State-Owned Enterprises in Zambia: A Political Economy Analysis

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Introduction and framing

State-owned enterprises (SOEs) play a central role in Zambia's political economy, operating at the intersection of public policy, commercial activity, and political power. Positioned in strategic sectors such as energy, mining, and finance, SOEs are critical instruments through which the state pursues developmental objectives, including industrialisation, service delivery, and the indigenisation of capital. At the same time, their strategic importance, combined with concentrated state control, renders them particularly vulnerable to political interference and state capture.

This paper examines the role of SOEs in Zambia through a political economy lens. The analysis is structured around three core questions. First, to what extent does Zambia's legal and regulatory framework create or enable vulnerabilities to state capture within SOEs? Second, through what mechanisms has capture historically operated, particularly across different political administrations? Third, what politically feasible reforms could strengthen SOE resilience in the post 2021 context?

The paper argues that vulnerabilities to state capture are not simply the result of weak enforcement or individual misconduct but are embedded in the design of governance frameworks themselves. Importantly, the paper situates reform within Zambia's evolving political settlement. While the post-2021 period has seen renewed commitments to governance reform and economic recovery, underlying structural incentives for capture remain. As such, effective reform must go beyond formal legal changes to address the political and institutional dynamics that shape how SOEs are governed in practice.

State capture and SOEs

A good definition of state capture is as follows

> State capture is a type of systematic corruption whereby narrow interest groups take control of the institutions and processes through which public policy is made, directing public policy away from the public interest and instead shaping it to serve their own interests (Dávid-Barrett, 2023, p. 1)

In Zambia, state capture took root following the privatisation era in the 1990s and the re-introduction of multi-party democracy. The privatisation of most of Zambia's SOEs in the 1990s empowered a small group of domestic elites who remain influential to date. Moreover, privatisation favoured foreign companies, some of which are still dominant in Zambia's political settlement. The privatisation of 79% of the total number of SOEs left the remaining more vulnerable to patronage:

> "alternative rents were sought elsewhere within government entities, including through government contracts, procurement, and pension funds. In the process, it undermined the relatively formal structures that previously guided accountability

and oversight of the business lobby and associated deal-making processes" (Mosley, quoted in Cheelo & Hinfelaar, 2023).

As a result of competitive democracy, over time political funding in Zambia has become highly commercialised; political campaigns have become very expensive, while political funding is largely unregulated (Wahman, 2023). This in turn exacerbates the risks of state capture, where private interests provide donations and support to political actors, but expect to be ''paid back'' after the elections. SOEs provide a vehicle for this 'payback', through board appointments, opportunities for strategic allocation of partnerships, allocation of SOE contracts, equity deals, etc.

The shape of state capture in relation to SOEs varied over time, depending on the regime type and ideological orientation. As detailed in section 4, under the Patriotic Front (PF), which had a state-centric approach, there was a visible capture in terms of human resources, contracts and procurements. From 2016 onwards, SOEs were also used for off-budget borrowing and quasi-fiscal activities, as instruments for resource extraction and political financing. Since 2021, the United Party for National Development (UPND), a business-oriented party, has tried to commercialise the SOE sector. In this case, capture can be more subtle, with the potential for corporate capture. Influence shifts to financial, legal, or international actors rather than overt political patronage.

Literature gaps and methodology

Existing literature on SOEs and corruption in developing countries, including Zambia, has largely focused on diagnosing governance failures, highlighting inefficiency, fiscal risks, and political interference (see, for example Mulenga, 2024; Luputa, Mwanza, 2022; Phiri, 2022). While this body of work is valuable, it has several important limitations.

First, there is limited analysis of why reform efforts often fail. Many studies recommend strengthening oversight institutions, improving transparency, or adopting international standards, but do not sufficiently engage with the political incentives that shape implementation. As a result, reforms that appear technically sound often fail to produce meaningful change in practice.

Second, the literature does not adequately account for the role of parallel structures and informal networks. In practice, SOE decision-making is often influenced by informal relationships, political patronage systems, and elite bargaining processes that operate alongside formal governance frameworks.

This paper addresses these gaps by combining governance framework evaluation with political economy analysis, focusing on how specific features of Zambia's SOE governance framework create incentives for capture and shape reform outcomes. The study adopts a mixed qualitative methodology that integrates a systematic review of primary and secondary literature, legal and policy review, and semi-structured interviews with key

informants. These methods are complemented by the authors' longitudinal experiential insights, grounded in over two decades of professional engagement in the field.

1. Political economy assessment

SOEs across political settlements

State-led SOEs (1964-1990)

The development of SOEs over the last 60 years in Zambia generally mirrored international trends in terms of nationalisation and privatisation of its industries, especially in countries that were equally subject to IMF/World Bank programming. At the national level, every ruling political party has influenced the characteristics of SOEs, which in turn has shaped the nature of state capture.

After independence, and particularly from 1968 onwards, the Zambian government extended the SOE sector to address concerns that the private sector, mostly foreign owned, lacked commitment to Zambia's development objectives. The idea was that an enhanced state enterprise sector could more effectively act as an agent for the diversification of the domestic economy and put Zambia on a path towards industrialisation. The preferred policy of Zambia's first President, Kenneth Kaunda (1964 – 1991) was import substitution industrialisation, a trend within developing countries at the time, where the state in conjunction with the private sector, set up a range of new industries (i.e. batteries, tyres, motor vehicle assembly, etc.). Crucially, given that copper exports composed 96% of Zambia's export revenue, the government brought the copper mines under national ownership (Craig, 1999).

The expansion of the SOE sector also served an important developmental and political objective: the distribution of economic opportunities to Zambia's population. Following independence, the state assumed this role because the African majority had largely been excluded from capital accumulation during the colonial period, domestic private capital remained underdeveloped, and foreign capital continued to dominate the economy (Szeftel, 1982). In this context, the state, through its ownership of state enterprises and control over strategic economic assets, became the country's principal vehicle for economic development and resource allocation. As Szeftel (1982) observes, the "state as a resource" in Zambia refers to the historical and continuing use of the state apparatus, its institutions, and control over national resources, particularly copper, as a means of distributing patronage, facilitating private accumulation, and maintaining political power.

Under the United National Independence Party (UNIP)'s one-party rule (1973-1991), the president and the party had become central to the political system. The president could make all government appointments, including to the boards and management of SOEs, and often used them as a political tool, either to reward political loyalists or co-opt

political opponents. The rapid turnover of human resources, the moving of personnel in and out of civil service to SOEs and vice versa, hampered their functioning (interview economist, 16 April, 2026). Because of the insecurity of their positions, many people within the public sector sought to use the resources at their disposal to establish an independent basis for themselves within the private sector (Craig, 1999, p. 60). The rapid expansion of SOEs in Zambia and the takeover of the copper mining companies, however, coincided with the decline in copper prices following the oil crisis in the 1970s, which severely impacted their functioning and put Zambia under severe fiscal pressures throughout the 1980s.

Public policy during this period was not necessarily motivated by private enrichment at the executive level. The emphasis on state-led economic development through SOEs aimed to fulfil developmental ambition, as well as to maintain political control. However, it could be argued that this system created conditions for state capture - notably weak accountability, politicisation of (professional) positions, limited institutional autonomy - in line with capture dynamics seen after 1991.

Privatisation of the majority of SOEs in the 1990s

The dominance of the SOE sector ended with the privatisation of the 1990s, which particularly affected the mining sector, less so SOEs in strategic and utility industries. The move towards the adoption of the privatisation programme occurred in the context of the renewed agreement reached with the IMF in 1989. Under a Rights Accumulation Programme, Zambia had to meet conditionalities over a number of years to qualify for concessional lending from the IMF. The IMF programme, largely resisted by Kaunda, came into full flow with a change of government in 1991, with the Movement for Multiparty Democracy (MMD) committing to "a balanced structural adjustment programme specifically suited to Zambian conditions" and to "selling off as many state-owned enterprises as possible." (Craig, 1999). MMD's economic policy orientation was liberal and was financed by businesses that favoured the privatisation programme.

Of all the IMF programmes in the region, Zambia took the liberalisation of its economy to quite an extreme. By 2000, 113 out of 144 state-owned enterprises (79%) had been privatised. The consequences of the privatisation programme have been well-documented both from a perspective of its impact on employment (massive job losses on the Copperbelt and casualisation of work) (Mususa, 2021) and reduced opportunities for patronage through SOEs in a multi-party, competitive political environment (Cheelo & Hinfelaar, 2023). Moreover, the rapid privatisation process led to deindustrialisation, with as much as 75% of formal manufacturing plants closing in industrial centres like Ndola (Chitonge, 2023). Equally, there was evidence of corruption in the process of privatisation (Craig, 2000). Key state assets, especially under the Zambia Privatisation Agency were sold, often below value or under opaque conditions. Emerging business elites, politically connected insiders, and foreign investors gained control of former SOEs.

The state's role shifted to being the broker of access and creating opportunities for rent-seeking (Craig, 2000).

Despite large-scale privatisation, SOEs remain important in Zambia, especially in energy, financial services, infrastructure and agriculture. While much reduced in size, SOEs remained central to Zambia's development policy and the political discourse about sovereignty.

From 2001 onwards, MMD, now under the leadership of Levy Mwanawasa, oversaw the completion of the privatisation process of the mining industry. However, further privatisation plans, notably of ZESCO, the national electricity company, were halted. In 2006, after the Heavily Indebted Poor Countries (HIPC) completion point, which ended the IMF conditionalities, Zambia regained more policy space. The government abrogated the Development Agreements (DAs) that were signed with mining companies under the privatisation process. These individual DAs, signed in times of low copper prices, negatively impacted Zambia's tax revenues and regulatory oversight. The reduced influence of the IMF and the rise of the opposition party PF, with a more statist, left-leaning ideology and strong support from the urban Copperbelt, contributed to a push for these policy reforms.

Revival of SOEs under Patriotic Front (2011-2021)

In 2011, PF came into power and reversed policy direction towards SOEs. The state was once again seen as the primary driver of development. President Sata's support for interventionist policies was also an attempt to recreate the statist development model implemented by Kaunda's UNIP government (Siachiwena, 2021, p. 4). Despite the poor financial performance of many of the SOEs, as attested by numerous Auditor General reports, there was a strong public demand to maintain them, especially in light of the dominance of foreign ownership of Zambia's industry since privatisation. Sata emphasised state participation in strategic sectors and in 2014 created the Industrial Development Corporation (IDC), a holding company under the Ministry of Finance, which was presented as a vehicle for accelerating industrialisation, achieving economic diversification, maximising economic growth potential, and wealth creation for the government.

The enterprises whose shares were transferred to IDC cut across twelve economic sectors: agriculture, energy, education, financial services, information and communications technology (ICT), infrastructure, manufacturing, medical, mining, real estate, tourism and transport and logistics. Although this did not mark a full return to the pre-1990s state-led economy, PF intervened in previously privatised sectors, for instance the telecom firm Zamtel was re-nationalised.

From an early stage, PF's management of SOEs faced significant criticism, ranging from allegations of political interference and patronage, notably the appointment of

unqualified cadres (PF party members), to professional positions. There were also concerns about corruption and opaque procurement practices. Money meant for the recapitalisation of certain industries was siphoned away (i.e. Zambia Railways, Parliamentary Report, 2017, interviews). The most controversial case took place in 2020, when IDC, National Pension Authority (NAPSA), and the Workers Compensation Fund acquired a 49% stake in Marcopolo Tiles Company, a Chinese-owned company, for about US$44.8 million. While IDC claimed that the investment was made "following a comprehensive due diligence and independent valuation" (IDC, 2021), investigations and reporting alleged that senior IDC officials received illicit payments linked to the transaction in excess of US$500,000 as kickbacks (Funga, 2021). Critics argued that Marcopolo had only been established around 2016–2017 and had no track record of performance. There were also allegations that claims about its profitability and track record were misrepresented (Funga, 2021). Furthermore, the deal was seen as state encroachment on commercially viable private activity, which was especially controversial given Zambia's fiscal crisis at the time, as Zambia had defaulted on its debt that same year. Other controversies include the acquisition of Zampalm, in which IDC spent $16 million to acquire a 73% stake in Zampalm, a loss-making private subsidiary of Zambeef. Similarly contentious was the buyout of Superior Milling. The IDC purchased a controlling interest in Superior Milling at a time when the private milling company was facing severe financial distress (interviews with former staff of anti-corruption agencies, 7 May 2026).

Since the end of the privatisation era in the early 2000s, state capture has operated largely through public procurement and contracting. Large infrastructure projects such as roads, energy and defence have become key sites of rent extraction (FIC and AG reports, 2018-2024). Political connections often determined who won government contracts. State House, which in the Zambian context is central in decision-making, played an important mediating role.

SOEs under a liberal regime (2021 to date)

In 2021, the United Party for National Development (UPND), a liberal, pro-business party, came to power. Hakainde Hichilema, popularly known as HH, became the new president. Influenced by an externally driven debt restructuring programme, IMF conditionalities, and its own market-oriented ideology, the new government embarked on reforms to transform the SOE sector. The objective was to shift SOEs towards a more commercial model, an approach reflected most prominently in enterprises such as power company ZESCO and ZCCM Investments Holdings Plc (ZCCM-IH), the successor company to Zambia Consolidated Copper Mines Limited (ZCCM Ltd).

A major reform trajectory was the functional unbundling of ZESCO, based on longstanding recommendations from the World Bank. This was operationalised through the creation of special-purpose vehicles (SPVs), and by ring-fencing subsidiaries for projects (e.g., renewables, transmission assets) and introducing new offtake models

where ZESCO is no longer the sole buyer of power. These interventions mark a shift from a state monopoly utility to a hybrid market system with multiple actors. The reforms were prompted by the heavy debt burdens and liquidity constraints facing SOEs like ZESCO during a period of serious energy constraints. Since 2021, Zambia has also increased state participation in mining (e.g., the acquisition of the Mopani copper mine in 2021), signalling a hybrid model of state ownership, corporate structuring and private capital. As was the case under the MMD, partnerships are dominated with foreign capital, rather than domestic enterprises (interview with economist, 16 April 2026).

It is important to note that a more corporate, profit-driven approach of the SOEs does not necessarily reduce political influence, rather, political influence takes on a different form. In some SOEs, while there are signs that there is improved efficiency, better access to finance and reduced fiscal burden on the state, most SOEs are still underperforming. The risks are hidden liabilities across subsidiaries, opaque deals and transitions, and political interference at the holding-company level. The IMF's Diagnostic Report on Governance and Corruption: Zambia (2022) noted that the President's position as chairman of the board of IDC has facilitated undue political interference in SOEs, which in turn has negatively impacted their performance.

President Hichilema's approach to SOEs is closely linked to his broader development agenda, particularly the Government's flagship objective of increasing Zambia's copper production to 3 million tonnes by 2031, alongside ambitious targets in the energy and agricultural sectors. Recognising that the Government lacks the capital required to achieve these objectives on its own, the administration has pursued a model that leverages private sector investment while retaining a strategic state interest. In the mining sector, this has translated into a policy of maintaining SOEs, principally ZCCM Investments Holdings Plc (ZCCM-IH), as minority shareholders or co-investors, typically with a minimum 25 per cent equity stake. This approach is illustrated by the restructuring of major mining assets such as Mopani Copper Mines and Konkola Copper Mines.

Mopani Copper Mines provides a clear example of this model in practice. Following Glencore's exit in 2021, ZCCM-IH assumed control of Mopani, inheriting a mine burdened by approximately US$1.5 billion in debt, declining production, and significant capital requirements. Rather than continuing to operate the mine as a wholly state-owned enterprise, the Government opted to restructure it through a strategic partnership with a private investor. In 2024, International Resources Holding (IRH) of the United Arab Emirates acquired a 51 per cent stake in Mopani, while ZCCM-IH retained the remaining 49 per cent. As part of the transaction, IRH committed substantial new investment and assumed responsibility for significant debt obligations. With Mopani, the governance risk shifted outwards, as the capture risk moved to the selection of the "credible investor" and the terms of the deal (equity split, tax stability, debt treatment). Additionally, there is the risk of regulatory capture, where firms influence regulators to soften rules or

enforcement, like the Zambia Revenue Authority (ZRA) and Zambia Environmental Agency (ZEMA) (interview cooperating partner, 20 March 26).

2. Legal and regulatory vulnerabilities to state capture in SOEs

Overview and approach

This section assesses vulnerabilities to state capture within Zambia's legal and regulatory framework governing SOEs. It examines how existing governance arrangements, institutional structures and regulatory mechanisms governing the ownership, management and oversight of SOEs may create or leave open opportunities for the capture of state resources and decision making.

The principal legislative framework is the SOE Act, 2026 (SOE Act), which establishes the legal regime for the incorporation, ownership, governance, oversight, and performance of SOEs. The Act operates alongside other relevant legislation, including the Companies Act No. 10 of 2017, which continues to regulate the corporate governance of SOEs incorporated under it. A key institutional actor within this framework is the Industrial Development Corporation (IDC), the Government's principal investment holding company. Wholly owned by the Government through the Minister of Finance (Incorporation) Act, Cap. 349, and chaired by the President, the IDC occupies a central position in the State's SOE ownership structure. As of 2024, it held interests in 41 entities (World Bank, 2024), giving it a significant role in the Government's investment and ownership portfolio.

Zambia's SOE governance framework combines formal structures that suggest professionalised oversight with practical realities that allow for discretion, opacity, and political influence. This section analyses the key vulnerabilities embedded in the current legal and regulatory framework governing SOEs, focusing on how these design features create incentives and opportunities for capture.

Vulnerability analysis

Governance and ownership

Prior to the enactment of the SOE Act, ownership and shareholder powers in SOEs were concentrated within the executive, typically exercised through the minister responsible for finance or line ministries. This concentration created a structural imbalance, where the same authority could simultaneously act as policymaker, regulator, and owner (World Bank, 2024; IMF, 2022).

This overlap of roles enabled discretionary decision-making in key areas such as restructuring, asset disposal, and major investments, often with limited transparency,

and precipitated conflicts of interest, limiting the effectiveness of internal checks and balances (OECD, 2024).

The newly enacted SOE Act seeks to rationalise this arrangement by centralising ownership functions within the Government Investment Department (GID), located in the Ministry of Finance (sec. 5). The GID is tasked with monitoring performance, assessing fiscal risks, and coordinating oversight across the SOE portfolio.

However, the Act simultaneously reinforces ministerial control over ownership and governance. It vests shares and ownership powers in the Minister, who may exercise these powers (including the affecting of mergers, acquisitions, divestitures and restructuring directly or indirectly through holding companies and nominee arrangements (secs.12–13, 16)). These provisions allow the Minister to determine how ownership is structured across SOEs and their subsidiaries, including the registration of shares through intermediary entities and the delegation of shareholder functions to holding companies.

While such arrangements may improve administrative coordination, they introduce additional layers between the State and individual SOEs, reducing transparency over ownership and control. In particular, the use of holding companies and nominee structures can obscure decision-making authority and complicate oversight of financial flows and liabilities.

Moreover, although certain governance functions, such as board nominations, performance monitoring, and strategic oversight, may be exercised through holding companies, these entities operate under ministerial direction. As a result, the distinction between the State as shareholder and the State as political authority remains blurred. This limits the development of an arm's length ownership model and weakens board independence in practice.

In sum, the Act introduces a more structured ownership framework but does not fundamentally alter the concentration of authority within the executive. Instead, it creates a system in which formal delegation coexists with centralised control, preserving significant scope for discretionary decision-making and maintaining a key pathway through which state capture can occur.

Appointment processes and board independence

Historically, Zambia's SOE governance framework granted significant discretion to the executive in constituting SOE board members and senior management. While this was formally justified on the basis of shareholder control, it created a direct channel for political influence, allowing boards to prioritise political directives over fiduciary considerations. Frequent turnover linked to political cycles undermined institutional continuity and long-term planning. This dynamic created a sure pathway for state capture by aligning SOE leadership with narrow political interests (Mulenga, 2024; World Bank,

2024; Phiri, 2022; IMF, 2022,). Key vulnerabilities in the past framework included: lack of transparent, merit-based appointment processes, absence of clear qualification and independence criteria for board members, and weak tenure protections.

The 2026 Act introduces some reforms in this area. It requires that boards be composed of a majority of independent[1] non-executive directors and establishes eligibility criteria that exclude active political office holders and individuals with conflicts of interest (secs. 14-15). It also mandates the adoption of a transparent nomination policy.

The effectiveness of these provisions is constrained by the continued concentration of appointment authority within the executive (secs. 7, 14). The absence of an independent appointments body or external oversight mechanism means that political influence may persist. In addition, while the Act (sec. 41) specifies objective grounds on which an entire board may be dissolved, (e.g. failure to obtain audited financial statements or meet performance targets), it does not regulate the removal of individual directors through clearly defined grounds, procedural safeguards, or an independent review mechanism of removal decisions. As a result, tenure protection of individual board members under the Act is not guaranteed.

Debt acquisition

SOEs in Zambia have played a significant role in public borrowing, often contracting debt to fund capital expenditure. Historically, weaknesses in monitoring and transparency have enabled the accumulation of liabilities outside the core government budget, creating fiscal risks and opportunities for the diversion of borrowed funds.

The SOE Act introduces improved disclosure requirements, including the publication of information on SOE financial assistance, guarantees and other financial arrangements (sec. 25). Importantly, section 42 expressly subjects the contraction of debt by SOEs to the Public Debt Management Act, 2022.

Part V of the Public Debt Management Act establishes an ex-ante control framework by requiring public bodies to obtain the written authority of the Secretary to the Treasury before raising loans or issuing guarantees. Before granting such authority, the Secretary to the Treasury is required to cause the Debt Management Office (DMO) to assess the borrowing entity's financial capacity to repay the proposed loan. The framework also provides for sanctions for unauthorised borrowing and establishes that public bodies

[1] By "Independent", the Act envisages a director who is able to exercise objective judgement because they are free from relationships or interests that could compromise their objective judgment. This is reinforced by excluding active political office holders and persons with conflicts of interest from serving on boards. The Act also requires a transparent nomination policy, but appointment authority ultimately remains with the shareholder or Minister, rather than an independent appointments body.

remain responsible for their own debts and obligations unless these are expressly guaranteed by Government.

These provisions constitute an important safeguard against uncontrolled SOE borrowing and demonstrate that the regulatory framework extends beyond post-borrowing disclosure to include prior authorisation and assessment of repayment capacity. Nevertheless, the effectiveness of these controls will depend on enforcement, the quality of DMO assessments and the ability of the relevant authorities to prevent the circumvention of approval requirements. Furthermore, an assessment of repayment capacity does not, in itself, establish the economic viability, value for money or integrity of the underlying debt financed project. These remain important areas for effective fiscal oversight.

Procurement

The SOE Act in Part IX, introduces a framework intended to strengthen competitive neutrality between SOEs and private sector enterprises. Section 34 requires the Government to treat SOEs and private enterprises on a non-discriminatory basis and prohibits preferential treatment or undue advantages in areas including access to financing, pricing of essential inputs and public procurement. It further requires procuring entities to ensure equal treatment and non-discrimination between SOEs and private bidders.

An important feature of the new framework is the formal recognition and regulation of public interest service obligations. Under section 32, where a relevant ministry requires an SOE to undertake such an obligation, the request must be submitted to the Minister and approved by Cabinet. The obligation must subsequently be formalised through a written agreement between the relevant ministry, the Minister and the SOE. The agreement must specify the nature and quality of the service, the costs and parameters used to determine those costs, applicable service fees and the arrangements for compensating the enterprise where those fees are insufficient to cover the costs incurred. Importantly, compensation must be limited to, and proportionate to, the net cost of providing the public interest service obligation.

This framework is significant because it seeks to distinguish the commercial activities of SOEs from activities undertaken to fulfil government assigned public service objectives. It provides a basis for identifying and transparently financing the costs of non-commercial obligations, rather than allowing such costs to be absorbed indiscriminately into the enterprise's commercial operations. Section 25 reinforces this approach by requiring SOEs to publish information on the costs and funding arrangements relating to public policy objectives and public interest service obligations.

Nevertheless, section 36 permits the Minister, by statutory instrument, to exempt an SOE from provisions of Part IX in the interest of a public interest service obligation. Although

this exemption must be limited and proportionate to the determined cost of providing the obligation, it creates scope for differential treatment in the application of competitive neutrality requirements. Its implementation will therefore require transparent costing, clear justification and effective oversight to ensure that exemptions do not confer advantages on SOEs beyond those necessary to discharge their public service mandates.

Internal controls

Weak internal controls including failure to produce financial reports have been a persistent challenge in the SOE sector. (World Bank, 2024; IMF, 2022).

The 2026 Act significantly strengthens formal requirements in this area by introducing mandatory audited financial statements, quarterly and annual reporting, performance contracts and monitoring frameworks (secs. 23-25). These provisions enhance the availability of information and create a more structured accountability framework. The effectiveness of these measures will ultimately depend on enforcement.

Exemptions and residual discretion

The wide scope for discretionary decision making by political authorities, a mainstay of the previous regulatory framework, is not fully eliminated by the Act. While the Act introduces more structured governance arrangements, it simultaneously preserves, and in some respects expands, ministerial discretion across key areas of SOE oversight and control. For example, the Act gives the executive significant influence over decisions concerning the establishment and legal structure of SOEs. Under section 7(2), an SOE requires the Minister's approval before incorporating a subsidiary. Separately, section 7(3) permits the Minister, with Cabinet approval, to exempt an existing SOE from the requirement to incorporate under the Companies Act. These provisions place important decisions about the organisational structure and legal status of SOEs within the executive's control.

Further, under section 8, the Minister may initiate the incorporation, privatisation or winding up of an SOE, or the acquisition of state shareholding, either on the Minister's own motion or following a recommendation from a relevant ministry, government department, SOE or other appropriate authority. However, these powers are subject to procedural requirements, including the preparation and publication of a market failure and options assessment report and submission of that report to Cabinet. Additionally, section 8(5) requires the Minister to decide in consultation with Cabinet. Section 9 separately provides for the cessation of state shareholding under specified circumstances, subject to periodic review and reporting to the National Assembly.

Although these provisions introduce procedural and collective executive oversight, decision making authority remains concentrated within the executive. The Act does not establish an independent decision-making body for determining the establishment, privatisation or winding up of SOEs. The extent to which the assessment and consultation

requirements constrain political discretion will therefore depend on their implementation, the transparency of the decision-making process and the quality of parliamentary scrutiny.

In sum, these provisions create a governance framework in which formal rules coexist with extensive discretionary authority. While the Act introduces mechanisms intended to improve coordination and oversight, it does not sufficiently constrain how and when these powers are exercised.

The cumulative effect is the potential emergence of a system in which certain SOEs operate under strengthened governance and transparency requirements, while others (through discretionary decisions) remain subject to more opaque oversight.

Summary

The above analysis demonstrates that vulnerabilities to state capture in Zambia's SOE sector have historically been embedded in the design of the governance framework. The SOE Act represents a significant effort to address these challenges and bring Zambia's SOE governance closer to international standards, including the OECD (2024) Guidelines on Corporate Governance of State-Owned Enterprises, particularly in relation to transparency, disclosure, and formal governance structures (an OECD compliance assessment is provided in Table 1).

However, the Act does not fully resolve the underlying structural drivers of state capture. Executive discretion remains substantial, institutional independence is limited, and key loopholes persist.[2] As a result, while the Act has the potential to significantly strengthen SOE governance, its impact will depend on how these residual vulnerabilities are managed in practice. This underscores the importance of complementary reforms that address not only legal design, but also the political and institutional dynamics that shape implementation.

[2] As earlier explained, ownership powers, including the exercise of shareholder rights, continue to vest in the Minister, who also retains substantial authority over appointments, notwithstanding the introduction of stronger eligibility and independence requirements for board members. In addition, the Minister may exempt entities from certain provisions of the Act through statutory instruments and exercises broad powers over the incorporation, restructuring, privatisation, acquisition, divestiture, and ownership structure of SOEs, including through holding company arrangements. The Act also does not establish an independent ownership or appointments body, with the result that strategic decisions relating to SOEs remain largely subject to executive control.

Table 1

Compliance Assessment of the State-Owned Enterprises Act, 2026 with the OECD Guidelines (2024)

OECD 2024 Chapter	Core Principle	SOE Act (2025)	Assessment	Key Gap / State Capture Risk
Chapter II: The State's Role as Owner	State should act as a professional, active, and non-interfering owner; respect board autonomy	Sections 5, 12–13 (GID; ownership function); Sections 8–11 (ministerial powers)	Partial alignment	Minister retains interventionist ownership powers in some circumstances
Chapter III: SOEs in the Marketplace	Legal and regulatory framework should ensure level playing field and fair competition	Sections 34, 36 (competitive neutrality; exemptions)	Strong alignment	Risk of preferential treatment and competitive distortion through poorly costed or inadequately monitored public-interest service exemptions.
Chapter V: Disclosure, Transparency & Accountability	High-quality disclosure incl. liabilities, risks, group structures, and state support	Sections 22–25, 44–45 (reporting, audits, SOE register)	Strong alignment	No full beneficial ownership disclosure requirement; complex structures may still obscure control
Chapter VI: Boards of SOEs	Boards must be independent, competent, and protected from political interference	Sections 14–15, 18 (board appointment, composition, qualifications)	Weak alignment	Appointment and removal still strongly influenced by executive

Chapter VI.E (Integrity focus)	Prevent political interference, patronage, and conflicts of interest	Sections 14–15, 41, 43 (appointments, dissolution, exemptions)	Weak alignment	Discretion + exemptions create pathways for patronage and reform capture
Chapter V.A.9 (Debt & Liabilities)	Full transparency of debt, guarantees, and contingent liabilities	Section 24, 27–28, 42 (debt reporting; link to Public Debt Management Act)	Substantial alignment	Weak project level scrutiny and political influence may undermine borrowing controls, creating opportunities for unsound projects and misuse of funds.
Chapter VII: Sustainability	Integration of sustainability and long-term value into governance	Limited coverage in Bill	Weak alignment	Sustainability not strongly embedded in governance obligations

3. Reform

Efforts to reform Zambia's SOE sector have been recurrent, particularly in periods of political transition. These reforms have typically focused on strengthening corporate governance. Recent initiatives, including renewed engagement with international financial institutions and the SOE Act reflect a continued recognition of the need to address structural inefficiencies and governance weaknesses.

However, despite repeated reform attempts, progress has been uneven and often short-lived. Many reforms have failed to fundamentally alter the incentives and power structures that underpin SOE governance. Instead, formal improvements in laws, policies, and institutional frameworks have frequently coexisted with persistent informal practices, including political interference, patronage, and opaque decision-making.

This section argues that the limited success of past reforms can be explained not only by technical or capacity constraints, but by deeper political-economy dynamics. In particular, reform processes themselves can become sites of contestation and capture, while weak enforcement mechanisms undermine the credibility and durability of formal rules. Understanding these dynamics is critical for designing reforms that are both effective and politically feasible.

Lack of political coalition

Since the re-introduction of multi-party democracy in Zambia, elections have become intensely competitive and polarising. Consequently, ruling political parties have focused on short-term political advantage and retaliatory politics after power transitions. This has reduced incentives for political parties to collaborate on long-term governance reforms like SOE restructuring. Moreover, Zambia has weakly institutionalised political parties that commonly dissipate after losing power. Political actors easily move from one party to another, with political survival as the main focus. As a result of weak political parties, parliamentary oversight is also weak. Overall, it has proven difficult to build cross-political party consensus on issues like state capture.

Elite resistance

The opaqueness around political funding, as explained earlier, makes politicians beholden to their funders. Historically, SOEs form an important part of political party support, by providing off-budget support (transport, logistics, jobs, cash, etc). At an individual level, political elites benefit from hiring practices and contracts. In this setup, there is little incentive to reform SOEs, especially for the incumbent party. The draft Political Parties Bill in Zambia proposes establishing a Political Parties Fund and regulating party funding sources. On the 3rd of April 2026, the Constitutional Court ordered the government to take necessary measures that should lead to the enactment of the Political Parties Bill within 12 months. There will likely be resistance from the ruling party, as well as most of the opposition parties, to make political party funding fully transparent.

Reform capture

A key challenge facing SOE reform efforts in Zambia is the phenomenon of reform capture, whereby reform processes are shaped, redirected, or diluted by the very actors they are intended to constrain. Rather than eliminating opportunities for rent extraction or political control, reforms may be adapted in ways that preserve underlying power structures while creating an appearance of change.

Reform capture can manifest in several ways. For example, legal and institutional reforms may be designed with built in ambiguities or discretionary provisions that allow continued political influence. More fundamentally, legal and policy reform is itself a political process that is susceptible to political influence and interference.

Implementation processes of reform initiatives may also be selectively applied. New rules may be enforced unevenly, with politically connected entities or individuals effectively shielded from scrutiny. As seen in the preceding discussion, the SOE Act itself is not immune to this risk. Its reliance on executive discretion, particularly in appointments and exemptions, creates scope for selective implementation.

Reform initiatives may also be used strategically to reconfigure, rather than dismantle, capture networks. As demonstrated in the political economy analysis, changes in institutional arrangements, such as shifts in ownership structures or oversight bodies, may alter who benefits from SOE control without addressing the underlying mechanisms of capture.

Weak enforcement

A second major constraint on effective SOE reform is the weakness of enforcement mechanisms. Even where legal and regulatory frameworks are formally robust, their impact depends on the extent to which rules are consistently applied and enforced.

In Zambia, enforcement challenges arise at multiple levels. Oversight institutions, including regulators, auditors, and parliamentary bodies, often face significant capacity deficits. Weak enforcement also interacts with issues of transparency. Where information disclosure is limited or delayed, it becomes difficult for oversight actors (e.g., parliament, civil society, and the public) to hold SOEs accountable. Importantly, enforcement is not solely a technical issue, but a political one. Decisions about whether and how to enforce rules are often shaped by political considerations, particularly where enforcement actions may implicate powerful actors.

Recommendations: policy options

With the recent enactment of the SOE Act, the focus of reform must shift from introducing new legal frameworks to operationalising and strengthening the existing provisions of the Act. The objective is not to duplicate what the law already provides, but to close the gaps that remain, particularly in areas where discretion, opacity, and weak controls continue to create entry points for state capture. Importantly, the Act contemplates the development of implementing regulations, which provide an opportunity to give practical effect to its provisions and address many of the residual governance vulnerabilities identified in this paper. Several of the reform proposals discussed below could therefore be incorporated into the regulations, helping to strengthen transparency, accountability, and consistency in the implementation of the Act without requiring further legislative amendment.

Appointment and tenure safeguards

The SOE Act introduces important improvements in board composition, including requirements relating to independence and eligibility. However, as noted in the vulnerability analysis, the central risk lies not in the absence of rules, but in how appointments are made in practice.

To strengthen the Act, reforms should focus on institutionalising transparency within the appointment process itself. This could include requiring that all board positions be

publicly advertised, with clearly defined qualification criteria published in advance. The nomination process provided for under the Act should be operationalised through documented procedures, including the publication of shortlists and the rationale for final selections.

Such measures would not remove executive involvement (which is legally and politically entrenched) but would increase the visibility and accountability of appointment decisions, thereby raising the cost of overt politicisation.

Tenure protections also require further clarification. While the Act establishes governance standards, it does not fully eliminate the risk of arbitrary removal. This could be addressed by developing supplementary regulations or guidelines that define limited and objective grounds for removal, require written justification for dismissal, and ensure that such decisions are reported to Parliament or an oversight body.

These suggested measures would help shift the system from a discretion driven system to one shaped by structured and reviewable processes, without requiring fundamental changes to the Act itself.

Debt acquisition controls and transparency

The SOE Act makes an important contribution by introducing reporting requirements for SOE debt and, through section 42, expressly subjecting SOE borrowing to the Public Debt Management Act. This provides an ex-ante control framework, including requirements for prior authorisation of borrowing and assessment of an SOE's capacity to repay. The priority, therefore, is not simply to introduce additional borrowing controls, but to strengthen the implementation, enforcement and oversight of the existing framework.

In particular, policy instruments and regulatory guidelines should clarify and reinforce the application of these requirements to SOEs, including through rigorous project-level feasibility and value for money assessments for major debt financed investments. Such assessments would complement the existing assessment of repayment capacity by examining the economic viability, expected returns and broader fiscal implications of proposed projects.

Further, SOE liabilities should be more systematically integrated into national fiscal frameworks through the regular publication of consolidated SOE debt exposure, including relevant guarantees and contingent liabilities. This would enhance fiscal transparency, strengthen monitoring of fiscal risks and reduce opportunities to use SOEs as vehicles for off-budget financing.

Disclosure of corporate structures

While the SOE Act improves disclosure requirements, it does not fully resolve the challenges posed by complex corporate structures. Subsidiaries, joint ventures, and

affiliated entities continue to present opportunities for obscuring financial flows, liabilities, and control relationships.

To address this, reforms should focus on expanding and deepening disclosure within the framework established by the Act. The central SOE register envisaged under the Act provides a strong foundation for this reform. It could be developed into a comprehensive, publicly accessible database that consolidates information on ownership structures, financial performance, and governance arrangements across the SOE portfolio.

These measures would significantly reduce the scope for structural opacity, ensuring that the formal transparency gains introduced by the Act translate into meaningful visibility over how SOEs operate in practice.

Development of early warning systems

Parliamentary committees have historically provided oversight over SOEs, but have no enforcement mechanisms. Other watchdog institutions like the Anti-Corruption Agency (ACC) and Financial Intelligence Centre (FIC) lack sufficient autonomy (i.e. boards are appointed by the president) and enforcement tools.

In the absence of effective oversight of the SOEs, CSOs, media and donors could play an important role, by tracking and exposing the following:

- Board appointments and rotations
- Delay in audit reports
- Increase in operating costs
- Significant losses
- Debt accumulation
- Overlap between SOE leadership and political party structures
- Connections between contractors and politically exposed persons (PEPs)
- Policy changes or regulatory reforms that benefit specific firms
- Ties between business and political elites

In all of this, CSOs and media can make use of the Access to Information Act (2023) and the Beneficial Ownership regulations under the Companies Act (2025), among other documentation.

4. Conclusion

This paper has examined Zambia's SOE sector through a political economy lens, demonstrating that vulnerabilities to state capture are embedded in the design of the governance framework. The concentration of ownership powers within the executive, combined with opacity, discretionary decision-making, and weak enforcement, creates multiple entry points for political and economic influence.

The political economy analysis shows that these vulnerabilities are not static but evolve across Zambia's changing political settlement. While the forms of state capture have shifted, from overt patronage to more corporatised and network-based influence, the underlying incentives to control SOEs as sources of rent, financing, and strategic leverage have remained consistent.

The SOE Act represents an important step toward reform, particularly in strengthening transparency, reporting, and coordination. However, it does not fully address the concentration of authority or constrain discretionary power. As a result, formal improvements in governance may coexist with continued scope for political influence.

The effectiveness of the Act will therefore depend on how these residual vulnerabilities are managed in practice. Without complementary measures to strengthen enforcement, constrain discretion, and improve transparency at key decision points, there is a risk that reforms will enhance formal compliance without fundamentally altering governance outcomes.

Ultimately, strengthening SOE governance in Zambia requires aligning legal reforms with the political and institutional incentives that shape their implementation. Without such alignment, state capture risks are likely to persist, even within a more structured regulatory framework.

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