

MID-TERM EVALUATION OF THE USAID FUNDED ZAMBIA PRIVATIZATION PROJECT

Final Report

U.S. Agency for International Development

Prepared for:

USAIDIZambia

Prepared by:

SRI International, Inc.

Sponsored by:

Private Enterprise Development

Support Project III

Contract No. PCE-0026-Q-OO-3031-OO

Delivery Order No. 23

Prime Contractor: Coopers & Lybrand, LLP

March 1996

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Peter Carr, Consultant to SRI International, Inc.**

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PREFACE

The purpose of this document is to provide a mid-term evaluation of the USAID funded Zambia Privatization Support Project. The overall intent is that this evaluation will provide USAID, ZPA, and CFED with an objective and rational basis for making decisions about future privatization program and project priorities.

The evaluation project was undertaken by Peter Boone of SRI and Peter Carr, Consultant to SRI under this project. The authors would like to thank USAID/Zambia, ZPA, CFED, and all other individuals, companies and government officials in Zambia who contributed to this report. The findings and recommendations, however, as well as any errors and omissions, are solely the responsibility of the evaluation team.

EXECUTIVE SUMMARY

PRINCIPAL FINDINGS

Following a slow start in 1993-94, not uncommon for privatization programs of this kind, the Privatization Support Project is now on track to achieve (and exceed) all of the substantial goals and objectives set forth in the Project Paper and Contractor Agreement. The GRZ, USAID, the ZPA, CFED, and the major sub-contractors should all be credited with very strong performance to date. This highly favorable overall performance is particularly noteworthy, given the serious initial constraints the project faced including: ZPA and CFED personnel turnover at the senior levels, political constraints (ZIMCO), the initial ZPA Board indecisiveness, and serious overall logistical constraints telephone, fax, other operational support problems.

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If the project maintains current momentum, the evaluation team believes it could become one of USAID's most successful private sector initiatives in Africa in recent years and the ZPA privatization program could serve as a model for the African continent.

Transactions Progress

As of end-September 1995, 31 companies had been privatized (sales agreements concluded) under the ZPA program compared with overall life-of-project target of 50-75. From the start of the CFED contract (February 1994) through end of September 1995, sales agreements have been concluded for 22 companies compared with a target of 50 for the life of CFED's contract. In addition, six companies were dissolved or liquidated between 1993 and September 1995. As of October 1995, privatization sales had raised some \$26 million in proceeds for GRZ.

Given the current pace of privatization, the evaluation team believes the ZPA is on course to exceed the target set in the Project Paper of privatizing 50-75 companies during the life of the project. These forecasts for transactions to be completed are based on the following:

- The large numbers of companies in the “transaction pipeline” (68 companies had started, but not yet concluded, negotiations in October 1995);
- ZPA staff have improved and tightened procedures considerably over the past two years (valuation, advertising, board submissions and approvals, negotiations);
- Training and skills development in negotiations have improved the quality of negotiations and as a result, negotiations time is dropping (from 2 months 2 years to as little as 1 day);
- Overall momentum for privatization has been built and there are no major baffleers in sight for privatizing the remaining 145 or so companies in WA’s divestiture sequence plan.

Training/Institutional Development

There has been significant interaction and on the job skills transfer between the CFED advisors and Zambian counterparts at the ZPA. The evaluation team considers that “on-the-job” training has been an important contribution of the CFED contractor team.

In terms of more formal training the following activities have taken place under the project:

- Negotiations skills workshop training by Ostrer and Associates, highly effective in teaching directly applicable negotiating skills that resulted in faster negotiations with clearer objectives.
- CFED training program sharpened privatization and transactions skills of ZPA staff.

Key ZPA staff and other Zambian officials directly involved in privatization also benefited from third country training under the Privatization Support Project including:

- International Law Institute: courses in legal aspects of privatization and capital markets development

KEY FACTORS IN PROJECT SUCCESS TO DATE

It is the assessment of the evaluation team that there are a number of factors which have been key in project success to date. Many of these factors have acted as “turning points” in the successful implementation of the privatization program. Without some of these issues resolved, the project would not have been so successful and or could have even stalled as a complete failure. The principal success “drivers” to date include:

Institutional Factors

- ✓ .Recruitment of top level Chief Executive, following a world-wide search.
- ✓ Strong commitment and technical strength of CFED advisors, who have been willing to assist local staff, but also have been ready to “roll up their sleeves¹” to get the job done.
- ✓ Highly effective training course in negotiations skills delivered by Ostrer and Associates to a solid cadre of independent negotiators. The approach taken emphasizes greater flexibility through a “total value package technique,” and negotiating time has been reduced substantially as a result of the training course.

In the sections below the evaluation team assesses achievements to date in each of the four component areas.

Privatization Transactions

As of end-September 1995, 31 companies had been privatized (sales agreements concluded) under the ZPA program compared with overall life-of-project target of 50-75. During this same time period, some sales agreements for some 48 business units were concluded⁶. From the start of the CFED contract (February 1995) through the end of September 1995, sales agreements have been concluded for 22 companies compared with a target of 50 for the life of CFED's contract. In addition six companies were dissolved or liquidated between 1993 and September 1995. As of October 1995, privatization sales had raised some \$ 26 million in proceeds for GRZ.

Given the current pace of privatization, the evaluation team believes the ZPA is on course to exceed the target set in the Project Paper of privatizing 50-75 companies during the life of the project. These forecasts for transactions to be completed are based on the following:

- The large numbers of companies in the “transaction pipeline” (as of end of September 1995, 68 companies had started, but not yet concluded, negotiations);
- ZPA staff have improved and tightened procedures considerably over the past two years (valuation, advertising, board submissions and approvals, negotiations);

Training and skills development in negotiations have improved the quality of negotiations and as a result, negotiation time is dropping (from 2 months -2 years to as little as 1 day);

- Momentum has been built and there are no major barriers in sight for privatizing the remaining 145 or so companies in ZPA's divestiture sequence plan

F. Other Contractors

Ostrer and Associates. This company provided training in the area of negotiations skills development. The training was delivered to WA staff, WA Board Members, government officials, politicians, members of the press, local professionals, and local business executives who were interested in being independent negotiators for the ZPA. A total of eight workshops for 20-40 participants each were given between October 1994 and November 1995.

The training program taught the art and business of negotiating deals to the mutual satisfaction of buyer and seller. The CFED team worked very closely with Ostrer and Associates in the development of the privatization case studies and materials used in the negotiations skills training courses.

The course was given almost universal superlatives by participants in terms of its effectiveness in teaching negotiating skills directly relevant to the Zambian privatization deals. The training program also gave participants the opportunity to discuss the goals and objectives of the privatization program and the importance of the program to the Zambian economy. The course was also credited with helping improve public opinion on privatization by giving participants a clearer understanding of the goals, objectives, and benefits of privatization.

In addition to the negotiations skills training, Ostrer and Associates was contracted to provide ZPA with model legal sales agreements. Under this contract, Ostrer and Associates provided both a model for a share purchase agreement and a model for an asset sale. Attorneys hired by ZPA to draft the legal sales agreements found both models to be useful, thorough, and helped provide them with a clearer picture of ZPA standards and expectations for the legal agreements.

Following the analysis of the bids, a document is produced for the ZPA Board for the purpose of requesting approval and negotiating authority to proceed with negotiations with the selected bidder or bidders. This document provides background details on the company to be privatized as well as a summary of the bids received and the outcome of the bid evaluation by company. Finally a recommendation is made on which bidders should be invited for bid development sessions with the independent negotiating team.

Negotiations

Negotiation is the most critical step in the transactions process. If negotiations drag or end in an impasse, the goal of privatizing firms is not reached. On the other hand, when the ZPA and its outside negotiators conduct successful businesslike negotiations, it creates a very positive impression to the investor and makes it more likely that the buyers will put forward a favorable bid.

In the first year of the project, negotiations often got bogged down due to lack of flexibility on the ZPA side, and protracted discussions occurred when bids were lower than valuation prices. To overcome these problems, a company called Ostrer and Associates was hired to train independent negotiators, lawyers, ZPA staff, ZPA Board Members, and other privatization stakeholders including some members of Parliament on successful negotiations techniques.

According to the individuals taking the course, the training was highly effective in improving negotiation skills, helping negotiators understand what their objectives are, and what their strengths are. Negotiators also learned about flexibility, trade-offs, and determining what their best alternative solutions are in case their first choice is not realized. Consistent with GRZ privatization objectives, the training program also emphasized a “total value package” approach to negotiations. Under this system important consideration is given to non-price issues such as employment, training, investment, technology transfer, business knowledge and plans etc.

Following the training of a solid cadre of independent negotiators, and with further skills development through practice, the time necessary to conclude negotiations is now dropping considerably. In 1993-94, negotiations lasted in the range of 2 months to 2 years, now the process has accelerated to as little as 2 days with no reported drop in quality or thoroughness of the process. The current ZPA practice is that the negotiators appointed by ZPA must have attended the negotiations skills training course. If the individual has not attended he/she is not considered.