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Doing Business in Zambia: Private Sector Development Policies and Firm-Level Challenges among Local Agribusinesses and Suppliers to the Mines

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Abstract: *Africa's business environment has improved markedly over the past decade. This has resulted in improved 'doing business indicators'. The question is how the drive to improve these indicators has affected locally-owned businesses in Africa. The article seeks to answer this question by examining firm-level challenges to growth in two sub-sectors of the Zambian economy, namely agribusinesses and suppliers to the mines. The main argument is that there is a mismatch between local companies' needs for sector- and firm-level support and the indicators' focus on macro-level issues. Improved rankings may well attract foreign investments but do not necessarily benefit local firms.*

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1. Introduction

More than a decade of economic growth, infrastructural development, and political reforms in many African countries have led to an 'Africa Rising' narrative which suggests that there are ample business opportunities on the African continent that are awaiting investors from across the globe, including products and services aimed at the growing middle class, and business openings in mining, construction, finance and manufacturing that have arisen as a result of booming commodity prices (see e.g. Bright and Hruby 2015).

This narrative can easily be perceived as a victory for the International Financial Institutions (IFIs) that have devoted a great deal of time and energy to trying to improve the business climate in African economies. Most importantly, in 2003 the World Bank launched the Doing Business project to stimulate economic growth across the globe. As part of this project, the Bank developed the Doing Business Indicator (DBI) which aggregates a number of different measures that seek to show the extent to which rules and regulations apply to businesses, and how costly it is to abide by them. Like the 'Africa Rising' narrative, DBI figures tell the story of a number of African countries moving up the doing business ladder (World Bank 2016) that is, how a particular country performs vis-à-vis other countries with regard to 11 factors deemed important by the World Bank in facilitating the smooth running of the private sector.

The 'Africa Rising' narrative has been criticised for failing to acknowledge the structural constraints facing African nations in their quest to transform their economies, and for not paying attention to jobless growth or to the growing inequality across the African continent (see e.g. Beresford 2016; Taylor 2016). Likewise, the DBI has sparked an intense debate – both about technical issues such as the aggregation of several factors into one figure and the use of a country's relative position (Irwin 2014), and about the political effects of the widespread use of the DBI, including the potential mismatch between an improved DBI and an improved business climate (Taylor 2012).

What is missing, however, is a reality check on the ground. In other words, how and to what extent have private sector initiatives driven by DBI-inspired policies led to improvements for locally owned businesses in Africa? This article seeks to answer this question by cracking open the black box of firm-level challenges to growth in two key subsectors of the Zambian economy, namely agribusiness and suppliers to the mines. The main argument is that there is a mismatch between local companies' needs for sector and firm-level support and the DBI's focus on macro-level issues. Improved DBIs may attract foreign investment but they do not necessarily benefit local firms characterised, among other things, by low capabilities and poor access to cheap capital.

Although Zambia's DBI performance has been uneven recently, it is among the better DBI performers in Africa (Taylor, 2012). This led the OECD (2012: 8) to conclude that: '*Zambia, today, is one of the dynamic growth poles of Southern Africa, thanks to important progress in recent years in strengthening the policy framework for investment*'. In 2016, Zambia was the eighth highest performer in Africa and among the top 100 in the world. Both agribusiness and suppliers to the mines are crucial in terms of understanding the local effects of the reforms to strengthen the investment climate. The agribusiness sector is highly labour intensive and is characterised by numerous forward and backward linkages. The suppliers to the mines, conversely, cater to the main drivers of the Zambian economy, namely the large-scale mining corporations that account for roughly 70 % of Zambia's exports (Bova 2012). If DBI-inspired policies do not lead to improved business performance for local firms in these two sectors in a growing African economy, it is unlikely that the DBI will lead to inclusive growth and structural transformation elsewhere in Africa (cf. Flyvbjerg 2004).

This article is based on several rounds of fieldwork in Zambia conducted from 2012-2016 where we gathered three types of data: primary quantitative data originating from a mapping exercise (totalling 165 firms); and a survey of locally owned firms in the two subsectors, that had existed for five years or more and which had at least 5 permanent employees (totalling 82 firms); primary qualitative data collected through semi-structured interviews with selected locally owned firms in the two sectors (24 firms in total - 12 firms in each sector longitudinally over three years); and key informants (30 interviews with government officials, representatives of international donor agencies and Private Sector Organisations (PSO); and secondary sources such as documents from government agencies and international donor agencies (see Table 1 below).

[*Insert Table 1 here*]

The argument proceeds as follows. Section two introduces and criticises the 'Africa Rising' and DBI arguments. Inspired by heterodox economics, it argues that we need sector-specific policies and collaborative state-business relations to provide broad-based growth. Based on this, section three portrays the reality on the ground in the two subsectors and provides a brief picture of the 82 surveyed firms. Section four lays bare the challenges as perceived by the companies, and section five contrasts these challenges with the policies set in motion by the IFIs and the Government of Zambia (GoZ) to facilitate private sector development. The mismatch is stark, and that is the focus of section six which also takes us back to the heterodox economists and their recommendations about how to achieve broad-based economic development. Section seven presents the conclusions.

2. Improving the Business Climate: DBI vs. Heterodox Economics

Gross domestic product (GDP) figures rising more than 5 percent per year across Africa for most of the post-millennium period have led to an upsurge in interest in the continent (Newman et al. 2016). Most of this interest stems from actors not previously interested in Africa, namely international business people. As described by Taylor (2016), this has led to headlines like ‘Africa’s moment’, ‘Africa emerges’, and ‘African growth miracle’. In other words, what we are currently witnessing is the emergence of an ‘Africa Rising’ narrative (The Economist 2011; Bright and Hruby 2015). In this narrative, the ‘DBI way’ of undertaking policy reforms is key to understanding the continent’s transformation.

The aim of the DBI is to provide policy makers with more accurate and disaggregated information relating to private sector development. Ideally, this information is linked to measures that politicians can alter. The DBI consists of 11 parameters: starting a business; construction permits; electricity; property registration; access to credit; investment protection; ease of paying taxes; cross border trade; contract enforcement; insolvency resolution; and labour market regulation (the latter was omitted in the 2017 report). The belief among DBI proponents is that better DBI scores will create a more vibrant private sector that will lead to higher productivity and, ultimately, drive economic growth.

The ‘Doing Business’ reports have spurred numerous IFIs and developing country governments to pursue enabling policies, implement support programmes and reduce ‘red tape’ – what Altenburg and von Drachenfels (2006) label the ‘New Minimalist Approach’. However, the relevance of such policies in promoting private sector development and ensuring structural transformation among developing countries has been questioned and criticised.

Critique of the DBI is two-pronged. On the one hand, it is criticised on technical terms: it aggregates several issues into one figure; it uses a relative ranking system rather than absolute scores, which means that improved performance may lead to a fall in ranking, and vice versa; and large discrepancies in rankings may not denote large discrepancies in performance (Irwin 2014). On the other hand, the DBI is criticised for its (un)intended consequences: it leads to a race for improved rankings; improved DBIs do not necessarily change the business environment; it leaves out important aspects of regulation as well as firms in the informal sector; and it offers no information about who is benefiting from improved business climates (Arruñada 2007; Taylor 2012).

In contrast to this 'New Minimalist Approach', so-called heterodox economists remind us that the state does indeed matter and that there is room for – and a need for – interventionist policies targeting particular firms, sectors and/or PSOs. Hand-in-hand arrangements, including industrial policies, are a common element in these contributions (see e.g. (Altenburg 2013; Moore and Schmitz 2008; Schmitz 2007). Moore and Schmitz (2008) point to the need to focus more on 'investment climate' compared to 'business climate'. Altenburg and von Drachenfels (2006) argue that what matters is not World Bank-style enabling governance but strategic and sector-focused programmes supported by the provision of relevant business development services in fields like R&D, technology and information.

Moreover, heterodox economists inform us that the state is neither good nor bad. Rather, government involvement in the private sector may be developmentally beneficial in one sector but not in another, depending on the needs of the political elites and the special configuration of the sector (Shafer 1994). Finally, this literature suggests that affirmative action may be a way forward – provided that it is not hijacked by political and economic elites.

In contrast to the DBI approach, this indicates that more collaboration between the state and the private sector is needed to bring about broad-based development. Collaboration, however, is constrained by the fact that three decades of neoliberal policies have weakened both the state and the institutional strength of the domestic private sector.

According to Altenburg and von Drachenfels (2006), instead of DBI policies, private sector policies are needed that encompass: the formulation of strategic objectives with clearly defined targets for selected sectors and areas of the economy and sufficient allocation of funds for programmes; the allocation of funds and support for developing knowledge institutions and markets for financial and non-financial business services to support private sector development; and programmes that link formal sector firms to informal firms.

3. The Zambian Context – Key Sectors and (Local) Firm-level Issues

Much of the growth over the last 10-15 years in Zambia was caused by booming copper prices and the rapid expansion of construction and agribusiness. Development in these sectors is an important part of the 'Zambia rising' narrative. The mining sector is by far the most important sector in Zambia, contributing to 13% of GDP and 75% of exports (CSO 2010; Mobbs 2012), while the agribusiness sector is significant as it links the agricultural part of the economy to manufacturing and sales. In total, agriculture and agribusiness contribute 40 percent of GDP, 12 percent of export earnings, and 67 percent of employment, respectively. In the mining sector, much of the growth stems from foreign-owned mining companies and suppliers – and not from the relatively few suppliers to locally-owned mines. In agribusiness, the picture is also one of growing foreign presence and influence both in production and retail.

The Zambian firms selected for this study operate in a variety of subsectors to the agribusiness sector and the mining sector. In agribusiness, about half of the 38 Zambian owned companies surveyed carried out grain milling (maize flour and wheat), about 25% produced edible oils and dairy products, and the remaining 25% produced sauces, jams, snacks, beverages, etc. Of the suppliers to the mines sector, more than half of the 44 firms surveyed were engineering companies specialising in civil engineering and construction, about 20% were manufacturing companies (foundry and metal fabrication), almost 15 % were service providers (ICT and other services) and the rest were trading and logistics firms.

The 82 firms included small, medium and large-scale enterprises. In agribusiness the number of permanent employees ranged from 11-600 and among the suppliers to the mines the range was from 5-523 permanent employees. In agribusiness the yearly turnover (2012) ranged from ZMW 800,000 (USD 160,000[i]) to ZMK 2.6 million (USD 520,000), while among suppliers to the mines the range was from ZMK 200,000 (USD 40,000) to 3 million (USD 300.000). The firms mainly catered for the domestic market. Nearly 80% of the agribusinesses only sell to companies located in Zambia, while about 20% also export. In terms of export, the main markets are the neighbouring DRC and Zimbabwe. Nearly 85% of the suppliers to the mines firms only supply to companies located in Zambia (mainly the mines), while a few companies supply to the DRC.

About half of agribusinesses stated that their firm had outperformed the industry average from 2007-2012; four out of ten declared that their performance was on a par with the industry average, and a smaller group stated that their performance was below average. Among the suppliers to the mines, responses were less positive as just over half of the surveyed firms perceived themselves to have performed at the industry average, while 25% perceived themselves to have performed above or well above average, and the rest stated that they had performed below or well below average.

In terms of turnover, 50% of agribusinesses had grown between 2007-2012, while 29% had been stable or declined. 21% did not reply, perhaps indicating the sensitivity of the topic. A similar picture emerged among the suppliers to the mines. With regard to the number of employees, 56% of the agribusinesses responded that their firms had grown, while 26% of agribusinesses had either experienced no changes or had fewer employees. In contrast, 36% of the suppliers to the mines had grown in terms of the number of employees, while 50% had been stable or declined. All in all, the period from 2007-2012 showed a mostly positive growth pattern where firm level development seemed to mirror the overall economic growth trend, i.e. 'Zambia Rising'. The figures for suppliers to the mines, however, conceal the fact that many firms were forced to diversify into other business sectors in order to try to secure orders. Between 2014-2016, the picture became much less rosy, however. Only a few firms grew, many firms laid off employees, and a number of firms diversified their activities. A clear tendency emerged with some of the 'better performing' companies doing well (in particular in agribusiness), while other 'better performing' firms, as well as 'poor performers', did progressively worse (in particularly among suppliers to the mines) - and some of these companies even closed down. We will now describe the challenges perceived by the firms during the two periods (2007-2012 and 2014-2016).

4. Challenges to Businesses in Zambia. The 'Real Private Sector Story'[ii]

In spite of the relatively positive growth in the period from 2007-2012, the Zambian firms emphasised five main challenges: a) insufficient – or rather non-existent – meso and micro level policies, b) weak representation through PSOs, c) limited firm level influence on government and policies, d) an unsatisfactory business environment, and e) limited skills at management and employee level.

Although some firms mentioned the Citizen Economic Empowerment Commission (CEEC) – an affirmative action institution that seeks to ensure that Zambian citizens also benefit from economic growth, local content initiatives and incentives (rebates) when importing machinery from abroad - the main view among many firms was that government support was either insufficient or totally lacking. Nearly 70% of agribusinesses stated that they did not know of any relevant support programmes/schemes that could help them develop their companies, while 75% of suppliers made similar statements. In contrast, a number of firms reported that their foreign competitors received different types of benefits, which led to a disadvantaged position for the locally owned firms.

Although most firms were members of PSOs, the vast majority of the firms saw the PSOs as being weak. 79% of the agribusiness companies were members of PSOs. Still, nearly three-quarters of the companies stated that they did not benefit from any incentives/policies set in motion by these associations. A similar picture was found among the suppliers to the mines, with more than half of the companies reporting a lack of benefits from any incentives/policies set in motion by PSOs. In comparison, less than 10% of the suppliers to the mines had received assistance to obtain certification. In most cases, the firms reported that the PSOs only engaged the government on macro-level policies like power supply, import-export restrictions, road quality, interest rates and similar. Few firms had much faith in the ability of the PSOs to influence government and secure the necessary changes. As one respondent said: '*The PSOs are "mouthpieces" to call on government to do something*'.

The firms stated that they did not have any influence on government policies. Zambia seems to be different in that respect from the rest of Africa where some large firms have individualised and personal contacts to the government, which can be used to ensure influence over policies and decisions (Charles et al. 2017). On paper, the private sector in Zambia enjoys the benefits of being connected to the national power grid, roads and rails, as well as the opportunity to exchange goods across the borders, including trading in different currencies. However, the reality for local firms is often different. Most, if not all, firms expressed concerns about unstable power supplies, poor road conditions, the high costs of imports and a problematic exchange rate – normally perceived as key aspects of the business environment. The agribusinesses mentioned the power supply and road conditions, while the costs of imports and the exchange rate were highlighted by the suppliers to the mines as the main macro-level challenges (see also Kragelund 2017).

Finally, many firms, in particular in mining, stated that the quality of education and training in the country was rather poor, making it difficult to meet the high standards demanded by the foreign firms. Although many firms in agribusiness highlighted that management and staff were key to their performance, most conducted only in-house training and relied on their machinery/technology supplier to keep them updated about this part of the business. Very few firms used external institutions to upgrade their skills and capabilities and hardly any mentioned 'knowledge institutions' and business development services as a means to gain skills and know-how. Hence, both sectors seemed to suffer from low skill levels among blue- and white-collar workers, which affected their ability to handle institutional and competitive challenges. Examples of these limited skills included lack of attention to delivery deadlines, quality specifications and customer needs as well exploration of new market segments. In agribusiness, the better performers paid much more attention to these issues compared to the 'poorer performers', but the 'better' performers were still not on a par with their foreign competitors.

These challenges grew from 2014 to 2016 and this impacted performance negatively, as is shown below. The interviewed firms emphasised three challenges of key importance; a) the state's inability to handle the deteriorating business environment, exposing issues of b) lack of engagement between the state and businesses, including weak PSOs unable to influence the government, and c) absence of relevant programmes and schemes at industry (meso) and firm (micro) level .

Key to understanding these changes is the deteriorating power supply, the plummeting exchange rate (vis-à-vis the USD), and rising interest rates. A major element of the deterioration of the business environment was the breakdown of a stable power supply between 2014 and 2015. The firms experienced daily periods of up to 8 hours without power. As copper prices dropped during the same period, state revenues also fell and interest rates rose accordingly (to above 20% and in some cases even higher) and the exchange rate was also affected.

Due to this development, all firms were impacted negatively. The increasing problems with load shedding lowered production and productivity as machinery and activities came to a standstill for 4, 6 or up to 8 hours. In most cases the firms reacted by adjusting production shifts to match the availability of power and/or investing in alternative but high-cost sources of energy (mainly generators, but also boilers and other devices) and finally, some paid an excessive price for electricity. These coping mechanisms led some companies to report that the situation – despite being much worse than in 2007-2012 – was 'improving' or 'not as bad' in 2016 compared to 2014 and 2015.

The consequences of the increased costs caused by power shortages and volatile exchange rates were: a) in the majority of cases the firms reduced their staff, b) some cut out the middle-men and took over part of the supply chain in order to restore the margins, c) many ended up with higher production costs and reduced overheads as prices to consumers could not be altered or were not allowed to be (this applied to agribusiness in the majority of cases). Among the suppliers to the mines, competitiveness declined even further, which led most firms to look for customers outside mining and hence fuelled diversification away from mining. Due to the limited availability of financial assistance, combined with weak financial resources, a number of suppliers were not even able to bid for certain types of tenders.

Further impacting the situation was a weakening local currency resulting in increases in the already high costs of importing, along with high transport costs and poor water quality. As hardly any of these companies exported, the increased costs of imports could not be offset by increased exports. All these factors reduced the performance of the firms, reduced profits and led many to lay off staff.

While the survey revealed that the firms believed that the PSOs engaged the government on general issues like exchange rates, power supply, infrastructure and import facilities, the events from 2014 to 2016 showed that the PSOs were not actually able to influence government when it really mattered. When elaborating on state-business relations, the firms viewed their relations with the Zambian state as ranging from 'neutral' to 'poor'. Among the suppliers to the mines, one term we frequently heard was '*one has to be a member of the NCC* [National Council of Construction]*, but the government runs the show*'. Thus, despite being members of a country-wide entity that gathered all the construction and engineering firms that wanted to bid for public tender, the local firms did not feel that they could influence policies in the sector. Among the agribusiness companies, the main view was that '*state agencies do not really care*'. While a few firms mentioned examples of positive interventions, other firms associated state support for the private sector with corruption. The majority of firms also considered private sector organisations as too weak to influence regulations. One firm among the suppliers to the mines industry stated that '*the EIZ* [Engineering Institution of Zambia] *is a joke*', while a number of other firms in agribusiness informed us that they had chosen to cancel all their PSO memberships because '*it was not worth it*'. A couple of firms even regarded the PSOs as corrupt.

The firms stated that government support targeted locally-owned start-ups and/or large foreign firms, but not established, local, small- and medium-sized firms already in operation. For example, foreign firms selling in Zambia enjoyed duty-free import, exacerbating what local firms viewed as 'unfair competition' and leading to them eventually being outcompeted. Likewise, some interviewees described how foreign firms received tax exemptions and duty-free access (through SADC), although others pointed out that the foreign firms did experience the same stringent standard controls by government agencies as local firms did.

Firms in both sectors stated that government-led PSD programmes neglected established local firms, as hardly any schemes and programmes of relevance were found. Some emphasised that the CEEC had been seen as a chance of receiving support, but while many had applied none had succeeded in securing this. Others mentioned that support schemes for technological upgrading were sorely needed, but they had not been able to identify any such schemes. In agribusiness and grain milling in particular, the government's reluctance to promote exports, not to mention allowing exports at all, was seriously hampering the firms' growth. Among the suppliers to the mines, several local content policies required foreign-owned mining companies to engage local firms, however, few experienced benefits.[iii] A number of suppliers mentioned that a scheme involving guarantees for the funding of working capital expenditures would be beneficial to local industry as many firms lacked financial resources, which prevented them from bidding for large contracts.

In sum, the Zambian firms experienced the situation as having changed from mostly positive between 2007 and 2012 to mainly challenging between 2014 and 2016. In their view, the schemes and programmes in place, the government's performance, and the limited influence of the local private sector left a lot to be desired. The increases in turnover and employees from 2007 to 2012 were offset by contractions on both fronts during 2014-2016, as the deteriorating business environment exposed that the foundation of the 'Zambia Rising' growth narrative was quite fragile. While the firms' perceptions of state-business relations and the limited capacity of the PSOs chime with the literature (see e.g. Charles et al. 2017; Taylor 2007; Bräutigam, Rakner, and Taylor 2002), can one say the same for the firms' views on the lack of relevant schemes and policies? We assess this in the following, drawing on secondary literature and interviews with key informants in relevant government agencies, in particular.

5. Zambian Private Sector Development Policies

Zambian agribusinesses and suppliers to the mines do not operate in a vacuum. In the past 10-15 years IFIs, donor agencies, and the GoZ have been busily designing policies to promote private sector development in Zambia. While the GoZ has overall responsibility for implementing the strategies, policies and support programmes to enhance development of the private sector in the country, and international donor agencies have played a key role in drafting them (cf. Fraser 2008; Kragelund 2014). As is apparent from Table 2, all major policies in this sphere seek to promote social and economic development in the country – thereby fuelling the 'Africa Rising' narrative. In fact, they all strive for economic transformations and inclusive development characterised by job creation, poverty reduction, and increased exports. The main vehicle in all of them is the private sector, which is believed to create jobs and prosperity. However, not all sectors of the economy are perceived as playing the same role. The key sectors in this transformation are the agricultural, manufacturing, tourism, construction and mining sectors of the Zambian economy.

Although the policies span more than a decade, and even though they originated both in donor agencies and GoZ entities, they all share instruments inspired by the DBI. The main instruments through which the implementing agencies are to fulfil the objectives of private sector development are: reduction of red tape (in particular business licences and trade barriers); expansion of bureaucratic predictability; promotion of public-private partnerships; increased access to finance; reduced costs of finance; trade promotion, intensification of competition, investment attraction, improvement of economic stability, and acceleration of infrastructural developments.

To further the overall objective of these policies, GoZ established a number of dialogue forums like the Zambian Business Forum in 2008 (which closed down in 2014) as well as special government entities focused primarily on improving the business climate, like the Zambia Development Agency and the Business Regulatory Review Agency; and passed several acts, such as the CEEC, to cater for the needs of local firms.

[*Insert Table 2 here*]

What is apparent is, first, that to a large extent the policies follow the prescriptions of the World Bank's Doing Business reports. As mentioned above, the DBI compares and contrasts countries on 11 parameters. Of these, only construction permits, property registration, and labour market regulation do not figure high on the agenda of the policies aimed to foster economic and social development in Zambia. The remaining eight can be found in one form or another in the majority of post-millennium development policies in Zambia.

This is uncomplicated if the policies have the intended effects both on the domestic private sector and on society at large, or if the targeted areas meet the needs of the intended beneficiaries. As described above, however, neither the result nor the needs assessment always go quite as planned.

As Table 2 shows, all the policies were aimed at creating broad-based economic growth (including job creation and poverty reduction) through private sector development. Both explicitly and implicitly, this has entailed improving the competitiveness of domestic firms vis-à-vis foreign competitors. And Zambia's economy has certainly grown in the post-millennium era. Despite growth hiccups caused by the global financial crisis and lower demand for primary commodities, average GDP growth has exceeded five percent per year since the launch of the Private Sector Development Programme in 2004. However, this has neither translated into less inequality (AfDB and OECD 2015) nor into improved domestic private sector competitiveness, as seen above.

Key sectors of the Zambian economy such as mining, tourism, manufacturing and retailing have long been dominated by foreign firms (Kragelund 2009; Kragelund and Carmody 2016; Charles et al. 2017). Locally owned firms do exist, especially in agribusiness and among the suppliers to the mines and, as described above, a good number of these companies did perform relatively well in terms of turnover and number of employees in the years just before and after the global financial crisis. But according to the Zambian firms, this positive development was largely unrelated to the strategies and policies put in place. This is not surprising as the DBI in Zambia, which is the main source of inspiration for these policies according to Clarke et al. (2010), was based on data from few (5-15) relatively large service firms in Lusaka only. In fact, the authors claim that, for instance, the '*Starting a Business* *indicator is calculated for a limited liability company in Lusaka with 50 employees and turnover equal to 100 times national income*' (Clarke et al. 2010: 11). The challenges facing this limited liability company probably differ radically from the majority of local firms in agribusiness and mines supplies.

Likewise, it is worth mentioning that the DBI is at best an indicator of an ideal world. It does not take into consideration the extent to which policies are actually enforced. In other words, the discrepancy between the challenges that are addressed by policies and the challenges faced by the local firms is not only related to extent but also to policy enforcement. These issues aside, the strategies and policies listed in Table 2 do not find much support from the proponents of heterodox economies either. We now turn to an assessment of the above findings, in which we report on the failure of the Doing Business approach in assisting Zambian firms, in particular during a tough business environment such as the one experienced from 2014 to 2016.

6. Getting Policies Right – for whom? Back to Heterodox Economics

No doubt, the World Bank's Doing Business focus has been extremely influential. As documented above, all major Zambian policies since the introduction of this initiative have adopted the wording and focus of the DBI. For more than a decade now, Zambian politicians and bureaucrats have striven to 'get policies right'. The main question then is 'right for whom'?

Foreign direct investments to Zambia have increased tremendously.[iv] With the adoption of the Private Sector Development Programme in 2004; the subsequent establishment of the Zambia Development Agency in 2006 as a one-stop-shop for investors in Zambia; the passing of the Multi-Facility Economic Zone Act that offers fiscal incentives to companies located in specific zones (now six in total); and the harmonisation of all laws affecting private firms (cf. Kragelund 2009, 2012) the road was paved for foreign investors to invest in all sectors of the Zambian economy.

The intended aim of these policies and institutions was to attract foreign investors and thereby develop economically and socially through a combination of job creation by foreign firms and positive spillover effects among local suppliers and retailers. While booming copper prices made it relatively easy for the GoZ to attract mining and mining-related firms it was more challenging to ensure that these investments did indeed lead to broad-based development. Mining is by definition (extremely) capital intensive (cf. Ferguson 2006) and due to the recent globalisation of mining capital equipment, all first-tier suppliers in resource-rich African economies are foreign (Farooki 2012). For these policies to have positive effects, therefore, there must be spillovers from first to second tier suppliers – to the extent that the latter are indeed local.

Booming copper prices caused aggregate economic figures in Zambia to improve and fostered development along the 'line of rail' running from the tourist centre, Livingstone, in the southern part of the country to the Copperbelt (and New Copperbelt) regions in the north. Here, some segments of the urban population have benefited from the overall expansion of the economy. This has caused South African supermarket and fast food chains to open outlets in all urban centres. Likewise, the tourism sector has expanded rapidly over the past decade (MOTA 2014). However, these developments have been insufficient to create a flourishing local agribusiness sector.

Until recently, the GoZ did not pay much attention to the inclusion of local firms in foreign investors' supply chains. Mining companies were allowed to import all supplies and foreign first (and second) tier suppliers were encouraged to set up outlets in Zambia. Both supermarkets and hotel chains brought along foreign supply chain managers, which basically meant that foreign supply chains were retained instead of encouraging sourcing for local products (cf. Kragelund and Carmody 2016).

No strategic targets were defined for agribusiness and suppliers to the mines, and no (or limited) funds were allocated to support them at the meso and micro levels. In agribusiness, no programmes existed to assist local firms in improving product and process quality and assisting in dealing with foreign retailers. Neither were funds available for investment in new technology or employee training, and apart from some mention of interaction with the Zambia Bureau of Standards no one knew of any recognised knowledge institution or skilled business development service provider. Among suppliers to the mines, the lack of financial support was also highlighted. Private sector policies targeting the meso level and the micro level (the firms) were largely absent. Despite the obvious risks associated with industrial policies, the firms called for them. In mining, insufficient skills both at the technical and managerial levels aggravated the situation over time, and in agribusiness constraints on exports prevented local firms from taking advantage of this obvious and major market potential.

The absence of constructive state-business relations is felt acutely here. Local firms were unable to identify efficient channels through which to communicate with government. They had no means of accessing the government independently, and the PSOs that were supposed to represent their members were either too weak or were excluded from the policy process. Finally, the companies experienced a deteriorating business environment despite the focus on exactly this issue in all policies over the past decade and despite the seemingly positive development in the DBI rankings. Several studies have highlighted the limited power of Zambian business vis-à-vis the government (see e.g. (Charles et al. 2017; Taylor 2007; Bräutigam, Rakner, and Taylor 2002) but the important issue here is that the new initiatives have apparently not improved this situation.

7. Conclusion

In Zambia, development over the past 10-15 years has mirrored the positive trends on the continent as a whole in terms of growth in GDP and FDI. However, a closer look at the reality on the ground confirms that the 'Africa Rising' narrative is, at best, a partial story. Notably, this narrative lacks a focus on structural constraints and how these are experienced by the local private sector (cf. Newman et al. 2016; Taylor 2012; Carmody and Kragelund 2016; Taylor 2016).

This article set out to answer how, and to what extent, DBI-inspired private sector policies in Zambia have led to improvements for local firms. It argues that these initiatives – alongside rising commodity prices and hence also increased interest – have led to increased FDI, but that they have largely failed to cater for the needs of the majority of the domestic private sector. Put differently, Zambian policies, and DBI-inspired policies more broadly, have not succeeded in mitigating local firm-level challenges.

Stated differently, the 'Zambia Rising' narrative and more than a decade of DBI-inspired policies have succeeded in transferring a larger proportion of the economy to private hands but have not prevented the increasing marginalisation of local firms. When overall economic development was positive and displayed a clear growth trajectory, local firms received their piece of the cake. However, this concealed structural deficiencies, which DBI-inspired policies did not do much to address. As the business environment changed for the worse, this exposed the fragility of the economy; and the lack of targeted schemes and programmes, relevant knowledge institutions and business development services left many local firms in dire straits. The poor relations between the state and (local) businesses in the country, exacerbated by weak PSOs, have led to a serious lack of interaction. The result is that many local entrepreneurs are struggling while foreign investors seem to have benefited from the policies implemented. What we see then is, on the one hand, that policies have failed to fulfil their main objectives; and, on the other hand, that DBI-inspired policies do not necessarily translate into perceived business environment improvements on the ground (cf. Taylor 2012; Newman et al. 2016; Beresford 2016; Taylor 2016).

Politicians in Zambia seem to be realising this and, simultaneously, IFIs are incrementally amending private sector policies. There is now a growing acceptance of state intervention in the private sector to ensure that economic growth becomes broad-based and inclusive (e.g. Lin and Chang 2009). The focus is, inter alia, on strategic objectives for specific sectors with clearly defined targets; allocation of funds to local R&D institutions; and the development of firm-level business service providers (cf. Altenburg and von Drachenfels 2006). Although this acceptance mirrors heterodox economics, there is still a long way to go before the GoZ and donors alike recommend collaborative hand-in-hand arrangements between the Zambian state and domestic firms to enable the local private sector to benefit from the growing interest in the Zambian economy.

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[i] The average currency rate in 2012 was approximately 5 ZMK to the dollar, see https://www.oanda.com/currency/converter/.

[ii] The term is taken from Schulpen and Gibbon (2002).

[iii] Although a fully-fledged Zambian local content policy is high on the political agenda and several experimental local content policies have already been tried out in Zambia none of them have had the intended positive effects as they have been superseded by other (macro-level) policies that have had the opposite effect on local suppliers (Kragelund 2017).

[iv] Before the financial crisis, Zambia received FDI worth USD 737 million/year (average 2005-2007). In the seven years that followed FDI inflows more than tripled and in 2014, Zambia received FDI inflows worth USD 2,484 million. By far the majority of this FDI targeted the mining and manufacturing sectors. Nonetheless the following sectors also experienced high FDI growth rates: mining and quarrying, construction, telecommunications, agriculture, tourism and manufacturing, as well as so-called non-traditional exports such as cement, lime, wheat, fruits and vegetables (UNCTAD 2015).

Table 1: Overview of number of firms identified through mapping, surveyed and interviewed

	Mapping	Too young and/or too small	Foreign	Total (Zambian Owned)	Declined	Surveyed	Inter-viewed
Agri-business	96	26	24	46	8	38	12
Suppliers to the mines	69	7	8	54	10	44	12
Total	165	33	32	100	18	82	24

Source: The authors

Table 2: Key policies and programs to promote growth and private sector development in Zambia, 2004-2016

Policy	Overall goal	Main emphasis	Main instruments
Private Sector Development Reform Programme (2004)	Improve business environment	-Policy environment & institutions -Business facilitation and economic diversification -Laws & regulations -Local empowerment -Trade expansion -Infrastructure development	-Regulatory reform -Investment code amendment -Removal of administrative barriers to business -Promotion of public-private partnerships
Vision 2030 for Zambia (2006)	Strong dynamic middle-income country by 2030	-Economic growth rates (10%/year) -Well-developed infrastructure -Low inflation / stable macroeconomic environment -Conducive investment climate -Economic diversification	-Five-year national plans -Improvement of access to capital -Improvement of services to private investors -Improvement of regulation to enhance investments -Infrastructure development
5th National Development Plan (2006-2010)	Achieve broad-based wealth and job creation	-Rural development, agriculture and manufacturing -Linkage creation in mining sector -Sound economic governance -Physical infrastructure	-Business and investment climate improvement -Reduction of red tape in tax administration -Reduction of inflation and interest rates -Improvement of access to finance
The Commercial, Trade and Industrial Policy (2009)	The growth of an export-led economy	-Enabling economic environment to attract private investments -Development of domestic private capabilities -Expansion of international trade -Improvement of value addition of primary exports -Formalisation and regulation of domestic trade -Identification of priority sectors	-Export diversification programmes -Infrastructure upgrading -Reduction of tariffs and non-tariff barriers -Encouraging investments in multi-facility economic zones -Simplification of clearance procedures at borders -Streamlining of procedures to establish a business -Reduction of number of licences to operate a business
Jobs, Prosperity and Competitiveness Programme (2009-2011)	Increase prosperity via stimulation of private sector development, diversification and job creation	Improve industry competitiveness in the beef, dairy, tourism and copper sectors	-Market access improvement -Competition intensification -Reduction of cost of finance -Improvement of physical infrastructure -Enhancement of predictability of regulatory environment

Private Sector Development Reform Programme II (2009-2014)	Fast track and accelerate private sector reforms Address investment climate reform issues	-Create sustainable business environment to allow businesses to develop and grow	-Implementation of business licencing reforms -Establishment of one-stop shop for business registration -Increase in foreign direct investments
6th National Development Plan (2011-2015)	Sustained economic growth, poverty reduction, and employment creation	-Diversification through investments in agriculture, livestock and fisheries, mining, tourism, manufacturing and commerce and trade -Infrastructure development	-Regulatory framework and business environment improvements -Facilitation of development of manufacturing infrastructure -Simplification of business licencing -Facilitation of trade expansion -Improvement of access to finance
Industrialisation and Job Creation Strategy (2013)	Job creation through improving the business environment	Acknowledgement that economic growth and large-scale reforms have not generated inclusive development	-Business environment improvement -Sectoral support: tourism, agriculture, manufacturing, and construction
Mineral Resources Development Policy (2013)	Strategic repositioning of the mining sector	-Attract private sector participation in mining -Facilitate empowerment of Zambians to become owners in the mining industry	-Promotion of exploration of energy resources -Legal framework update -Promotion and facilitation of up- and downstream processing capacities
Revised 6th National Development Plan (2013-2016)[iv]	Improve quality of life	Inclusive growth, economic diversification and industrialisation via public-private partnerships and direct government participation in the economy	-Support for agriculture, construction, tourism, manufacturing and mining -International trade promotion -Improvement of access to finance

Sources: (World Bank 2016; Republic of Zambia 2014, 2011, 2006b, 2006a; Ministry of Mines 2013; Ministry of Commerce 2013, 2004, 2009a, 2009b; World Bank 2011)