Zambia's nationalisation

Any lessons for South Africa?

At the ANC Youth League's recent congress it again called for the nationalisation of South Africa's mines. **Neo Simutanyi** discusses the Zambian experience with widespread state ownership of mines and other enterprises, and from this draws lessons for South Africa.

State-owned enterprises (SOEs) have been key instruments in the development efforts of most African countries. In the 1990s their contribution to the GDP (Gross Domestic Product) of African states ranged from 10% to as much as 40%, and SOEs contributed up to 50% of formal sector employment.

SOEs have engaged in virtually every aspect of economic activity, including mining, agriculture, railways, electricity, water and telecommunications.

After independence from colonial rule there was a rapid growth in SOEs in many African countries. This flowed from the desire to reduce the dominance of foreign-owned enterprises, the need to promote alternative technologies and the absence of local private entrepreneurs.

Political leaders also saw SOEs as mechanisms to maintain themselves in power. With political elites under intense pressure to provide employment and redistribute public resources, a large SOE sector enabled them to reward followers and win their political support.

However, much reflection and writing over the past two decades has underscored the disappointing performance of African SOEs.

Critics have pinpointed inefficient and unprofitable operations, large deficits, insignificant contributions to government revenue or a heavy reliance on government subsidies, inappropriate pricing policies and decisions as well as poor investment decisions. Finally, critics point to the problem of bloated workforces and chronic management problems as SOEs tend to be managed by badly qualified political appointees.

Supporters of nationalisation argue that SOEs can promote employment creation, income redistribution, regional equity, appropriate technologies and export promotion. However, such benefits have been very limited in Africa.

SOEs have been inadequate in providing public services and generating wealth, mainly because, as R Tangri argues, 'Those in control of the state have used public resources and their positions within the public service in ways designed to further the twin goals of retaining power and material accumulation.' Against this background many African countries had pressure put on them to open up their economies by privatising SOEs.

Zambia embarked on an aggressive privatisation programme between 1992 and 2000. This saw the closure, commercialisation and sale of more than 200 state enterprises, including the former mining conglomerate, Zambia Consolidated Copper Mines (ZCCM) (see page 44).

Privatisation for a country rests on the idea that it will bring in new capital, managerial expertise and technology, and that it will respond appropriately to market forces. But its social costs have led to fresh demands for nationalisation in many countries, including Zambia.

SELLING SOEs

At independence Zambia inherited a foreign-dominated economy designed to benefit a few, and nationalist leaders promised to redress this.

In 1968 President Kaunda announced a nationalisation programme that affected 28 concerns, but did not include the strategic copper mines, the source of most of Zambia's foreign earnings.

However, in 1969 the country's two major mining giants, Roan Selection Trust and American Metal Exchange were placed under state control. This was followed by

the take-over of privately-owned financial institutions, excluding foreign banks, in 1970.

State participation in the economy was justified by the official philosophy of Zambian humanism, defined as a path towards socialism.

By 1980, the share of SOEs in total GDP and formal employment was put at 56% and 54% respectively. SOE activities included mining, agriculture, hotels and tourism, milling, brewing, housing construction, transportation, electricity, water, timber and wood products and bakeries. New state ventures were also established.

As in other African states, Zambia's SOEs performed poorly. This was for reasons such as the use of inappropriate technology, dependence on imported raw materials, inexperienced management, misappropriation of resources by government officials appointed to run them, and monopolistic environments.

The SOEs were inefficient and required heavy government subsidies. An additional factor for their failure was the collapse of copper prices and deteriorating terms of trade. The output of copper rapidly fell from 710 000 tonnes in 1974 to 463 000 tonnes in 1986.

According to EC Kaunga, there were also other contributing factors. These included poor capitalisation, poor management because of political appointments and frequent changes of chief executives, lack of accountability and monitoring systems, and conflicts between commercial and political and social objectives. Acute shortages of foreign exchange and state interference also played a part.

As the government's legitimacy began to decline amid a prolonged economic crisis, SOEs became an extension of the civil service. President Kaunda appointed their chief executives, the state made conditions of service for employees the same and the government set or influenced pricing decisions.

The state also extracted funds from profitable SOEs and made them meet government obligations.

For example, government required the ZCCM to give jobs to loyalists of the ruling party and to provide finance for the purchase of luxury vehicles for ministers.

However, for most of the 1980s, ZCCM was unable to pay dividends to the state. Indeed, at the beginning of the 1990s the government was subsidising it to the tune of US$1-million a day.

PRIVATISATION AND PROBLEMS

Between 1980 and 1990 Zambia's political leaders grappled with reforms designed to make SOEs perform better. In response to the recommendations of international financial institutions, it commercialised, privatised and even closed SOEs and reduced their workforces.

In May 1990 President Kaunda announced the government's decision to 'devolve more economic power to the Zambian people' by selling 40% of its shares in Zambia Railways and the Zambia Electricity Supply Corporation, and up to 49% of its shareholding in mining, industrial and commercial enterprises.

SOE boards now had to include private businessmen, while the role of ministers and senior civil servants was reduced, although not eliminated.

But it was not until the change of government in 1991 that the reform movement gained real impetus.

In December 1991 the new president, Frederick Chiluba announced that 'the government is committed to total privatisation of the parastatal sector.' In 1992 the Zambia Privatisation Act established the Zambia Privatisation Agency, while government legislative amendments made it possible to sell state enterprises established under its own laws.

The new legislation provided for the sale of a percentage of the shares of especially the large companies to the public through the stock exchange. Since no stock exchange existed up to 1992, the government set up one by enacting the Zambia Securities Act.

Under one of the most aggressive privatisation programmes undertaken by any African country, government privatised or liquidated most Zambian SOEs during the 1990s. In 1996 the World Bank observed that, 'Zambia has the most successful privatisation programme to date and the experience there offers many examples of best practice.'

The exception was ZCCM, which the government was reluctant to sell because it was economically strategic and even a symbol of sovereignty. However, Zambia was subject to IMF/World Bank conditions and in 2000, after protracted negotiations, government privatised ZCCM which was broken up into small mining entities. The country's biggest mining company went for well below the market price for US$35-million.

Tangri has identified several problems during the privatisation process. These included the lack of public resources to settle the liabilities of privatised companies and the difficulty in determining a sale price and many SOEs were sold at below the market price. Also there was a problem of finding local buyers with enough capital, technology and expertise.

Privatisation also tended to favour political cronies, most of whom lacked capital and expertise.

The privatisation process also faced strong opposition from those in government who feared losing political influence. There were serious divisions over mine privatisation in government, and some dissident ministers were dismissed.

The main challenge was how to deal with workers facing retrenchment, as the government could not afford severance packages.

At least 50 000 people lost their jobs, and thousands of former workers have still not received severance benefits.

Another problem was the sale of assets to unsuitable investors. For example, the Luanshya mine of the Roan Mining Corporation was sold to the Indian-owned Binani Group, which had no mining experience. Within months, the company had stopped paying wages and resorted to stripping fixed assets.

The privatisation process lacked transparency and involved corruption, while negotiators sold certain assets at 'give-away prices'.

Zambian Watchdog

When President Levy Mwanawasa announced in August 2003, that Indian Company Vedanta Resources had bought Konkola Copper Mines there was relief until the details emerged later. Within three months, Vedanta announced profits of USD26million. KCM is exploiting weak laws and relying on the Development Agreements to maximize its profits at the expense of labour, safety and the environment.

One benefit is that privatisation has virtually eliminated the need for the government to bail out loss-making entities. It has also introduced more competition and enhanced efficiency. While Zambia faced acute shortages at the height of the SOE era, goods and services have expanded and improved in quality.

LESSONS FOR SA

There is much debate in South Africa about nationalising the mines and re-nationalising strategic companies formerly under state control. The ANC (African National Congress) Youth League for example has been arguing that the mines and energy companies should be state-owned because they are strategic to the economy and also state ownership is in line with the Freedom Charter and the ANC's redistributive programme.

In a country with glaring income inequalities, generalised poverty and racial inequity there is a good case for state intervention in the economy. But it is important not to repeat the mistakes of the past.

SOEs can operate profitably and efficiently and there are examples of successful state enterprises in the developed world. But in Africa, external and internal factors have combined to thwart nationalisation. In particular, political patronage and political interference in state-owned companies lay behind their failure.

South Africa is not exceptional. Since it attained political freedom it is behaving like any other African country, with the politics of patronage and cronyism prevailing. Political deployment has undermined the efficiency of SOEs, while the ANC has adopted increasingly populist postures to stay in power.

Many South African state companies are loss-making and survive through Treasury grants. In that context there seems to be no good reason for the state to take on more responsibilities.

The lesson that South Africa can learn from Zambia is that when the state cannot efficiently and competently run enterprises they should be left to the private sector.

Zambia had a very small indigenous private sector at independence, and nationalisation was intended to fill that gap. But South Africa has an established and competent private sector, which plays a significant role in the economies of southern Africa and the rest of Africa. To nationalise in current conditions would have far-reaching political and economic repercussions for the country.

While the intentions behind the rethink on privatisation may be noble, it is doubtful that the current ANC leadership can use SOEs to generate employment and redistribute wealth. It is widely acknowledged that most of Zambia's economic difficulties flowed from excessive state intervention.

Today, many politicians and bureaucrats no longer favour the idea of the state engaging in business. As a former Zambian finance minister said: 'Our experience… shows that the state is incapable of managing commercial activities and that bureaucrats cannot run business enterprises.'

CONCLUSION

The failure of some SOEs in South Africa does not generate optimism that there is the capacity to run state companies efficiently and profitably. Patronage politics now dominates South Africa and nationalisation will only provide opportunities for the political elite to abuse state enterprises for political purposes.

Unlike the elites of East Asia, who have strong developmental goals, African post-independence elites appear to be driven far more by political and personal concerns. As Tangri observes: 'From the very onset the new leaders were concerned with the twin concerns of staying in power and building an economic base for themselves.'

Redistributive justice should be achieved in other ways, through innovative taxation policies and state regulation. LB

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