

EXPERIENCE AND SIGNIFICANCE OF A PRIVATISED UTILITY OPERATING IN AFRICA



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1 INTRODUCTION

This paper discusses the experiences, challenges and significance of a private utility operating in Africa. The current consensus in Africa is that the private sector is the main engine of growth in any economy and that Governments should provide an enabling environment for the private sector to help create wealth and alleviate poverty. There is also consensus that energy plays a critical role in the development of a nation. This aspect was recognized by the Zambian Government in the 1990's when it embarked on the privatisation of state run organizations. The Copperbelt Energy Corporation (CEC), which was part of the conglomerate called the Zambia Consolidated Copper Mines, was privatized during this process and it became the first private electricity utility in Southern Africa. CEC supplies power to the mining companies operating in the Copperbelt Province of Zambia. During the eight years it has been in operation, CEC has firmly established a reputation within Zambia as being a competent independent transmission company which delivers high quality service to its customers and which is capable of undertaking and funding complex projects and building relationships with other utilities in the region.

2 ABOUT ZAMBIA

Zambia is a landlocked country situated centrally within Central and Southern Africa. It shares its borders with eight countries. Zambia was part of the Northern Rhodesia territory until 1964 when it attained political independence from Britain. The population is currently estimated at 10.5 million.

Upon independence, Zambia adopted a Republic type of governance and the head of state is elected by popular vote every five years. From 1972 to 1990, Zambia was a one party state. This era was brought to an end during the 1991 general elections which ushered in multi party democracy championed by the Movement for Multi Party Democracy, the political party that still holds power.

Zambia has a diverse natural heritage including lakes, waterfalls, and a wide variety of wild life. In addition, the country has a rich cultural heritage and celebrates key traditional ceremonies such as the Kuomboka, Mutomboko and Ncwala.

The Zambian mining sector plays a significant role in the national economy, relying heavily on the copper sub sector. Recently though, more effort is being put into diversifying the economy and agriculture and tourism have been identified as being key sectors in economic diversification.

Zambia recently qualified to the multilateral lenders' highly indebted poor countries (HIPC) initiative, which will see Zambia's external debt stock written off by US\$3.8 billion, just over half of the nation's external indebtedness.

3 THE ROAD TO PRIVATISATION

Zambia's economy, historically based on the production and export of copper, was once regarded as the strongest in sub Saharan Africa. The first government, UNIP, nationalized much of the economy and enforced rigorous price and exchange controls. This resulted in declining productivity and profits and over-reliance on copper exports. The declining of world copper prices and deteriorating terms of trade, coupled with dis-investment and drought led to decrease in GDP growth from the 1970's. The poor performance of the economy in the 1980's together with political transition in the early 1990's led to the recognition of the need to minimize the role of the government in the economy and to promote policies that seek to create a private sector led economy.

The privatisation process was embarked on in 1991 and was justified on the need to free public resources, enhance productivity and efficiency, introduce new technology and re-investment and offer the population opportunities for private enterprise.

Priority was obviously given to the mining sector where the conglomerate Zambia Consolidated Copper Mines (ZCCM) was unbundled and the separate mining operations sold as single entities through competitive tender.

Some operations were sold earlier than others and among the early sales was the Power Division - sold to a consortium comprising electricity operators from the United Kingdom, USA and Zambian individuals – now known as the Copperbelt Energy Corporation PLC (CEC) on 21 November 1997, becoming the first privatised electricity company in Southern Africa.

4 THE ZAMBIAN ENERGY SECTOR

Zambia has an installed electricity generation capacity of 1,786MW out which 1,676MW is hydropower. The country has an underdeveloped hydropower generation potential of over 6000MW and plans are underway to develop a number of both large and small hydropower stations.

Currently there are three main players in the electricity sector. These are:

ZESCO Limited; the state owned vertically integrated utility company and supplies all residential consumers.

Copperbelt Energy Corporation is involved in transmission, distribution and supply of electricity to the large mining companies.

Lunsemfwa Hydropower Company is involved in generation of hydropower.

Access to electricity in urban areas stands at 50% compared to only 2% in rural areas. The largest consumer of electricity is the mining sector followed by households. The main challenge in the sector is to increase access to electricity among households and small scale industries particularly in rural areas.

5 FORMATION AND ROLE OF CEC

CEC was formed in November 1997 from the privatisation of ZCCM's Power Division. A consortium comprising Cinergy Global Power, National Grid and Zambian Managers acquired an 80% interest in the former Power Division. The remaining 20% is held by ZCCM Investment Holdings.

CEC's core business is the transmission and bulk distribution and sale of power to the majority of the mining companies on the Copperbelt province of Zambia.

CEC also provides generation security backup for its customers' emergency power requirements through its emergency gas generators.

6 KEY STATISTICS

ASSETS AND FINANCIALS	FIGURES
220/66 KV Transmission Lines	802 km
Optic Fibre Network	520 km
Emergency Generation	80MW
Supply to the Mines	500MW
Domestic Wheeling for ZESCO	240MW
International Wheeling	260MW
Turnover (US\$'Million) - 2004	120
Net Profit (US\$' Million) - 2004	11.8
Typical Annual Capital Expenditure (US\$' Million)	~5 to 10

7 SUCCESSES AND CHALLENGES

CEC has scored a number of successes over the years. Foremost is the quality and reliability of supply. Other successes include:

- Long and proud history with good track record for high quality and secure electricity supply
- Excellent technical skills
- Well engineered and maintained power system
- Secure power purchase and power supply agreements
- Active role in social improvement
- Proactive environmental and safety management programme
- Major re-investments in infrastructure
- Sound financial health
- Model of successful privatisation in Zambia
- Well established and influential in Zambia

8 REGIONAL SIGNIFICANCE

CEC is the first privatized company in Southern Africa and has a reputation for competence, efficiency, transparency and capability for raising long term finances from its balance sheet.

It is strategically located in the Southern Africa market to benefit from and play a role in the transmission interconnection with neighboring countries. Countries in the region are currently experiencing significant growth and the factors influencing this are likely to continue for some time into the future. This high growth rate in electricity demand is unlikely to be matched by the availability of generating plant or, at the very least, the era of surplus regional generating capacity is unlikely to be sustained or repeated. This will mean that the role of the Transmission sector will become most critical in optimizing the available generation resources.

CEC can therefore make a significant contribution to regional power developments as it has the ability and the necessary resources and a track record to back it up.

Through its activities over the past 8 years, CEC has established good relationships with other electricity utilities in the region such as SNEL, ESKOM, ZESCO, ZESA. In particular, a sound and cooperative supplier/buyer relationship has been established with ZESCO and there exists long term agreements to back this.

It is now generally agreed that rural electrification can contribute to economic growth and poverty alleviation in an economy. Although in most countries this task is undertaken by national utilities, there is urgent call for the private sector to participate in rural electrification. CEC is well placed and expressed willingness to participate in the rural electrification process in Zambia.

Significant growth is anticipated in the energy sector in Africa in the next two decades. As identified within NEPAD, private sector investment and participation is cardinal to the success of this process. Therefore, as a private utility that is already operating in this market, CEC is well placed to play a key role in this development.

9 OPPORTUNITIES

As a major electricity sector company in Zambia, CEC has identified and is currently developing number of opportunities within the Zambian electricity sector and the region. CEC is confident that it can explore these opportunities based on the following factors:

- NEPAD initiative on increased regional cooperation
- Electricity is seen as the driver for development and upliftment in the region
- Zambia Government's privatisation initiative
- High copper prices and increasing demand from the mines
- Current plans for the establishment of Southern African Grid
- Hydroelectric potential in Central Africa
- Imminent regional shortage or generation capacity
- Increased regional generation costs for new capacity
- Optimisation of current bulk PPA and other resources
- Current telecommunication opportunities
- New business/partnership opportunities
- Possible participation in Zambian electrification drive

10 CHALLENGES

At the beginning of the privatization process, Government earmarked a portfolio of 280 of state-owned enterprises to be sold into private hands.

Unfortunately, some negative experiences emerged out of the sale of some companies leading to the general populace losing faith in the reform process. They blamed loss of employment and income, lowered standard of living and the accompanying high cost of living on privatization.

This loss of faith led to investors being perceived as enemies of the people, come to milk the country's wealth dry. As such, the greatest challenge of CEC operating in Zambia as a privatized entity is the issue of perception. The onus is on the shareholders and management to prove to Government leaders, the general public and even employees that the company's prime interest is to contribute to the growth and development of Zambia's economy.

In addition, in some cases lack a fair understanding of the nature of how CEC operates – why it only supplies power to the mining companies and not to households as well – is it only cherry picking the best customers?

11 CORPORATE SOCIAL RESPONSIBILITY

CEC has risen above the challenges and operates in a responsible manner to give confidence to all its stakeholders as a committed and trusted company that is committed to contributing to economic and social development of Zambia.

The social issues associated with employment are very important and are seen as a key factor in the business plan of CEC. The social and environmental programmes have resulted in promoting staff morale and reputation of CEC as a good employer in Zambia.

CEC continues to develop appropriate terms and conditions of employment considering local economic conditions and retention of necessary skill. A number of steps have been taken to ensure that employee morale remains high. These include:

- Introduction of performance bonus to recognize the value added service of employees
- Annual review of salaries and other conditions of service in consultation with the Union
- Pension scheme
- Training
- Recreation facilities
- Social Events for all employees and their families
- Free medical support

CEC sponsors and invests in the future of Power Dynamos Football Club, which continues to perform well in the Zambian national league.

A number of community based projects are undertaken every year in the area of health, education, youth activities, culture and sport. For example, this year CEC has undertaken a project to construct a school for community run school that caters for the needs of orphaned children. Other material and financial donations are given to well-established charitable institutions.

A Local Business Unit to help retrenched employees find or generate alternative employment was established in 1998 by CEC. As a result 60 ex-employees have established 45 successful companies and these have in turn provided employment to over 350 people. CEC assists the LBU companies through technical support, award of contracts, training and provision of office space.

CEC has developed its environmental and safety programmes to meet the requirements of the regulators. CEC staff member are trained to promote awareness of environmental and safety issues and to comply with good practice.

CEC participates in the anti-malaria programme in the Copperbelt and provides full medical support for its employees. Every year CEC sprays homes of all employees and some of their neighbours.

The company has implemented an HIV/AIDS policy. Amongst key principles, the policy prescribes a policy of non-discrimination against employees with HIV/AIDS, whether they are existing employees or about to be appointed. Assistance is provided to such employees in order to secure proper medical treatment and access to medication.

12 CONCLUSION

CEC is well placed to deliver a highly reliable and quality service to its customers due to its robust networks and highly skilled workforce.

CEC is keen to exploit the many significant business opportunities which exist in Zambia and the region. These opportunities exist in a political and policy climate which is supportive of private investment and regional co-operation

The future of CEC in the development of the energy industry in Zambia and beyond is foreseeable. Through its own devised Diversification Growth Action Plan (DGAP), CEC has aligned its growth plans with national, regional and continental priorities.

The company firmly believes that integrated infrastructure development is cardinal to put Africa on a path to sustainable development and end the continents marginalization in the global economy. This clearly mirrors the vision of the New Partnership for Africa's Development (NEPAD), a brainchild of African leaders that has received global support.