



Comments on the Review of the Operations and Management of ZCCM Investment Holdings and Zamtel Limited Company

ZICA, APRIL 2019

1. INTRODUCTION

The Zambia Institute of Chartered Accountants (ZICA) is a professional membership body whose function among others is to advise Government on matters of economic and national development. The Institute received an invitation from the Clerk of the National Assembly to submit comments on the Review of Operations and Management of ZCCM Investment Holdings and Zamtel Limited Company.

1.1 ZAMBIA CONSOLIDATED COPPER MINES INVESTMENT HOLDINGS

ZCCM-IH has a rich and varied history spanning more than 50 years before Zambia's independence in entities that preceded it but which have helped shape its current form. As the successor company to Zambia Consolidated Copper Mines Ltd (ZCCM Ltd), which itself was created from the merger of NCCM and RCM in 1982, ZCCM-IH's story is the story of Zambia's Mining Industry and much more. Below is a summary of this journey.

- In 1982 ZCCM Limited formation.
- In 1996 Privatisation of Mining companies plan approved.
- 1997-2000 Privatisation of Mining Companies.
- 2000 formation of ZCCM-IH.

ZCCM Investments Holdings Plc is an investments holdings company with diversified interests in mining, energy and other sectors of the Zambian economy. The company is listed on the Lusaka Stock Exchange and secondary listings on the London Stock Exchange and the Euronext Stock Exchange in Paris.

The company's shareholder are Industrial Development Corporation Ltd (IDC) with 60.28%, GRZ 17.25%, NAPSA 15% and the rest of the shareholders are institutions and private entities spread across the world with 7.47%.

1.1.1 BOARD COMPOSITION ZCCM-IH

The group continues to operate by enforcing good corporate governance practices and observing the separation of powers between the directors and management. Furthermore, it also considers the separation of powers between the Chairperson of the Board and the Chief Executive Officer.

ZCCM-IH is led by a highly qualified Board of Directors whose membership comprises leading figures from private commerce and government institutions. The current directors of ZCCM-IH are as follows:

- Mr. Eric Silwamba, Chairperson of Board and Non-Executive Director, Principal Partner at Messrs Eric Silwamba, Jalasi and Linyama Legal Practitioners.
- Mr. Fredson Kango Yamba Vice-Chairperson of Board and Non-Executive Director. Mr Yamba is currently serving as Secretary to the Treasury in the Ministry of Finance.
- Mr. Philippe Taussac, Non-Executive Director
- Mr. Paul Mbotwa Chanda, Non-Executive Director, Permanent Secretary in the Ministry of Mines and Minerals Development
- Mr. Mateyo C. Kaluba, Non-Executive Director. Mr Kaluba is currently the Chief Executive Officer of the Industrial Development Corporation Limited.
- Mr. Yollard Kachinda, Non-Executive Director. Mr Yollard Kachinda was appointed to the ZCCM-IH Board in January 2017 and he is currently the Chief Executive Officer for NAPSA.
- Mr. Mabvuto Chipata, Chief Investments Officer & Acting CEO, ZCCM-IH.

1.2 ZAMBIA TELECOMMUNICATIONS LIMITED

Zambia Telecommunications Company Limited is a company incorporated in Zambia under the Companies Act Chapter 388 of the Laws of Zambia. The sole shareholder of the company is the Government of the Republic of Zambia through IDC. The board is composed of members appointed by IDC from both the public and private sector.

Since 1913 when the first analogue exchange was installed in Livingstone, Zamtel has gone through various phases and milestones including the following:

- 1975 Post and Telecommunication Corporation (PTC) was formed from the General Post Office (GPO).
- 1981 October, Digital Microwave Link between Chipata and Lusaka to replace copper cables was launched.
- 1994 Post and Telecommunications Corporation (PTC) was split into two separate entities, Zamtel and Zampost. Zamtel's mandate was to concentrate on Telecommunication Business.
- 1995 Zamtel introduced analogue Mobile Telephone Service with code 095.
- 2003 April Zamtel introduced The Mobile GSM (Global System for Mobile Communication) service.
- In July 2010 Zamtel was partially privatized with a 75% Shareholding sold to Lap Green of Libya.
- 2011 ADSL Service was introduced on the Zambian market offering fixed Broad Band Internet Service.
- In January 2012 the PF Government reversed the sale of Zamtel to 100% government ownership

2. ADEQUACY OF THE CURRENT POLICY AND LEGAL FRAMEWORK GOVERNING THE MANAGEMENT OF ZCCM-IH AND ZAMTEL VIS-A VIS STRENGTHENING INTERNAL CONTROLS

We have noted there are a lot of factors that would continue to affect the operations of ZCCM and Zamtel. Considering the diverse and complex nature of ZCCM and ZAMTEL, the Corporations would require a cadre of personnel with different skills to be able to understand the nature and complexities of the two parastatals and develop tailor made strategies that would support the transformation of these institutions into viable entities. We are satisfied that ZCCM-IH has a good mix and competent personnel as can be evidenced by the composition of the Board and Management Team. The other factors that would affect the operations of these parastatals are;

2.1 GOVERNMENT CONTROL OF THE PARASTATALS

It is worth noting that, despite the transfer of shares to the IDC, there were still some approval requirements by these companies, especially under the Ministry of Finance and the Ministry of Justice. For instance, business contracts still had to be cleared by the Ministry of Finance and the Ministry of Justice before execution. We appreciate the requirement to have clearance by the two ministries to avoid contracts that could be onerous to the government, but there is need to streamline the approval processes of such agreements so that business transactions could be carried out efficiently. Government should consider having these companies legal department capacitated to a level where it could be charged with the responsibility as reviewing contracts being entered into by these companies. This would avoid loss of time when negotiating business transactions, while at the same time ensuring that they became trendsetters and remained competitive in their respective industries.

2.2 THE MULTIPLE REPORTING STRUCTURES FOR THE PARASTATAL COMPANIES

In this respect, we recommend for a defined reporting structure for these companies to minimise conflict of interest. In this instance they should report to the IDC and then the IDC reports to the parent ministries.

2.3 CONFLICTING LEGAL PROVISIONS

The other problem that exists is that of conflicting legal provisions governing the operations of the IDC (Industrial Development Corporation) and the respective parastatals. The laws, including subsidiary legislation, that governed these bodies characterised each entity as an independent unit with specific reporting and accountability processes to the line ministry under which they were created.

2.4 APPOINTMENTS TO THE PARASTATALS

Furthermore, the practice of Chief Executive Officers of these parastatals being appointed by the President, while the line ministry is appointed the Board of Directors is not in line with upholding good corporate governance principles. This tends to promote the spirit of insubordination by Chief Executive Officers towards the board and, if the situation is perpetuated, it would negatively affect the supervision of these parastatals.

In light of the above observations, there is need to review and harmonise the various pieces of legislation that govern the mandate of these parastatals based on best practices. In addition, such an enabling statute ought to clearly define the roles of the parent ministries, parastatals and the mandate of the IDC. It should also include the appointment of the boards to enhance corporate governance, its governance structure as well as the institutional and legal framework.

2.5 RECAPITALISATION OF PARASTATALS

It is a fact that despite the transfer of shares to IDC, Zamtel is still not performing well with the exception of ZCCM which is listed on the stock market. The main reason for the lacklustre performance was the low recapitalisation, Zamtel in this case. If there is no improvement in performance after recapitalisation, there is need to be candid and recommend privatisation of Zamtel.

3. TO WHAT EXTENT IS THE CURRENT MODEL OF MANAGING AND CONTROLLING ZCCM-IH AND ZAMTEL TO ENHANCE FINANCIAL ACCOUTABILITY

3.1 ZCCM-IH

The financial statements for ZCCM-IH which is listed on the stock exchange shows a heathy performance and also looking at the audited financial statements for the period 2014 to 2018 posted by the company. A review of the Statement of Comprehensive Income and Statement and Financial Position shows that the company has been posting profits for the past five years except for 2015 and 2016

when they recorded losses due to the fall in copper prices. The Company posted profit after tax of K728, 834,000 and K842, 949,000 in 2017 and 2018 respectively.

Shareholders' Funds has greatly increased from K8, 013, 913,000 in 2017 to K8, 940, 346,000 in 2018.

The company had a positive working capital of K205, 683,000 in 2018 meaning the company's current assets were sufficient to cover the company's short term liabilities.

In 2018, ZCCM-IH had a current ratio of 4.7:1 implying that the company was very liquid and able to settle current liabilities as they fell due.

3.2 ZAMTEL

An analysis of the Auditor General's report for the year ending 2016 and 2017 shows that the company is facing serious liquidity and operational challenges compounded by the legacy debts they have been carrying on the balance sheet eight years as it can be evidenced by the failure to pay the Licences and Operating fees to ZICTA amounting to K105, 029,725

Therefore, the government should make the sale of Zamtel a prerequisite because of the substantial amounts of money being used to try to recapitalise the loss-making telecommunication company.

4. RECOMMENDATIONS ON HOW TO IMPROVE THE FINANCIAL MANAGEMENT OF ZCCM-IH AND ZAMTEL TO ENHANCE FINANCIAL ACCOUNTABILITY

The measures that the government can undertake to improve the performance of parastatals are;

4.1 Recapitalisation of companies- This include restructuring of balance sheets to enable these parastatals access finance without Government guarantee. The Auditor General has been releasing damning audit reports on

state telecommunications firm ZAMTEL which shows that the company has been making huge losses since 2011 when the Libyan investor Lap Green was forced to exit the firm.

The latest Auditor General's report on parastatals indicated that ZAMTEL is technically insolvent.

- 4.2 Restructuring and modification of business models-** The business models for Zamtel are not profit driven. There is need to work with the management team to orient them towards the profit objective and also to detach politics from the way they manage.
- 4.3 Implementation of effective group monitoring and evaluation mechanisms-** There is need for the government through IDC to implement effective group monitoring and evaluation mechanisms mainly targeted at financial performance, governance and risk management.
- 4.4 Strengthening Corporate Governance-** strengthening corporate governance should be mainly achieved through the constitution of boards of directors with appropriate skills mix to supervise.
- 4.5 Implementation of a performance management framework-** one of the landmarks in the strategic plan of the Corporations, in terms of its supervisory function, was the introduction of performance contracts. The performance management framework covered boards as well as Chief Executive Officers. Using this framework, the boards of directors, the chairpersons and Corporations were required to sign performance contracts, which spelt out parameters or targets used as performance indicators. Such targets or parameters would include compliance to statutory obligations, use of financial ratios such as profitability, liquidity, efficiency, gearing, dividend pay-out and industry specific ratios. Other performance benchmarks or targets included cost saving measures implemented by each company, growth in market share, innovations towards job creation across sector value chains, payment of dividends and implementation of shareholder directives on transformation and restructuring of the company.

- 4.6 Introduction of strategic equity partners-** strategic equity partners should be considered as an option to improving the performance of Zamtel. In this regard, it is clear Zamtel needs recapitalisation, new technology and specialised skills. The IDC should, therefore, seek strategic equity partners who could take up shareholding in the company.
- 4.7 Listing on the Lusaka Stock Exchange –**The IDC announced that it would list profitable parastatal entities on the stock market as a way of raising new capital and facilitating ownership by the Zambian citizens in such companies. Currently ZCCM-IH is listed on the Lusaka Stock Exchange. Zamtel will need a further review.
- 4.8 Legacy debts-** more radical measures should be considered including privatisation or capitalisation including writing off debts that have been sitting on Zamtel Balance sheet e.g. the refund to Libya of US\$380 million for the repossession of Lap Green as this will help improve performance of the Company.
- 4.9 Competition-**Zamtel operates in a very competitive environment with its competitors namely MTN and Airtel having invested heavily in latest technology and infrastructure. Though Zamtel has responded by increasing network telecommunications towers as evidenced by the installation of 317 towers by the end of last year, it is not enough as they are still lagging very much behind in terms of quality of service and network coverage. Therefore, IDC as the major shareholder needs to recapitalise the company or look for equity partners who can help pump in the much needed resources.

5. ANY RELEVANT INFORMATION THAT MAY ASSIST THE COMMITTEE EFFECTIVELY STUDY THE TOPIC UNDER CONSIDERATION

5.1 ACTUALISATION OF THE FINANCIAL MANAGEMENT ACT

The Public Finance Management Act was implemented in April 2018 to help provide for an institutional and regulatory framework for management of public funds, strengthening of accountability, oversight, management and control of public funds in the public financial management framework; responsibilities and fiduciary duties of controlling officers and controlling bodies.

This has led to the decision to elevate the positions of Accountant General and Controller of Internal Audit to Permanent Secretary Level and the creation of Finance Director Positions to enhance Financial Accountability.

We strongly feel that once the Finance Management Act is fully implemented, this will help improve accountability and transparency in Zamtel and ZCCM-IH.

CONCLUSION

We wish to state that as a professional body, we are very keen to see a positive performance of the economy through such Institutions. Matters of corporate governance cannot be over-emphasised as all successful companies are said to have robust governance structures to avoid conflicts of interest. We hope that our submission will be taken into consideration to make corrective measures where necessary and enhance operations. We thank you.