the USAID/Zambia Executive Officer to undertake the contracting. The contractor should be arriving in Zambia approximately 2-4 months after the EXO receives the PIO/T.

Also upon project authorization, the mission will process PIO/Cs authorizing the USAID Executive Officer to purchase the commodities listed in the attachment. Before purchasing the vehicles and spares, a determination will be made as to whether or not the requirements can be met by a U.S. manufactured vehicle with a local dealer available to provide warranty and after-sales service and spare parts. The household furniture and office furniture and equipment will be purchased locally or from neighboring and other Code 935 countries. The commodities will arrive in Zambia from 2 -3 months after receipt by the EXO of the PIO/C. The vehicles would arrive from 2 - 6 months from receipt of PIO/C.

After the PSC Project Manager has arrived, PIO/Ts will be processed and issued by the mission for a series of short-term institutional contractor teams for environmental analysis and for a baseline study as part of an overall monitoring and evaluation effort. The PIO/Ts for the environmental analysis will authorize FA/OP in AID/W to contract with a Gray Amendment firm under an Indefinite Quantity Contract. The PIO/Ts for the different elements of baseline study will be issued to the Executive Officer to who will issue purchase orders after soliciting proposals and evaluation.

PIO/Ps for the training will be processed and approved by the Mission for forwarding to AID/W.

Full and open competition will have already been accomplished for the Buy-ins and will be used for all other procurements, except for those already covered by class justifications (personal services contractor and contracts under \$250,000).

According to the A.I.D. Commodity Eligibility Listing, household furniture and appliances are either ineligible for AID financing, or are eligible only for industrial, institutional or educational uses. This project contemplates the financing of household furniture and appliances for use by the long-term technical assistance team. Pursuant to Section 4C, Handbook 1, Supplement B, Mission Directors can determine to finance otherwise ineligible commodities. By authorizing this project, the Mission Director or USAID/Zambia will be making such a determination with

Public Flotation Specialist

The Government is currently seeking support to assess the potential for the public flotation of a large Zambian parastatal firm. An expert is required to prepare the first public flotation, design the methodology for future flotations and assist in training of Zambian professionals. The candidate should have an understanding of developing countries and experience in designing strategies and techniques for public flotations in countries where potential shareholders are unsophisticated. The candidate must have an ability to be creative and innovate in a rapidly developing economy.

This position will be for three years.

Investment Relations Specialist

An expert is required to facilitate communications with potential investors, to meet investors needs and insure communication with the Privatization Agency during the process. The expert would guide potential investors through the application and bidding process, and would provide recommendations to the Privatization Agency as to required inputs to ensure successful bids, in terms of rationalization as well as improvements to the process.

The candidate will have a degree in business and/or economics, extensive experience in either corporate relations, business development or merchant banking and will have substantial experience working in Africa. In addition to English, the candidate should have fluency in either French or German.

The term of this expert would be three years.

Negotiation Expert

An expert is required to develop the negotiation strategy in the finalization of privatization projects in sales to local Zambians and to foreign investors. The official will develop techniques, contracts and strategies with the assistance of Zambian Government officials and lawyers. The expert will be responsible for developing terms of sale, and the rights and obligations of the seller and the new owner. Because privatization deals are likely to be accomplished with small, domestic businessmen as well as large multinational firms, flexibility is required. The position requires specific expertise in negotiation strategy and a legal background. Negotiation experience in developing countries is a must.

Annex H

Contract Action	Months After Project Authorization							
	10	11	12	13	14	15	16	17
Short-Term TA								
for Environmental Anal								
PIO/T to AID/W			x					
Negotiate under IQC				x				
Arrive					x			
(Same twice more as needed)								
Vehicle Spares								
PIO/C to EXO			x					
Solicit Offers				x				
Evaluate/Award					x			
Arrive								
(Same for months 24 and 36)								
Photocopier Supplies								
PIO/C to EXO			x					
Solicit Offers/Award				x				
(Same for months 24 and 36)								
Project Evaluation								
PIO/T to REDSO			x					
Solicit Offers				x				
Evaluate/Award					x			
(Same for month 36)								
Project Audit								
PIO/T to REDSO				Month 24				
Solicit Offers					Month 25			
Evaluate/Award						Month 26		

Training:

PIO/Ps will be prepared by USAID and forwarded to AID/W Training Division at different times throughout the project.

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PROCUREMENT PLAN

The project will be financed from the Development Fund for Africa (DFA), so the authorized geographic code is A.I.D. Code 935, within the framework of Africa Bureau Instructions on Implementing Special Procurement Policy Rules Governing the DFA from the AA/AFR dated April 14, 1988. Pursuant to that guidance, the mission will maximize U.S. procurement whenever practicable.

Procurement requirements under the project will include:

1. One long-term institutional contractor team. (U.S.)
2. A series of short-term institutional contractor teams for environmental analysis. (U.S., Gray Amendment IQC)
3. One personal services contractor project manager. (U.S.)
4. One buy-in for the services of a financial analyst/investment banker and an investment relations/education advisor. (U.S., Buy-in)
5. Training. (U.S., PIO/Ps)
6. Commodities. (935 & U.S.)
7. Monitoring and Evaluation services. (U.S. & local)

Except for some commodities that will be purchased by the long-term institutional contractor for its own use and support, all of the anticipated procurements will be accomplished by A.I.D.

Upon project authorization, the missions will process three PIO/Ts:

- One for the long-term institutional contractor which will authorize the Regional Contracting Officer in REDSO to undertake the contracting. REDSO/CN will use full and open competition to select a contractor. The contractor will be required to include at least 10% of the contract amount on subcontracting with disadvantaged firms. The contractor should be mobilizing in Zambia approximately six to eight-months after REDSO/CN receives the PIO/T.

- One for a Buy-In for the two individuals for financial analyst/investment banker and investment relations/education advisors). This PIO/Ts will authorize FA/OP, AID/W to undertake the negotiations to buy-in to an on-going contract being administered by the PRE Bureau. The contractors should be

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PRIVATIZATION SUPPORT PROJECT
ZAMBIA
PROJECT NO: 611-0230

CONTRACTOR PROCURED TECHNICAL ASSISTANCE AND COMMODITIES

	TOTAL	YEAR IN WHICH CONTRACT FOR SERVICES/COMMODITIES SIGNED					SOURCE/ORIGIN OF COMMODITIES				
		FY93	FY94	FY95	FY96	FY97	PROBABLE SOURCE/ORIGIN	PROCUREMENT AGENT	USA 000	LOCAL	941
PRIVATIZATION SPECIALIST/TEAM LEADER	576,000	576,000					US/935	SELECTED CONTRACTOR			
FINANCIAL ANALYST	1,152,000	1,152,000					US/935	CONTRACTOR			
BUSINESS ANALYST	864,000	864,000					US/935	CONTRACTOR			
VALUATION AND PRICING SPECIALIST	864,000	864,000					US/935	CONTRACTOR			
OFFERING SPECIALIST	864,000	864,000					US/935	CONTRACTOR			
INVESTMENT RELATIONS	864,000	864,000					US/935	CONTRACTOR			
NEGOTIATION SPECIALIST	864,000	864,000					US/935	CONTRACTOR			
EDUCATION AND PROMOTION SPECIALIST	864,000	864,000					US/935	CONTRACTOR			
ADMINISTRATIVE ASSISTANT	72,000	72,000					US/935	CONTRACTOR			
TRAINING ASSISTANT	72,000	72,000					LOCAL	CONTRACTOR			
INSTITUTIONAL MULTIPLIER ON SALARIES ONLY	3,772,138	3,772,138					US				
SALARIES ARE 33% OF TOTAL ESTIMATED COST	-----										
	10,826,138										

SHORT-TERM TA FOR PRIVATIZATION OF A LARGE COMPANIES											
TEAM LEADER	400,236	400,236					US/935	CONTRACTOR			
INVESTMENT BANKER	313,226	313,226					US/935	CONTRACTOR			
MARKETING CONSULTANT	87,008	87,008					US/935	CONTRACTOR			
MANAGEMENT CONSULTANT	87,008	87,008					US/935	CONTRACTOR			
FINANCIAL CONSULTANT	217,520	217,520					US/935	CONTRACTOR			

	1,105,000										

TRAINING											
In-Country Seminars	QTY	TOTAL COST									
Privatization Seminars	2	70,000	70,000				US/935/LOCAL	CONTRACTOR			
Valuation Workshops	1	40,000	40,000				US/935/LOCAL	CONTRACTOR			
MBO Workshops	1	40,000	40,000				US/935/LOCAL	CONTRACTOR			
Debt-Equity Seminars	1	40,000	40,000				US/935/LOCAL	CONTRACTOR			
Industry Specific	3	120,000	120,000				US/935/LOCAL	CONTRACTOR			
Other Conferences	2	70,000	70,000				US/935/LOCAL	CONTRACTOR			
Sub-total		-----									
		380,000									

U.S. Tours and Conferences											
Promotion and Marketing	5	75,000	75,000				N/A	CONTRACTOR			
Other Conferences	5	75,000	75,000				N/A	CONTRACTOR			
Sub-total		-----									
		150,000									

TOTAL TRAINING		530,000									

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regard to the household furniture and appliances for the technical assistance team.

No other procurement waivers are anticipated. If the need for waiving any procurement policy or procedure does arise, it will be handled on an ad hoc basis.

Months after Project Authorization

Contracting Action	1	2	3	4	5	6	7	8	9
Long-Term TA									
PIO/T to REDSO	x								
Advertise		x							
RFP issued			x						
Offers Received				x					
Evaluation					x				
Award						x			
Arrive							x		
Short-term TA for Environment Analysis									
PIO/T to AID/W				x					
Negotiate under IQC					x				
Arrive							x		
Financial Analyst/ Investment Banker and Investment Relations/ Education Advisor									
PIO/T to AID/W	x								
Arrange Buy-in		x							
Arrive			x						
Project Manager									
PIO/T to EXO	x								
Negotiate Contract		x							
Arrive			x						
Baseline Study									
PIO/T to EXO				x					
Solicit offers					x				
Evaluate offers						x			
Award contract							x		
Commodities									
PIO/C to EXO	x								
Solicit Offers		x	x						
Evaluate/Award			x	x					
Arrive					x				

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Annex I

TECHNICAL ANALYSIS

The following analysis examines (1) the project goals; (2) the privatization strategy within the context of reform of the enabling environment; (3) the implementation procedures that privatization must follow to verify the technical suitability and appropriateness of the overall project structure to support the project purpose; and (4) the technical requirements to assist the ZPA to implement privatization of Zambia's parastatal industry.

Project Goals

In the broadest sense, the project aims to support market-oriented, sustainable, broad-based economic growth consistent with the policies and actions of the new Government of Zambia. The state has maintained control of most productive resources since independence, leading to severe distortions, overreliance upon one commodity (copper), a stifling of competition and initiative, low productivity, and the imposition of high prices and low quality in the industrial sub-sectors where parastatals have an effective monopoly. Statist policies have led to high fiscal deficits, domestic and foreign debt crises, high inflation and a weak currency. The ZPA is a central institution for the GRZ's structural adjustment efforts and for developing a strong enabling environment for private sector development.

The privatization of Zambia's state-owned enterprises will be the direct output of the project, with immediate beneficial results to the GRZ budget as state subsidies decline and tax revenues increase. Capital investment will rise as a result of new investment in divested firms. Private sector activities will expand with the demise of monopolistic public firms and regulations. Markets will expand as business expands into areas that Government management left empty, forming new firms and seeking new opportunities. Managerial capacity will improve through technical support of counterpart activities together with additional training. Success in privatization will provide an impetus for other economic changes. Already, as an immediate response to the perceived need of the divestiture program, the GRZ is moving to establish a stock market and to develop credit sources for Zambian businesses to purchase shares. Privatization will also spur required legal and regulatory reforms in finance, trade and investment, thus stimulating entrepreneurship and individual initiative. Exploitation of Zambia's natural and human resources will improve, leading to economic growth.

Within the ZPA itself, at least 20 Zambian professionals will have developed their analytical and management skills so that, by the end of the third year of the project, only two of the

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PRIVATIZATION SUPPORT PROJECT
ZAMBIA
PROJECT NO: 011-0230

AID PROCUREMENT ACTIONS	TOTAL	YEAR IN WHICH CONTRACT FOR SERVICES/COMMODITIES SIGNED					PROBABLE SOURCE/ORIGI	PROCUREMENT AGENT	SOURCE/ORIGIN OF COMMODITIES				
		FY93	FY94	FY95	FY96	FY97			USA 000	LOCAL	041	005	
1. TECHNICAL ASSISTANCE													
INSTITUTIONAL CONTRACT	12,726,000	12,726,000					US	REDSO	80,000	173,000	0	12,000	
PROJECT MANAGER AND ADMIN ASSISTANT	972,000	972,000					US	USAID					
FINANCIAL ANALYST/INVESTMENT BANKER (1	255,000	255,000					US	AID/W					
INVESTMENT RELATIONS/EDUCATION AND PF	255,000	255,000					US	AID/W					
SHORT-TERM TA FOR ENVIRONMENTAL ANA	807,500	323,000	161,500	161,500	161,500		US	AID/W					
2. TRAINING													
THIRD COUNTRY STUDY TOUR	6	72,000	28,800	14,400	14,400	14,400		US	AID/W				
THIRD COUNTRY PROMOTION	6	72,000	28,800	14,400	14,400	14,400		US	AID/W				
THIRD COUNTRY SEMINARS &	4	32,000	12,800	6,400	6,400	6,400		US	AID/W				
3. COMMODITIES													
VEHICLES	5	100,000	100,000					035	USAID	100,000			
SPARES (15%)	5	25,000	10,000	5,000	5,000	5,000		035	USAID	25,000			
SHIPMENT/INSURANCE (25%)	5	15,000	6,000	3,000	3,000	3,000		035	USAID	15,000			
HOUSEHOLD FURNITURE	9	162,200	162,200					035	USAID				162,200
SECURITY UPGRADES	1	7,500	7,500					035	USAID				7,500
APPLIANCES	9	48,150	48,150					035	USAID				48,150
OVERHEAD PROJECTOR	2	1,500	1,500					035	USAID				1,500
SLIDE PROJECTOR	1	500	500					035	USAID				500
PROJECTION SCREEN	3	3,000	3,000					035	USAID				3,000
FLIP CHART BOARDS	3	900	900					035	USAID				900
SUPPLIES (ANNUAL)	5	500	500					035	USAID				500
OFFICE DESKS	12	10,800	10,800					035	USAID				10,800
CHAIRS	10	4,000	4,000					035	USAID				4,000
TYPIST CHAIRS	2	800	800					035	USAID				800
VISITOR CHAIRS	20	8,000	5,000					035	USAID				8,000
FILE CABINETS	12	1,500	1,500					035	USAID				1,500
TYPIST EXTENSIONS	2	220	220					035	USAID				220
TELEPHONE COMPACTONS	12	2,400	2,400					035	USAID				2,400
SYSTEM STORAGE CUPBOARD	12	3,900	3,900					035	USAID				3,900
DRAWER PEDESTALS	12	3,080	3,080					035	USAID				3,080
PACKING/INSURANCE FREIGHT		2,150	2,150					035	USAID				2,150
STORAGE CABINET	12	2,400	2,400					035	USAID				2,400
BOOKCASE	9	2,700	2,700					035	USAID				2,700
TABLE COMPACTION	12	3,000	3,000					035	USAID				3,000
PHOTOCOPIER	1	20,000	20,000					035	USAID				20,000
MAINTENANCE	5	7,500	1,875	1,875	1,875	1,875		035	USAID				7,500
SUPPLIES	5	8,000	1,250	1,250	1,250	1,250		035	USAID				8,000
PAPER	5	2,500	625	625	625	625		035	USAID				2,500
4. MONITORING & EVALUATION													
BASELINE SURVEY		40,000	40,000					LOCAL	USAID				
PROJECT AUDIT		40,000			40,000			LOCAL	REDSO				
PROJECT EVALUATIONS		95,000		47,500		47,500		US	REDSO				
INFLATION AND CONTINGENCIES		2,190,920	438,104	438,104	438,104	438,104							
TOTAL AID PROCURED		18,000,000	15,487,234	694,054	686,554	694,054				220,000	173,000	0	312,980

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other financial institutions to buy and sell shares. Anti-trust legislation is being studied, to facilitate free trade and to remove bureaucratic bottlenecks to private initiative.

Reform of foreign investment regulation and procedures will facilitate foreign involvement in the privatization process. New investment legislation was enacted in 1991 but its conditions are not competitive with regional standards. The UNDP and the World Bank are working by the GRZ to implement effective changes as well as to develop a one-stop investment shop.

Credit Markets

Effective credit markets must be established, subject to international norms, to enable Zambian businessmen to take advantage of privatization opportunities as well as to attract investment capital. Credit is critical not only for the purchase of parastatal firms, but also to finance improvements of what are chronically decapitalized firms. Some private sector funds would be available through investment funds, reverse capital flows and foreign investment if the regulatory climate improves and perceived risk diminishes. Already, there are indications that this perception is developing, as evidenced in the initial inquiries to the ZPA of interest in purchasing parastatal firms. Other, foreign agencies, such as the Commonwealth Development Corporation (CDC), have made informal plans to participate in the privatization effort, if outstanding issues between them and the GRZ are rectified.

On a macroeconomic level, credit markets are becoming more normal as inflation diminishes and differences between market and official exchange rates decline. The GRZ is negotiating with debtors to end its foreign debt crisis. Substantial donor support is facilitating access to trade finance. Over the medium-term, large-scale donor infusions will provide sufficient currency to allow Zambia to return to normal credit relations.

Donor and GRZ initiatives to develop domestic credit markets are in their initial stages, as are all other programs in this young, MMD government, but planning is well advanced and most major donors are committed to provide help. The World Bank is assisting in the development of a Stock Exchange Act to create an open market, with necessary safeguards, to encourage the trading of shares in privatized firms. It is also moving to encourage greater competition in the provision of financial services such as pensions, building society funds, mutual funds and insurance firms that are presently dominated by state monopolies in order to create a vital credit market for private sector activity. NORAD has commissioned a study to examine the best manner to develop new credit institutions in Zambia. USAID plans an

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COMMODITIES	QTY	TOTAL COST						
Transportation								
Operation	20	30,000	30,000					
Maintenance	5	7,000	7,000	LOCAL	CONTRACTOR			30,000
Sub-total		37,000		LOCAL	CONTRACTOR			7,000
Office Equipment								
Computers								
Desktop	5	10,000	10,000	US	CONTRACTOR	10,000		
Laptops	5	5,000	5,000	US	CONTRACTOR	5,000		
Laser Printers	5	6,000	6,000	US	CONTRACTOR	6,000		
Software	10	17,500	17,500	US	CONTRACTOR	17,500		
U.P.S.	5	8,625	8,625	US	CONTRACTOR	8,625		
Supplies	5	2,500	2,500	US	CONTRACTOR	2,500		
Shipping (15%)	10	2,250	2,250	US	CONTRACTOR	2,250		
Maintenance	5	500	500	935	CONTRACTOR			500
PBX System	1	25,000	25,000	US	CONTRACTOR	25,000		
Typewriter	1	1,000	1,000	US	CONTRACTOR	1,000		
Facsimile	1	750	750	935	CONTRACTOR			750
Sub-total		79,125						
Reproduction & Binding								
GBC Binding Systems								
Spiral	1	1,000	1,000	US	CONTRACTOR	1,000		
Plns	1	500	500	US	CONTRACTOR	500		
Heat	1	500	500	US	CONTRACTOR	500		
Supplies	5	500	500	US	CONTRACTOR	500		
Maintenance	5	250	250	935	CONTRACTOR			250
Sub-total		2,750						
Periodicals								
Economist/Business Wk.	10	5,000	5,000	935	CONTRACTOR			5,000
Fin. Times/Wall St. Journal	10	5,000	5,000	935	CONTRACTOR			5,000
Sub-total		10,000						
Promotional Activities								
Pamphlets	20	100,000	100,000	LOCAL	CONTRACTOR	100,000		
Video Purchases	4	1,000	1,000	LOCAL	CONTRACTOR	1,000		
Video Production	1	35,000	35,000	LOCAL	CONTRACTOR	35,000		
Advertising Space	N/A			LOCAL	CONTRACTOR			
Tv Advertising time	N/A			LOCAL	CONTRACTOR			
Sub-total		136,000						
TOTAL COMMODITIES		264,875						
TOTAL PROCURED THROUGH INSTITUTIONAL CONTRACTOR (ROUNDED)		12,728,000	12,728,000	0	0	0	0	60,000
								173,000
								0
								12,000

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Business structures must be analyzed for their sale-potential in the privatization process. Some firms must be broken into independent entities, based upon function. Others may be merged. In some cases, the market value of firms is solely in real estate while others have near-monopoly access to market. In the latter case, strong efforts must be made to insure an open and competitive market.

Overstaffing of firms, a chronic parastatal condition, must be resolved either before or after divestiture. If ZPA and the Ministry of Commerce, Trade and Industry are to be responsible for rendering redundant a portion of workforces, social costs will be higher. If the buyer maintains responsibility, the sale price will be reduced.

Once firms are restructured, the ZPA must develop a specific divestiture strategy for each company. Most firms will be sold through a tender offer to interested private partners, company management or on open markets while others may be privatized through a partial sale of shares to a joint-venture or management partner. Many original private owners, management partners as well as many minority private share-holders of nationalized, parastatal firms retain contractual options of right of first refusal on firms. These must be satisfied before public flotation can take place. Similarly, many larger Zambian firms have substantial debts to foreign firms who will be willing to assume equity for debt. Still another divestiture strategy is the sale of a firm's assets with the government retaining contractual obligations for past debts and contracts. This is a particularly useful strategy for enterprises whose only viable asset is land.

Background information on the company, including past accounts and management information, must be prepared for a brochure or prospectus. In instances where the Government's objective is to encourage widespread share ownership, a short form prospectus should be produced as well, addressing the main issues in a straight-forward way, to enable the individual investor to quickly and easily assess the investment opportunity. Consequently, business expertise is required to package firms for sale, either by tender or through negotiation with minority shareholding.

Once a firm is packaged, the ZPA must perform a company valuation. While this will take place using outside accountants and consultants, the ZPA requires assistance to coordinate activities and to develop standards for valuation. Generally speaking, valuation may take place based upon three principles: 1) valuation based on future events; 2) real assets/substance based valuation; and 3) liquidation based valuation. Standards

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original eight member team of technical advisors will remain at the ZPA.

Privatization and Reform of the Enabling Environment

A successful privatization effort will require other corollary efforts by the GRZ to establish a suitable enabling environment to allow the private sector to flourish. These efforts, many of which are in the study stage, are developing alongside the privatization program.

The Macroeconomic Environment

Before an enabling environment for private business can emerge, macroeconomic stability must be established to minimize financial risk, through reduction in inflation rates and erratic currency fluctuations and the elimination of wage and price controls. Hard currency availability must be improved. Under I.M.F. auspices, the GRZ has shown substantial fiscal and monetary restraint, to sharply curtail public sector deficits, to reform tax policy and to bring currency exchange rates into line with market conditions. Price and wage controls have been eliminated and government spending has been reduced. The GRZ is moving to raise the real return on money, through reform of the interest rate structure, to improve incentives for investment. Many of these initiatives will not yield success overnight, especially given a negative environment of drought and poor copper prices, but Government action to date is encouraging.

Legal and Regulatory Reform

With donor assistance, the GRZ is moving to undo the legacy of twenty-five years of statist rule, through reform of the legal and regulatory structure. The World Bank is working with the GRZ to alter the legal framework that has stymied competition in the marketplace. Zoning regulations (the Land Law) and lengthy (two-three year) Government approval procedures have effectively prohibited private commerce in many sectors, cutting off distribution and marketing to many areas of Zambia. The Trade Act, as it is currently constituted, does not allow participation of foreign nationals in local retail operations; the GRZ is committed to repeal this measure.

The World Bank is assisting in banking legislation reform to strengthen the capacity and authority of the Bank of Zambia in banking supervision and regulation, to introduce quickly new reporting requirements and comprehensive capital adequacy and loan exposure guidelines, and to allow commercial banks and

Annex I

in the overall management of the privatization process because of an acknowledged lack of experience in the technical subject area. The proposed project will provide long-term and short-term technical assistance in the areas of financial analysis, business analysis, valuations and pricing, investment relations, negotiations, economics and general privatization, public education and international promotion. These professionals will be attached to the ZPA for from three to five years, to work side-by-side with GRZ officials to transfer skills and experience. Together, the team will guide the privatization effort, recommending changes in implementation when necessary. As a final confirmation of the technical assistance needs, USAID and the SPA will request proposed technical assistance combinations from the prospective bidders. It is expected that consulting firms will respond to the privatization process with some variations in the types of skills they offer. The ZPA will have the option of selecting the most appropriate, or negotiating the contract to the original configurations.

Short-term technical assistance is required to supplement long-term efforts for sectoral and industrial issues related to specific firms to be privatized and for specific skills related to privatization, such as public flotation and management buy-outs. In addition, short term training will be critical to assist in the transfer of knowledge to ZPA counterparts as well as to involve other GRZ offices and affected private sector groups in the privatization effort. The Ministry of Agriculture, Bank of Zambia, the central bank, and other departments within the Ministry of Commerce, Trade and Industry must maintain a substantial understanding of ZPA policies and procedures to ensure an orderly process. Workshops on management buy-outs, credit development and public flotation are envisaged to promote private sector development within Zambia in the context of the privatization effort. Publicity and conference support will be provided to allow ZPA officials to travel abroad both to publicize privatization efforts as well as to gain technical knowledge. Office equipment and vehicles will further supplement the effort.

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initial assessment of financial requirements of the enabling environment as part of its long-term strategy.

USAID is in the initial stage of developing complementary projects to assist in governance reforms and the promotion of an effective enabling environment for private sector development. As part of the latter, USAID is planning to assist in developing Zambian financial markets. These projects, will help the Ministry of Commerce, Trade and Industry to reform its procedures and to develop venture capital and mutual funds.

Social Issues

Privatization will inevitably lead to some social dislocation as workers are laid off, for a time, until renewed economic growth and structural adjustment opens up new employment opportunities. A critical question in the privatization of each firm is which party should bear the brunt of dismissals, the state as seller or the buyer. The European Community has taken the lead in examining redundancy issues, in terms of policy, payments and retraining requirements and has substantial financing available to implement these policies. The World Bank has commissioned a study of the social costs of restructuring of parastatal institutions. Sweden is financing a general study of civil service reform and the impact of redundancy. The donor community as a whole is considering a revolving fund that will provide funding for redundancy and retraining until the proceeds of the first privatization sales can be gained and employed in this area.

The Privatization Process

The Zambian privatization process is following strategies pioneered in Latin America and Eastern Europe. The ZPA plans to rely heavily upon foreign consultants, accountants and lawyers to assess divestiture strategy and determine sales. This project will play a key role in this strategy.

The GRZ has already estimated the order of sale of firms, although some adjustments are likely for both political and practical purposes. Firms must be judged for their suitability and structure for sale. Financial analysis and restructuring will play a critical role in establishing the marketability of companies. Bookkeeping procedures in most parastatal firms have been weak, not reflecting current realities although operating at a standard superior to most African parastatals. Firms function under a 1909 British Companies Act that lacks standards. Inflation and Government subsidies have distorted past performance.

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George Sokota	Zambia Institute of Certified Accountants (ZICA)
Dr. Kalongansofu Mumba	Dean of the School of Business, Copperbelt University
Benjamin Ngenda	Vice Chairman, Zambia Privatization Agency, Law Association of Zambia
William Nang'amba	Zambia National Union of Farmers
Kampala Mvula	Zambia Association of Bankers

The Agency recommends privatization policies to the Cabinet, is responsible for implementing the privatization program, including monitoring progress, preparing the divestiture sequence plan, valuations, prequalifying buyers, evaluating offers, seek parastatal investors and publicize the privatization program.

Concerned about maintaining the integrity of the privatization effort, the law contains clear-cut prohibitions of conflicts of interest involving family or business associates and rules against unauthorized disclosure of confidential Agency information. Stiff penalties, including fines up to \$50,000 and imprisonment are possible for violations.

Management rests with the Director of the Agency, a Deputy Director and Secretary, who is responsible for the day-to-day affairs of the Agency.

Management consultants experienced in privatizations, assisted the GRZ in organizing the ZPA into seven functional divisions:

- * Privatization Planning and Management
- * Financial, Economic and Business
- * Social Impact
- * Publicity and Marketing
- * Administrative
- * Accounts

Privatization Planning and Management is the operational division which includes valuation and pricing, bid management, and negotiations. The other six divisions provide support and analysis. An organizational diagram of the ZPA appears as Exhibit 1.

The initial professional staff of six, none of whom had experience in privatization or accountancy skills, was seconded from ZIMCO administrative offices. ZIMCO pays their salaries; the ZPA will

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may be difficult to develop in the Zambian environment in which the state no longer plays the key role in setting markets and in which credit markets are severely depressed. As a consequence, the valuation of a firm may vary greatly from the price the market is willing to pay.

Once a buyer is selected, the sale negotiation begins. This is a critical stage in the privatization process. Terms of the sale must be developed, liability for past obligations must be determined. Issues such as the rights and obligations of the new owner and state must be resolved. Terms of payment are frequently negotiated at this stage, if they were not prescribed in the presale stage. The state must determine if a monopolistic situation is developing from the divestiture and make provision, in the sale document, to insure a competitive market. Finally, in areas where a "natural" monopoly exists, the GRZ must specify the point when price increases, redundancies or other negative social impact will allow it to intercede, using its "golden share," to guard the social good.

The greater interest in parastatal firms, the higher the price the GRZ will receive for the entity. The ZPA will be responsible for generating market interest both within Zambia and abroad. Those interested firms that approach the ZPA will explain their interests and views of parastatal firms. A trained expert will both pass on the observations of interested parties to the ZPA in order to render parastatals more saleable as well as communicate ZPA objectives to potential investors.

The ZPA must communicate the emergence of the privatization process to the Zambian people to insure a general understanding of the benefits gained from the process. The politics of divestiture is critical, affecting the flow of privatization efforts. In Zambia, ethnic and national concerns will play a critical role and the involvement of Zambian nationals -- along side foreign investors -- in privatization efforts is essential.

Transparency is key to a successful process. The ZPA must ensure that the Zambian citizenry understand the process and are aware of the steps in each privatization. To achieve this the ZPA must advertise all divestitures, for each stage, as well as develop and maintain a strong public information process to disseminate data to press and broadcast media and concerned interest groups.

Technical Assistance Requirements

The actual configuration of inputs, particularly long-term technical assistance, is based on a series of meetings with and requests made by the ZPA. The ZPA requires essential assistance

SOCIAL SOUNDNESS ANALYSIS

One of the most important aspects of privatization is that of its social impact, especially the consequences for employment. Privatization raises a number of issues which must be addressed, including potential redundancies, pension rights for employees who may be retrenched, training and training programs and income generation schemes. These issues have potentially far-reaching implications not only for the individual Zambian, but also for the privatization process itself and Government's ability to attract buyers. In response, Government established a separate Social Impact department in the Zambia Privatization Agency, is studying (with European Community support) the redundancy issue and has enacted legislation allowing the use of proceeds of the sale of enterprises to be used for redundancy payments and to support alternative income generating projects. The World Bank conditionality requires Government to undertake measures to minimize unemployment resulting from privatization.

Socio-Cultural Context

The 1990 census reports that the population of Zambia is 7.8 million of which 3,975,083 or 50.8% are women and 3,843,364 or 49.2% are men. This represents an average growth rate of 3.2% per year since 1980. Rural inhabitants represent 58% of the total population, while 42% are urban dwellers. Approximately 52% of the population is under 15 years of age.

A nation of approximately 73 different tribal groups and seven major languages, Zambia is a society in a state of flux and conflict. The beginning of multiparty democracy in November, 1991, has yet to completely dismantle the vestiges and oppression of one-party politics.

Zambia's deteriorating economic situation, which has taken a heavy toll on living standards in the past several years, is compounded by a severe drought. All key indicators of social development have deteriorated, particularly those related to health, nutrition, and education levels. The availability and quality of social services provided by Government have declined dramatically during this period, and because of falling real incomes, the ability of most families to purchase such services has also declined.

Liberalization of the Zambian economy may lead to major dislocations, including large-scale redundancies and shifts in population from urban to rural areas. Anticipating these hardships, Government has instituted a Social Impact Program to maintain social harmony during the structural adjustment period.

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ADMINISTRATIVE ANALYSIS**Assessment of Capabilities**

The Zambia privatization program can be highly effective, due to Government's potential implementation capacity, adequate donor support, and growing consensus in the nation about the need for privatization and the measures required. The Ministry of Commerce, Trade and Industry is responsible for the divestiture process through the independently run Zambia Privatization Agency (ZPA). The ZPA works closely with other ministries and parastatal institutions to implement the program. A World Bank program to rationalize parastatal operations before privatization, for example, is being accomplished chiefly at the ZIMCO holding company. For agricultural matters, all company and valuation studies are being accomplished at the Ministry of Agriculture, although the final privatization process will be handled through the ZPA. There is a dearth of qualified Zambian technicians as well as other professional staff in the ZPA. Because of the insufficient quantity and quality of personnel, ZPA must rely on donor support for experienced consultants and advisors.

Government Privatization Agency

Zambia's Privatization Act, 1992 created the Zambia Privatization Agency for the control, management and implementation of the privatization of state-owned enterprises. Zambia Privatization Agency is broadly representative of public and private sector organizations, including the Ministry of Commerce, Trade and Industry, Zambia Confederation of Chambers of Commerce and Industry, Zambia Congress of Trade Unions, Law Association of Zambia and the Bankers Association of Zambia. Reflecting the seriousness with which Government views the privatization program, the following distinguished group of Zambians have been appointed to the Board:

J.N. Nkunika	Permanent Secretary, Ministry of Commerce, Trade & Industry
James Mtonga	Permanent Secretary, Ministry of Finance
J. Mwanakatwe	Chairman, Zambia Privatization Agency
Ali Hamir	Attorney General
Ages Mukupa	Zambia Congress of Trade Unions
Peter Chanda	Zambia Confederation of Employers

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of lack of information about the exact number of displaced workers. As a matter of fact, based on various scenarios, there are indications that the number of displaced workers in Zambia would not be as serious as many have presumed.

To define the problem, the Zambia Privatization Agency has begun the systematic research to make informed decisions about the issue. A questionnaire has been sent to all companies in the ZIMCO Group which inter alia establishes total employment numbers, identifies skill levels, establishes age and gender categories and quantifies the wage bill, including redundancy packages. In addition, interviews have been held with the management of the large parastatals to establish their manpower plans and identify overmanning, planned redundancies and the potential cost of retrenchment.

The current European Community empirical study addresses the need for such knowledge of facts and numbers to allow decision-makers to assess the practical impacts in order to choose appropriate actions. This study is assessing empirically the quantitative impacts of privatization on labor displacement in Zambia to be able to explore some of the strategies which would be most compatible with Zambia's social, political and economic conditions. The study includes evaluation of the characteristics of the Zambian labor market, quantification of the impact of privatization on labor displacement and explores alternative strategies that the GRZ could choose to successfully implement the privatization plan with the least opposition.

The GRZ has developed a phased program to privatize state-owned enterprises gradually while trying to minimize the labor opposition which results from lack of knowledge about the exact impact of privatization as well as from the absence of quantitative analysis of possible solutions to the labor issue. Wisely, The Privatization Act, 1992 calls for a representative of the Zambia Congress of Trade Unions to serve on the Zambia Privatization Agency, thus assuring labor a voice in privatization decisions.

Faced with rising unemployment and new political leadership of the Government of Zambia (GRZ), privatization of state-owned enterprises could encounter a major hurdle because of social and political concerns about labor displacement. The GRZ has finally realized that they no can longer artificially continue to solve the unemployment question by absorbing the rising labor force with inefficient state-owned enterprises. Though larger firms have the capability to either put in place effective redundancy measures or to improve performance to maintain job levels, smaller firms lack the resources. The impact of privatization will be felt especially hard on the first tranche of companies, whose managers are unaware

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recompensate the parastatal from the proceeds of future privatization efforts.

Technical assistance is being provided through an Overseas Development Administration (ODA) technical assistance grant by Touche Ross. Corollary assistance has been provided by the World Bank in a study of public sector reform. Since the ZPA was organized with experienced advisors, and all sales will draw on experienced consultants, the ZPA is deemed administratively capable of carrying out Project activities.

Efforts to Minimize Unemployment

Government is acutely aware of the importance of minimizing the impact of privatization on unemployment. With Zambia's economic contraction over the last decade, employment as a percentage of Zambia's population has also contracted. As economic liberalization continues and labor rationalization of the companies to be privatized proceeds apace, redundancies are expected to occur over the next two years. The redundancies will be a result of individual companies plans to rationalize their operation and therefore are expected to occur before privatization takes place. To minimize the impact of privatization on employment, Government's initiatives include:

- developing retraining programs for displaced workers,
- promoting self employment in carpentry, metal work, textile, food processing, etc.,
- creation of new credit schemes for small scale entrepreneurs; and
- providing comprehensive and effective social security.

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Participation and Beneficiaries

The Government seeks to ensure that Zambians gain control of a substantial number of privatized firms. In addition, many of the leading Zambian business people hold cabinet or other high-level positions in the Government. While they are not likely to participate in the current wave of privatizations, family or tribal relations or business partners are. The current debate involves two issues:

1. If leading business people in the Government are interested in privatized companies, why shouldn't they participate as long as they have no direct involvement?
2. How can extended family participation in the process be limited?

Once the privatization effort has been launched effectively, major problems will develop that could stymie or dilute the privatization effort. Privatization is a political action that will have short-term negative effects on substantial portions of the population (for example, unemployment and economic uncertainty). There will not be simple solutions for these effects, and the process, inevitably, will face political pressures to modify operations. Among the major issues are:

Redundancy: Who should bear the brunt of rationalizing parastatal operations, the current owner or the new buyer? Most effective privatizations throughout the world have had the state bearing the brunt. In this way, the new enterprise begins operations with a clean slate, as would any new company. But the firing of thousands of workers may be politically unacceptable in Zambia. Other major social issues arising from rationalization of the economy must also be addressed.

Tribal and Ethnic Groups: Privatization works best through the tender process. But certain tribal groups have better positional and capital advantage than others. The Government is already facing charges of bias in its ministerial appointments. In addition, the Asian business community is far better positioned to bid than most other Zambian groups. Should the bidding process be biased to allow for tribal and ethnic diversity to ensure widespread political support; if so, what will be the effect on the "free market" process?

Impact of Privatization

One of the major hurdles for privatization in Zambia is potential labor opposition due to fear of massive layoffs which would worsen unemployment. Quite often such fears are out of proportion because

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standard of living regardless of their operation's economic performance, and exceedingly high rates of urbanization.

The dominance of the public sector led to large economic distortions: competition and initiative were stifled; state subsidies to support parastatals limited macroeconomic performance; wage and price controls either maintained artificially high prices for parastatal goods or low prices that did not cover the cost of production. Manufacturing parastatals did not keep up with product or technological developments elsewhere. With only a handful of exceptions, parastatals turned inward, content to rely on the small Zambian market; they generally failed to diversify in their sectors or to develop Zambia's natural advantages. Their dependency on imported inputs placed increasing demands on scarce foreign exchange. Capital shortages and mismanagement led to a decline in capacity utilization, infrastructure, manufacturing output and employment. Credit became expensive and scarce, limiting private sector capacity. Restrictive trade practices, an overvalued kwacha, Government allocation of public funds and foreign exchange, import quotas, and high tariffs were installed to protect the weak structure.

The policy regime was maintained and intensified following the collapse of copper prices, a rise in (imported) oil prices and a general deterioration in terms of trade in the mid-1970s. The Government resorted to heavy foreign borrowing to stave off the effects of the deepening recession that led, in turn, to a large buildup of external debt, now standing at \$7.5 billion, which increased the economic burden. Annual debt service payments on public debt amounts to \$3 billion in 1991 or roughly the entire GDP of Zambia, prior to restructuring.

With copper revenues down and the nation's credit exhausted, Zambia entered into a long recession. The Government's response to a failing economy in the late years of the 1980s and exhausted foreign credit markets was to increase expenditures and borrow from the domestic banking system. This led, in turn, to monetary expansion and inflationary pressures.

There were several unsuccessful attempts to resolve the ongoing economic crisis through austerity and IMF and World Bank programs. Popular discontent led the GRZ to abandon an austerity program in May 1987 and install measures that further reinforced many of the distortions already existing in the economy. During the second half of 1989 and 1990, some progress was made in bringing public finances and monetary growth under control but political pressures undermined these efforts in the runup to the 1991 national elections. Mealie meal subsidies increased dramatically and money supply grew by some 100%, fueling inflation. Some progress was made through price decontrol, devaluation of the kwacha,

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of their options and when effective redundancy measures have not yet been developed by the Government.

A review of the first tranche of companies revealed considerable overstaffing at the senior and mid-management levels. Although some managers of state-owned enterprises have expressed interest in management buyouts, little information is available to these managers on how to prepare a buy-out proposal and the availability of domestic credit for them to acquire their respective companies is uncertain. This project includes technical assistance, training and credit mechanisms to make it possible for Zambian managers to consider management buy-outs.

Characteristics of the Labor Market

Zambia's formal sector employment as of June, 1991 amounted to 359,600 divided as follows:

<u>Sector</u>	<u>Number of Employees</u> ('000)	<u>Percentage</u>
ZIMCO (excl. ZCCM)	96	27
ZCCM	54	15
Public Sector	140	39
Private Sector	70	19
Total	360	100

Source: Central Statistical Office

Parastatal employment stands at 150,000, or 42% of total formal employment. While the privatization program is expected to cause some job losses, the magnitude of those losses are elusive. The European Community's current study will help to determine the percentage of excess manpower in parastatals. If privatization should result in 10% being redundant, the resulting unemployment would amount to 15,000. While substantial, these potential job losses would occur over two to three years, during which time Government's Structural Adjustment Program is expected to restore equilibrium, promote investment and generate new employment. In addition, many parastatals are reportedly operating well below their capacity. For many firms, privatization and the injection of new capital is expected to increase production and the demand for labor.

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The new Government also inherited a fiscal situation in crisis, because of a declining tax base, high wage increases and rising subsidies to parastatal firms. The outgoing regime failed to increase the price of fuel or mealie meal in line with inflation, leading to a requirement to raise these prices immediately after the election. The old Government's failure to meet commitments to donors led to a withdrawal of financial support, exacerbating the 1991 foreign exchange and financial crisis. Inflation in that year was 118%, an historic high.

Structural Reform

In early 1992, the GRZ agreed to a sweeping and dramatic Policy Framework Papers (PFP) with the IMF and the World Bank, installing effective stabilization and structural adjustment programs. The general aims of the new policies and programs are to foster a climate conducive to poverty alleviation through sustainable economic growth while providing a safety-net to protect vulnerable groups from the adverse impact of adjustment. The specific goals are: 1) elimination of the budget deficit; 2) establishment of a competitive exchange rate; 3) improvement of the climate for private sector development through deregulation, provision of infrastructure and privatization of parastatals; and 4) strengthening the human resource capacity, especially through educational and health care facilities.

The donor community, in response, moved to reduce the \$290 million in arrears that accumulated in 1991. \$40 million in arrears to the World Bank have been cleared; arrears to the IMF will be settled within the Rights Approach Program for 1992 and other private and Paris Club problems will be handled within existing debt forums.

The MMD government moved to resolve the fiscal crisis immediately after coming to office, aiming to achieve an inflation rate of 45% in 1992 and a balanced budget in 1993. Money supply is targeted to grow by 25% in 1992. Interest rates were increased to encourage savings, but still remain negative in real terms. No government borrowing from the Bank of Zambia is allowed for 1992. To reduce fiscal burdens, mealie meal prices will be increased in line with inflation. The GRZ moved towards Civil Service reform leading to retrenchment of nonproductive personnel and an enhancement of incentives for technical and managerial positions.

The heavy tax burden was reduced due to Government measures to simplify and reduce levies. The highest income tax level was cut from 50% to 35% and the company tax base from 45% to 40%; but it no longer allows noncash fringe benefits (cars, housing) as deductible business expenses. Sales tax rates were harmonized with a uniform rate of 20% to a single schedule of goods and services, whether imported or produced domestically. This implies an increase in the

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ECONOMIC AND FINANCIAL ANALYSIS

Summary

The Government of Zambia (GRZ) is committed to a Structural Adjustment Program (SAP) that aims to develop a free market economy that will encourage individual initiative and entrepreneurship. It has announced that its privatization program, which the proposed USAID assistance will support, is the keystone of that effort. In effect, privatization will drastically reduce state control over most productive enterprises, freeing up private initiative. It will have a direct and positive impact on fiscal resources as subsidies are reduced and tax revenue increases, providing the government with increased financial ability to improve infrastructure and social services. It will stimulate capital and technological inflows by foreign investment as well as accumulation of savings by domestic investors. In the end, the program will work to reduce the nation's heavy dependence on a single commodity (copper) through increased productivity of the Zambian workforce and utilization of other natural resources, especially agriculture. This is especially critical because copper reserves are likely to be exhausted in the next decade and production costs face strong competitive pressures from other nations.

Background: Statism and Post-Independence Zambia

In the years following independence, the United National Independence Party (UNIP) government moved to gain control of productive resources through widespread nationalization. Rising copper prices at first helped the economy, growing at an annual rate of 4% per annum during the first decade after independence. Relying on revenues provided by this boom, the GRZ established an economic structure based on extensive state ownership, together with government intervention and controls over almost all aspects of the economy. The country's dependence upon copper revenue increased, accounting for 85% of all exports. Agriculture was neglected. The statist policy framework led to a high degree of capital and import dependence in agriculture and industry, encouraged consumption at the expense of saving and investment, and discriminated against the development of a vibrant private sector, rural activity and entrepreneurship. Consumption was also heavily import-intensive and consumer subsidies became widespread.

As elsewhere in Africa, the statist economy evolved as an inefficient maze of subsidies, non-paying suppliers and vendors, "invisible" workers, corruption, nonperforming service firms and economic losses. The guiding principal was the maintenance of wages rather than the promotion of productivity. But the end-result was a system of byzantine managers who were able to maintain a strong

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privatization of the INDECO maize mills, will be a key component of this program.

In the manufacturing sector, the Government moved to provide greater freedom of action to managers and entrepreneurs and to develop a dynamic and expanding industrial sector through a reduction in legal and administrative procedures. Procedures for obtaining export licenses have been streamlined and the GRZ has established an Export Promotion Board and Export/Import Bank to facilitate diversification. The new Investment Act of 1991, that establishes a one-stop Investment Center, will be further revised, bringing it in line with conditions with other nations in the region. Furthermore, the Government has ended monopolies in insurance, real estate and on the polishing and exporting of gemstones.

The mining sector will continue to be pressured by global market forces. The Government moved, however, to permit the state monopoly, ZCCM, to retain sufficient foreign exchange to ensure that its priority capital expenditure and operational requirements are met. However, ZCCM is fully subject to company tax obligations that apply to other enterprises in Zambia.

Privatization and the Economy

There are three key elements limiting growth in the Zambian economy: 1) heavy dependence on copper; 2) a poor enabling environment that limits investor confidence in Zambia; and 3) the dominance of the parastatal structure that saps government reserves and limits national productivity. It is the latter element which can be addressed most rapidly and which this USAID project aims to support.

The privatization program aims to put all new copper developments under the control of private investors and to privatize all other commercially oriented parastatals except for the public utilities, about 120 firms, over the next five years. Other measures support this effort. A parastatal reform program, already in place, is commercializing and rationalizing management and finances of those utilities that will remain under GRZ control. Beyond this, the Government is likely to move to privatize or commercialize some public utilities once the initial privatization effort has been launched and deemed successful. The national telephone and railroad are likely to be the first candidates to be chosen.

The success of the privatization program is critical to all other deregulatory measures since it is the force "pulling" regulatory and legal reforms. Privatization requires key changes in commercial, land, banking, and trade regulation. It is concentrating the Government's attention to develop strong private

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introduction of the Open General License (OGL) system, an export-retention scheme, and reduced tariffs. The on-again, off-again effect of half-hearted measures were a disjointed economic structure with increased state domination over economic life, accelerated inflation, reduced production and a general decline in the living standard.

In sum, the result of statist policies has been that the nation's real per capita GNP fell an average 2% per year since independence in 1965. Foreign reserves, at \$3 billion in 1965, stand at \$150 million today and the nation relies on foreign donors for trade finance support. The GRZ employs 80% of the workforce, many in non-productive jobs. A nation that was one of the more prosperous in sub-Saharan Africa at the time of independence has fallen to complete reliance on international assistance agencies. Natural resources, especially land and minerals, are not being fully exploited and the nation is mired in debt.

Other factors aggravate the economic recession. High population growth (3.7%) increases pressure for fast growth and the 1991-92 drought undermines new Government efforts at structural adjustment.

The Current Economic Situation

National elections in October 1991 overwhelmingly elected a new party, the Movement for Multiparty Democracy (MMD), into power. The new grouping ran on a platform committed to a free market economy in which private initiative would be encouraged and rewarded, and garnered almost 90% of the vote. Immediately after the election it promised to dismantle the 25 years of statist and protectionist structures, and to encourage the creation of a private sector framework conducive to domestic and foreign investment. It promised to limit Government's role to the provision of basic infrastructure and social services, stabilizing financial and fiscal conditions and encouraging the provision of most goods and services by the private sector.

The new Government came to power at a particularly difficult time. Copper output, which accounts for 90% of the nation's exports, continues to decline because of lack of investment, poor global prices and increased competition from cheaper producers, particularly Chile. Expectations are that prices will fall another 10% over the next two years, suggesting that the long-standing foreign exchange crisis will not ease and the nation's current account deficit will widen. Zambia's debt burden is very high, representing 60% of total export earnings in 1991. Gross Domestic Product has averaged 1% per annum between 1989-1991 as against the 3.7% population growth rate.

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National Commercial Bank (ZNCB) is majority state-owned and a number of leasing companies and special financial institutions. Of these twelve banks, three have a dominant role: the combined assets of Barclays and Standard Chartered Bank, Ltd. roughly equal those of the other nine, private banks. ZNCB, a wholly owned subsidiary of ZIMCO, has a large level of outstanding debt to parastatal firms and may have to be restructured prior to privatization.

Most lending is short-term and the money market lacks depth. The main reasons for this have been the heavy Government borrowing that crowded out the private sector, the consequent inflation and negative real interest rates that encouraged disintermediation. Most banks are fearful of taking any risk other than collateralized trade finance. Capital shortages are particularly acute in the agricultural area where high Government costs and poor management have led to reduced funding, restricting growth in these sectors. At the moment, no companies specialize in corporate banking activities in Zambia. However, some commercial banks appear ready to adjust their operations to corporate finance and are likely to move into these activities in the future.

Redressing these issues is one of the components of the Government's SAP and the prerequisite to enable the central bank to promote actively the development of financial markets by shifting from its present reliance on stringent liquidity and reserve requirements and credit ceilings, to instruments of indirect monetary control. The Government is moving in the banking sector to amend banking legislation to strengthen the capacity and authority of the central bank in the areas of banking supervision and regulation. The central bank is moving gradually to introduce quickly new reporting requirements and comprehensive capital adequacy and loan exposure guidelines.

Another urgent issue in the reform of the financial markets is a revision of the banking law provision for commercial banks and other financial institutions to buy and sell shares. This is a critical element in the initial phases of the privatization program until a stock exchange can develop to allow initial public offerings to take place and ordinary citizens to purchase shares. A Stock Exchange Act is promised by early 1993 to put in place the necessary safeguards. The government is also moving encourage greater competition in the provision of financial services such as pensions, building society funds and insurance firms that are presently dominated by state monopolies. Studies in these areas are currently being carried out, with Norad support.

Up until now, insurance has been a monopoly market with two ZIMCO owned companies: Zambia State Insurance Company Limited (ZSIC) and Zambia National Insurance Brokers Limited. Recently, new legislation has been introduced that has opened up for the

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average level of domestic sales tax. In 1993, the Government will introduce a VAT.

Parastatal firms will have to be self-supporting by year-end 1992 and pay dividends directly to the Government. All parastatals will revalue their assets to determine a realistic value of shareholder funds and, on the basis of such revaluations, parastatals will be required to remit a 10% dividend to the GRZ. The Government will also enforce penalties and interest charges on overdue tax and customs payments by parastatals. Parastatals in financial trouble will have to mortgage assets to qualify for commercial loans, reduce or cease operations, sell off assets, or cut costs. The Government will no longer guarantee commercial debt. The state firms will be realized from price control and be able to set prices as market conditions dictate, in order to render an adequate return on capital.

Declining copper production will continue to put pressure on the foreign exchange budget. The Government is moving to devalue the kwacha to a rate more in line with market forces, spurring the growth of non-traditional exports. Government intervention in current markets is being reduced. A retention scheme for exports has been liberalized from 50% to 100%. The introduction of the Open General License (OGL) will be increased to allow more goods to be included, ensuring automatic access to foreign exchange than current administrative arrangements. Tariff restructuring will come under further review to ensure continued removal of undue protection of domestic industry that promotes inefficiency in domestic production.

In all, the donor community is likely to cover Zambia's financing needs of \$1.3 billion in 1992 as the GRZ follows restructuring guidelines established under IMF and World Bank letters. The consultative group of donors met in Paris in March 1992 and agreed to support these efforts.

In the agricultural sector, priority is being given to promote development of private, smallholder agriculture through enhancing Government capacities to deliver research and extension services and to provide adequate storage and transportation facilities. Rapid expansion of cash crops such as tobacco will be emphasized. The GRZ is liberalizing the agricultural marketing and pricing systems and eliminating heavy implicit taxes on agriculture, stemming from price controls and an overvalued currency. Agriculture's terms of trade, which have deteriorated in the last half of the 1980s, are expected to improve with the decontrol of producer prices. Efficiency gains and reduced costs are likely as a result of increasing private participation in the milling, distribution and marketing of maize and fertilizer by permitting trading between producers and millers and private agents. The

**ZAMBIA PRIVATISATION AGENCY
PRIVATISATION PROGRAMME IN ZAMBIA**

COMPANY SPECIFIC INFORMATION

The Turnover and Capital Employed is based on audited financial statements at 31st March, 1991.

Name: Zambia Sugar Company

Industry: Agro and food processing

Business profile: Cultivation and processing of sugar cane; small production of molasses, jam and syrup

Turnover: K 1,881 million (US\$ 9,4 million)

Capital employed: K 3,332 million (US\$ 16,6 million)

Employees: 8,408

Name: Zambia National Commercial Bank

Industry: Finance

Business profile: General commercial banking

Turnover: K 2,150 million (US\$10.75 million)

Capital employed: K1,027 million (US\$5.1 million)

Employees: 2,269

Name: Zambia State Insurance Corporation

Industry: Finance

Business profile: Insurance, both life and non-life

Turnover: K1,871 million (US\$9,4 million)

Capital employed: K2,499 million (US\$12.5 million)

Employees: 1,369

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capital markets and it is leading to a strong push, in both political and business circles to end all monopolistic businesses, most of whom has been in Government hands.

The net direct result of a successful privatization program will be:

- (1) Privatization of at least 100 state-owned enterprises;
- (2) Development of an active private sector and diminution of public sector participation in the productive sector;
- (3) Increased foreign and domestic investment;
- (4) Increased competition and individual initiative;
- (5) Improved market access as private sector initiative moves into areas that had been poorly served by monopolistic parastatals;
- (6) Improved Government budgetary performance with a reduction in subsidies and increased tax revenues;
- (7) Institutional development of the Zambia Privatization Agency under the Ministry of Commerce, Trade and Industry.

The net indirect result of a successful privatization program will be:

- (1) Improved economic performance, including increased GNP and productivity;
- (2) Market-linked prices, due to competition;
- (3) Increase in capital for entrepreneurs as capital markets improve to meet demand;
- (4) Improved services and company management as competition encourages initiative;
- (5) Reduced pressure on currency markets because of new inflows of currency for investment and capital improvements; and
- (6) Increased transfer of technology, due to new investment.

Capital Markets

Zambia has a relatively well developed and competitive banking system with twelve commercial banks of which only one, Zambia

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Name: Zambia Forestry and Forest Industries Corporation

Industry: Agriculture

Business profile: Establishment and maintenance of timber plantations, harvesting and marketing of mature timber.

Turnover: K542 million (US\$2.2 million)

Capital employed: K575 million (US\$2.9 million)

Employees: 2,000

Name: National Milling Company

Industry: Agro and food processing

Business profile: Largest milling company in Zambia. Mills maize and wheat, manufacture of stockfeed and the importation of salt.

Turnover: K2,189 million (US\$10.9 million)

Capital employed: K2.438 million (US\$12.2 million)

Employees: 1,310

Name: Indeco Milling

Industry: Agro and food processing

Business profile: Milling of maize and production of stockfeeds. Imports and sells coarse and fine salt.

Turnover: K781 million (US\$3.9 million)

Capital employed: K155 million (US\$0.8 million)

Employees: 597

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establishment of new insurance companies. In the privatization process, insurance companies with excess liquidity might develop into an important group of financial investors being able to absorb some of the shares in previously state-owned enterprises being offered to the public. This was the model employed in the Chilean privatization effort.

Several pension fund schemes for employees in private as well as government owned companies and institutions are operating in Zambia. Presently the majority of the funds are invested in real estate but, as capital markets open up and are able to provide a competitive return on capital, the funds could serve as a source of investment.

Beyond formal capital markets, there exists a large, underground capital base of unknown proportions. There is generally considered to be considerable funds of hard currency, both in Zambia as well as offshore that is ready to return to the country given the right environment. The initial success of the Meridian Bank's Building Society Fund is testimony to the availability of local capital.

A large source of capital will be forthcoming from international investment, when privatization begins. British, South African and Zimbabwean firms have shown considerable interest in investment in Zambia in the agricultural and mining areas. The Commonwealth Development Corporation (CDC) is committed to invest large funds in Zambia, both through debt-swaps and through new cash infusions. The indirect impact of large donor support for Zambia, committed in March, will also create a substantial capital base.

Current IMF agreements impose a strict limit on debt-swaps, because of their inflationary impact. Debt buy-backs will be undertaken only to the extent that foreign exchange is made available from donors or creditors for this specific purpose.

Beyond these sources, however, as long as interest rates remain negative in real terms, sufficient financial sources for investment will not be generated in Zambia. The Government moved to increase the interest rate structure by 5% but this is insufficient to compensate for inflation. Nevertheless, the GRZ pledges its commitment to achieving positive rates of interest as well as encouraging savings. In the last half of 1991, the GRZ reduced statutory reserve requirements (legally non interest-bearing) while increasing liquid asset requirements (which are interest bearing).

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Name: Premium Oil Industries
Industry: Agro and food processing
Business profile: Major producer of cooking oil, soap, margarine, bakery fats and soya and sunflower cake for stockfeeds.
Turnover: K828 million (US\$4.1 million)
Capital employed: K88 million (US\$0.4 million)
Employees: 518

Name: Kafue Textiles of Zambia
Industry: Textile fabric production
Business profile: Vertically integrated mill incorporating spinning, weaving, dyeing, printing and finishing of cotton and polyester fabrics.
Turnover: K599 million (US\$3.0 million)
Capital employed: K303 million (US\$1.5 million)
Employees: 2,409

Name: Kafironda
Industry: Chemicals
Business profile: Manufacture of blasting explosives and accessories. Trading with imported accessories.
Turnover: K1,331 million (US\$6.7 million)
Capital employed: K339 million (US\$1.7 million)
Employees: 700

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Name: Zambia National Building Society

Industry: Finance

Business profile: Operates in four major business areas:

- Savings accounts
- Mortgage advances for dwellings, commercial and industrial buildings
- Renting out houses and real estate
- Property valuation

Turnover: K254 million (US\$1.3 million)

Capital employed: K1,649 million (US\$8.2 million)

Employees: 475

Name: Chilanga Cement

Industry: Construction

Business profile: Sole producer of Cement in Zambia

Turnover: K920 million (US\$4.6 million)

Capital employed: K829 million (US\$4.1 million)

Employees: 895

Name: Nitrogen Chemicals of Zambia

Industry: Agriculture

Business profile: Manufacture of fertiliser

Turnover: K2,587 million (US\$12.9 million)

Capital employed: K1,443 million (US\$7.2 million)

Employees: 1,483

Name: Contract Haulage

Industry: Transport

Business profile: Transportation of liquid and dry cargo within and outside Zambia.

Turnover: K590 million (US\$3.0 million)

Capital employed: K305 million (US\$1.5 million)

Employees: 792

Name: National Hotels Development Corporation

Industry: Hotels

Business profile: 9 hotels including one five star hotel, one hotel village, one conference centre, 4 safari lodges, 3 casinos and provides airline catering services.

Turnover: K757 million (US\$3.8 million)

Capital employed: K516 million (US\$2.6 million)

Employees: 1,208

Name: Zambia Hotels Properties

Industry: Hotels

Business profile: Two five star Inter-Continental hotels in Lusaka and Livingstone. Both hotels are on management contracts with Inter-Continental Hotel Corporation.

Turnover: K762 million (US\$3.8 million)

Capital employed: K952 million (US\$4.8 million)

Employees: 755

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Annex M

4

Name: Amalgamated Milling Company

Industry: Agro and food processing

Business profile: Milling of maize meal and production of stockfeeds.

Turnover: K504 million (US\$2.5 million)

Capital employed: K30 million (US\$0.1 million)

Employees: 392

Name: Zambia Breweries

Industry: Agro and food processing

Business profile: Sole producer of bottled lager beer.

Turnover: K3,304 million (US\$16.5 million)

Capital employed: K696 million (US\$3.5 million)

Employees: 1,570

Name: National Breweries

Industry: Agro and food processing

Business profile: Manufacturer and distributor of Chibuku white beer.

Turnover: K658 million (US\$3.3 million)

Capital employed: K115 million (US\$0.6 million)

Employees: 706

Name: ROP

Industry: Agro and food processing

Business profile: Manufacture and processing of cooking oil, soaps, detergents and toiletries.

Turnover: K848 million (US\$4.2 million)

Capital employed: K115 million (US\$0.6 million)

Employees: 594

Annex M

9

Name: Zambia National Wholesale & Marketing Company

Industry: Trading

Business profile: Wholesale and distribution of a wide range of consumer goods to state owned and private retailers.

Turnover: K1,270 million (US\$6.3 million)

Capital employed: K332 million (US\$1.7 million)

Employees: 1,154

Name: Maamba Collieries

Industry: Mining

Business profile: Mining, processing and marketing of Coal

Turnover: K701 million (US\$3.5 million)

Capital employed: K421 million (US\$2.1 million)

Employees: 1,463

Name: Indo-Zambia Bank

Industry: Finance

Business profile: General commercial banking

Turnover: K284 million (US\$1.4 million)

Capital employed: K1,421 million (US\$7.1 million)

Employees: 83

Annex M

6

Name: Zambia Oxygen
Industry: Chemicals
Business profile: Manufacture of medical gases, medical equipment and welding products.
Turnover: K413 million (US\$2.0 million)
Capital employed: K317 million (US\$1.6 million)
Employees: 262

Name: Metal Fabricators of Zambia
Industry: Engineering
Business profile: Manufacture of copper rod, power and telecommunications cables and extruded products.
Turnover: K1,249 million (US\$6.2 million)
Capital employed: K423 million (US\$2.1 million)
Employees: 415

Name: Zambia Airways Corporation
Industry: Transport
Business profile: International air carrier in both passenger and cargo traffic.
Turnover: K5,253 million (US\$26.3 million)
Capital employed: K4,287 million (US\$21.4 million)
Employees: 1,873

Name: United Bus Company of Zambia
Industry: Transport
Business profile: Public transport
Turnover: K796 million (US\$4.0 million)
Capital employed: K354 million (US\$1.8 million)
Employees: 1,733

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Annex M

11

Name: Zambia National Insurance Brokers
Industry: Finance
Business profile: Provides a comprehensive insurance broking service on all types of insurance cover
Turnover: K92 million (US\$0.5 million)
Capital employed: K18 million (US\$0.09 million)
Employees: 306

Name: BP Zambia
Industry: Energy
Business profile: Distribution and marketing of fuels and lubricants. Also blends and refines lubricants.
Turnover: K8,239 million (US\$41.2 million)
Capital employed: K3,484 million (US\$17.4 million)
Employees: 516

Name: Agip (Zambia)
Industry: Energy
Business profile: Marketing and distribution of petroleum products
Turnover: K2,331 million (US\$11.7 million)
Capital employed: K201 million (US\$1 million)
Employees: 119

Name: Zimco Properties
Industry: Construction
Business profile: Construction and leasing of offices and residential properties
Turnover: K47 million (US\$0.2 million)
Capital employed: K361 million (US\$1.8 million)
Employees: 129

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Name: Consumer Buying Corporation of Zambia

Industry: Trading

Business profile: Retail trade. Operates 93 departmental stores, supermarkets and shops in seven provinces throughout Zambia.

Turnover: K2,859 million (US\$14.3 million)

Capital employed: K443 million (US\$2.2 million)

Employees: 1,683

Name: Mwaiseni Stores

Industry: Trading

Business profile: Retail trade. Operates 20 departmental stores, shops and supermarkets to provide basic consumer needs to the people of Zambia.

Turnover: K801 million (US\$4.0 million)

Capital employed: K35 million (US\$0.2 million)

Employees: 459

Name: National Home Stores

Industry: Trading

Business profile: Retail trade. Operates a chain of 55 stores and supermarkets.

Turnover: K1,140 million (US\$5.7 million)

Capital employed: K283 million (US\$1.4 million)

Employees: 961

Annex M

13

Name: Zambia Cold Storage Corporation
Industry: Agriculture
Business profile: Operates 4 abattoirs, a chain of butcheries, a meat processing plant and 3 by-product plants (blood-meal, bone-meal, tallow and caracal meal).
Turnover: K270 million (US\$1.3 million)
Capital employed: K69 million (US\$0.3 million)
Employees: 477

Name: Kawambwa Tea Company
Industry: Agriculture
Business profile: Sole grower of Tea
Turnover: K60 million (US\$0.3 million)
Capital employed: K38 million (US\$0.2 million)
Employees: 1,300

Name: Nansa Farms
Industry: Agriculture
Business profile: Engaged in mixed farming; still in development stage. Joint venture with Commonwealth Development Corporation.
Turnover: N/A
Capital employed: N/A
Employees: 2,500

Name: Zambia Cashew company
Industry: Agriculture
Business profile: Engaged in the growing and development of the Cashew nut industry in Zambia
Turnover: K9 million (US\$0.04 million)
Capital employed: K43 million (US\$0.2 million)
Employees: 150

Annex M

10

Name: Zambia State Financing Company

Industry: Finance

Business profile: Non insurance investment activities on a commercial basis. The investment includes:

- Estate development financing and management of properties;
- Lease financing;
- Commercial lending and joint ventures

Turnover: K46 million (US\$0.2 million)

Capital employed: K65 million (US\$0.3 million)

Employees: 8

Name: Auto Care

Industry: Finance (subsidiary of ZSIC)

Business profile: Vehicle repairs, sales of new and second hand spare parts, salvages, reconditioned vehicles and driving school.

Turnover: K57 million (US\$0.3 million)

Capital employed: K37 million (US\$0.2 million)

Employees: 157

Name: Zambia State Property Development Company

Industry: Finance (subsidiary of ZSIC)

Business profile: Maintenance work for Zambia State Insurance Corporation properties as well as consulting services to the building industry and real estate administration

Turnover: K46 million (US\$0.2 million)

Capital employed: K64 million (US\$0.3 million)

Employees: 8

Annex M

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Name: Zambia Maltings
Industry: Agriculture
Business profile: Land development for the production of barley, soyabeans, sunflower, maize and cotton
Turnover: K1 million
Capital employed: K26 million (US\$0.1 million)
Employees: 138

Name: Mansa Batteries
Industry: Non-food consumer goods
Business profile: Sole manufacturer of dry cell batteries in Zambia
Turnover: K162 million (US\$0.8 million)
Capital employed: K167 million (US\$0.8 million)
Employees: 319

Name: General Pharmaceuticals
Industry: Chemicals
Business profile: Manufacture of intravenous fluids and oral rehydration salts. The company also is engaged in the wholesale of pharmaceuticals and veterinary products
Turnover: K55 million (US\$0.3 million)
Capital employed: K27 million (US\$0.1 million)
Employees: 97

Annex M

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Name: Zambia Steel and Building Supplies
Industry: Trading and manufacturing
Business profile: Trading of imported and locally manufactured goods
Turnover: K335 million (US\$1.6 million)
Capital employed: K190 million (US\$0.9 million)
Employees: 517

Name: Zambia Ceramics
Industry: Construction
Business profile: Manufacture of tableware, sanitaryware and tiles
Turnover: K66 million (US\$0.3 million)
Capital employed: K146 million (US\$0.7 million)
Employees: 230

Name: Indeco Estate Development Company
Industry: Real estate
Business profile: The company is in real estate business. Offers consultancy services in architectural design and engineering, also offers security services.
Turnover: K163 million (US\$0.8 million)
Capital employed: K50 million (US\$0.3 million)
Employees: 847

Name: Mpongwe Development Company
Industry: Agriculture
Business profile: Agro and food processing
Turnover: K179 million (US\$0.9 million)
Capital employed: K256 million (US\$1.3 million)
Employees: 1,364

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Name:	<u>Lusaka Engineering Company (LENCO)</u>	
Industry:	Engineering	
Business profile:	Fabrication of trailers, bus bodies, fuel tanks, steel windows and door-frames, nails, flyscreens, office furniture and agricultural implements	
Turnover:	K336 million	(US\$1.7 million)
Capital employed:	K279 million	(US\$1.4 million)
Employees:	650	

Name:	<u>Monarch Zambia</u>	
Industry:	Engineering	
Business profile:	Manufacture of steel windows, doors, door frames, fly screens, wheel-barrows, electric water heaters, galvanised holloware, welded wire mesh products and packing tins	
Turnover:	K207 million	(US\$1 million)
Capital employed:	K158 million	(US\$0.8 million)
Employees:	320	

Name:	<u>Zambia Concrete</u>	
Industry:	Construction	
Business profile:	Manufacture of pre-stressed railway concrete sleepers and other concrete products such as bridge beams, fencing, poles, slabs and building blocks	
Turnover:	K85 million	(US\$0.4 million)
Capital employed:	K40 million	(US\$0.2 million)
Employees:	230	

Name: Zambia Seed Company

Industry: Agro and food processing

Business profile: Is engaged in production, importation and distribution of all agricultural, horticultural and potato seeds.

Turnover: K370 million (US\$1.9 million)

Capital employed: K116 million (US\$0.6 million)

Employees: 198

Name: Supa Baking Company

Industry: Agro and food processing

Business profile: Baking and distribution of bread and other allied products

Turnover: K317 million (US\$1.6 million)

Capital employed: K38 million (US\$0.2 million)

Employees: 560

Name: Zambia Coffee Company

Industry: Agriculture

Business profile: Production and processing of Arabica Coffee

Turnover: K59 million (US\$0.3 million)

Capital employed: K62 million (US\$0.3 million)

Employees: 714

Name: Duncan, Gilbey & Matheson

Industry: Agro and food processing

Business profile: Production of spirits

Turnover: K396 million (US\$1,9 million)

Capital employed: K208 million (US\$1,0 million)

Employees: 220

Name: Engineering Services Corporation (ESCO)

Industry: Engineering

Business profile: Maintenance of motor cars, vehicles, mobile plant as building machines, refrigerators, air conditioning systems, etc.

Turnover: K90 million (US\$0.4 million)

Capital employed: K240 million (US\$1.2 million)

Employees: 930

Name: Dunlop Zambia

Industry: Transport

Business profile: Manufacture and marketing of tyres, tubes and adhesives

Turnover: K762 million (US\$3.8 million)

Capital employed: K291 million (US\$1.5 million)

Employees: 476

Name: Livingstone Motor Assemblers

Industry: Industry

Business profile: Assembling and maintenance of vehicles

Turnover: K142 million (US\$0.7 million)

Capital employed: K291 million (US\$1.5 million)

Employees: 300

Name: Luangwa Industries

Industry: Transport

Business profile: Manufacture of bicycles and bicycle parts.

Turnover: K142 million (US\$0.7 million)

Capital employed: K43 million (US\$0.2 million)

Employees: 163

Name: Kabwe Industrial Fabrics

Industry: Packaging

Business profile: Major producer of farmers grain bags (Jute mill) as well as production of polypropylene bags for packaging mealie meal

Turnover: K311 million (US\$1.5 million)

Capital employed: K484 million (US\$2.4 million)

Employees: 616

Name: Kapiri Glass Products

Industry: Packaging

Business profile: Manufacture of bottle containers for soft drinks, liquor and pharmaceutical products.

Turnover: K306 million (US\$1.5 million)

Capital employed: K97 million (US\$0.5 million)

Employees: 225

Name: National Drum and Can Company

Industry: Packaging

Business profile: Largest producer of Steel drums as well as metal cans.

Turnover: K78 million (US\$0.4 million)

Capital employed: K25 million (US\$0.1 million)

Employees: 136

Name: Norqgroup Plastics

Industry: Packaging

Business profile: Manufacture of plastic containers

Turnover: K45 million (US\$0.2 million)

Capital employed: K26 million (US\$0.1 million)

Employees: 102

Name: Zambia Horticultural Products
 Industry: Trading
 Business profile: Food processing, canning and bottling of fruits, such as tomato, mango, oranges and pineapples
 Turnover: K71 million (US\$0.4 million)
 Capital employed: K757 million (US\$3.8 million)
 Employees: 70

 Name: NIEC Farms
 Industry: Trading
 Business profile: Trading of agricultural goods produced
 Turnover: K2 million (US\$0.01 million)
 Capital employed: K4 million (US\$0.02 million)
 Employees: 27

 Name: Zambia National Broadcasting Corporation
 Industry: Communications
 Business profile: Operates one television channel and 4 radio channels in Zambia
 Turnover: K147 million (US\$0.7 million)
 Capital employed: K103 million (US\$0.5 million)
 Employees: 585

 Name: MEMACO Farms
 Industry: Agriculture
 Turnover: K36 million (US\$0.2 million)
 Capital employed: K61 million (US\$0.3 million)
 Employees: 230

Name: Zambezi Sawmills

Industry: Manufacturing

Business profile: Production of primary timber and timber based secondary products. Primary and secondary processing of timber into finished products.

Turnover: K24 million (US\$0.1 million)

Capital employed: K21 million (US\$0.1 million)

Employees: 276

Name: National Air Charters (Zambia)

Industry: Transport

Business profile: International air cargo freight forwarder

Turnover: K1,175 million (US\$5.9 million)

Capital employed: K23 million (US\$0.1 million)

Employees: 182

Name: National Airports Corporation

Industry: Transport

Business profile: Provides aeronautical telecommunication, navigation services and airport terminal services in four airports: Lusaka, Ndola, Livingstone and Mfuwe

Turnover: K276 million (US\$1.4 million)

Capital employed: K1,263 million (US\$6.3 million)

Employees: 1,062

Name: Mindeco Small Mines

Industry: Mining

Business profile: Engaged in mining and processing of industrial minerals and gemstones:

- Mining and processing of limestone into powder in Lusaka;
- Mining of feldspar and fluorite in Siavonga and processing into powder in Lusaka;
- Mining of gypsum in Monze;
- Mining of Amethyst in Kalomo;
- Mining of Tourmaline in Nyimba;
- Operating a small lapidary in Lusaka.

Turnover: K11 million (US\$0.05 million)

Capital employed: K6 million (US\$0.03 million)

Employees: 107

Name: Mundawanga Zoo & Botanical Gardens

Industry: Zoo and botanical gardens

Business profile: Situated 18 km south of Lusaka city centre.

Turnover: K16 million (US\$0.1 million)

Capital employed: (K7m) million (US\$(0.03) million)

Employees: 64

Name: Cleanwell Dry Cleaners

Industry: Trading

Business profile: Dry cleaning and laundry

Turnover: K12 million (US\$0.1 million)

Capital employed: K9 million (US\$0.04 million)

Employees: 42

Name: NIEC Agencies

Industry: Trading

Business profile: Wholesaling and distribution of consumer and pharmaceutical products with emphasis on locally produced products

Turnover: K444 million (US\$2.2 million)

Capital employed: K30 million (US\$0.1 million)

Employees: 180

Name: NIEC Overseas Services Zambia

Industry: Operates five foreign exchange stores in Lusaka, Ndola, Kitwe, Chingola and Livingstone

Turnover: K308 million (US\$1.5 million)

Capital employed: K32 million (US\$0.1 million)

Employees: 137

Name: National Drug Company

Industry: Trading

Business profile: Manufacture, wholesaling and retailing of pharmaceutical products and toiletries

Turnover: K218 million (US\$1 million)

Capital employed: K35 million (US\$0.2 million)

Employees: 371

Name: City Radio & Refrigeration Supplies

Industry: Trading

Business profile: Retailing

Turnover: K169 million (US\$0.8 million)

Capital employed: K23 million (US\$0.1 million)

Employees: 108

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Annex M

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Name: ZAL Elevators
Industry: Engineering
Business profile: Installation and service of elevators and escalators in Zambia
Turnover: K24 million (US\$0.1 million)
Capital employed: K4 million
Employees: 72

Name: Mil Engineering & Tooling
Industry: Engineering
Business profile: Manufacture of mining tools (Hexagonal hollow drill rods)
Turnover: K43 million (US\$0.2 million)
Capital employed: K37 million (US\$0.2 million)
Employees: 41

Name: Mines Air Services
Industry: Transport
Business profile: Air charter and scheduled passenger flights: trading as Roan Air.
Turnover: K152 million (US\$0.8 million)
Capital employed: K311 million (US\$1.6 million)
Employees: 59

Name: Mulungushi Traveller
Industry: Transport
Business profile: Domestic public passenger transport and bus hire services
Turnover: K155 million (US\$0.8 million)
Capital employed: K71 million (US\$0.4 million)
Employees: 292

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Name: Reserved Minerals Corporation
Industry: Mining
Business profile: Mining and selling of precious and semi precious stones, mainly Emeralds
Turnover: K860 million (US\$4.3 million)
Capital employed: K627 million (US\$3.1 million)
Employees: 537

Name: Kagem Mining
Industry: Mining
Business profile: Mining of Emeralds
Turnover: K27 million (US\$0.1 million)
Capital employed: K104 million (US\$0.5 million)
Employees: 397

Name: Zambia Emerald Industries
Industry: Mining
Business profile: Cutting/polishing and sale of Emeralds acquired from Kagem Mining Company
Turnover: K397 million (US\$2 million)
Capital employed: K170 million (US\$0.9 million)
Employees: 101

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*Supplement to the Republic of Zambia Government
Gazette dated the 4th July, 1992*

THE PRIVATISATION ACT, 1992

[No. 21 of 1992 455

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5. Composition of the Agency
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7. Remuneration and allowances of members
8. Functions of Agency
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26. Political leaders

*Single copies of this Act may be obtained from the Government Printer
P.O. Box 30136, 10100 Lusaka.. Price K50*

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Name: Coolwell Systems
Industry: Engineering
Business profile: Maintenance of ventilation, air conditioning and refrigeration systems
Turnover: K17 million (US\$0.1 million)
Capital employed: K2 million (US\$0.0 million)
Employees: 35

Name: Mpelembe Properties Limited
Industry: Construction
Business profile: Property maintenance, refuse collection, sanitation, street cleaning, security services, gardening and construction
Turnover: K166 million (US\$0.8 million)
Capital employed: K43 million (US\$0.2 million)
Employees: 2,163

Name: Mil Construction
Industry: Construction
Business profile: Provision of construction services to the Zambia Consolidated Copper Mines (ZCCM)
Turnover: K76 million (US\$0.4 million)
Capital employed: K0.2 million (US\$0.0 million)
Employees: 237

Name: Buildwell Construction
Industry: Construction
Business profile: Maintenance of commercial and residential properties
Turnover: K5 million (US\$0.0 million)
Capital employed: (K0.4 million)
Employees: 12

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GOVERNMENT OF ZAMBIA

ACT

Date of Assent: 3rd July, 1992

An Act to provide for the privatisation and commercialisation of State owned enterprises; to provide for the establishment of the Zambia Privatisation Agency and to define the functions of the Agency; to provide for the sale of shares in State owned enterprises; and to provide for matters connected with or incidental to the foregoing.

[4th July, 1992

ENACTED by the Parliament of Zambia.

PART I

Enactment

PRELIMINARY

1. This Act may be cited as the Privatisation Act, 1992.
2. In this Act, unless the context otherwise requires—
 - "Agency" means the Zambia Privatisation Agency established under section *three*;
 - "bank" means a commercial bank registered under the Banking Act;
 - "commercialisation" means the reorganisation of specified Government departments into commercialised enterprises which shall operate as profit making commercial ventures without the subvention of the Government and "commercialise" shall be construed accordingly;
 - "consultant" means any person employed by the Agency to undertake any work of a specialised nature connected with the privatisation programme in Zambia and shall include merchant banks, public accountants, lawyers and valuers;
 - "current value" means the market value of a State owned enterprise within three months of the completion of the sale;
 - "divestiture" means the disposing of the whole or part of the assets and shares of a State owned enterprise;
 - "divestiture sequence plan" means a list of State owned enterprises, as approved by Cabinet, categorised according

Short title

Interpreta-
tion

Cap. 7:03

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Name: Zamcargo Zambia Limited
Industry: Transport
Business profile: Clearing and forwarding of goods
Turnover: K156 million (US\$0.8 million)
Capital employed: K77 million (US\$0.4 million)
Employees: 241

Name: Rycus Heavy Haulage
Industry: Transport
Business profile: Provision of transportation services to the ZCCM and construction of roads.
Turnover: K90 million (US\$0.5 million)
Capital employed: K64 million (US\$0.3 million)
Employees: 200

Name: Zuva Zambia Limited
Industry: Mining
Business profile: Manufacture and sale of products from Silver and semi-precious stones
Turnover: K9 million (US\$0.0 million)
Capital employed: (K6 million)
Employees: 40

Name: Prime Marble Products
Industry: Mining
Business profile: Quarrying and processing of marble and stone of all kind. Still in development stage.
Turnover: None
Capital employed: K57 million (US\$0.3 million)
Employees: 19

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direct or indirect interest but does not include a Government department;

"stocks and shares" includes loans, stocks, debentures and debenture stock and options on any stocks, shares, loan, stock, debentures or debenture stock and rights, in relation to State owned enterprises;

"stock broker" means a person who carries on the business of buying and selling stocks or shares for and on behalf of other persons;

PART II

THE ZAMBIA PRIVATISATION AGENCY

3. There is hereby established the Zambia Privatisation Agency which shall be a body corporate with perpetual succession and a common seal capable of suing and of being sued in its corporate name, and with power, subject to the provisions of this Act, to do all such acts and things as a body corporate may by law do or perform.

Establishment
of Agency

4. (1) The seal of the Agency shall be such device as may be determined by the Agency and shall be kept by the Director.

Seal of
Agency

(2) The Agency may use a wafer or rubber stamp in lieu of the seal.

(3) The affixing of the seal shall be authenticated by the Chairman or the Vice-Chairman and the Secretary or any other person authorised in that behalf by a resolution of the Agency.

(4) Any contract or instrument which, if entered into or executed by a person not being a body corporate, would not be required to be under seal, may be entered into or executed without seal on behalf of the Agency by the Secretary or any other person generally or specifically authorised by the Agency in that behalf.

(5) Any document purporting to be a document under the seal of the Agency or issued on behalf of the Agency shall be received in evidence and shall be deemed to be executed or issued, as the case may be, without further proof, unless the contrary is proved.

5. (1) The Agency shall consist of the following members who shall, subject to scrutiny by a Select Committee of the National Assembly and ratification by the National Assembly; be appointed by the President:

Composition
of Agency

(a) the Permanent Secretary in the Ministry responsible for commerce, trade and industry;

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8. (1) It shall be the function of the Agency to plan, manage, implement and control the privatisation of State owned enterprises in Zambia. Functions of Agency

(2) Notwithstanding the generality of subsection (1) the functions of the Agency shall be to—

- (a) recommend privatisation policy guidelines to the Cabinet;
- (b) implement the privatisation programme according to the policy guidelines issued by the Cabinet;
- (c) oversee all aspects of the implementation of the privatisation programme in Zambia;
- (d) monitor progress of the privatisation programme in Zambia;
- (e) prepare the long term divestiture sequence plan and submit such plan to the Cabinet for approval;
- (f) recommend to the Cabinet the most appropriate method of sale for each State owned enterprise to be privatised;
- (g) carry out or cause to be carried out a valuation of a State owned enterprise that is to be privatised;
- (h) set prequalification criteria for the selection of potential buyers or investors of a State owned enterprise to be privatised;
- (i) evaluate offers from potential buyers with regard to the—
 - (i) price;
 - (ii) ability and commitment of buyers to develop the enterprise; and
 - (iii) track record of buyers and their expertise in the type of enterprise on offer;
- (j) ensure that monopolies are not created in the process of privatisation;
- (k) prepare or cause to be prepared the relevant documentation necessary to effect the privatisation of any state owned enterprise;
- (l) seek potential investors for State owned enterprises;
- (m) maintain records, safeguard information and establish administrative procedures to ensure confidentiality of information;
- (n) maintain close liason with all relevant institutions in the process of privatisation;
- (o) publicise the activities of the privatisation programme ; and
- (p) do all such things as are necessary or incidental or conducive to the better carrying out of the functions specified in this Act.

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Privatisation

- to the sequence in which the whole or part of their shares will be disposed of over the period of the privatisation programme;
- " established fund " includes pension funds, contributory social security schemes, compensation funds and superannuation funds;
- " financial institution " means a company, or body not being a bank, which carries on financial business and which is registered under any other law;
- " foreign investor " means a person, being a citizen of Zambia or not, who brings into Zambia foreign exchange for the purchase of shares in a State owned enterprise or for additional investment in a State owned enterprise;
- " golden share " means a share with special rights to enable the Government in the national interest to intervene in the operations of a company which intervention is caused by specific actions undertaken by the company;
- " investor " means an individual, company, established fund, mutual fund, financial institution or foreign government intending to invest in a State owned enterprise under this Act but does not include the Local Government, the Government of the Republic of Zambia and a State owned enterprise;
- " mutual fund " means an investment fund which purchases shares in a portfolio of companies and subdivides such portfolio into individual units for sale of such units to investors;
- " privatisation " means the transferring to the private sector of part or the whole of the equity or other interest held by the Government, directly or indirectly, in a State owned enterprise wholly or partly owned by the Government and " privatise " shall be construed accordingly;
- " Privatisation Revenue Account " means an account established under section *thirty-nine*;
- " Privatisation Trust Fund " means a fund established under section *twenty-nine*;
- " property " means all property movable or immovable, and all estates, interests, easements, and rights, whether legal or equitable into or out of property, choses-in-action, money and good-will;
- " specified Government department " means a department specified by the Minister under section *thirty-seven*;
- " State owned enterprise " means a corporation, board, company, parastatal or body in which the Government has direct or indirect ownership, equity or interest and includes partnerships, joint ventures or any other form of business arrangement or organisation in which the Government has

(3) Subject to any specific or general direction of the Agency any committee established under subsection (1) may regulate its own procedure.

11. If any person is present at a meeting of the Agency or any committee of the Agency at which any matter is the subject of consideration and in which matter that person or his immediate family or his professional and business partners, is directly or indirectly interested in a private or professional capacity, he shall, as soon as is practicable after the commencement of the meeting disclose such interest and shall not, unless the Agency or the committee otherwise directs, take part in any consideration or discussion of or vote on, any question touching on such matter.

Disclosure
of interest

PART III

ADMINISTRATION

12. (1) The Agency shall appoint, on such terms and conditions as it may determine, a Director who shall be the Chief Executive Officer of the Agency.

Director of
Agency

(2) The Agency may appoint, on such terms and conditions as it may determine, a Deputy Director to assist the Director.

(3) The Director or in his absence the Deputy Director, shall attend meetings of the Agency and may address such meetings, but shall not vote on any matter:

Provided that the person presiding at any meeting of the Agency, may for good cause, require the Director or Deputy Director to withdraw from such meeting.

(4) Section *eleven* shall apply, with the necessary modifications, to the Director and the Deputy Director.

13. (1) There shall be a Secretary to the Agency who shall be appointed by the Agency on such terms and conditions as the Agency may determine.

Secretary
and other
staff

(2) The Secretary shall be responsible for the administration of the day-to-day affairs of the Agency under the general supervision of the Agency.

(3) The Agency may appoint, on such terms and conditions as it may determine, such other staff as it considers necessary for the performance of its functions.

14. (1) An employee of the Agency, or a consultant to the Agency who is, or whose spouse is, directly or indirectly interested in a private or professional capacity, in any matter relating to the privatisation programme shall be required to disclose such interests.

Disclosure
of interest by
employees

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Privatisation

- (b) the Permanent Secretary in the Ministry responsible for finance;
- (c) the Attorney-General;
- (d) a representative of the Zambia Confederation of Chambers of Commerce and Industry;
- (e) a representative of the Zambia Congress of Trade Unions;
- (f) a representative of the Zambia Federation of Employers;
- (g) a representative of the Law Association of Zambia;
- (h) a representative of the Zambia Institute of Certified Accountants;
- (i) the Dean of the School of Business of the Copperbelt University;
- (j) a representative of the churches in Zambia;
- (k) a representative of the Bankers Association of Zambia; and
- (l) a representative of the farmers.

(2) The Chairman and the Vice-Chairman shall be elected by the Agency from amongst its members:

Provided that the Permanent Secretary in the Ministry responsible for finance and the Permanent Secretary responsible for commerce, trade and industry shall not be elected as Chairman or Vice-Chairman.

Tenure of office and vacancy

6. (1) The members, except ex-officio members, referred to in section five shall hold office for a period of three years from the date of nomination and shall be eligible for further nomination upon the expiration of that term.

(2) A member, except an ex-officio member, referred to in section five may resign upon giving one month's notice, in writing, to the organisation which nominated him and to the Minister.

(3) The office of a member, except an ex-officio member, shall become vacant—

- (a) upon his death;
- (b) if he is absent without reasonable excuse from three consecutive meetings of the Agency of which he has had notice;
- (c) on ceasing to be a representative of the organisation which nominated him; or
- (d) if he is an undischarged bankrupt.

Remuneration and allowances of Members

7. A member shall be paid such remuneration and allowances as the Agency may, with the approval of the Minister, determine.

-
- (d) prepare statutory accounts and cause them to be audited not later than four months after each financial year;
- (e) maintain a fixed asset register which shall be reconciled with the financial statement;
- (f) not perform any action or actions that would result in the assets of the company being dissipated;
- (g) not undertake any new capital investment programmes, unless a project appraisal document approved by the Agency, is prepared showing that—
- (i) routine plant, equipment and vehicle renewal is required;
 - (ii) rehabilitation expenditure is essential to keep the operations of the State owned enterprise running or to improve the marketability of the enterprise;
 - (iii) new capital investment has a pay back period of less than two years;
 - (iv) capital investment will contribute to the promotion of export-import substitution;
 - (v) the State owned enterprise is not earmarked for divestiture within two years of the investment being completed; or
 - (vi) the State owned enterprise demonstrates that the investment will not allow a deterioration of the company's operations;
- (h) clear as far as possible all contractual, legal and other obligations;
- (i) not give any person information which might give undue advantage to that person or any potential investor;
- (j) pay all costs incidental to the privatisation of an enterprise relating to—
- (i) valuation fees;
 - (ii) legal costs;
 - (iii) advertising charges;
 - (iv) marketing expenses; and
 - (v) any other expense;
- (k) when requested by the Agency, disclose all or any information about the enterprise; and
- (l) refrain from taking any action or actions which may cause industrial unrest.

Proceedings
of Agency

9. (1) Subject to the other provisions of this Act, the Agency may regulate its own procedure.

(2) The Agency shall meet for the transaction of business at least once every two months at such places and at such times as the Chairman may decide.

(3) upon giving notice of not less than fourteen days, the meeting of the Agency may be called by the Chairman and shall be called if not less than four members so request in writing:

Provided that if the urgency of any particular matter does not permit the giving of such notice, a special meeting may be called upon giving a shorter notice.

(4) Five members shall form a quorum at any meeting of the Agency.

(5) There shall preside at any meeting of the Agency—

(a) The Chairman;

(b) in the absence of the Chairman, the Vice-Chairman; or

(c) in the absence of both the Chairman and the Vice-Chairman such member as the members present may elect for the purpose of that meeting.

(6) A decision of the Agency on any question shall be by a majority of the members present and voting at the meeting and, in the event of an equality of votes, the person presiding at the meeting shall have the casting vote in addition to his deliberative vote.

(7) The Agency may invite any person, whose presence is in its opinion desirable, to attend and to participate in the deliberations of the meeting of the Agency but such person shall have no vote.

(8) The validity of any proceedings or decision of the Agency shall not be affected by any vacancy in the membership of the Agency or by any defect in the appointment of any member.

(9) The Agency shall cause minutes to be kept of the proceedings of every meeting of the Agency and of every meeting of any committee established by the Agency.

Committees
of Agency

10. (1) The Agency may for the purpose of performing its functions under this Act establish Committees and delegate to any such committee such of its functions as it considers necessary.

(2) the Agency may appoint as members of a committee established under subsection (1) persons who are or are not members of the Agency and such persons shall hold office for such period as the Agency may determine.

- | | |
|---|---|
| <p>24. The shares in a State owned enterprise shall be sold to a citizen of Zambia or a person who is not a citizen of Zambia.</p> | Eligible buyer |
| <p>25. No member or members of a committee or any employee or consultant of the Agency or the spouse, child, mother, father, brother, sister or a professional business partner as the case may be, of the employee or consultant shall purchase shares unless the sale is by public offer of shares.</p> | Sale of shares to employees and consultants |
| <p>26. Political leaders and public officers shall publicly disclose their intention to bid for the purchase of shares in a State owned enterprise.</p> | Political leaders |
| <p>27. A potential investor shall disclose his bid in a State owned enterprise, his direct personal interest and his indirect interest, either through share holdings or through a nominee or otherwise, in a State owned enterprise.</p> | Declaration by potential investor |
| <p>28. An established fund may, with a consent of the contributors, purchase shares in a State owned enterprise on behalf of the contributors.</p> | Established fund |
| <p>29. (1) The Minister responsible for finance shall establish a Privatisation Trust Fund in which the Government shall hold shares in trust for citizens of Zambia for divestiture after a State owned enterprise has been privatised.</p> <p>(2) The following shall apply to citizens of Zambia—</p> <p>(a) shares may be offered at a discount to persons who purchase a small number of shares;</p> <p>(b) a share bonus shall be given at the end of a prescribed period to small shareholders who hold onto shares;</p> <p>(c) individuals, management and employees of the State owned enterprise may pay for shares in instalments; or</p> <p>(d) individuals may participate in the acquisition of shares which have been transferred in a State owned enterprise to a Privatisation Trust Fund which shall be established under this Act.</p> | Purchase of shares by citizens of Zambia |
| <p>30. Foreign investors shall be entitled to incentives under the Investment Act if such investor acquires shares in a State owned enterprise where—</p> <p>(a) expertise is needed to upgrade efficiency of that State owned enterprise;</p> <p>(b) participation is necessary to promote the export market;</p> <p>(c) the nature of business requires global linkages and international exposure; or</p> <p>(d) capital investment or foreign technology is required to expand the capacity of the business operations.</p> | Foreign investors Act No. 19 of 1991 |

Oath of
secrecy

(2) A disclosure of interest made under this section shall be made to the Director who shall take such decision as he considers appropriate in each case.

15. The employees of the Agency, consultants, members of the Agency and members of a committee of the Agency shall take an oath of secrecy as prescribed under this Act.

Prohibition
of publica-
tion or
disclosure of
information
by
unauthorised
persons

16. (1) No person shall, without the consent in writing given by, or on behalf of, the Agency, publish or disclose to any person, otherwise than in the course of his duties, the contents of any documents, communication or information, which relates to, and which has come to his knowledge in the course of his duties under this Act.

(2) Any person who knowingly contravenes the provisions of subsection (1) shall be guilty of an offence and shall be liable upon conviction to a fine not exceeding one hundred thousand kwacha or to a term of imprisonment not exceeding five years, or to both.

(3) If any person having information which to his knowledge has been published or disclosed in contravention of subsection (1) unlawfully publishes or communicates any such information to any person he shall be guilty of an offence and shall be liable upon conviction to a fine not exceeding one hundred thousand kwacha or to a term of imprisonment not exceeding five years, or to both.

PART IV

PROCEDURE FOR PRIVATISATION AND COMMERCIALISATION

Privatisation
of state
owned
enterprises

17. A State owned enterprise shall be privatised in accordance with the divestiture sequence plan.

Golden share

18. The Minister responsible for finance may, on the advice of the National Assembly, retain a share in a State owned enterprise and convert such share into a golden share.

Allotment of
shares

19. The shares of a State owned enterprise shall be allotted by the Agency.

Obligations
of share
holders

20. The share holders in any State owned enterprise, when requested by the Agency, shall provide to the Agency such information as the Agency may require.

Obligations
of state
owned
enterprises

21. (1) A State owned enterprise scheduled for privatisation shall—

(a) carry out any recommendations, made by the Agency, for preparing the company for privatisation;

(b) keep up to date all business records and books of account;

(c) prepare a two to three years' investment and financing plan and a manpower development plan;

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- (c) the bidders and bid prices;
- (d) the successful bidders and the reason for selecting such bidders;
- (e) the price of shares and any other special conditions of the sale of shares; and
- (f) any other matters deemed appropriate.

(2) Any person with an interest in a State owned enterprise to be privatised, shall make a claim to the Agency within a period of thirty days after the notice referred to in subsection (1) is published.

(3) Any person having an interest in a State owned enterprise and who does not make a claim within fourteen days of the notice referred to in subsection (1) shall be deemed to have relinquished all interests in the State owned enterprise.

PART V

FINANCIAL AND OTHER PROVISIONS

39. (1) Any proceeds from completed sales of shares and assets shall be paid into a Privatisation Revenue Account established by the Minister responsible for finance and held at the Bank of Zambia. Use of proceeds

(2) With the prior approval of the Minister responsible for finance the proceeds of sale referred to in subsection (1) may be used for—

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

40. (1) Subject to section *thirty-nine* the funds of the Agency shall consist of such moneys as may— Funds of Agency

- (a) be appropriated by Parliament, for the purposes of the Agency;

(2) Any person or officer of a State owned enterprise who knowingly contravenes subsection (1) shall be guilty of an offence and shall be liable upon conviction to a fine not exceeding one hundred thousand kwacha or to a term of imprisonment not exceeding five years, or to both.

Modes of
privatisation

22. (1) The Agency may employ the following modes of privatisation:

- (a) public offering of shares;
- (b) private sale of shares through negotiated or competitive bids;
- (c) offer of additional shares in a State owned enterprise to reduce Government share holding;
- (d) sale of the assets and business of the State owned enterprise;
- (e) reorganisation of the State owned enterprise before the sale of the whole or any part of the State owned enterprise;
- (f) management or employee buyouts by management or employees in that State owned enterprise;
- (g) lease and management contracts; or
- (h) any other method the Agency may consider appropriate.

(2) The Agency shall ensure that each State owned enterprise is sold for its market value.

Valuation of
state owned
enterprise

23. (1) The valuation of State owned enterprises shall be performed by independent valuers who shall issue a certificate of valuation.

(2) The valuation of a State owned enterprise shall be done in accordance with the following:

- (a) the valuation shall be based on the current value of the State owned enterprise;
- (b) where the enterprise is not operational or the assets do not form part of a core of the business, the valuation shall be based on the net asset value of the State owned enterprise; or
- (c) any other prudent and acceptable valuation method.

(3) The net asset value shall be based on the—

- (a) valuation certificate of the market value of the real property valued by a real estate valuer;
- (b) valuation certificate of the depreciated replacement value of tangible assets other than real property; or
- (c) a fair value of other assets and liabilities valued by a consultant.

- (a) an audited balance sheet;
 (b) an audited statement of income and expenditure; and
 (c) such other information as the Agency may consider appropriate.

(3) The Minister shall, not later than seven days after the first sitting of the National Assembly next, after receipt of the report referred to in subsection (1), lay it before the National Assembly.

(4) The report shall be published for sale to the public.

44. (1) The Agency shall submit a report, at the end of June and at the end of December of each year, on its activities to the Minister giving details of bids received and reasons for preferring the successful bid.

Progress
report

(2) The Agency shall publish the report for sale to the public.

(3) The Minister shall, not later than seven days after the first sitting of the National Assembly next, after receipt of the report referred to in subsection (1), lay it before the National Assembly.

45. Any property, real or personal procured or acquired for the purposes of the privatisation programme shall, after the commencement of this Act, vest in the Agency.

Vesting of
the property
of Agency

46. (1) The procurement of goods and services of the Agency shall not be subject to the provisions of the Zambia National Audit Corporation Act and the Zambia National Tender Board Act:

Procurement
of goods and
services
Act No. 32
of 1982
Act No. 30
of 1982

Provided that the procurement of goods and services above two million kwacha or ten thousand United States Dollars shall be approved by a committee of the Agency and the procurement of goods and services below two million kwacha or ten thousand United States Dollars shall be approved by a management tender committee of the Agency.

(2) The Agency shall, in procuring the goods and services, approve increases to the kwacha amount based on the percentage of the official rate of inflation.

47. Any dispute arising from the privatisation process shall be settled by arbitration in accordance with the Arbitration Act.

Arbitration
Cap. 180

48. (1) A person who knowingly falsifies any information or knowingly does not disclose any material facts or solicits for his own use or as agent of any other person any confidential information relating to the privatisation of a State owned enterprise shall be guilty of an offence and shall be liable on conviction to a fine not exceeding two hundred and fifty thousand kwacha or to imprisonment for a term not exceeding five years, or to both.

Penalties
for
falsification
of
information

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Privatisation

Mode of payment for shares	31. Subject to provisions of section <i>twenty-nine</i> or any other written law, the shares of a State owned enterprise shall not be sold on credit.
Negotiations for offer of sale	32. (1) The Agency shall appoint an independent negotiating team for each sale. (2) A person appointed on the negotiating team shall— (a) have proper professional qualifications, experience and good business standing; (b) take an oath of secrecy; and (c) disclose any personal or professional interest before accepting the appointment.
Conversion of private companies to public companies Cap. 686	33. The Agency may convert a State owned enterprise scheduled for privatisation, which is not a public company, into a public company in accordance with the provisions of the Companies Act
Trading in shares	34. Notwithstanding any provision in any other written law and for purposes of this Act, a bank or financial institution may carry on the business of a stock broker or a dealer in stocks and shares.
Liquidation Cap. 686	35. The Agency may liquidate a State owned enterprise in accordance with the provisions of the Companies Act.
Consummation of sale	36. (1) The Minister responsible for finance shall sign the final Sales Agreement to transfer shares to the selected bidder. (2) The transfer of shares shall be in accordance with the provisions of the Companies Act.
Cap. 686 Commercialisation of specified Government departments	37. (1) The Minister, in consultation with the Ministry responsible for the department to be commercialised, may specify, by notice in the <i>Gazette</i> , any Government department for purposes of commercialisation under this Act. (2) A specified Government department shall be incorporated under the Companies Act. (3) A Government department specified under this section may— (a) fix its own rates, prices and charges for goods and services provided; (b) capitalise assets; and (c) borrow debenture stocks.
Cap. 686 Publication of information	38. (1) The Agency shall publish by notice in the <i>Gazette</i> — (a) the names of the approved State owned enterprises to be privatised; (b) the registered consultants, valuers, lawyers, public accountants and merchant banks dealing with the privatisation process;

**ZAMBIA PRIVATISATION AGENCY
DIVESTITURE SEQUENCE PLAN**

1992 Tranche 1 (20 companies)

The first eight companies were selected for divestiture in the first tranche. According to World Bank requirements, ten companies must be sold by third quarter, 1992.

1	S	AFE Limited
2	S	Crushed Stone Sales Limited
3	S	Consolidated Tyre Services Limited
4	S	Eagle Travel Limited
5	S	Mwinilunga Canneries Limited
6	S	Nkwazi Manufacturing Company Limited
7	S	Poultry Processing Company Limited
8	S	Zambia Clay Industries Limited
9	S	Auto Care Limited
10	S	Cleanwell Dry Cleaners
11	S	Coolwell Systems
12	S	General Pharmaceuticals Limited
13	S	Monarch Zambia Limited
14	S	National Drum & Can Company Limited
15	S	Norgroup Plastics Limited
16	S	Prime Marble Products
17	S	Zambia Maltings Limited
18	S	Zambia Ceramics Limited
19	S	Zambia Concrete Limited
20	S	Zuva Zambia Limited

1992/3 Tranche 2

		Agriculture/Agro-Industry
21	M	Mpongwe Development Company Limited
22G	L	National Milling Company Limited
23G	M	ROP Limited
24	M	Supa Baking Company Limited
25G	M	Zambia Agriculture Development Limited
26	L	The Zambia Sugar Company Limited
		Construction
27N	L	Chilanga Cement Limited
		Manufacturing
28G	L	Kafue Textiles (Z) Limited

- (b) be paid to the Agency by way of grants or donations;
- (c) be retained by the Agency from the proceeds of sale as may be approved by the Minister responsible for finance; and
- (d) vest in or accrue to the Agency.

(2) The Agency may—

- (a) accept money by way of grants or donations from any source in Zambia;
- (b) raise money by way of loans from any source in Zambia and, subject to the approval of the Minister, from any source outside Zambia, such moneys as it may require for the discharge of its functions; and
- (c) charge and collect fees in respect of programmes, publications, seminars, documents, consultancy services and other services provided by the Agency.

(3) There shall be paid from the funds of the Agency—

- (a) the salaries and allowances of the staff of the Agency;
- (b) such loans to members of staff as may be approved by the Agency;
- (c) such reasonable travelling, transport and other allowances for the members of the Agency or a committee of the Agency when engaged on the business of the Agency at such rates as the Agency may, with the approval of the Minister, determine; and
- (d) any other expenses incurred by the Agency in the performance of its functions.

(4) The Agency may invest in such manner as it thinks fit such of its funds as it does not immediately require for the performance of its functions.

Financial
year

41. The financial year of the Agency shall be the period of twelve months ending 31st December, in each year.

Accounts

42. (1) The Agency shall cause to be kept proper books of account and other records relating to its accounts.

(2) The accounts of the Agency shall be audited annually by independent auditors appointed by the Agency.

(3) The auditors' fees shall be paid by the Agency.

Annual
reports

43. (1) As soon as practicable, but not later than six months after the expiry of the financial year, the Agency shall submit to the Minister a report concerning its activities during the financial year.

(2) the report referred to in subsection (1) shall include information on the financial affairs of the Agency and there shall be appended to the report—

PROPOSED DIVESTITURE SEQUENCE PLAN

Tranche 4

		Agriculture/Agro-Industry
37G	M	Amalgamated Milling Company Limited
38G=	S	Antelope Milling
39G=	S	Chimanga Changa Milling
40G=	S	Kabwe Milling
41G=	S	Jamas Milling
42G=	S	Olympic Milling
43	L	Nchanga Farms
44	S	NIEC Farms Limited
45	S	Zambia Cashew Company Limited
46N	S	Zambesi Sawmills (1968) Limited
		Construction
47	S	MIL Construction
48G	M	Zambia Engineering & Contracting Company Limited
		Energy
49	S	Lublend Limited
		Engineering
50	S	ZAL Elevators
		Finance
51	L	Zambia National Commercial Bank Limited (ZNCB)
		Trading
52	L	National Home Stores Limited
		Tourism
53	S	Africa Bound Limited
54	S	Lake Hotels Limited
55	L	Zambia Hotel Properties Limited
		Transport
56	S	Mulungushi Traveller

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(2) A person found guilty under subsection (1) shall not thereafter participate in the purchase of shares in any State owned enterprise.

Regulations

49. The Minister, on the advice of the Agency, may by Statutory Instrument prescribe the—

- (a) sale tender procedures;
- (b) public flotation procedures;
- (c) pre-qualification and registration of bidders procedures;
- (d) public announcement requirements;
- (e) tender evaluation procedures;
- (f) tender selection procedures;
- (g) negotiation guidelines;
- (h) final sale monitoring guidelines;
- (i) pre and post sale audit requirements;
- (j) any forms for the purpose of this Act;
- (k) any fees payable in respect of any service provided by the Agency; and
- (l) such other matters as are necessary or conducive to the better carrying out of the purposes of this Act.

**Prior leases
and
agreements**

50. All leases and agreements entered into in relation to enterprises to be privatised under this Act and in anticipation of the coming into force of this Act are hereby nullified.

PROPOSED DIVESTITURE SEQUENCE PLAN

Tranche 6

Agriculture/Agro-Industry		
73	S	Zambia Coffee Company Limited
74	M	Zambia Cold Storage Corporation Limited
75	M	Zambia Seed Company Limited
Finance		
76	S	Africa Intercontinental Insurance Services Limited
77=	?	Development Bank of Zambia Limited
78=	?	Export and Import Bank of Zambia Limited
79	S	State Insurance Medical Trust Limited
80	L	Zambia National Building Society
81	L	Zambia State Insurance Corporation Limited
82	S	Zambia State Financing Company Limited
83	S	Zambia State Property Development Company Limited
84	S	Zambia State Security Limited
Transport		
85	L	Contract Haulage Limited
86	L	United Bus Company of Zambia Limited
87	S	Mpulungu Harbour Corporation Limited
Mining		
88	S	Mindeco Small Mines Limited

PROPOSED DIVESTITURE SEQUENCE PLAN

1993		<u>Tranche 3</u>
		Agriculture/Agro-Industry
29G	M	Indeco Milling Limited
30=	?	Lint Company of Zambia Limited
31	M	Nanga Farms Limited
32=	?	National Tobacco Company Limited
33G	L	Zambia Breweries Limited
34	M	Zambia Horticultural Products Limited
		Trading
35	L	Consumer Buying Corporation of Zambia Limited
36	L	Zambia National Wholesale and Marketing Company Limited

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PROPOSED DIVESTITURE SEQUENCE PLAN

Tranche 9

		Agriculture/Agro-Industry
109	L	Nitrogen Chemicals of Zambia Limited
110	S	Duncan Gilbey & Matheson
		Finance
111	S	Zambia National Insurance Brokers Limited
		Mining
112	L	Maamba Collieries Limited
		Real Estate
113	S	Anros Industries Limited
		Tourism
114	S	Circuit Safaris Limited
		Transport
115	S	Livingstone Motor Assemblers Limited
116	L	National Airports Corporation
117	S	Zamcargo Zambia Limited

Tranche 10

		Construction
118	S	Zimco Properties Limited
		Energy
119	L	BP Zambia Limited
120	S	Zamlube Re-refiners Limited
		Engineering
121	L	Metal Fabricators of Zambia Limited
		Real Estate
122	S	Indeco Estate Development Company Limited
		Trading
123	S	NIEC Overseas Services Zambia Limited
		Transport
124	S	Engineering Services Corporation Limited

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PROPOSED DIVESTITURE SEQUENCE PLAN

Tranche 5

Agriculture/Agro-Industry		
57	S	Kawambwa Tea Company Limited
58	S	MEMACO farms
59C	M	National Breweries Limited
60G	M	Premium Oil Industries Limited
61G	M	United Milling Limited
Chemicals		
62	S	National Drug Company Limited
Construction		
63	S	Buildwell Construction Limited
64	M	Mpelembe Properties Limited
65	M	Zambia Steel and Building Supplies Limited
Engineering		
66	S	MIL Engineering and Tooling Limited
Packaging		
67	M	Kabwe Industrial Fabrics Limited
Tourism		
68	S	Mundawanga Zoo & Botanical Gardens
69	L	National Hotels Development Corporation Limited
Trading		
70	M	Mwaiseni Stores Limited
71	S	Redirection Placement Limited
Transport		
72	S	Lusaka Urban Rail Transport

PROPOSED DIVESTITURE SEQUENCE PLAN

Negative list

- Indeni Petroleum Refinery Company
- Tazama Pipelines
- Zimoli Division
- Posts and Telecommunications Corporation
- Zambia Electricity Supply Corporation
- Zambia Railways

KEY:

- = Company not part of ZIMCO group
- G Privatisation Study to be funded through GTC
- N Privatisation Study to be funded through NORAD
- L Large company
- M Medium size company
- S Small company

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PROPOSED DIVESTITURE SEQUENCE PLAN

Tranche 7

		Chemicals
89	L	Kafironda Limited
90	M	Zambia Oxygen Limited
		Mining
91	S	Kagem Mining
92	S	Kariba Minerals Limited
93	S	Kariba Amethyst Marketing Limited
94	L	Reserved Minerals Corporation Limited Group
95	S	Zambia Emerald Industries Limited
		Trading
96	S	City Radio & Refrigeration Supplies (1975) Limited
		Transport
97	S	Intercontinental Travel Limited
98	S	Luanqwa Industries Limited

Tranche 8

		Agriculture/Agro-Industry
99	S	MIL Sawmilling and Joinery Limited
100N	L	Zambia Forestry and Forest Industries Limited (ZAFFICO)
		Engineering
101	M	Lusaka Engineering Company Limited (LENCO)
		Finance
102	M	Indo-Zambia Bank Limited
		Manufacturing
103	S	Mansa Batteries Limited
		Packaging
104	S	Kapiri Glass Products Limited
		Trading
105	S	NIEC Agencies Limited
		Transport
106	M	Dunlop Zambia Limited
107	S	Mines Air Services Limited
108	S	Rycus Heavy Haulage Limited

train Zambians to continue with the process. The project will also supply adequate commodity support to assure the productivity of the technical assistance team. The GRZ will contribute office space for the technical assistance team and possibly space for training activities to be undertaken as part of the project. This contribution, however, will be insufficient to satisfy the requirements of the Foreign Assistance Act of 1961, as amended (FAA), for a 25 percent host country contribution to the project.

Discussion: Section 110 of the FAA provides that: "No assistance shall be furnished by the United States Government to a country under sections 103 through 106 of this Act until the country provides assurances to the President, and the President is satisfied, that such country provide at least 25 percent of the costs of the entire program, project or activity with respect to which such assistance is to be furnished, except that such costs borne by such country may be provided on an 'in-kind' basis."

FAA Section 124(d) authorizes a waiver, on a case-by-case basis, of the requirement of FAA Section 110 in the case of a program, project or activity in a relatively least developed country. A.I.D. regulations implementing FAA sections 110 and 124(d) are set forth in A.I.D. Handbook 3, Chapter 2, Appendix 2G. Appendix 2G sets forth general considerations which should be taken into account in determining when a waiver of FAA Section 110 would be appropriate. Considerations relating to financial constraints, host country commitment, nature of the project, and phased contribution form the basis for such a determination. These items are discussed below.

Financial Constraints: Zambia is on the Development Assistance Committee (DAC) list of low income countries and is reported by the World Bank (IBRD) to be in severe budgetary and balance of payments difficulties. In view of this situation, special consideration is merited with regard to the required level of the contribution of the Government of the Republic of Zambia (GRZ) in support of the activities of the D/G Project. Since 1989, Zambia has been attempting to stabilize its economic circumstances with the assistance of the International Monetary Fund (IMF) and the IBRD. The impact of economic restructuring in Zambia is complicated by the need to cope with drought-induced staple food supply shortages. This imposes a severe burden upon available budgetary resources which are already limited.

Country Commitment: The Privatization Support Project will be used to further GRZ development objective. Project-funded activities are planned and will be undertaken with the full knowledge and concurrence of the appropriate GRZ authority, usually the Permanent Secretary of the Ministry of Commerce, Trade and Industry. Officials of the ZPA will actively supervise and otherwise participate in the work of the technical assistance

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team and consult with USAID regarding the activities and purposes of the project. An in-kind contribution of personnel and office space is thus provided by the GRZ in these collaborative endeavors.

Nature of the Project: The activities to be financed by this project will support the divestiture of parastatal firms. It is recognized that the divestiture process will generate funds for the GRZ. However, it cannot be stated how much will be realized or the rate of generations. While there are a number of claims on these funds (the most important of which being the provision of funds for terminating redundant personnel), clearly most (if not all) of the generated funds will go toward furthering the privatization process. Certainly some of these generations will go to support the salary burden of the ZPA. Because of the need to attract individuals with qualifications beyond what is normally available to the GRZ, the ZPA salaries will be at market standards, not at GRZ scale. Nonetheless, because of uncertainty about the funds to be generated and eventual ZPA wage structure, it is impossible at this time to guarantee a 25 percent contribution to this project from the GRZ.

Phased Contribution: This option was not deemed feasible for the Privatization Support project because the proceeds of sales of the parastatals, which will generate GRZ resource flows toward project purposes, are indeterminate at this time as to make a phasing plan impractical.

Authority: Section 124(d) of the Act permits a waiver of the Section 110 cooperating country cost sharing requirement of 25 percent on a case-by-case basis for programs, projects or activities in relatively least developed countries. A.I.D. Handbook 3, Chapter 2, Appendix 2G, Section E2b, indicates that the DAC list of low income countries is an acceptable starting point for considering whether a country is eligible for a waiver of the Section 110 requirements. As indicated above, Zambia is on the DAC list. Zambia is also on the United Nations General Assembly list of "least developed countries." Delegation of Authority 403 delegates authority to Assistant Administrators to approve Section 110 waivers, but does not permit it to be redelegated to field posts. You may exercise the authority under your DOA 550 "alter ego" delegation.

For these reasons, and for all of the other reasons described above, USAID/Zambia believes that the initiation and execution of the Privatization Support project (611-0230) would be handicapped primarily by the 25 percent contribution requirement.

Recommendation: That you approve a waiver of the 25 percent cost sharing requirement contained in Section 110 of the Foreign Assistance Act of 1961, as amended, for the Zambia Privatization

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U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

SEP 8 1992

ACTION MEMORANDUM FOR THE DEPUTY ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: Keith Brown, Director, AFR/SA *KB*

SUBJECT: Waiver of 25% Host Country Contribution to the Zambia Privatization Support Project (611-0230)

Problem: Approval is requested to waive the requirement of Section 110 of the Foreign Assistance Act of 1964, as amended (Act), calling for a host country contribution of at least twenty-five percent of program or project costs for the Zambia Privatization Support Project.

Background: In February 1992, the Government of the Republic of Zambia (GRZ) announced a sweeping Structural Adjustment Program (SAP) that is committed to macroeconomic stabilization and establishment of the conditions for a vital private sector. The government considers privatization of the extensive parastatal sector to be the cornerstone of its private sector development initiative that will lead to a more competitive business environment. It has developed a long-term program to divest most parastatal firms (except for six public utilities and, possibly, government copper holdings) led by the Zambia Privatization Agency (ZPA), under the aegis of the Ministry of Commerce, Trade and Industry.

The ZPA is aggressively undertaking a long-term program that will see 134 parastatals divested in a five-year period. Supported by assistance from USAID, Germany (GTZ) and Great Britain (ODA), ZPA is preparing ten small firms for privatization by December, 1992. At the same time, in recognition of the importance of the privatization effort to the SAP, the World Bank is including the work of the ZPA in the conditionality for the release of the latter tranches of a \$200 million credit. In reviewing the role of the donor community in supporting the ZPA and the development of an adequate enabling environment, the GRZ has requested USAID to take the lead with respect to assisting the ZPA to prepare firms for divestiture and manage the larger privatization process.

The Privatization Support Project will provide this needed assistance. Specialists in the technical facets of privatization will assist the personnel of the ZPA to privatize roughly 75 firms, including the larger, more complex enterprises, and to

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PROPOSED DIVESTITURE SEQUENCE PLAN

Tranche 11

		Communications
125	M	Zambia National Broadcasting Corporation
		Energy
126	M	AGIP (Zambia) Limited
		Finance
127	S	Zambia Housing Development Fund Limited
		Mining
128	L	MEMACO Group
129	L	MEMACO Trading Limited, London
130	S	MEMACO Trading Limited, USA
131	S	MEMACO Services Limited
		Transport
132	L	Zambia Airways Corporation Limited
133	M	National Air Charters (Zambia) Limited
134	S	Zambia National Shipping Company Limited

Support Project, provided that Zambia makes the contribution indicated above.

Approved: *J. F. Heiler*
 Disapproved: _____
 Date: *9/4/92*

Clearances:

RLA:MFittipaldi	(draft)	
USAID/ZAMBIA/PRM:JWeibler	(draft)	
USAID/ZAMBIA/AD:BKosheleff	(draft)	
AFR/DP:MBonner	<u>(draft)</u>	Date: <u>9/8/92</u>
GC/AFR:MAKleinjan	<u>(draft)</u>	Date: <u>9/3/92</u>

Draft: USAID/Zambia/GDO, VMahan (8/24/92); AFR/SA, RHarber (8/31/92)
 Privatization Support 25% Waiver Memorandum
 PRSUPWAV.MEM

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