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REVIEW OF THE OPERATIONS AND MANAGEMENT OF ZCCM INVESTMENT HOLDINGS AND ZAMTEL LIMITED COMPANY

Submitted to the

COMMITTEE ON PARASTATAL BODIES

By the

ZAMBIA INSTITUTE FOR POLICY ANALYSIS AND RESEARCH (ZIPAR)

Submitted: 12th April, 2019

Preamble

The overarching objective of this memorandum is to provide an analytical review of the operations and management of ZCCM Investment Holdings and Zamtel Limited Company following the request from the National Assembly for ZIPAR to provide a detailed memorandum on the same to the Committee on Parastatal Bodies. More specifically, the memorandum is expected to cover but not limited to, the following:

i. *How effective is the model adopted by IDC in managing ZCCM-IH and ZAMTEL;*

ii. *What successes have been recorded that positively contribute to economic growth;*

iii. *Extent to which ZCCM-IH and Zamtel are fulfilling their mandate;*

iv. *Recommendations on how to improve the management and operations of ZCCM-IH and Zamtel; and*

v. *Any relevant information that may assist the committee to effectively study the topic under consideration.*

1. Background on the Purpose of IDC

Following the privatisation of the majority of State Owned Enterprises (SOEs) in the 1990s, Government retained ownership of some SOEs primarily due to strategic interests or because the privatisation process was not completed.

The remaining SOEs, spanning across various sectors of the economy, remained under the supervision of line ministries and the Ministry of Finance through the Investment and Debt Management Department. However, Government observed that ministries lacked the requisite commercial and investment expertise as well as resources to effectively supervise SOEs despite having strength in providing policy direction. And typically, SOEs were unable to provide Government with dividends and taxes and thus ensure that Government received a return on investment.

Therefore, in January 2014, the IDC was incorporated and tasked with the responsibility of spearheading the Zambian Government's commercial and investment agenda aimed at strengthening Zambia's industrial base and job creation. The IDC was charged with overseeing Government's portfolio of companies and driving the value addition agenda.

The IDC is wholly owned by the Government through the Minister of Finance pursuant to the Minister of Finance Act cap 349 of the laws of Zambia. IDC currently manages portfolio of 30 SOEs in various sectors such as agriculture, education, energy, financial services and infrastructure. Others are manufacturing, medical, mining, real estate, technology, media and telecommunications, tourism, transportation and logistics.

The IDC focuses on the transformation of SOEs by repositioning the existing portfolio through change of business models, recapitalisation, mergers and divestiture. The ultimate aim of the IDC is maximisation of the value of Government assets.

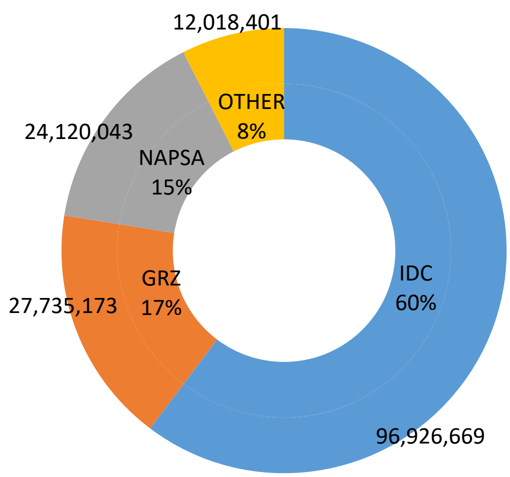
1.1 IDC and ZCCM-IH

The Zambia Consolidated Copper Mines Investment Holdings (ZCCM-IH) is the successor to the erstwhile Zambia Consolidated Copper Mines (ZCCM) which was formed in 1982 to manage and operate about 10 mines. By the year 2000, all operating divisions of ZCCM were privatized and the ZCCM-IH was created to retain minority shares in the new mining companies. ZCCM-IH is the mining sector investment vehicle for the Government of the Republic of Zambia through IDC. Having initially started out as a holding company for the Government's mining assets, overtime; ZCCM–IH has diversified its assets in recent years with assets in sectors such as energy. Currently, ZCCM-IH's portfolio consists of 17 investees in which the company holds minority shares with the exception of 4 companies in which it has 100% stake.

ZCCM-IH shares are listed on the Lusaka Stock Exchange as the primary listing. The shares are also listed, secondarily, on the London Stock Exchange and the Euronext Exchange in Paris, France.

The IDC holds the largest stake in ZCCM-IH with 60.28% of issued shares. Other stakeholders include GRZ which holds 17% of the issued shares, the National Pensions Scheme Authority which holds 15% of issued shares and institutional and individual shareholders from around the world who hold 7.47% of issued shares.

Table 1: Top Shareholders number and % of shares as at 31st December, 2018



Shareholder detail

IDC	**96,926,669 (60.28%)**
GRZ - Directly held through Minister of Finance	**27,735,173 (17.25%)**
NAPSA	**24,120,043 (15.00%)**
Other	**12,018,401 (7.47%)**

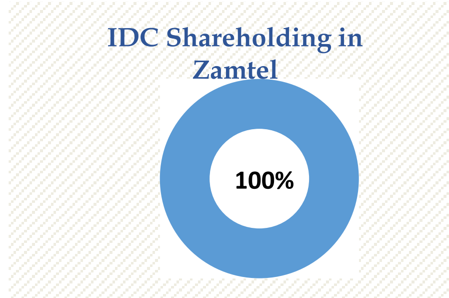
Source: http://www.zccm-ih.com.zm/investor-center/shareholders/

1.2 IDC and Zamtel

Zamtel was established in 1994 after the Post and Telecommunications Corporation (PTC) was split into two entities namely Zamtel and Zampost. Zamtel was mandated to concentrate on telecommunication business.

In 2010, Zamtel was partially privatised by the Government with 75% shares sold to Lap Green of Libya. However, the sale was reversed to 100% Government ownership in 2012. In the same year, pursuant to Government gazette Notice No. 183 of 2012 and the statutory functions Act Chapter 4 of the laws of Zambia, the company was placed under the jurisdiction of the then Ministry of Transport, Works, Supply and Communications.

Upon establishing IDC in 2014, the Government transferred ownership of Zamtel to IDC in 2015 alongside other SOEs. The IDC is now the sole shareholder in Zamtel, on behalf of the Government. The IDC has the direct mandate for authorisation and overseeing the performance and accountability of Zamtel on behalf of Government. For instance, IDC is responsible for appointing the Zamtel Board.



2. The IDC Management Model

In this section, we analyse the effectiveness of IDC's model in managing ZCCM-IH and Zamtel. In doing so, we examine IDC's model by benchmarking against good governance and business management tenets, following the literature by Tirole (2006) and the World Bank. These tenets include the constitution of a Board of Directors that is independent from management and has a clear separation of powers between the Chairman of the Board and the CEO. Other tenets include monitoring and accountability and performance-based incentive schemes amongst other measures. In what follows, we analyse the extent to which IDC has employed these tenets aimed at improving internal control mechanisms, accountability and aligning managers' incentives with shareholders' interests:

Constituting Boards of Directors for ZCCM-IH, Zamtel (and other companies)

The IDC has constituted Boards of Directors for all companies including the two companies under review. Also notable is the diverse composition of the Board for Zamtel and ZCCM-IH comprising of the private sector and Government with financial and technical expertise necessary to understand the financial reports and offer technical support to management.

Independence of Board of Directors from Management

IDC has constituted Boards for both companies that are independent from management. This approach ensures that management is accountable to the Board and shareholders' interests are safeguarded.

Separation of CEO and Chairman of the Board

The IDC has employed the principle of clearly separating the CEO and Chairman of the Board in constituting the Board for the two companies. For instance the Chairman of the ZCCM-IH Board is from the private sector. This will mitigate any conflict of interest from arising.

Monitoring and Accountability

The IDC has introduced the submission of periodic reports (monthly, quarterly, and half-year) as a form of monitoring the performance of the companies. The IDC jointly developed with the companies, uniform albeit slightly differentiated performance matrices aimed at capturing information on the financial, technical and governance performance of the companies. For starters, this has allowed for a more comparable analysis of the companies' performance across the board. Second, regular reporting facilitates continuous monitoring of the performance of the companies which allows for risk management and timely intervention.

Performance-based Incentive Schemes

i. Performance Management Contracts for the Board and Management

IDC has introduced performance management contracts signed between IDC and the boards of ZCCM-IH and Zamtel and between the CEOs of ZCCM-IH and Zamtel and their respective boards making stakeholders accountable for their day-to-day operations. These contracts have clearly defined performance targets for both the Board and the CEOs and are a basis of evaluating the performance of management and the Board. This has also implicitly introduced the threat of dismissal in the event that they fail to consistently meet their targets and thus acts as an incentive for management and the Board to act in the best interests of the company.

ii. Recognition and reward system

The IDC has introduced a recognition and reward system for SOEs which awards SOEs, at an annual conference, for outstanding performance. The awards focus on dividend declaration, governance compliance, pay-out ratios and overall performance, among others. The awards are a mechanism for ensuring that SOEs holistically deliver on different aspects of their performance targets. The awards mechanism also creates an incentive for healthy competition within the IDC group as SOEs can now benchmark their performance amongst themselves and become more efficient and innovative.

iii. Performance-based Bonuses and Perks

Within the new model, IDC has guidelines regarding perks for SOEs which are tied to their performance. For instance, SOEs are encouraged to observe austerity measures. All SOEs that are not generating profits are also directed to downgrade their travel class. Annual bonuses are also being tied to the companies meeting their benchmarks.

Other salient features of the IDC model include but are not limited to the following:

- Development of strategic plans;
- Provision of specialised skills and expertise in Investment
- Submission of audited books of accounts for consolidation by the IDC group;
- General adherence to the various group policies;
- Recapitalization of companies;
- Restructuring and modification of business models;
- Brokering good borrowing terms for its companies as well providing strategic equity partners; and
- Leveraging on intra-group transactions

In summary, the IDC model has all the elements of good corporate and business management practices. The model seeks to improve the governance and performance of ZCCM-IH and Zamtel by improving transparency, accountability, competition, profitability and overall, the operations and management of ZCCM-IH and Zamtel. The approach allows for close scrutiny of the companies' operations aimed at mitigating specific weaknesses that contribute to the poor performance of parastatals. In this regard, it could serve as an effective tool in managing and supervising Zamtel and ZCCM-IH.

3. Companies' Performance under IDC

In looking at the successes that have been recorded that positively contribute to economic growth, we examine the performance of ZCCM-IH and Zamtel under IDC's governance and management practices (2016-2018) and contrast this to the companies' performance under direct Government ownership and management (2012-2014). Notably, this analysis is subject to data constraints particularly for Zamtel and as such, the analysis is not carried out for all the years. Further, it is important to note that any differences observed in the performance of the two companies before and after IDC merely suggests that the observed changes could be as a result of IDC's management strategy but do not unequivocally attribute these changes to IDC's model[1].

3.1. Contribution to overall economy

Using company level results, we examine the extent to which ZCCM-IH and Zamtel contribute towards revenue generation vis-à-vis taxes and dividends, employment creation and maximising the value of the companies.

[1] There are many other factors that could be attributed to the change in performance. Establishing causality is more demanding with regard to the data and methodological approach

Revenue, Profits, Taxes and Dividends

Zamtel has recorded positive growth in its revenues following the supervision of the IDC. According to the company, revenue streams increased from K641 million in 2015 to K674 million in 2017 despite the dip in revenues in 2016 (see Table 2 below). 2016 was notably a difficult year for businesses owing to the various economic challenges. Further for Zamtel, the company's management was in the process of being restructured which could have adversely impacted their operations.

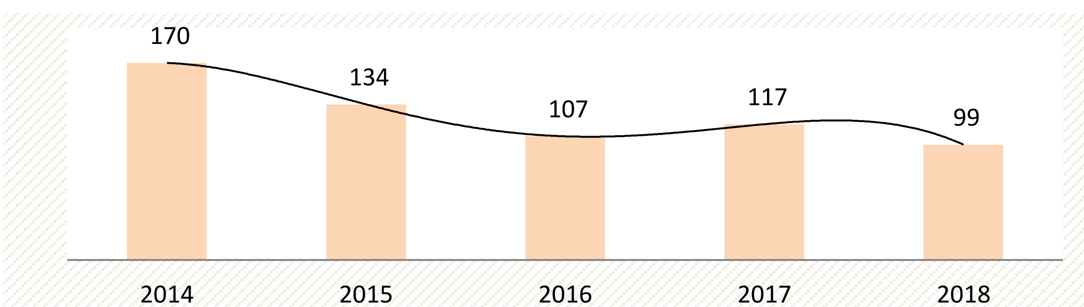
Table 2: Zamtel Revenues, 2015 - 2018

2015	2016	2017
K641 million	K531 million	K674 million

Source: Based on an interview with Zamtel

While disaggregated secondary data on Zamtel's total revenues is not readily available, we are able to analyse one segment of Zamtel's business in which the telecommunications company has monopoly power using data from ZICTA. This is the fixed telephone line also known as the Public Switched Telephone Network (PSTN). Evidently, this line of business has not performed well. Revenues from the PSTN dropped significantly by nearly 60% from K170 million in 2014 to K99 million in 2018 (Figure 1 below). It is worth noting that the fixed line is based on an outdated technology that is costly to maintain and is slowly being phased out.

Figure 1: Zamtel Revenue from the PSTN (ZMW millions), 2014 - 2018[2]



Source: Plot based on ZICTA data

With regard to taxes and dividends, Zamtel's potential to contribute to the Treasury coffers is not yet being realised owing to the unprofitability of the company. This is based on information collected from both IDC and Zamtel. The company however has

[2] Data is only consistently available for the years 2014-2018 which precludes a comprehensive analysis before and after IDC

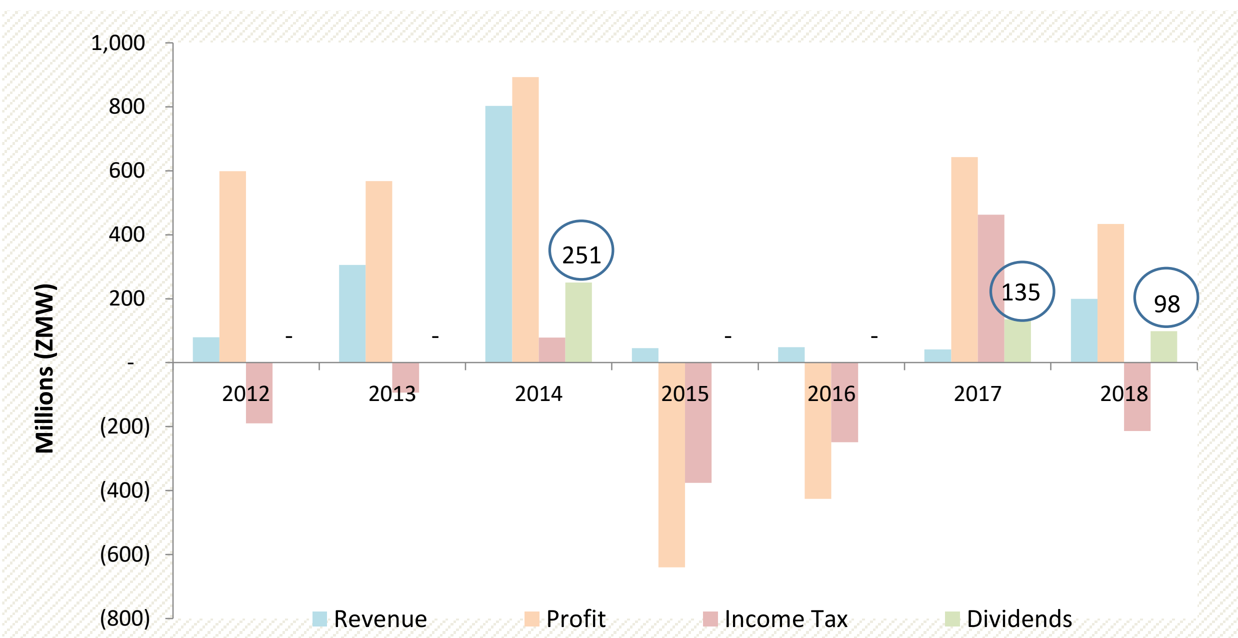
in place a time-to-pay agreement with the Zambia Revenue Authority on how to liquidate these liabilities.

As a listed company, publicly available data on ZCCM-IH permits a more nuanced analysis which reveals that in relative terms, the company contributes more towards the Treasury coffers in respect of taxes remitted for corporate income tax, value added tax and Pay-As-You-Earn. The company is also one of the few companies that have declared dividends to Government and the IDC.

Figure 2 below nonetheless shows that the company's turnover has not only been highly volatile over the years 2012 to 2018, but also dropped significantly in the years in which ZCCM-IH has been under the ownership and supervision of the IDC. From 2012, revenues grew rapidly from K79 million to K892 million in 2014. The drop in revenues between the years 2014 and 2015 was particularly striking. Revenues fell to K45 million in 2015. Although there have been signs of moderate recovery in 2018, revenues still remain below their 2014 peak.

There are varied reasons for the company's unstable revenue performance over the period under review. These include low turnover recorded by various investees mainly as a result of the power crisis experienced between over the period 2015-2016 and low copper prices in international commodity markets. Consequently, the company's profitability has equally been unstable. The company recorded profits in all the years except for 2015 and 2016. ZCCM also remitted taxes in 2014 (K79 million) and 2017 (K463 million) but received tax credits in the other years.

Figure 2: ZCCM-IH Financial Performance as at year end 31st March, 2012-2018



Source: Plot based on ZCCM-IH Annual Reports 2012-2018

Most importantly, ZCCM-IH declared its first dividend in the year 2014 following the transformation of the business in 2000. The company went on to declare dividends to its shareholders in the years 2017 and 2018. In 2014, Government received K219 million and in 2017 and 2018 respectively, Government and the IDC collectively received K104 million and K75 million. ZCCM-IH also loaned US$19 million to IDC in 2018. The purpose of the loan was to allow IDC secure financing for investment purposes.

Employment

ZCCM-IH positively contributed towards the provision of direct employment opportunities under IDC. In addition the company contributes towards the creation of indirect jobs through its investments in various companies. Notably, the number of employees directly hired by ZCCM-IH picked up from 40 in 2016 to 80 in 2018 whilst those in its subsidiaries fell. Table 3 below depicts the full-time employees in Zamtel and ZCCM-IH over the period as well some of the indirect jobs in ZCCM-IH's subsidiaries. Zamtel on the other hand, shed off some employees over this period from 729 in 2016 to 657 in 2018. Arguably, there are other jobs created by the two companies through the various supply chains that feed into the operations of both companies.

Table 3: Zamtel and ZCCM-IH Employees, 2012-2018

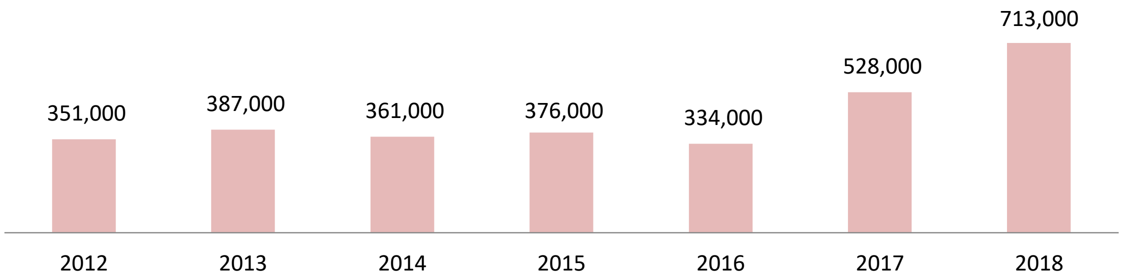
	2012	2013	2014	2015	2016	2017	2018
Zamtel Employees	769	780	837	815	729	674	657
ZCCM Direct Employees	84	60	45	43	40	74	80
ZCCM Indirect Employees	413	465	1,147	1,097	469	365	224

Source: Plot based on ZICTA data and ZCCM-IH Annual Reports 2012-2018

Other Statutory Obligations

The positive contribution of the companies to the economy is further extended through its statutory obligations. ZCCM-IH consistently remitted the national social securities over the period 2012 to 2018 (see Figure 3 below). Although data is not available for Zamtel; the company maintained that it was up-to-date with all its statutory obligations.

Figure 3: ZCCM-IH National Social Security Remittances (ZMW), 2012-2018

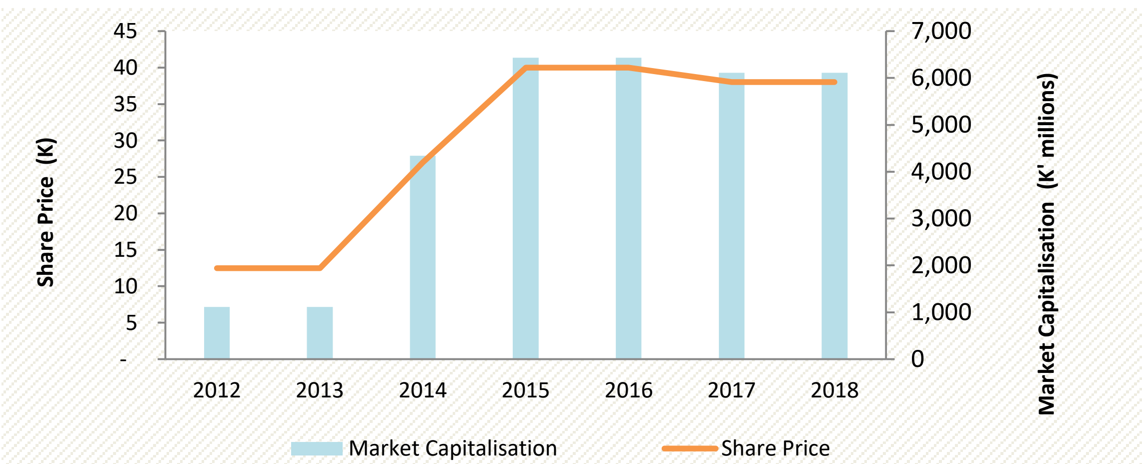


Source: Plot based on ZCCM-IH Annual Reports 2012-2018

Capital gains and market capitalisation

On account of its legal status as a publicly listed company, we analyse the performance of ZCCM-IH's stock vis-à-vis changes in share prices and in the market value of the company over the period under review. The value of the ZCCM-IH share price on the LuSE increased substantially by 204% from K12.5 in March 2012, to K38 in March 2018 (see Figure 4 below). This represents capital gains for shareholders. The largest year on year growth in share price was observed between 2013 (K12.5) and 2014 (K27) which could be a signal of investor confidence in the company. In tandem with these positive developments, the company's market capitalisation – the market value of a publicly traded company – increased significantly from K1.1 billion in March 2014 to K6.1 billion in March 2018. However, the share price reduced to K38 by March 2018 and more recently, to K28.5 in March 2019 resulting in capital losses and a drop in market value.

Figure 4: ZCCM-IH Share Price on LuSE and Market Capitalisation, 2012-2018

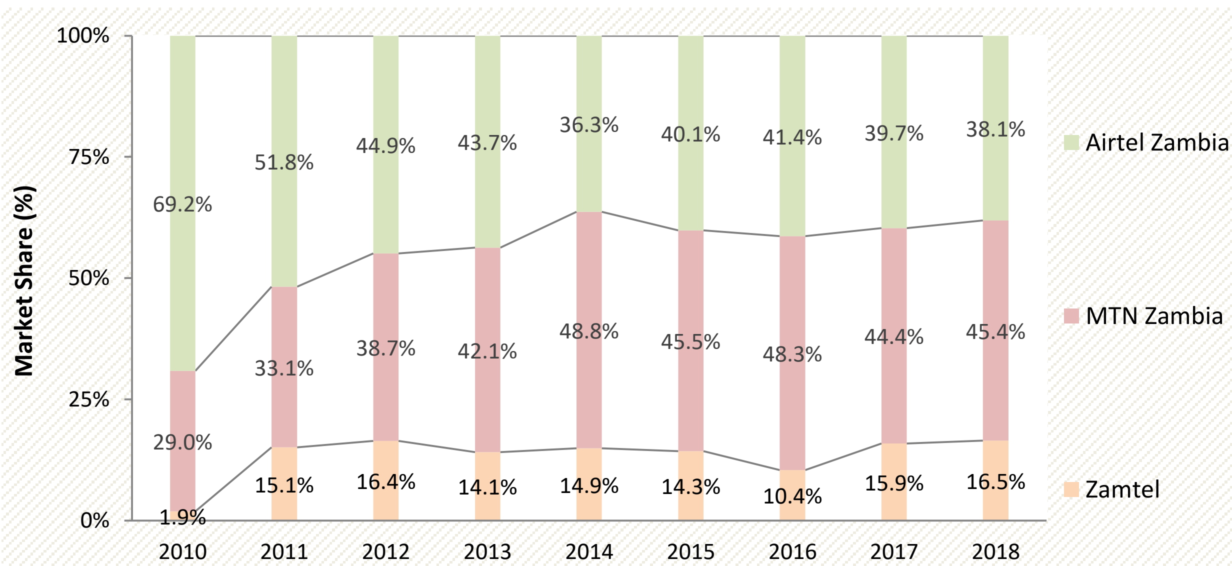


Source: Plot based on ZCCM-IH Annual Reports 2012-2018

Gains in Market Share

The gains in market share are strictly analysed for Zamtel on account of the industry the company operates in. Zamtel has not registered considerable gains in its share of the total subscriptions to mobile network operators following the change to IDC (see Figure 5 below). Historically, the company's market share grew impressively in just 3 years from 1.9% in 2010 to 16.4% in 2012 before declining to 10.4% in 2016. From 2016, the company's market share rebounded growing to 16.5% in 2018, nearly the same market share that the company had attained in 2012. The company's performance however seems to be on a positive growth trajectory and could improve further on account of the measures that have been introduced by the IDC aimed at encouraging competitive behaviour.

Figure 5: Mobile Network Operators' Market Share based on Subscription, 2010-2018



Source: Plot based on data from ZICTA

3.2. To what extent have the companies been fulfilling their mandate?

To effectively answer this question, we refer to the companies' performance and the mandates of the two companies. We begin with Zamtel. Specifically, Zamtel's vision and mission respectively as articulated on its website is:

"to be the prime driver of digital transformation and leading provider of customer-centric ICT solutions and services"

and

“*to enrich lives and businesses through innovative ICT solutions and services*”.

The company aims to achieve this by providing communication services that are relevant, affordable and of quality standard. The IDC articulates Zamtel’s mission slightly different: –

“*Zamtel's mission is to provide cost effective, relevant total communication solutions and services that consistently offer unrivalled customer experience through the use of cutting edge technology and customer focused marketing whilst maximising shareholder value*”.

Notwithstanding the slight variations in articulating the mandate, the shared understanding is that Zamtel is supposed to provide quality modern cost effective telecommunications services and remain commercially viable.

In light of this mandate and its performance, we deduce that Zamtel is not fully fulfilling its mandate and in some respects, not fulfilling its mandate at all. Zamtel continues to lag behind other telecommunications companies in providing modern quality technologies that are demanded by the market. Despite having had the first mover advantage, the company has failed to meet the pace of technological developments in the industry. Notably, the company has recently made some traction under the IDC by introducing a digitalisation drive aimed at providing relevant modern services. The company also recently launched the first tap and pay system in Zambia which demonstrates its commitment to pioneering innovative ICT solutions and services.

Notwithstanding these positive developments, Zamtel has continued to record losses despite the new governance and management measures introduced by IDC. It should be noted however that despite operating in a high growth sector that posted an average growth rate of 10% per annum between 2012 and 2018, the ICT sector’s growth has not been consistent and in some years, was even negative. This suggests that there could be industry-wide challenges facing all ICT companies which in part could have affected Zamtel’s performance.

Another mandate that is less explicitly articulated is Zamtel’s role in supporting Government’s policy objectives in providing universal access to ICT services as espoused in the 7NDP. One stylised justification for government interference in markets is market failure that can result from the inadequate provision of services by the private sector in certain areas deemed unprofitable or the complete lack thereof. Arguably, Zamtel’s investments in telecommunication towers in unserved and underserved areas indicates that the company is fulfilling its mandate in helping the Government provide telecommunication services to areas that have been marginalised, particularly the rural areas. According to the ZICTA 2018 ICT Survey, the coverage of the population by a mobile cellular network at the place of residence is higher in urban areas than in rural areas at 97.8% and 79.7% of the population respectively.

Moving on to the subject of ZCCM-IH, the company's vision and mission respectively is:

"*to be Zambia's leading diversified investment company*"

and

"*to be a transformative company with an investment agenda that benefits all our stakeholders*"

ZCCM-IH is the Government's investment arm whose primary objective is to provide the Government with a reasonable return on investment and the company has been able to achieve this over the past couple of years. ZCCM-IH broke the streak of losses made in 2015 and 2016 and paid dividends to the IDC and other shareholders in 2017 and 2018. However, the company's market value decreased under IDC.

The company has also aligned its mandate with Government's policy objectives of diversification and industrialisation. More specifically in line with the strategic focus areas of the 7NDP envisaged to drive economic diversification and job creation, ZCCM-IH is diversifying its investments into the energy, agriculture and manufacturing sector as well as within the mining sector vis-à-vis mining beneficiation. This is aimed at changing the composition of its investment portfolio that is highly concentrated in mining extraction in line with its mandate and to fulfil the strategic development objectives of its major shareholders.

In summary, ZCCM-IH to a larger extent is fulfilling its mandate going by its performance. Zamtel on the hand continues to struggle despite the new measures that have been introduced by the IDC to improve the company's performance. This could be indicative of the existence of deep-rooted challenges within the company. These are interrogated next.

4. Challenges Facing the Parastatals

From a governance perspective, the model adopted by IDC in managing the two parastatals has been well received. In fact, with ZCCM-IH, the model seems to be bearing fruit and this, to some extent, could be used as a yardstick for the performance of Zamtel and other SOEs. However, on account of the financial performance and other indicators highlighted earlier, there are a number of challenges still being faced by both companies. These are noted below:

High Cost of Repaying Legacy Debt

The nationalisation of Zamtel in 2012 brought with it the adoption of legacy loans which were obtained by Lap Green. Zamtel is now faced with the challenge of having to repay the loans denominated in foreign currencies whose costs have been exacerbated by the depreciation of the kwacha. Consequently, this has affected the company's financial performance.

Competing Social and Business Interests

Zamtel has had to strike a balance between attaining Government driven objectives, some of which may be unprofitable, and purely profitable business undertakings. One such case is the construction of 1009 communication towers across the country under the Universal Access to communication project. Despite some of the towers being unprofitable, Zamtel has had to go ahead with their construction with a loan whose liability sits on Zamtel's books.

High Legal Costs arising from Legacy Lawsuits

Among the challenges commonly faced by Zamtel and ZCCM-IH are legacy legal disputes. For Zamtel, these have arisen from the privatisation of the company in 2010 and disputes over the retrenchment packages that were paid to former employees. Following the nationalisation of the company, Zamtel has had to settle these legal cases. For ZCCM-IH, the lawsuits have arisen mainly from cases relating to various legacy matters of the old ZCCM Limited. These mostly relate to former employee cases.

The legal costs arising from these cases have had a negative impact on the performance of ZCCM-IH and Zamtel.

Irregular Dividend Declarations by Investee Companies

For ZCCM-IH, the lack of transparency in the mining sector presents challenges related to mineral revenue sharing. In many instances, the company has not been satisfied with the dividend record received from its portfolio of companies. The irregular and lack of dividend declarations has negatively affected the profitability of the company.

High Capitalisation and Investment Needs

Zamtel operates in a capital intensive industry implying that the bulk of investments are capital intensive, requiring a huge financial outlay. Given the status of the company's balance sheet, Zamtel is unable to directly borrow funds from capital markets for the much needed investment. Previously, the company would borrow with Government acting as the guarantor. This provision however is longer available in light of Government's revised policy on guaranteeing debt.

Lack of Harmonisation of Financial Reporting Mechanisms

In terms of financial reporting, ZCCM-IH is faced with the challenge of having to adhere to three separate acts namely the Securities Act, the Companies Act and the

Public Finance Act. The three acts have different timelines for the submission of financial reports and this presents a challenge to ZCCM-IH when one report has to take supremacy over another. For example, for the Companies' Act, it is 6 months after the end of the financial year, 3 months for the Securities Act and within 4 months for the Public Finance Act. In addition, ZCCM-IH has a total of 17 entities that are under its jurisdiction. This implies that the consolidated report provided by the company depends on receipt of reports from all 17 companies that it has invested in.

Low Activity on the Primary Stock Exchange Market

A challenge facing ZCCM-IH is the low activity on the local bourse and the market's inability to respond to market information. The company is also constrained by the low liquidity in the markets. For example, in 2015, the Government floated 27.2% of its shares in ZCCM-IH to the public through a Preferential Secondary Market Offer in line with the directive in the 2015 National Budget that all listed companies on the local bourse were to comply with the LuSE minimum free (public) float requirements of 25% of the shares. The offer was under-subscribed owing to low liquidity in the market.

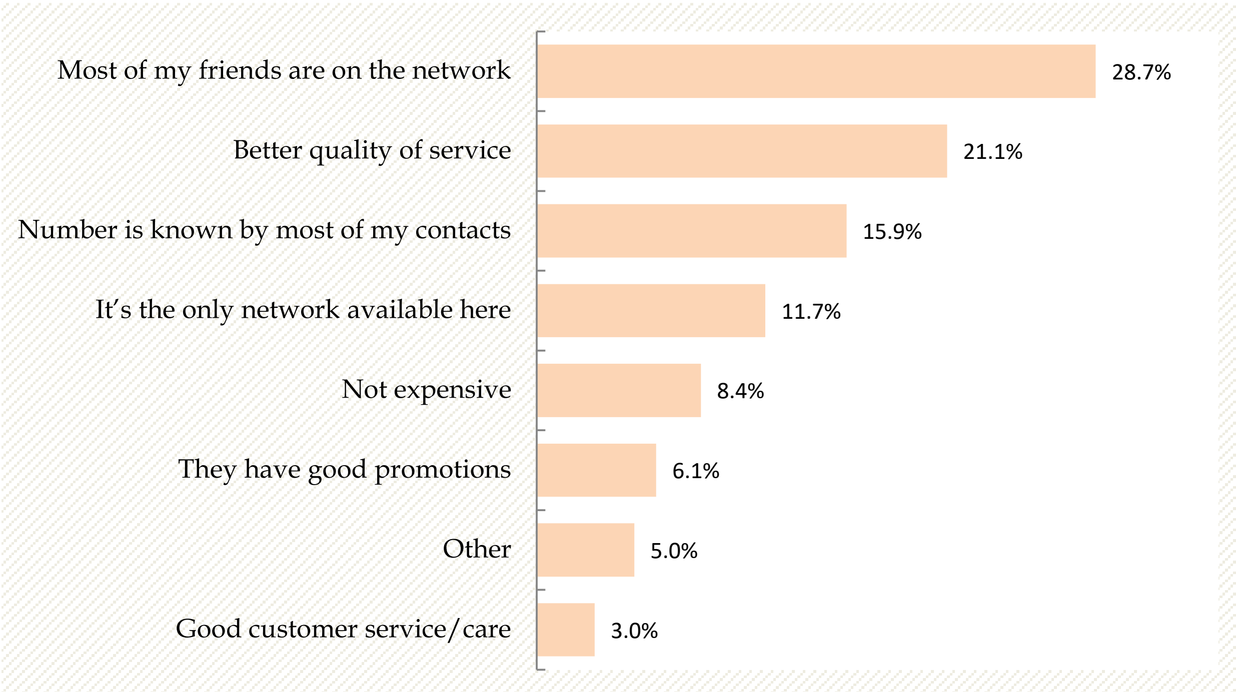
Lengthy Procurement Processes

ZCCM-IH faces challenges related to the lengthy procurement process as prescribed in the Procurement Act. Private companies that could be competitors to ZCCM-IH are not subject to this act and therefore they have an advantage in that they can handle procurement matters in a quicker manner. On the other hand, ZCCM-IH has to follow stipulated guidelines which can be protracted. This leads to delays in undertaking certain activities which could improve the efficiency of the company.

Poor Quality of Service

Zamtel is still the least preferred mobile network cellular network. According to the ZICTA 2018 ICT Survey, approximately 7% of the individuals indicated that Zamtel was their preferred network. In contrast, 48.3% and 44.8% indicated that Airtel and MTN was their preferred network respectively. This low share is partly due to the poor quality of service. The ZICTA Survey further reveals that approximately 21.1% of individuals that had used a mobile cellular phone indicated that the quality of service was a factor in determining their reason for preferring a mobile cellular network (Figure 7).

Figure 7: Main Reason for Preferring the Mobile Cellular Network, 2018



Source: ZICTA 2018 ICT Survey on Access and Usage of ICT among Households and Individuals in Zambia

Exposure to Commodity Price Shocks

Given that ZCCM-IH holds the majority of its portfolio in the mining industry, particularly copper, the performance of the company is highly exposed to adverse fluctuations in the price of copper. A fall in copper prices has a negative impact on the company's profitability.

Slowdown in Zambia's Economic Performance

The slowdown in Zambia's economic performance over the last few years has had a negative impact on the performance of the two parastatals. Factors such as an unstable exchange rate, high interest rates, and poor performance of the energy sector among others, have had adverse effects.

5. Way Forward

In this section, we discuss considered policy recommendations and strategies on how to improve the management and operations of the two companies, particularly, on how to improve Zamtel's profitability. Notably, these policy considerations are tailored to the unique challenges of the two companies.

5.1. Zamtel

Cleaning up the Balance Sheet

Zamtel's balance sheet needs to be cleaned up so that cash flows are freed up to allow investments in technology and infrastructure necessary to stay competitive. This is also critical for the shareholder's long-term aspirations to list the company on LuSE. The balance sheet can be cleaned up in the following ways: by selling-off unprofitable and obsolete lines of business; implementing cost reduction programs such as outsourcing the management of telecommunication towers; and through recapitalisation by converting debt to equity. This brings us to the next critical point.

Partnering with a Strategic Equity Investor

The most single viable option to addressing Zamtel's high liabilities and capital constraints is for the company to enter into a public private partnership arrangement with a strategic partner that can offer the financing required to liquidate its debt in exchange for equity. This model has worked favourable for ZANACO and has the potential to bring about many other benefits such as good business management practices as well broader financing options for investments. The IDC should therefore support the company in finding the right equity partner.

Improve the quality of services

To improve its competitiveness, grow its market share and consequently its profitability, Zamtel needs to provide modern quality ICT services and good customer services by continuously investing in marketing, digitalisation, infrastructure development and modern technologies.

Phasing-out unprofitable and obsolete lines of business

In tandem with global developments, Zamtel should replace public switched telephone networks with new and more efficient technologies in order to reduce the company's operational costs and ensure that it is cost effective and competitive in its service provision. The company should employ innovative technologies such as SIM card based fixed telephones and fibre based services.

Provision of Concessions on Regulatory Fees

To reduce the company's operational costs of implementing the Universal Access to ICT project in unprofitable areas, Zamtel should be offered some concessions with regard to regulatory fees. Specifically, Government should waive the fees paid to the Zambia Information and Communication Technology Authority (ZICTA) for the construction of the outstanding Global System for Mobile (GSM) communication towers in areas that remain unserved or underserved.

5.2. ZCCM-IH

Maximising Returns from Mining Investments

ZCCM-IH needs to expedite the implementation of strategies that can counter the irregular declaration of dividends in order for the company and the country to maximise returns from its investments in mining companies. One such strategy is the proposed Royalty model that will see ZCCM-IH receiving royalties from mining companies even in years in which mining companies do not declare profits and dividends. The second strategy proposes a sharing of the actual copper produced in line with the shareholding structures. This could potentially allow ZCCM-IH to be more in control of its investments. Notably, the Royalty model in particular has been employed in countries such as Ghana to address similar challenges.

Diversification of the Investment Portfolio

In line with its Strategic Plan for 2018-2023, ZCCM-IH should expedite efforts to diversify its investments within mining and in other economic sectors in order to insulate the company against the effects of commodity price shocks. Namely, these should include increased investments in mineral beneficiation and other economic sectors such as manufacturing that are more resilient to external shocks.

Streamlining Procurement Processes

To improve the efficiency and competitiveness of ZCCM-IH and other parastatals, there is need to rationalise the public procurement process to allow for speedy and efficient procurement. This will allow parastatals to compete more favourably against private enterprises that are not subject to protracted and bureaucratic procurement procedures.

Harmonising Financial Reporting Timelines

There is need to harmonise the financial reporting timelines of the Securities Act, Companies Act and the Public Finance Act that govern the operations of investment holding companies. Synchronising the timelines will ease the financial reporting process for ZCCM-IH and eliminate any concerns regarding which Act takes supremacy in the event of a conflict in timelines.