

PD-ABH-434

85 1/4

ZAMBIA PRIVATIZATION SUPPORT PROJECT
(Project No. 611-8230)

Project No. 940-0001
Delivery Order No. 04
Contract No. PCE-0001-I-00-2051-00
IQC for Worldwide Technical Assistance
in Private Enterprise

Prepared for:
U.S. AGENCY FOR
INTERNATIONAL DEVELOPMENT
Lusaka, Zambia

Submitted by:
Chemonics International
Washington, D.C.



Prepared by:
James Joseph
Steven Weddle
Michael McWherter
Friedrich Jaeger
Douglas Herman
DELOITTE & TOUCHE

December 29, 1993

TABLE OF CONTENTS

ZAMBIA PRIVATIZATION SUPPORT PROJECT FINAL REPORT

	<u>Page</u>
A. Accomplishments	2
B. Activities	4
C. Methods of Work	9
D. Training	9
E. Comments/Recommendations	9
ANNEX	
STATEMENT OF WORK	A-1

ZAMBIA PRIVATIZATION SUPPORT PROJECT FINAL REPORT

The Zambia Privatization Agency (ZPA) was formed in mid-1992 based on the Privatization Act passed at that time. The ZPA is the organization responsible for privatizing more than 170 state-owned enterprises (SOEs), a key requirement of Zambia's Structural Adjustment Program. The companies range from very small firms, such as travel agencies and dry cleaners, to the country's copper mining firm, a conglomerate earning more than 90 percent of the nation's foreign exchange.

By early 1993, the ZPA had laid the groundwork for the privatization process and had begun divesting selected SOEs, divided into two groupings—Tranche One and Tranche Two. Nineteen Tranche One SOEs were in the preliminary stages of negotiations for sale. The ZPA expected to complete Tranche One activities over a four-month period.

The Cabinet also had selected 29 companies to be sold under Tranche Two, many of them with minority shareholders with preemptive rights. These companies were larger and more complex than those included under Tranche One. They had been advertised as being readied for privatization.

The ZPA had been receiving assistance in working with the Tranche One and Two companies from a variety of international lending agencies. There were plans for the lead donor, the U.S. Agency for International Development (USAID), to fund a long-term privatization project. However, due to delays in the contracting process, the long-term project had not been approved when the ZPA needed continuing assistance. Accordingly, USAID elected to fund a short-term project under the Private Enterprise Bureau Indefinite Quantity Contract (PRE IQC), to bridge the gap between the work accomplished to date and the start-up of the long-term project. After a competitive process, the Chemonics consortium was selected to provide the requested assistance Deloitte & Touche provided.

The short-term project (Zambia Privatization Support project) was carried out by a team composed of two business analysts, a public relations specialist, and a flotations specialist. The original delivery order for the project was effective April 14, 1993 through September 17, 1993. It was amended in September to extend three team members through October and another through December, with a revised end date of December 31, 1993. The team had four primary tasks:

- Help complete sales of companies in Tranche One.
- Collect and analyze information for Tranche Two companies including assessment of strategies for divestiture and potential sales values.
- Design the methodology and prepare the first public flotation, assessing impact.

- Develop a national and international publicity and marketing campaign to assist in the sales of parastatals.

In accordance with the Chemonics contract with USAID, this report provides the following information:

- Summarizes the accomplishments of the delivery order.
- Describes the activities of the delivery order, including locations and individuals involved, and the significance of these activities to the beneficiary organization.
- Describes the methods of work.
- Reports on the training.
- Provides comments and recommendations.

A. Accomplishments

The purpose of the Zambia Privatization Support project was to provide technical assistance to the ZPA, under the aegis of USAID, as part of Zambia's Structural Adjustment Program. The four-person team was originally scheduled to assist with four tasks. During the six-month project, the team accomplished the following, by task:

Task 1 - Help complete sales of companies in Tranche One. The team had no input into accomplishing this task; instead, the task was delegated to the Price Waterhouse-supported team.

Task 2 - Collect and analyze information for Tranche Two companies, including assessment of strategies for divestiture and potential sales values.

- Designed a standard questionnaire for data collection used to collect and update data on 17 Tranche Two companies:
- For 12 companies, reviewed privatization studies to assess strategies for divestiture and prepare companies for sale.
- Developed divestiture strategies for six companies.
- Prepared and/or updated memoranda of sales for eight companies.
- Assessed potential company values and asset values for 11 companies.
- Advertised six companies for sale, with three reaching actual negotiations for sale, and concluding negotiations for one company.

Task 3 - Design the methodology and prepare the first public flotation, assessing impact.

- Prepared flotation action plan, describing the proposed time table and listing tasks required to complete the first public flotation.
- Identified roles and responsibilities for **Zambian** financial institutions and established liaison networks.
- Provided assistance to the World Bank-funded stock exchange team, providing inputs to the new Securities Act, Stock Exchange rules and regulations, prospectus design, etc.
- Drafted public prospectus for one company based on rules outlined in the new Securities Act. Drafted terms of reference and a budget and contracted for printing 100,000 copies of prospectus. Solicited indications of interest to market the prospectus and received indications from 12 financial institutions.
- Formed a flotation team comprised of members from legal, marketing, planning, and development departments of ZPA.
- Prepared several articles, published by the **Zambian** press, for educating the **Zambian** public about public flotations and their role in the privatization process.
- Held negotiations with minority shareholders to facilitate first public flotation.
- Approached two back offices to provide financial services for the first public flotation.
- Concluded negotiations and reached a signed agreement for sale of shares of one of **Zambia's** largest industrial companies. This agreement calls for a 30 percent public flotation in the first half of 1994.

Task 4 - Develop a national and international publicity and marketing campaign to assist in the sales of parastatal companies.

- Designed and implemented a weekly question-and-answer column in a leading **Zambian** newspaper to increase public awareness about the privatization program.
- Drafted educational brochures on the privatization program.
- Drafted terms of reference for a radio program in **Zambia**.
- Prepared and issued press releases to announce benchmarks in the privatization of several companies as well as to counter allegations on the privatization program.

- Evaluated other publicity and media strategies.

B. Activities

The team provided privatization technical assistance in business analysis, public flotations, and public relations. These activities were critical in assisting the ZPA to continue its privatization program and to meet the goals of Zambia's Structural Adjustment Program. Activities included:

B1. Business Analysis

Individual: James Joseph, team leader/business analyst

Period of Performance: April 14, 1993 - September 30, 1993

Level of Effort: 134 days

Location: Lusaka and other cities in Zambia

- Conducted field visits to companies slated for privatization/divestiture.
- Discussed divestiture options and modes of sale with ZPA and the consulting entities responsible for their privatization.
- Reviewed privatization studies for selected companies, provided detailed comments, and identified issues requiring resolution prior to privatization.
- Met with management of companies slated for privatization to discuss background, current situation, and future prospects and to outline ZPA's requirements in each functional area to facilitate data collection for preparation of the privatization strategy.
- Developed methodology, approach, and content of valuation reports.
- Provided assistance in restructuring financial and operational information and in preparing memoranda, action plans, and advertisements for upcoming sales.
- Prepared company profiles for all SOEs in Zambia.
- Held regular consultations with senior management of targeted companies to discuss privatization action plans, liabilities, etc.
- Prepared instructions for a tender package and confidentiality agreements for prospective purchasers of one company.
- Held discussions with ZPA management on criteria for evaluating bids.
- Held discussions with environmental consultants on environmental assessment studies for Tranche Two companies.

- Prepared board papers for the mode of sale for five companies.
- Finalized draft confidential memoranda for specific companies.
- Prepared and discussed with senior management of ZPA a review of the social impact of asset sales vis-à-vis the sale of separate legal entities.

Individual: Steven Weddle, business analyst

Period of Performance: April 23, 1993 - October 18, 1993

Level of Effort: 126 days

Location: Lusaka and other cities in Zambia

- Assessed financial data for selected SOEs, using computer model to evaluate World Bank conditionality parameters.
- Drafted and finalized terms of reference for conducting company valuations.
- Reviewed and made recommendations for modification, as required, of specific valuations.
- Arranged presentations on valuation for ZPA staff.
- Provided assistance in facilitating prospective buyers' field visits to selected sites, accompanying teams when necessary.
- Met with minority shareholders and negotiation teams.
- Prepared reviews of press releases announcing the start of negotiations with shareholders for participation in sales of selected companies, in particular for minority shareholders.
- Reviewed minority shareholders' price offers and supporting assumptions, compared them with ZPA offers, and helped devise a negotiation strategy, particularly in price issues.
- Arranged and assisted with the second review by ZPA of a draft valuation presentation prepared by a contractor.
- Reviewed and edited a sales agreement for a company and organized a meeting with minority shareholders to discuss it.
- Organized and conducted meetings with legal counsel and ZPA advisors to review draft memoranda of agreement for a company being sold.

- Reviewed pertinent data and assigned financial data collection tasks to commence drafting the company's Confidential Information Memorandum as part of the sales process.
- Oversaw drafting of letter to ensure that proper procedures will be followed in honoring preemptive rights of minority shares and the transfer of a company's shares, necessary to advance negotiations. Oversaw the press release announcing the sale.

B2. Public Flotations

Individual: Michael McWherter, flotations specialist

Period of Performance: April 23, 1993 - December 21, 1993

Level of Effort: 196 days

Location: Lusaka and other cities in Zambia; Nairobi, Kenya

- Prepared draft terms of reference for consultants to prepare the valuation and to develop and conduct the sales strategies of selected companies.
- Prepared draft negotiating team guidelines for three companies ready for sale.
- Submitted recommendations to the Minister of Commerce regarding policy changes to facilitate the sale of selected companies.
- Developed procedures to help ZPA conduct negotiations with prospective buyers.
- Prepared an agenda for the first minority shareholder meeting for one company. Led the meeting and prepared a follow-up letter for the chairman covering discussion points.
- Reviewed draft memoranda of sale and draft financing plans; prepared draft prospectuses for selected companies.
- Prepared a stock flotation plan and timetable. Held discussions with ZPA staff to begin work on flotations as part of the sales process.
- Met with management of major financial institutions to solicit their thoughts and involvement in possible stock flotations.
- Organized "Flotation Team" group to meet weekly.
- Prepared an article on stock flotations for the local newspaper.
- Met with staff of the Ministry of Finance to discuss debt-for-equity possibilities as a sales strategy.

- Met with a World Bank-funded capital market team; developed the outline of an action plan for creating a prospectus incorporating proposed guidelines submitted by them; and attended a meeting in which comments were discussed with the Stock Exchange formation team.
- Attended the first Lusaka Stock Exchange seminar and arranged for the attendance of several ZPA managers.
- Organized meetings with stock exchange principals for prospective brokers including a stock exchange formation team from Washington, D.C.
- Attended a meeting in which the role of the proposed Trustee of the Privatization Trust Fund was discussed.
- Chaired a negotiation team meeting for one company; prepared a board paper requesting approval to initiate discussions on the divestiture on share holdings of another.

B3. Public Relations

Individual: Friedrich Jaeger, public relations specialist

Period of Performance: April 27, 1993 - July 23, 1993

Level of Effort: 73 days

Location: Lusaka, Zambia; Malawi; South Africa

- Developed a short-term public relations and advertising campaign and drafted a media strategy. Assessed local printing and public relations firms capabilities to handle anticipated work load.
- Provided assistance to the Zambian press to prepare them for inquiries and related issues once actual sales and divestitures were announced, including the preparation of press kits and press releases.
- Identified leading foreign correspondents and important press/media contacts in the region.
- Prepared news articles on Zambia's privatization program.
- Developed a special article on privatization for a local newspaper.
- Developed a weekly column for two local newspapers.
- Prepared draft sale advertisements for selected companies.
- Held discussions to produce a music video clip with a privatization message as part of a public awareness campaign; provided assistance to the ZPA in preparing the

tender documents for this video production and for a TV and radio advertising campaign for ZPA.

- Held discussions with the Social Impact Department for the production of a ZPA information package to be disseminated to workers of affected SOEs.
- Provided assistance in drafting press releases regarding the signing of sales contracts for privatized companies.
- Drafted advertisement and media plans regarding upcoming sales in European and U.S. markets.
- Prepared a draft of ZPA's Annual Report.

Individual: Douglas Herman, public relations specialist

Period of Performance: August 8, 1993 - October 2, 1993

Level of Effort: 47 days

Location: Lusaka, Zambia

- Reviewed and assessed work to date, developed a work plan, and determined short- and medium-term objectives for the publicity program. Received approval of the plan from the ZPA Publicity and Marketing Department.
- Prepared the copy and proposed layout for a general brochure on the privatization program.
- Reviewed tender (sale) documents for selected companies.
- Prepared press releases announcing the sale of seven companies.
- Held discussions with the *Times of Zambia* to secure free space for a weekly ZPA question-and-answer column, with four columns appearing subsequently.
- Drafted a proposal to secure speaking and writing skills training for ZPA staff and presented it to ZPA management.
- Prepared the text and layout for a brochure on the social impact of privatization.
- Organized and held a strategic planning meeting with the ZPA director and advisors to determine programs and plans of action for pending publicity projects.
- Provided assistance in the preparation of ZPA's response to allegations from a company slated for privatization. Also directed a press conference to clarify ZPA's position.

- Met with World Bank representatives to expedite their sponsorship of a radio program on privatization.

C. Methods of Work

The methods of work used are itemized below:

- Review of pertinent documentation.
- Discussions and meetings with ZPA personnel, other government officials, news media, shareholders.
- Financial analysis (manual and computer-aided).
- Writing of action plans, prospectuses, brochures, news articles, memoranda of sales, terms of reference, etc.

D. Training

Training under this project was limited to on-the-job training for department head counterparts in the ZPA by each of the four specialists on the project team.

E. Comments/Recommendations

The following comments and recommendations are offered to assist USAID in structuring follow-on privatization work:

- The lack of a specific training component was a weakness on this project. While there was some on-the-job training, counterparts in the ZPA could have benefitted from structured training courses. Additionally, due to the consultants' workload, they had little time to spend with ZPA personnel who showed a willingness and aptitude to learn.
- Flotation has not occurred due to the delay in finalizing negotiations with minority shareholders in the four large target companies. Negotiations with minority shareholders with preemptive rights was lengthy and at times difficult. The status of the four companies is:
 - One company, Chilanga Cement, should be ready for ministerial signature soon, followed by a float.
 - Two companies need to finalize negotiations.
 - One company will require a direct sale.
- The Lusaka Stock Exchange is close to opening and may make the February deadline. The success of that market requires the supply of quality issues by way of flotation.

- Until the Government of Zambia displays the political will to move into a free and open market economy and control the obstructionist actions of individuals and/or groups with vested interests in maintaining the status quo, privatization will continue to be a non-event. Privatization, in and of itself, is not a panacea for the masses. However, it is a means of creating an environment conducive to equitable distribution of the country's wealth. The existence of this small vested minority is depriving the majority of the population of Zambia their fair share.

We understand that the government is taking steps to restrain this minority. If this happens, the long-term team has a real opportunity to make great strides in moving Zambia forward.

- While we experienced a problem with one team member, overall the project team understood the scope of work and was able to accomplish the majority of the tasks. Additionally, team members appeared to develop good working relationships with most ZPA counterparts and with USAID officials.

ANNEX

STATEMENT OF WORK

BACKGROUND

The Zambia Privatization Agency (ZPA) was formed in mid-1992 based on the Privatization Act passed at the time. ZPA is responsible for the privatization of over 170 state-owned enterprises (SOEs) during the next five years, as a key requirement of Zambia's Structural Adjustment Program. The companies to be divested range from very small firms (such as travel agencies and dry cleaners) to the country's copper mining firm Zambia consolidated Copper Mines, a conglomerate earning over 90% of the nation's foreign exchange.

Although just recently formed from the prior Technical Committee on Privatization, the ZPA has already laid the groundwork for the privatization process and commenced divesting. Currently under Tranche One, all SOEs are in the preliminary stages of negotiations for sale. The tranche is expected to be completed over the next four months maximum, and its 19 firms divested.

The Cabinet has decided upon the 29 companies which are to be sold under the Tranche Two. These companies are both larger and more complex than those included under Tranche One. Their names have just been advertised as being readied for privatization.

ZPA will receive extensive assistance in its tasks from lead donor USAID, including a long-term technical team to commence about August 1993. The Germans, the Norwegians, the World Bank, and UNDP will also provide assistance in packaging companies under their areas of expertise, and in the social aspects of privatization. However, there is a need to bridge the gap of assistance on finalization of Tranche 1 and development of Tranche Two until the long-term USAID team can arrive.

ARTICLE I - TITLE

Zambia Privatization Support Project

(PROJECT NUMBER: 611-0230)

ARTICLE II - STATEMENT OF WORK

The contractor will provide four Senior Privatization Specialists as short-term consultancy assistance for the following four tasks:

- 1) Participate in the completion of sales of those companies in Tranche 1, including follow-up of technical consultants (esp. legal) and ensuring that tasks are completed as scheduled;

- 2) Collect and analyze information for Tranche Two companies, including assessment of strategies for divestiture and potential sales values. This will include assignment to specific companies from commencement through negotiations, and some review of companies in the Tranche which are being assessed by other consultants;
- 3) Prepare the first public flotation, design the methodology for future flotations, and assess issues such as impacts of US Regulation 8 on the Zambian flotation and US participation.
- 4) Commence the development of both a national and international publicity and marketing campaign in order to assist in the sales of parastatal companies and for domestic public education in the publicity campaign which is tailored towards specific groups such as parliamentary members, parastatal management and employees, private sector, the academic community, both the rural and urban public, and donors.

Like many privatization programs, this one requires dealing with confidential materials on a day-to-day basis. All team members should therefore have a high degree of discretion, and be capable of working as a team with Zambians and other consultants in a high-pressure environment. These consultants will hand over to a long-term institutional team beginning about the beginning of the fifth month of service; their work must be conducted with this in mind.

Tasks #1 and 2 are the core work of the Zambia Privatization Agency, and two Business Analysts/Sr. Privatization Specialists are needed to assist the ZPA in this important tasks. These Business Analysts should have post graduate degrees (unless otherwise authorized by USAID/Zambia) in finance, accountancy or business and should have some understanding of the issues related to privatization, public sector reform or rationalization. They should also have a good understanding of issues related to planning and corporate finance, debt, stock flotation and management payouts, as well as labor issues. It would be helpful if at least one of these individuals came from an economic background and one from a merchant banking background. Zambian experience would be an asset.

Task #3 requires a Privatization Specialist who has an understanding of both developing countries and flotation. He/she should be experienced in designing strategies and techniques for public floatations in countries where potential shareholders are unsophisticated, and where (currently) only commercial banks may trade in shares. (There are plans for a stock market, but this has not yet been developed.) The Specialist must have an ability to be creative and innovate in an environment where the market rules and requirements are rapidly changing.

Task #4 needs an economic journalist/Privatization Specialist. This individual should have extensive business/journalist contacts in Europe and the U.S. and proven success in writing publicity and developing markets for campaigns. He/she will have knowledge of privatization and international investment promotion, and proven capacity to communicate effectively on both domestic information and international sales campaigns for either privatization or international investment.