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Introduction

Sound industrial policies allow for a development arena characterized by effective private sector development, economic growth and employment opportunities. In recognition of this fact, research under the Successful African Firms and Institutional Change (SAFIC) project highlights the need for such policies by exploring the challenges and successes faced by the Zambian food processing firms and mine supplier firms as representatives of the Agro Processing and Supplier to Mines subsectors respectively. Therefore, a conclusive policy environment is cardinal for the growth of local firms.

Firms in the two sub-sectors registered relative growth during the period 2007-2012 when one considers, *inter alia*, turnover and number of employees. However, a number of challenges which these firms faced stand out during this period. They included; inadequate or lack of meso and micro level policies, weak representation by private sector organisations, limited firm level

influence on government and policies, and an unsatisfactory and unstable business environment. The performance of these firms worsened during the period after 2013 owing to several factors including unstable power supply, especially for agro-processing firms, and high cost of imports and unstable exchange rate. By and large supportive institutions, programs and policies are needed to address some of the challenges which these subsectors face to enable them grow and create sustainable jobs.

Background

Agro-processing is very important in Zambia and has the potential to grow the economy and create job opportunities based on the importance and great potential of the agricultural sector. Together with agriculture, agro-processing contributes 40 percent of GDP, 12 percent of export earnings and 67 percent of employment in Zambia. Equally, suppliers to the mines subsector are critical as they are linked to the most important sector contributing 70 percent of the total exports in Zambia.

Ideally, Business Associations are expected to influence government policy and therefore are critical in Industrial policy formulation. Consequently, lobbying by Business Associations can eventually lead to improved firm performance. Equally important, especially for suppliers to the mines, is the quality of Education and training which can improve the competitiveness of the firms against foreign suppliers.

This policy brief gives a summary of the findings on institutions and policies relating to the two sub-sectors studied as these are vital in the performance of firms. Apart from providing implications, this brief further makes policy recommendations to key stakeholders; both public and private.

The Successful African Firms and Institutional Change (SAFIC) project is premised on the understanding that African business environment is largely unstable and sometimes rapidly changes. The research project has aimed at identifying why and how certain African (local) firms are resilient and remain successful despite this unstable business environment while other firms are less successful. The Project has covered three countries; Kenya, Tanzania and Zambia. In case Zambia, the study focused on local food agro-processing and local suppliers to the mines sub-sectors.

Data collection was conducted in three phases. In Phase I, 165 firms were mapped in both sub-sectors while 82 firms were surveyed in Phase II. Three rounds of in-depth interviews were conducted with 12 selected firms in each subsector giving a total of 24 firms in both subsectors for three years in Phase III. In addition, 30 interviews were

conducted with key informants who included government officials, representatives of donor agencies and Business Associations. These data sets were analysed quantitatively for survey data and qualitatively for interviews. This approach to data collection produced quality and reliable data due to the employing of different methods, especially the longitudinal study of the 24 firms for three years and input from a range of stakeholders.

Results

Policies, programs and institutions play a significant role in enhancing the success of firms as lack of them may adversely affect firm performance. The results from the firms of both sectors generally indicate that most of them either receive inadequate or no government support at all. With reference to government support programs/schemes, over 70 percent of the respondents of both sub-sectors indicated that they did not know about the existence of such government programs which could help their firms. A few firms mentioned knowing of the Citizens Economic Empowerment Commission (CEEC) which endeavors to make sure that Zambians benefit from economic growth, local content initiatives and certain incentives, especially rebates when importing equipment. Further, a significant number of the same firms reported that the foreign competitors accessed a variety of incentives which disadvantaged the local firms.

As for membership to the various Business Associations, generally, the firms were members of the different associations but these were considered weak as more than 75 percent and 50 percent of the agro-processing

and suppliers to the mines firms respectively stated that they did not enjoy any benefits from the incentives and policies promised by the associations. In the agro-processing sub-sector, about 42 percent of the firms reported that there were no trade incentives offered, and import tariffs were high as demanded by Zambia Revenue Authority. The firms further doubted the capacity of the associations to influence government to make relevant policy changes. However, about 10 percent of the suppliers to the mines confirmed being assisted to obtain certification.

It was also revealed that the quality of education and training was low to meet the high standards demanded by foreign firms, especially for the suppliers to the mines sub-sector. As for upgrading of skills and capabilities, most of these were conducted in-house and with limited involvement of external institutions. Generally, firms in the two sub-sectors experienced low level skills thereby facing challenges in handling international competitive environment. In terms of technology, and research and development (R&D), 50 percent were not undertaking any R&D in the agro-processing sub-sector despite being important components of firm and overall industrial growth.

Also mentioned as negatively affecting the growth of these firms were the power shortages that the country experienced during the study period.

Overall, the growth of the firms have been severely affected by the instability of the business environment, weak relationship between state and the associations (business entities), lack of government support

programs, inadequate incentives and failure by the Business Associations to influence government, all of which worsened during the period 2014-2016.

Conclusions

The findings exposed the existence of a gap waiting to be filled by sufficient industrial policies and programs in order for the growth of both sectors of the environment to be facilitated. Policies and business associations are very important in facilitating the growth and performance of firms. These would create an improved business environment characterised by fluid flow of business operations by eliminating the current barriers impeding the growth of firms.

It is of vital importance for both the public and private sectors to create synergies that will benefit firms by improving the operating environment of the businesses so as to enhance their performance. The agro-processing and suppliers to the mines sub-sectors have a huge potential to grow the economy and alleviate poverty through job creation.

Implications

The implications of these findings are that more is needed for the businesses and the state to collaborate with view to addressing the challenges and improving the performance of the firms in both sub-sectors. Unless the solutions to constraints are found, the firms will continue struggling with the negative impacts of power shortages, poor infrastructure, high interest rates and high transportation costs.

In a nutshell, the business environment ought to be improved including initiatives such as

CEEC and local content initiatives and regulations concerning import tariffs.

Recommendations

Based on the above findings, it stands to reason that economic-growth motivated industrial policy adjustments and new policy formulation are necessary as was done in countries such as Taiwan. The introduction of certain incentives is also needed to assist these firms. In order to further identify the critical policies, actions plans, and necessary incentives, concerted efforts are needed by the both the state and the respective Business Associations to begin collaborating more effectively in order to address the concerns of the firms. Such synchronized efforts would lead to achievement of mutually beneficial results. Adequate efforts to disseminate information ought to be carried out so as to create awareness of existent programs and policies that currently support local businesses.

Sources

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