

## Zambia Country Study

### Background

At independence in 1964, Zambia inherited a private sector driven economy dominated by the foreign-owned mining sector contributing almost 50% of GDP and even more of government revenues. In line with other newly independent African countries, the GoZ transferred ownership to the hands of the state through a series of 'Zambianisation' reforms in the late 1960s.

The mining sector dominance and the Zambianisation reforms still affect the structure and organisation of the Zambian productive sector. The mining sector has shaped the Zambian economy due to the importance of the copper itself for export revenues, tax revenues and employment but also directly due to neglect or lack of interest in other sectors, and indirectly due to for instance appreciation of the local currency during periods of commodity boom or lack of funds in times of bust (Shafer, 1994). Since the publication of the First National Development Plan (1966-1970), all national development plans (no matter their name and origin) have stressed the need to restructure the economy by giving priority to for instance agriculture and manufacturing and thereby, lessen the dependence on copper. Notwithstanding these declarations, no significant restructuring has taken place. Zambia is still overwhelmingly dependent on copper.

The Zambianisation reforms also impacted on the structure of the productive sector. First, they left only a few sectors of the economy for the private sector to thrive. Hence, when privatisation took off the Zambian-owned private sector was characterised by lack of capital and lack of management experience. Likewise, it left the success of the private sector in the hands of the political incentives emerging from the state (cf. (Bates & Collier, 1995)). Thus, it came as no surprise that Zambian-owned businesses failed to benefit from the large-scale divestment programme of the past two decades (Kragelund, 2009). Despite numerous reforms by the GoZ to ease the day-to-day activities of private businesses, Handley (2008) argues that these businesses' historical entanglement with the political elite has given rise to a tendency among Zambian businessmen to seek opportunities through personal ties with those close to political power.

Zambian state-business relations (SBR) are dynamic, reflecting the major structural and political changes in society, but the reality of SBRs not always fits the official wording. Thus, although SBRs in the 1990s in Zambia were cast in partnership terms based on self-regulation, consultative meetings, and mutual accountability (cf. (Haglund, 2010)), what happened was a further marginalisation of the business sector by the state through ignoring or co-opting it (Taylor, 2007). Moreover, SBRs are highly complex involving numerous Zambian private and public entities as well as several donor agencies seeking to transform the Zambian economy via support to either private or public entities or both. Most significantly, donor targeting of the Zambian private sector began in 2002. With the establishment of the Zambia Business Forum (ZBF), an umbrella organisation seeking to bring the State and Business together, donors have been highly influential in changing the SBR in Zambia. Likewise, donors have influenced the decision to employ private sector desk officers in all key ministries (NORAD, 2002; Taylor, 2007).

It is important to note that although some firms have failed to adapt to the changing environment, both in terms of market and institutions, others have managed to cope with these adverse conditions and the local private sector in Zambia can thus be categorised into the following three groups: the subsistence entrepreneurs, setting up a business to '*supplement family income*', the pioneering entrepreneurs that are '*perceived to have identified a gap in the market*', and the growth oriented 'true entrepreneurs' that have identified a '*true gap in the market*' (Phillips & Bhatia-Panthaki, 2007). Only few companies fall into this last category, but they are the focus of this Zambia sub-study.

## **Agribusiness sector**

The development in the Zambian agricultural sector is closely linked to other political and economic developments in the country. The agricultural policy in the years preceding multi-party Presidential elections in 1991 comprised comprehensive controls over pricing, marketing and financing. Meanwhile, it encouraged the concentration of resources on the production and sale of maize (Copestake, 1998). Widespread liberalisation and privatisation changed this picture altogether. Even though maize is still the most important food crop, many farmers now grow cash crops such as cotton, tobacco and sugar.

According to a recent World Bank (2009) study, these three crops are the most important crops linking farmers and agribusiness. More importantly, agriculture and agro processing are extremely important in the Zambian economy (contributing 40% of GDP, 12% of exports earnings, and 67% of employment). GoZ places agribusiness high on its agenda to diversify the economy. Within the manufacturing sector that currently contributes 11% to GDP, the GoZ has identified six key sub-sectors, which have great potential in growing the Zambian economy, including processed foods, textiles and garments, engineering products, gemstones, leather and leather products, and wood and wood products (Government of Zambia, 2011).

However, the processed foods sub-sector seems to possess the greatest potential in the manufacturing industry as it accounts approximately 60% of the total manufacturing GDP. The major processed foods include, inter alia, sugar, wheat flour, stock feeds and maize flour. Fierce competition exists in some of these sectors (Szirmai et al. 2002), such as in the Cassava feed companies, millers and food processing companies (Haggblade & Nyembe, 2008) whereas other sectors are dominated by one or a few companies, such as the Zambia Sugar Company's almost monopoly in refining raw sugar and Dunavant, a major cotton company in Zambia<sup>1</sup>. Therefore, Zambia seems to have great potential in agribusinesses, especially processing of agricultural products. A study of firms involved in processing agricultural products will provide significant insights into their operations.

## **Copper sector**

The mining sector, especially the extraction and processing of copper and cobalt (a by-product of copper), is of paramount importance to the Zambian economy. Copper was perceived by the newly independent government as the key to the development of the country. During the late 1960s and the beginning of the 1970s a process of nationalisation of the mines began ending in the establishment of first in 1970 the Zambia Industrial and Mining Corporation (ZIMCO) and then the Zambia Consolidated Copper Mines (ZCCM) in 1982. A decade later, in the beginning of the 1990s, in spite of continuous declining demand for copper, '*ZCCM was the fifth largest copper producer in the Western world*' (Craig, 2001: 392) and copper accounted for more than 90 per cent of Zambia's export earnings.

ZCCM, however, operated at huge costs and by the late 1990s the GoZ was forced to sell off its assets in the mining sector to foreign investors. At that time, copper's contribution to GDP, to government revenue, and to employment creation had fallen drastically. In fact, by this time the

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<sup>1</sup> In fact, Tschirley & Kabwe (2007) only identified eight ginning companies operating in Zambia in the 2005/2006 season of which only Continental and Mukuba are locally owned. However, the cotton value chain also includes Zambian spinner-weavers, seed oil and seek cake manufacturers, and garment manufactures.

mines had become a huge liability to GoZ and ZCCM was sold off cheaply (Lungu, 2008). With drastically increasing commodity prices, the mines once again have become the backbone of the Zambian economy and it contributes some 70 per cent to Zambia's foreign exchange earnings (Government of Zambia, 2011).

Mining and exploration in Zambia are currently dominated by a few foreign mining companies and engineering companies, but local companies do exist in the industry. They include electrical engineering firms, local producers of parts, small scale miners, and artisan miners, brokers, recycling companies, scrap collectors and scrap buyers<sup>2</sup>. Moreover, a few large-scale manufacturing companies producing wire rod and wire and cables such as ZAMEFA<sup>3</sup>, originally part of ZIMCO, still have local ownership. Thus, it is not the mining and exploration companies in the copper sector that are of interest to this study, but the locally owned successful companies up and down the value-chain in the copper sector.

This sector is central to the study of successful firms not only because it to a large extent determines the possibilities available in other sectors of the economy, but also because it determines the interaction between the state and business (Shafer, 1994). According to some authors, copper is essentially the root of any collusive SBRs in Zambia (Bates & Collier, 1995).

### **Project Objectives and Research Questions**

The proposed study aims to deepen our understanding of how successful firms have managed under changing institutional environments in two sectors of the Zambian economy: the government priority sector of agribusinesses and the dominant copper sector. It is expected that an understanding of such strategies will provide valuable information for other firms to learn from. The agribusiness sector moreover offers huge potential to further our understanding of the Government of Zambia's (GoZ) possibilities of diversifying the economy to enable long-term sustainable economic growth.

In order to achieve the overall aim, the Zambia country study will address the following two research questions. Although all of them contribute to illuminating this aim, question 1 and the three sub-questions concern the strategies of Zambian firms, while question 2 seeks to single out the extent to which these strategies are peculiar to successful firms.

1. What characterises firm strategies in the agribusiness and copper sectors in Zambia?
  - a. How and to what extent do firm-internal factors contribute to the performance and strategies of local firms? (financial, market, management, human resources, technology)
  - b. How and to what extent do external factors contribute to the performance of local firms? (market, economic institutions, information flows, external agents, role of the state)
  - c. How and to what extent do relations between firm-internal and firm-external factors contribute to the success of local firms? (personal ties, formal and informal channels)
2. How and to what extent do local successful companies' strategies differ from less successful companies' strategies?

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<sup>2</sup> They include amongst others Elios, Andrea Machinists, Athol Plastics, C & B Engineering, Oscat Engineering Coppernet Solutions, Frekam Engineering, Gladium Mining, Hamms Engineering, Chindalo Investments, Kitwe Processing, Micil Investments, Perway Industries, Ndola Lime Company, Shif Contracors, Pende Electrical & Hardware, Frabec Engineering Enterprises, Meltcast Engineering, Jacma Enterprises, Gomes Haulage Atheneon, Mpelembe Drilling, and Kuhoma Investments.

<sup>3</sup> ZAMEFA was funded in 1967. It produces copper wire rod, low voltage cables, building and telephone wire.

The specific questions will address both internal and external factors including regional and international factors that have contributed to the success of local firms in the two sectors.

## **Methods**

The nature of the study calls for a two-pronged approach to data collection. The lack of reliable data on business activities in Zambia requires first an explorative study of the distribution, magnitude and scope of the activities. Based on this mapping, the team will conduct in-depth studies of firm strategies in the agribusiness and copper sectors.

During the 1<sup>st</sup> (explorative) phase of the data collection interviews with key Zambian stakeholders, such as the Ministry of Commerce and Industry, Ministry of Mines and Minerals, Zambia Business Forum, Zambia National Farmers Union, Zambia Chamber of Commerce and Industry, Zambian Association of Manufacturers, Suppliers' Association of Zambia, and Zambia Development Agency will be undertaken. The interviews will also provide a gross list of companies in each sub-sector as part of the mapping of the companies. This list will be combined with data from the Zambia Enterprise Survey conducted in 2003 (Qureshi & Te Velde, 2007), the 2008 Investment Climate Report and the Zambia Business Survey<sup>4</sup>. In order to determine whether a firm is local or not, records from the Patents and Companies Registration Office will be studied. However, due to a loophole in the licensing act, companies often re-register a firm with a new name to evade taxes (Phillips & Bhatia-Panthaki, 2007). Therefore, it is necessary to track each individual firm. In order to do so, we will gather information from archival studies at the National Archives of Zambia. Long-term collaboration with business reporters from the two main newspapers in Zambia, the Post and the Times of Zambia, will further help us determine ownership and provide indications on successful and less successful companies. In the 2<sup>nd</sup> (extensive) phase, a survey of the identified companies in the two sectors will then be undertaken where information on history, performance and strategies will be collected through a structured questionnaire.

The 3<sup>rd</sup> (intensive) phase of the data collection case studies will be undertaken based on in-depth interviews with 32 companies (16 in each sector of which 8 more successful and 8 less successful based on the survey data). This involves: 1) key senior management focusing on firm resources and capabilities, firm histories, key challenges, and key external factors influencing growth. 2) Key private sector stakeholders in order to track changes in the external environment.

The study areas will include five provinces namely, Southern, Lusaka, Central, Eastern and Copperbelt. Agriculture is a significant activity in Southern, Central and Eastern provinces while a larger proportion of firms involved in both agribusinesses and copper are concentrated in Lusaka and Copperbelt provinces.

## **Researchers**

Dr. Godfrey Hampwaye, Senior Lecturer, Geography Department, University of Zambia (UNZA), Dr. Peter Kragelund, Assistant Professor, Dept. of Society & Globalisation, Roskilde University (RU) and Dr. Søren Jeppesen, Assoc. Professor, Centre for Business and Development Studies, Copenhagen Business School (CBS).

Two PhD Students enrolled at the Geography Department at UNZA and co-supervised by Dr. Hampwaye and senior staff at CBS and RU.

While all the involved researchers in the Zambia sub-project will address the overall aim, the following division of labour is envisaged: One PhD student will examine firm-internal and firm-external factors in the agribusiness sector, while the other PhD student will examine these factors in

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<sup>4</sup> These surveys covered respectively 200 enterprises, 500 registered enterprises with more than five full time employees, close to 5000 MSME, and 161 large businesses.

the copper sector (RQ 1a and 1b); Dr. Kragelund will focus on state-business relationships in Zambia with particular focus of the two sectors (RQ 1c); and Dr. Hampwaye and Dr. Jeppesen will be responsible for comparing successful and less successful companies' strategies in terms of coping with the changing Zambian business climate and linking the empirical findings to the theoretical framework (RQ 2).